

## **London & Regional Debt Securitisation No.1 plc**

*(Incorporated with limited liability in England and Wales with registration number 05604389)*

**£207,700,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2014**

**£26,500,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2014**

*London & Regional Debt Securitisation No.1 plc (the **Issuer**) will issue the £207,700,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2014 (the **Class A Notes**) and the £26,500,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2014 (the **Class B Notes**) and, together with the Class A Notes, the **Notes**) on 29 November 2005 (or such later date as the Issuer may agree with the Lead Manager(as defined below)) (the **Closing Date**). Application has been made to the Irish Financial Services Regulatory Authority (**IFSRA**), as competent authority under Directive 2003/71/EC (the **Prospectus Directive**) for the Offering Circular to be approved. Application has been made to the Irish Stock Exchange Limited (the **Stock Exchange**) for the Notes to be admitted to the Official List and trading on its regulated market. This document constitutes the prospectus (the **Prospectus**) for the purposes of the Prospectus Directive. Reference throughout the document to "Offering Circular" shall be taken to read "Prospectus".*

*The Class A Notes are expected, on issue, to be assigned ratings of AAA by Fitch Ratings Ltd. (**Fitch**) and AAA by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (**S&P** and, together with Fitch, the **Rating Agencies**). The Class B Notes are expected, on issue, to be assigned ratings of AA by Fitch and AA by S&P. **A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the assigning rating organisations.** The ratings from the Rating Agencies only address the likelihood of timely receipt by any Noteholder of interest on the Notes and the likelihood of receipt by any Noteholder of principal in respect of the Notes by the Final Maturity Date (as defined below).*

*Interest on the Notes will be payable quarterly in arrear in pounds sterling on 15 January, 15 April, 15 July and 15 October in each year (subject to adjustment for non-business days) (each, an **Interest Payment Date**). The first Interest Payment Date will be the Interest Payment Date falling in January 2006. The interest rate applicable to each Class of Notes from time to time will be determined by reference to the London interbank offered rate for three month sterling deposits (or in respect of the first interest period the interest rate for two month sterling deposits) (**LIBOR**, as determined in accordance with Condition 5.3) plus a margin of 0.21 per cent., in the case of the Class A Notes and a margin of 0.32 per cent. in the case of the Class B Notes (each, a **Margin**).*

***If any withholding or deduction for or on account of tax is applicable to the Notes, payment of interest on, and principal in respect of, the Notes will be made subject to such withholding or deduction. In such circumstances, neither the Issuer nor any other party will be obliged to pay any additional amounts as a consequence.***

*All Notes will be secured by the same security, subject to the priorities described in this Offering Circular. Notes of each Class will rank pari passu with other Notes of the same Class. Unless previously redeemed in full, the Notes of each Class will mature on the Interest Payment Date falling in October 2014 (the **Final Maturity Date**). The Notes will be subject to mandatory redemption before such date in the specific circumstances and subject to the conditions more fully set out under "Terms and Conditions of the Notes". 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 U.S. tax law requirements. The Notes are being offered by the Issuer only to persons who are not U.S. Persons (as defined in Regulation S under the Securities Act (**Regulation S**)) in offshore transactions in reliance on Regulation S (or otherwise pursuant to transactions exempt from the registration requirements of the Securities Act) and in accordance with applicable laws.*

*The Notes of each Class will each initially be represented on issue by a temporary global note in bearer form (each, a **Temporary Global Note**), without interest coupons attached, which will be deposited on or about the Closing Date with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**), and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Each Temporary Global Note will be exchangeable for interests in a permanent global note (each, a **Permanent Global Note**), without interest coupons attached, not earlier than 40 days after the Closing Date (provided that certification of non-U.S. beneficial ownership has been received). 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. Interests in the Permanent Global Notes will be exchangeable for definitive Notes in bearer form only in certain limited circumstances as set forth herein.*

*See "Risk Factors" for a discussion of certain factors which should be considered by prospective investors in connection with an investment in any of the Notes.*

**MORGAN STANLEY**  
Lead Manager

*The date of this Offering Circular is 24 November 2005*

THE NOTES AND INTEREST THEREON WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OR RESPONSIBILITIES OF, NOR WILL THEY BE GUARANTEED BY, MORGAN STANLEY & CO. INTERNATIONAL LIMITED (the **LEAD MANAGER**), THE NOTE TRUSTEE, THE BORROWER SECURITY TRUSTEE, THE PAYING AGENTS, THE AGENT BANK, THE LIQUIDITY FACILITY PROVIDER, THE SWAP GUARANTOR, THE SWAP COUNTERPARTY, THE CASH MANAGER, OPTIONCO OR THE ACCOUNT BANK (AS EACH TERM IS DEFINED IN THIS OFFERING CIRCULAR) OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS OR AFFILIATED WITH ANY OF THEM OR LONDON & REGIONAL GROUP HOLDINGS LIMITED (**L&R**) OR ANY OTHER COMPANY (OTHER THAN THE ISSUER) IN THE SAME GROUP OF COMPANIES OR AFFILIATED WITH L&R (THE **L&R GROUP**).

The Issuer (as **Responsible Person** for the purposes of the Prospectus Directive) accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge and belief of the Issuer the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person is or has been authorised to give any information or to make any representation in connection with the issue and sale of the Notes other than those 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, Lead Manager, the Note Trustee, the Paying Agents, the Agent Bank, the Liquidity Facility Provider, the Swap Guarantor, the Swap Counterparty, the Cash Manager, Optionco or the Account Bank or any of their respective affiliates or advisors. Neither the delivery of this Offering Circular nor any sale, allotment or solicitation made in connection with the offering of the Notes shall, under any circumstances, create any implication or constitute a representation that there has been no change in the affairs of the Issuer or in any of the information contained herein since the date of this document or that the information contained in this document is correct as of any time subsequent to its date. The Lead Manager expressly does not undertake to review the Issuer/Borrower Loans, the Intra-Group Loans or the Properties during the life of the Notes or to advise any investor in the Notes of any information coming to its attention.

Neither this Offering Circular nor any other information supplied in connection with the Notes should be considered as a recommendation by the Lead Manager that any recipient of this Offering Circular should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation and appraisal of the creditworthiness of the Issuer.

Other than the approval by the Irish Financial Services Regulatory Authority of this Offering Circular as a prospectus in accordance with the requirements of the Prospectus Directive, 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. 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 Lead Manager to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of the Notes and distribution of this Offering Circular, see "*Subscription and Sale*" below.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Lead Manager or any of them to subscribe for or purchase any of the Notes.

References in this document to **£, pounds or sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to **€, Euro or EUR** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time.

**In connection with the issue of the Notes, Morgan Stanley & Co. International Limited (in this capacity, the *Stabilising Manager*) or any person acting for it may over-allot Notes (provided that, in the case of the Notes to be listed on the Stock Exchange, the aggregate principal amount of Notes**

**allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant tranche) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager or any person acting for it will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue of the Notes and 60 days after the date of the allotment of the Notes.**

### **Enforceability of Judgments**

The Issuer is a company incorporated with limited liability under the laws of England and Wales and its executive offices and administrative activities and all or a substantial portion of its assets are located outside the United States. As a result, it may not be possible for investors to effect service of process upon the Issuer within the United States or to enforce against the Issuer in United States courts judgments predicated upon the civil liability provisions of the securities laws of the United States. In addition all of its directors and officers are residents of jurisdictions other than the United States and all or a substantial portion of the assets of these persons are or may be located outside the United States. As a result it may be difficult for investors to effect service of process within the United States upon these persons or to enforce against them judgments obtained in the United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state or other jurisdiction within the United States.

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## SUMMARY INFORMATION

*The information in this section does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular. Prospective Noteholders are advised to read carefully, and to rely solely on, the detailed information appearing elsewhere in this Offering Circular in making any decision whether or not to invest in any Notes.*

*Capitalised terms used, but not defined, in this section can be found elsewhere in this Offering Circular, unless otherwise stated. An index of defined terms is set out at the end of this Offering Circular.*

<b>Issuer:</b>	London & Regional Debt Securitisation No.1 plc
<b>Borrower:</b>	London & Regional Offices Finance Limited
<b>L&amp;R Parent:</b>	London and Regional Group Finance Limited (which owns all the shares in the Borrower and 49,999 of the shares in the Issuer)
<b>Propcos:</b>	LR Skipton House Limited, LR (First Central Phase A) Limited, London & Regional (Manchester) Limited, LR (Manchester) Limited, London & Regional (King William St) Limited and London & Regional (St. Georges Court) Limited
<b>Share Mortgagors:</b>	London & Regional PFI Projects Holdings Limited, London and Regional Commercial Properties Holdings Limited and L&R Parent
<b>Obligors:</b>	The Borrower and each Propco
<b>Note Trustee:</b>	The Bank of New York
<b>Borrower Security Trustee:</b>	The Bank of New York
<b>Liquidity Facility Provider:</b>	Lloyds TSB Bank plc
<b>Cash Manager:</b>	The Bank of New York
<b>Account Bank:</b>	The Bank of New York
<b>Swap Counterparty:</b>	Morgan Stanley & Co. International Limited
<b>Swap Guarantor:</b>	Morgan Stanley
<b>Properties:</b>	A portfolio of five commercial properties as further described in " <i>Key characteristics of the Properties</i> ", below

	<b>Class A Notes:</b>	<b>Class B Notes:</b>
<b>Principal Amount:</b>	£207,700,000	£26,500,000
<b>Issue Price:</b>	100 per cent.	100 per cent.
<b>Interest Rate:</b>	three month sterling LIBOR + Margin	
<b>Margin:</b>	0.21 per cent.	0.32 per cent.
<b>Interest Accrual Method:</b>	Actual/365	
<b>Interest Payment Dates:</b>	15 January, 15 April, 15 July and 15 October in each year, commencing the Interest Payment Date falling in January 2006	
<b>Final Maturity Date:</b>	Interest Payment Date falling in October 2014	
<b>Expected Maturity Date:</b>	Interest Payment Date falling in October 2012	
<b>Expected Average Life:</b>	seven years	
<b>Application for Listing:</b>	Irish Stock Exchange	

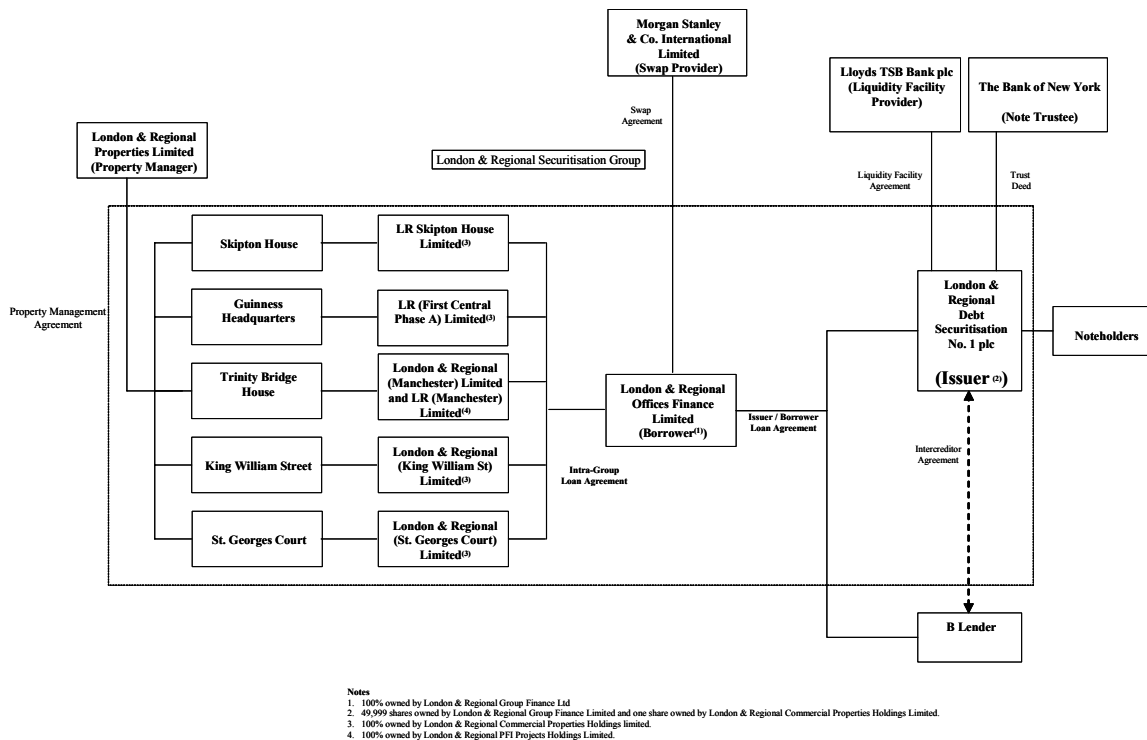
<b>ISIN:</b>	XS0235319331	XS0235319687
<b>Common Code:</b>	023531933	023531968
<b>Expected Ratings:</b>	AAA	AA

## TRANSACTION SUMMARY

The information in this section does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Circular. Prospective Noteholders are advised to read carefully, and to rely solely on, the detailed information appearing elsewhere in this Offering Circular in making any decision whether or not to invest in any Notes.

Capitalised terms used, but not defined, in this section can be found elsewhere in this Offering Circular, unless otherwise stated. An index of defined terms is set out at the end of this Offering Circular.

The following structure diagram illustrates a brief overview of the transaction.



- The Issuer will on-lend the proceeds of the issue of the Notes to the Borrower pursuant to a loan agreement entered into on or about the Closing Date between, *inter alia*, the Issuer, the Propcos, the Cash Manager and the Borrower Security Trustee (the **Issuer/Borrower Loan Agreement**).
- The Borrower will utilise the amount advanced under the Issuer/Borrower Loan Agreement to make an advance to the Propcos pursuant to the terms of an intra-group loan agreement entered into on or about the Closing Date between the Borrower, the Propcos and the Borrower Security Trustee (the **Intra-Group Loan Agreement**). The amount drawn under the Intra-Group Loan Agreement will be used by the Propcos to finance or refinance the cost of acquisition of the Properties, following which any remaining surplus funds may be on-lent or otherwise distributed to an entity in the L&R Group in accordance with the Finance Documents.
- The Propcos will enter into a subordinated facility agreement (the **Intra-Group Subordinated Loan Agreement**) on or about the Closing Date, pursuant to which the Propcos will be able to request reciprocal advances from each other in circumstances where one Propco does not have enough money to meet its payment obligations under the Intra-Group Loan Agreement and another Propco has excess cash.

- The Borrower, the Propcos, the Cash Manager and a third party investor, being a United Kingdom based financial institution, (the **B Lender**) will enter into a loan agreement (the **B Loan Agreement**) on or about the Closing Date. Under the terms of the B Loan Agreement, the B Lender will advance to the Borrower various subordinated loans which will be used by the Borrower to make advances to the Propcos under the Intra-Group Loan Agreement.
- The Borrower and each Propco will each create security over its assets in favour of The Bank of New York in its capacity as borrower security trustee (the **Borrower Security Trustee**) on trust for itself and the other Borrower Secured Creditors pursuant to a deed of charge (the **Deed of Charge**) to secure their obligations to the Issuer under the Finance Documents (where relevant) and to the other Borrower Secured Creditors under the relevant Borrower Transaction Documents.
- Each Share Mortgagor will create security over its respective interests in the shares in the Issuer, the Borrower and the Propcos in favour of the Borrower Security Trustee on trust for itself and the other Borrower Secured Creditors pursuant to a mortgage of shares (the **Mortgage of Shares** and together with the Deed of Charge, the **Borrower Security Documents**).
- The Propcos will direct tenants under the Occupational Leases to pay all net rental income into the Rent Accounts which are opened in the name of each Propco. All amounts credited to the Rent Accounts and necessary to meet each Propco's obligation to pay interest and principal (if any) respectively due to the Borrower under the Intra-Group Loan Agreement will be used for this purpose and will be transferred to the Borrower Transaction Account accordingly. Amounts credited to the Borrower Transaction Account and necessary to meet the Borrower's obligation to pay interest and principal (if any) due to the Issuer under the Issuer/Borrower Loan Agreement will be used for this purpose while any surplus funds in the Borrower Transaction Account (after payment of the B Loans) may be transferred to the General Account (which will not be subject to a fixed charge), (see "*Summary of Principal Documents – The Account Bank Agreement*").
- The Issuer will, on or about the Closing Date, enter into a liquidity facility agreement (the **Liquidity Facility Agreement**) with Lloyds TSB Bank plc (the **Liquidity Facility Provider**) pursuant to which the Liquidity Facility Provider will, *inter alia*, make up any interest shortfall under the Notes, up to a maximum of £13,250,000 (the **Liquidity Facility**). The Liquidity Facility will be subject to a decreasing balance mechanism (see "*Summary of Principal Documents – The Liquidity Facility Agreement*").
- The Issuer's obligations to pay principal and interest on the Notes will be met primarily from the payments of principal and interest received from the Borrower under the Issuer/Borrower Loan Agreement.
- The Issuer will assign its interest in the security created under and pursuant to the Borrower Security Documents and create fixed and floating security over certain other assets of the Issuer in favour of the Note Trustee (on trust for itself, the Noteholders and the other Issuer Secured Creditors) under a deed of charge and assignment (the **Issuer Deed of Charge**), as security for the obligations of the Issuer under, *inter alia*, the Notes.
- For details of the Issuer/Borrower Loan Agreement, the B Loan Agreement, the Deed of Charge, the Intra-Group Loan Agreement, the Mortgage of Shares, the Intra-Group Subordinated Loan Agreement, the Liquidity Facility Agreement and the Issuer Deed of Charge see "*Summary of Principal Documents*", below.

*The structure diagram and the notes thereto provide only a brief overview of the transaction more fully described in this Offering Circular. The structure diagram and the notes thereto do not purport to be complete and should be read in conjunction with, and are qualified in their entirety by reference to, the more detailed information appearing elsewhere in this Offering Circular.*



## KEY TRANSACTION PARTIES

- Issuer:** London & Regional Debt Securitisation No.1 plc (the **Issuer**) is a public company incorporated in England and Wales with limited liability. The Issuer's company registration number is 05604389. 49,999 shares of the issued share capital of the Issuer are held by L&R Parent and one share of which is owned by London and Regional Commercial Properties Holdings Limited.
- Optionco:** London and Regional Commercial Properties Holdings Limited, in its capacity as **Optionco** will be granted a post-enforcement call option under the Post-Enforcement Call Option Agreement and includes any assignee or transferee.
- Borrower:** London & Regional Offices Finance Limited (the **Borrower**), is a private company incorporated in England and Wales with limited liability under registered number 03760586. The entire issued share capital in the Borrower is held by L&R Parent.
- Propcos:** LR Skipton House Limited, is a private company incorporated in England and Wales with limited liability under registered number 04272477;
- LR (First Central Phase A) Limited, is a private company incorporated in England and Wales with limited liability under registered number 03355428;
- London & Regional (Manchester) Limited, is a private company incorporated in England and Wales with limited liability under registered number 03315372;
- LR (Manchester) Limited, is a private company incorporated in England and Wales with limited liability under registered number 03315357;
- London & Regional (King William St) Limited, is a private company incorporated in England and Wales with limited liability under registered number 05495948; and
- London & Regional (St. Georges Court) Limited, is a private company incorporated in England and Wales with limited liability under registered number 03355433,
- (each, a **Propco** and together, the **Propcos**).
- The Propcos will own the Properties and will grant security in favour of the Borrower Security Trustee pursuant to the Deed of Charge as security for their obligations under the Finance Documents.
- If required the Propcos will also make subordinated advances to each other pursuant to the Intra-Group Subordinated Loan Agreement.
- L&R Parent:** London and Regional Group Finance Limited (the **L&R Parent**) is a private company incorporated in England and Wales with limited liability. L&R Parent's company registration number is 04312421. L&R Parent owns all the shares in the Borrower and 49,999 of the shares in the Issuer and it is wholly owned by London & Regional Group Holdings Limited.
- Share Mortgagors:** London & Regional PFI Projects Holdings Limited is a private company incorporated in England and Wales with limited liability under registration

number 04525593 and London and Regional Commercial Properties Holdings Limited, is a private company incorporated in England and Wales with limited liability under registration number 04312463 (and holds one share in the Issuer). Together with the L&R Parent, they are referred to as the **Share Mortgagors**.

The Share Mortgagors will grant security in favour of the Borrower Security Trustee pursuant to the Mortgages of Shares over their shares in the Issuer, Borrower and the Propcos, as applicable.

- Note Trustee:** The Bank of New York, acting through its offices at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL (in this capacity, the **Note Trustee**), will act under the Trust Deed as trustee for the holders of the Notes and under the Issuer Deed of Charge as trustee for the Noteholders and the other Issuer Secured Creditors.
- Borrower Security Trustee:** The Bank of New York, acting through its offices at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL (in this capacity, the **Borrower Security Trustee**), will act under the Borrower Security Documents as trustee for the Issuer and the other Borrower Secured Creditors.
- Principal Paying Agent and Agent Bank:** The Bank of New York, acting through its offices at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, will be principal paying agent and agent bank under the Agency Agreement (in these capacities, the **Principal Paying Agent** and the **Agent Bank**).
- Irish Paying Agent:** AIB/BNY Fund Management (Ireland) Limited, acting through its offices at Guild House, P.O. Box 4935, Guild Street, IFSC, Dublin 1, Ireland will act as paying agent in Ireland under the Agency Agreement (the **Irish Paying Agent**). The Irish Paying Agent, the Principal Paying Agent and any other paying agent(s) which may be appointed pursuant to the Agency Agreement are together referred to as the **Paying Agents**.
- Cash Manager** The Bank of New York, acting through its offices at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL will act as cash manager to the Issuer, the Borrower and the Propcos under the Cash Management Agreement (in this capacity, the **Cash Manager**).
- Account Bank:** The Bank of New York, acting through its offices at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, will act as account bank for the Issuer, the Borrower and the Propcos under the Account Bank Agreement.
- Liquidity Facility Provider:** Lloyds TSB Bank plc, acting through its office at 25 Monument Street, London EC3R 8BQ, will provide the Liquidity Facility to the Issuer under the Liquidity Facility Agreement (in this capacity, the **Liquidity Facility Provider**).
- Swap Counterparty:** Morgan Stanley & Co. International Limited, (in this capacity, the **Swap Counterparty**) whose principal office is located at 25 Cabot Square, Canary Wharf, London E14 4QW, has entered into an interest rate swap agreement with the Borrower. In this document, the term **Swap Counterparty** includes any other party appointed from time to time pursuant to the Issuer/Borrower Loan Agreement to act as a counterparty under the hedging arrangements in respect of the Issuer/Borrower Loans and the B Loans.
- Swap Guarantor:** Morgan Stanley, whose principal office is located at 1585 Broadway, New York, New York 10036, USA (the **Swap Guarantor**) will, pursuant to and subject to the terms of a guarantee in favour of the Borrower (the **Swap Guarantee**),

guarantee all of the Swap Counterparty's obligations under the Swap Agreement and the Swap Transactions. The Swap Guarantee will be governed by New York law.

**Property Manager:** London & Regional Properties Limited, acting through its office at 105 Wigmore Street, London, W1U 1QY, will provide property management services to the Propcos under the Property Management Agreement (in this capacity the **Property Manager**).

## KEY CHARACTERISTICS OF THE ISSUER/BORROWER LOAN AGREEMENT

- General:** Each Issuer/Borrower Loan will constitute a full recourse obligation of the Borrower. The Deed of Charge is expressed to create a first legal mortgage over the Properties and first fixed security over the Borrower's and the Propcos' interests in any occupational leases, insurance policies, bank accounts and rental cashflows in respect of the Properties and a floating charge over all its remaining assets. The Mortgage of Shares is expressed to create a first legal mortgage over all the shares in the Issuer, the Borrower and each Propco.
- Guarantee:** Each Propco is a Guarantor and the obligations of the Borrower under the Finance Documents have been guaranteed on a joint and several basis by each Guarantor.
- Purpose of the Issuer/Borrower Loans:** The proceeds of the Issuer/Borrower Loans will be applied to make advances to the Propcos pursuant to the terms of the Intra-Group Loan Agreement.
- Interest rate:** The rate of interest on each Issuer/Borrower Loan under the Issuer/Borrower Loan Agreement for each Interest Period is the percentage rate per annum equal to the aggregate of the applicable:
- (a) Margin (being 0.21 per cent. in respect of the A1 Facility and 0.32 per cent. in respect of the A2 Facility); and
  - (b) LIBOR (as defined in the Issuer/Borrower Loan Agreement);
- Interest payments:** Interest under the Issuer/Borrower Loans will be paid quarterly in arrear on 15 January, 15 April, 15 August and 15 October in each year (each, an **Interest Payment Date**) in respect of successive interest periods (each, an **Interest Period**). If any such day is not a Business Day, the Interest Payment Date will instead be the next succeeding Business Day, unless such Business Day falls in the next succeeding calendar month in which event the immediately preceding Business Day.
- Repayment of the Issuer/Borrower Loans:** Unless the Borrower has previously repaid its loans under the Issuer/Borrower Loan Agreement, it will be required to repay them in full on the Interest Payment Date falling in October 2012 under the Issuer/Borrower Loan Agreement (the **Loan Maturity Date**).
- Mandatory prepayment:** Any principal prepaid by a Propco under the Intra-Group Loan Agreement will be applied by the Borrower in or towards prepayment of the Issuer/Borrower Loans in accordance with the terms of the Issuer/Borrower Loan Agreement, the B Loan Agreement and the Intercreditor Agreement. The Borrower is also required to prepay the Issuer/Borrower Loans and B Loans with the proceeds of

any disposal of a Property or insurances in accordance with the terms of the Issuer/Borrower Loan Agreement, the B Loan Agreement and the Intercreditor Agreement. Please see the headings "*Substitution, disposal and alterations of the Properties*" and "*Summary of Principal Documents - Issuer/Borrower Loan Agreement - Insurance*" below for further detail regarding the circumstances in which the Issuer/Borrower Loans and B Loans will be prepaid.

If the Issuer elects or is required to redeem any Notes under the Conditions of the Notes, the Borrower must prepay or repay the Issuer/Borrower Loans in an amount and on a date notified to it by the Issuer.

### **Optional Prepayment**

The Borrower may voluntarily prepay the Issuer/Borrower Loan Agreement in whole or part on any Interest Payment Date provided that it gives not less than ten Business Days' prior written notice to the Issuer. Unless the prepayment is made to cure a breach of the Interest Cover covenant pursuant to the Issuer/Borrower Loan Agreement, a voluntary prepayment must be in a minimum amount of £10,000,000 and in integral multiples of £250,000.

### **Representations and warranties:**

The representations and warranties to be given by each Obligor under the Issuer/Borrower Loan Agreement, as of the date of the Issuer/Borrower Loan Agreement, the date of drawdown and (subject to certain exceptions) each Interest Payment Date, will include, among other things, warranties (subject to certain materiality thresholds) as follows:

- (a) due incorporation and authorisation;
- (b) no Loan Event of Default under the Issuer/Borrower Loan Agreement is outstanding;
- (c) legality, validity and enforceability of each Transaction Document to which it is a party;
- (d) ownership and title to the relevant Property, in each case free from any security interests other than as contemplated under the Borrower Security Documents;
- (e) first priority of the security conferred by the Security Documents, provided that a charge over book debts or cash balances which is expressed as a fixed charge may take effect as a floating charge;
- (f) the absence of material litigation, arbitration or administrative proceedings;
- (g) the truthfulness and accuracy of all written information supplied by the Borrower to the Borrower Security Trustee, among others, in connection with, *inter alia*, the Issuer/Borrower Loan Agreement, the Intercreditor Agreement, the B Loan Agreement, each Borrower Security Document, the Tax Deed of Covenant, the Swap Transactions and related finance documents (together, the **Finance Documents**), all written information supplied by the Borrower and each Propco to the Valuer for the purposes of the relevant Valuation and all information provided to the lawyers preparing the Reports on Title;
- (h) (only on the Closing Date) all payments to be made by an Obligor under any Transaction Document to be free of any deduction or

withholding in respect of tax;

- (i) no material adverse change in its financial condition since the delivery of its most recent financial statement;
- (j) ownership of each Obligor; and
- (k) no other business carried on by each Obligor.

**Loan Security:**

The obligations of the Obligors under the Issuer/Borrower Loan Agreement (and the other Finance Documents) will be secured in favour of the Borrower Security Trustee for the benefit of the Borrower Secured Creditors by fixed and (in the case of the Borrower and the Propcos only) floating security created under the Borrower Security Documents.

**Insurance:**

The Obligors shall procure that insurance is maintained in respect of the Properties (other than Skipton House and St. Georges Court, in respect of which the tenant (for so long as it is a government tenant) is not obliged to insure as it self-insures and/or for so long as the lease with the government tenant complies with certain other restrictions) for (subject to it being available on commercially reasonable terms in the United Kingdom or in the European market) their full replacement value, against, amongst other things, acts of terrorism and three year loss of rent on terms acceptable to the Issuer.

**KEY CHARACTERISTICS OF THE PROPERTIES**

**Property:**

The Intra-Group Loans will be secured on the land and buildings of:

- (i) MOD Building, St. Georges Court, 2-28 New Oxford Street and 2-12 Bloomsbury Way, London (**St Georges Court**);
- (ii) Skipton House, 80 London Road, London SE1 (**Skipton House**);
- (iii) Guinness UK HQ, Building A First Central Park, Park Royal, London NW10 (**Guinness Headquarters**);
- (iv) 68 King William Street and 42-44 Gracechurch Street, London EC4 (**King William Street**); and
- (v) Trinity Bridge House, 2 Dearman's Place, Salford, Manchester M3 (**Trinity Bridge House**),

(together, the **Properties**).

As per the valuation carried out by DTZ Debenham Tie Leung Limited (the **Valuer**) in October 2005 (the **Valuation**), gross rent (inclusive of reversionary income from outstanding rent reviews) was £5,779,009 per annum in respect of St. Georges Court, was £4,500,000 per annum in respect of Skipton House, was £4,711,388 per annum in respect of Guinness Headquarters, was £4,298,573 per annum in respect of King William Street and was £6,948,720 per annum in respect of Trinity Bridge House (in which case, gross rent is in the form of the Unitary Charge, as defined below).

The estimated rental value of St. Georges Court was £5,522,000 per annum

(after deducting head rent to the Crown), of Skipton House was £4,904,000 per annum, of Guinness Headquarters was £4,668,000 per annum, of King William Street was £3,977,000 per annum and of Trinity Bridge House was £4,680,000 per annum.

**Valuation:**

The Valuer has determined the market value of the freehold interest in St. Georges Court, subject to the existing tenancies, to be, as at October 2005 (the **Valuation Date**) £86,000,000, for Skipton House £82,250,000, for Guinness Headquarters £87,000,000, for King William Street £75,500,000, and for Trinity Bridge House £76,500,000. Since the Valuation Date, there has been no diminution in the value of the relevant Property as at the date of this Offering Circular.

**PRINCIPAL FEATURES OF THE NOTES**

**Notes:**

The Notes will comprise:

- (a) £207,700,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2014; and
- (b) £26,500,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2014.

The Notes will be constituted by a trust deed to be made between the Issuer and the Note Trustee dated on or before the Closing Date (the **Trust Deed**). The Notes of each Class will rank *pari passu* and rateably and without any preference among themselves.

**Status and priority:**

After service of a Note Acceleration Notice and pursuant to the provisions of **Condition 3**, the Trust Deed, the Issuer Deed of Charge and the Cash Management Agreement, the Class A Notes will rank in priority to the Class B Notes in point of security and as to the payment of principal and interest and the Class B Notes will be subordinated in point of security and as to the payment of principal and interest to the Class A Notes.

See "*Summary of Principal Documents – The Cash Management Agreement*" below.

**Form of the Notes:**

Each Class of Notes will be in bearer form. The Temporary Global Notes and the Permanent Global Notes of each Class will be held by a common depositary for Euroclear and Clearstream, Luxembourg. The Notes will be in denominations of £50,000.

For so long as the Notes are represented by Global Notes and the rules of Euroclear and Clearstream so permit, the Notes will be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 in excess thereof. However, there will be certain restrictions in respect of holdings above a multiple of £50,000 in nominal amount. See further **Condition 2.2**.

**Ratings:** It is expected that the Notes will, on issue, be assigned the following ratings:

<b>Class</b>	<b>Fitch</b>	<b>S&amp;P</b>
Class A Notes	AAA	AAA
Class B Notes	AA	AA

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by one or more of the assigning rating organisations.

**Listing:** Application has been made to the Stock Exchange for the Notes to be admitted to the Official List of the Stock Exchange and to trading on its regulated market.

**Final redemption:** Unless previously redeemed in full, the Notes will mature on the Final Maturity Date.

**Redemption in whole for taxation and other reasons:** In accordance with **Condition 7.2(b)** and only after reasonable endeavours have been made to mitigate in accordance with **Condition 7.2(a)** if the Issuer satisfies the Note Trustee that either (i) on the occasion of the next Interest Payment Date the Issuer would become subject to tax on its income in more than one jurisdiction or the Issuer would be required to make any withholding or deduction from any payment of principal or interest in respect of any of the Notes, or the Issuer would suffer any withholding or deduction from any payment in respect of the Issuer/Borrower Loans in each case for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the United Kingdom or any authority thereof or therein or (ii) by reason of a change of law which change becomes effective on or after the Closing Date it has or will become unlawful for the Issuer to make, lend or allow to remain outstanding all or any advances made or to be made by it under the Issuer/Borrower Loan Agreement, then the Issuer shall (in accordance with **Condition 7.2(a)**), upon giving not more than 60 and not less than ten days' notice (or in the case of paragraph (ii) above, such shorter notice period expiring on or before the latest date permitted by the relevant law) to the Noteholders and provided that it has satisfied the Note Trustee that it has sufficient funds available to it, redeem all, but not some only, of the Notes at their then Principal Amount Outstanding together with accrued interest thereon.

**Principal Amount Outstanding** means in respect of any Note at any time, the principal amount thereof as at the Closing Date as reduced by any payment of principal to the holder of the Note up to (and including) that time.

**Mandatory redemption in whole or in part:** Subject to **Condition 7.3** and prior to service of a Note Acceleration Notice, if the Issuer receives a notice from the Borrower pursuant to the Issuer/Borrower Loan Agreement that the Borrower will prepay all or part of the Issuer/Borrower Loans on or before the next Interest Payment Date or the Issuer/Borrower Loans are declared due and payable on or before the next Interest Payment Date, the Issuer will, in accordance with **Condition 7.3(a)**, upon giving not more than 60 and not less than ten Business Days' notice to the Noteholders and provided that it has satisfied the Note Trustee that it has or will have sufficient funds available to it, redeem the Notes *pro rata* in an

aggregate amount equal to the principal amount of the Issuer/Borrower Loans being prepaid or repaid on the next Interest Payment Date.

Upon service of a Note Acceleration Notice, pursuant to **Condition 11**, the Note Trustee or its appointee is required to apply all amounts (if any) received in respect of the Issuer/Borrower Loans in accordance with the Post-Acceleration Priority of Payments pursuant to the Issuer Deed of Charge.

**Optional redemption:**

The Issuer has the option to redeem all or part of the Notes or all or any part of any Class of the Notes on any Interest Payment Date in accordance with **Condition 7.4** upon giving not more than 60 nor less than ten Business Days' notice to the Noteholders and provided that it has satisfied the Note Trustee that it has or will have sufficient funds available to it. If the Issuer exercises its option to redeem the Notes, it shall apply the principal redemption amount to redeem the Class A Notes and/or the Class B Notes (as the case may be) at their respective Principal Amount Outstanding together with accrued interest.

**Post-Enforcement Call Option:**

The Note Trustee will, on or before the Closing Date, grant to Optionco an option to require the transfer to Optionco, for a nominal amount only, of all (but not some only) of the Class A Notes and Class B Notes together with accrued interest thereon, in the event that the Issuer Security is enforced and if after payment of all other claims ranking in priority to the Class A Notes and Class B Notes, the remaining proceeds of such enforcement are insufficient to pay in full the principal, interest and other amounts due in respect of the Class A Notes and the Class B Notes and all other claims ranking in priority therewith. The Class A Noteholders and the Class B Noteholders will be bound by the terms of the Trust Deed and the Conditions in respect of the post-enforcement call option and the Note Trustee will be irrevocably authorised to enter into the post-enforcement call option agreement as agent for the Class A Noteholders and the Class B Noteholders.

**No purchase of Notes by the Issuer:**

The Issuer will not be permitted to purchase Notes.

**Further Notes, New Notes and Replacement Notes:**

The Issuer will be entitled, without the consent of the Noteholders of any Class, to issue further debt securities, as follows:

- (a) notes which are consolidated, and form a single series with, an existing Class of Notes (including any New Notes or Replacement Notes then in issue) (**Further Notes**);
- (b) notes which rank *pari passu* with the Class A Notes, or behind the Class A Notes and ahead of the Class B Notes, or *pari passu* with the Class B Notes, or behind the Class B Notes (**New Notes**); and
- (c) notes of any Class to replace an existing Class of Notes, but with a lower interest rate (or, if fixed rate Notes are to be issued in replacement for floating rate Notes or *vice versa*, a swap rate which (taking into account the relevant margin) is lower than the existing Class of Notes being replaced) (**Replacement Notes**).

Pursuant to the Pre-Enforcement Priority of Payments and the Post-Acceleration Priority of Payments (as applicable), interest on junior Classes of Notes will be payable prior to any optional principal prepayment. Any issue of Further Notes, New Notes or Replacement Notes will be subject to the



satisfaction of certain conditions precedent. These will include a condition that the Rating Agencies confirm that the then current ratings of each Class of Notes already in issue will not be adversely affected.

**Interest rates:**

Each Class of Notes will initially bear interest calculated as the sum of LIBOR (as determined in accordance with **Condition 5.4**) plus the relevant Margin. The interest rate margin applicable to each Class of Notes will be as follows (each, a **Margin**):

<b>Class</b>	<b>Margin</b> (per cent.)
Class A Notes	0.21
Class B Notes	0.32

**Interest payments:**

Interest will be payable on the Notes quarterly in arrear on 15 January, 15 April, 15 July and 15 October in each year, unless the same is not a Business Day, in which case the Interest Payment Date will instead be the next succeeding Business Day unless such Business Day falls in the next succeeding calendar month in which event the immediately preceding Business Day (each, an **Interest Payment Date**). **Business Day** means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business and settle payments in London.

**Interest Periods:**

The first Interest Period will run from (and including) the Closing Date to (but excluding) the first Interest Payment Date and subsequent Interest Periods will run from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date. The Noteholders will be entitled to receive a payment of interest only in so far as payment is in accordance with the Priorities of Payments (as described in "*Summary of Principal Documents – Cash Management*" below). Any interest not paid on the Notes (other than interest due on the Most Senior Class of Notes then outstanding) when due (prior to the Final Maturity Date or on such earlier date as the Notes become immediately due and repayable under **Condition 11**) will accrue interest and will be paid only to the extent that there are funds available on a subsequent Interest Payment Date in accordance with the Priorities of Payments (as described in "*Summary of Principal Documents – The Cash Management Agreement*" below).

Non-payment of interest, pursuant to a deferral in accordance with **Condition 5.8**, will not constitute a Note Event of Default.

**Issue prices:**

The Class A Notes will be issued at 100 per cent. of their aggregate initial Principal Amount Outstanding;

The Class B Notes will be issued at 100 per cent. of their aggregate initial Principal Amount Outstanding.

**Withholding tax:**

**If any withholding or deduction for or on account of any tax is imposed in respect of payments under the Notes, the Issuer will make payments subject to such withholding or deduction and neither the Issuer nor any other entity will be required to gross-up or otherwise pay additional amounts in respect thereof. See "*United Kingdom Taxation*" below.**

**Security for the Notes:** The Notes will be secured pursuant to a deed of charge and assignment made between the Issuer, the Note Trustee and the Other Issuer Secured Creditors and dated on or before the Closing Date (the **Issuer Deed of Charge**).

The Note Trustee will hold the security granted under the Issuer Deed of Charge on trust for itself, any receiver and any other appointee of the Note Trustee, the Paying Agents, the Agent Bank, the Liquidity Facility Provider, the Cash Manager and the Account Bank (together, the **Other Issuer Secured Creditors**) and the Noteholders and the Couponholder, (together with the Other Issuer Secured Creditors, the **Issuer Secured Creditors**).

The Issuer will grant the following security interests under or pursuant to the Issuer Deed of Charge (the **Issuer Security**), which is expressed to create:

- (a) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit, present and future, in, to and under the Issuer Transaction Documents other than the Trust Deed and the Issuer Deed of Charge;
- (b) a first fixed charge of its right, title, interest and benefit, present and future, in and to all amounts in the Issuer Accounts;
- (c) a first fixed charge over its interest in any Eligible Investments permitted to be made by it pursuant to the Cash Management Agreement; and
- (d) a first ranking floating charge over the whole of its undertaking and of its property and assets not already subject to fixed security.

The security interests referred to in **paragraphs (a) to (c)** above may take effect as floating security and thus rank behind claims of certain preferential and other creditors.

**Transfer restrictions:** There will be no transfer restrictions in respect of the Notes, subject to applicable laws and regulations.

**Governing law:** The Notes and the other Transaction Documents will be governed by English law.

## **RISK FACTORS**

*The following is a summary of certain aspects of the Notes about which prospective Noteholders should be aware. This summary is not intended to be exhaustive and prospective Noteholders should also read the detailed information set out elsewhere in this document and reach their own views prior to making any investment decision.*

### **Liability under the Notes**

The Notes will be 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 Note Trustee, the Borrower Security Trustee, the Paying Agents, the Lead Manager, the Cash Manager, the Liquidity Facility Provider, Optionco, the Swap Guarantor, the Swap Counterparty, the Agent Bank, the Account Bank, the Borrower, the Propcos or any other members of the L&R Group. Furthermore, no person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

### **The Issuer's ability to meet its obligations under the Notes**

#### ***Limited Resources***

The Notes will be full recourse obligations of the Issuer. However, the assets of the Issuer will themselves be limited. The ability of the Issuer to meet its obligations under the Notes will be dependent on the receipt by it of funds from the Borrower under the Issuer/Borrower Loan Agreement, the receipt of interest in respect of amounts credited to the Issuer Transaction Account and drawings under the Liquidity Facility Agreement. Other than the foregoing, prior to the enforcement of the security created pursuant to the Deed of Charge, the Issuer will not have any other funds available to it to meet its obligations under the Notes and in respect of any payment ranking in priority to, or *pari passu* with, the Notes.

In the event that the Issuer Security is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to amounts due under the Notes of each Class under the Issuer Deed of Charge, to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes, then the assets of the Issuer may be insufficient to meet claims in respect of any such unpaid amounts. Prior to the final maturity of the Notes, enforcement of the Issuer Security is the only remedy available for the purpose of recovering amounts owed in respect of the Notes.

#### ***Ranking of the Notes***

The obligations of the Issuer in respect of the Class A Notes will rank equally amongst themselves in point of security, but in priority to the obligations of the Issuer in respect of the Class B Notes. The obligations of the Issuer in respect of the Class B Notes will rank equally amongst themselves in point of security.

If, on any Interest Payment Date when there are Class A Notes outstanding, the Issuer has insufficient funds to make payment in full of interest due on the Class B Notes, the Issuer will be entitled (under **Condition 5.8**) to defer payment of that amount until the following Interest Payment Date. In these circumstances there will be no Note Event of Default.

There is no assurance that the subordination arrangements will protect the Class A Noteholders from all risk of loss.

#### ***Conflicts of Interest between the Class A Notes and the Class B Notes***

The Trust Deed, the Issuer Deed of Charge and the Conditions of the Notes will provide that the Note Trustee is to have regard to the interests of the holders of both Classes of Notes ahead of any other Issuer

Secured Creditor including, *inter alios*, the Liquidity Facility Provider. There may be circumstances, however, where the interests of one Class of the Noteholders conflict with the interests of the other Class of Noteholders. In such circumstances, the Note Trustee will give priority to the interests of the holders of the Class A Noteholders in the event of a conflict between the interests of the Class A Noteholders on the one hand and the Class B Noteholders on the other hand.

### ***Absence of Secondary Market; Limited Liquidity***

There can be no assurance that a secondary market in the Notes will continue, or if it does, that it will provide Noteholders with liquidity of investment, or that it will continue for the life of the Notes. Application has been made to the Stock Exchange to list 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 the Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of such Notes.

### ***Ratings of Notes***

The ratings assigned to the Notes by the Rating Agencies are based primarily on the value of the Properties, but take into account other relevant structural features of the transaction, including, *inter alia*, the Liquidity Facility and the short-term unsecured and unsubordinated debt rating of the Liquidity Facility Provider and reflect only the views of the Rating Agencies. The ratings address the likelihood of full and timely payment to the Noteholders of all payments of interest on each Interest Payment Date and repayment of principal no later than the final Interest Payment Date. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in or unavailability of information or if, in the Rating Agencies' judgement, circumstances so warrant. Rating agencies other than the Rating Agencies could seek to rate the Notes and if such "unsolicited ratings" are lower than the comparable rating assigned to the Notes by the Rating Agencies, such 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 Rating Agencies only. Future events, including events affecting the L&R Group and/or the Liquidity Facility Provider and/or circumstances relating to the Properties and/or the property market generally, could have an adverse impact on the ratings of the Notes. 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 Agency. In addition it should be noted that the Issuer is only obliged to maintain ratings of the Notes from any two rating agencies.

Any written statement, from each Rating Agency, of the ratings then assigned by that Rating Agency to each of the Class A Notes and the Class B Notes given by a Rating Agency and/or any satisfaction of its own ratings tests:

- (a) only addresses the effect of any relevant event, matter or circumstance on the current ratings assigned by the relevant Rating Agency to the Notes;
- (b) does not address whether any relevant event, matter or circumstance is permitted by the Transaction Documents; and
- (c) does not address whether any relevant event, matter or circumstance is in the best interests of, or prejudicial to, some or all of the Noteholders.

Furthermore, there can be no assurance that the Rating Agencies will take the same view as each other, which may affect the L&R Group's ability to adapt the structure of the transaction to changes in the market over the long term.

### ***Ratings confirmations***

Under the Transaction Documents, the Note Trustee may determine whether or not any event, matter or thing is, in its opinion, materially prejudicial to the interests of any Class of Noteholders, or, as the case may be, all the Noteholders, and if the Note Trustee shall certify that any such event, matter or thing is, in its opinion, materially prejudicial, such certificate shall be conclusive and binding upon the Issuer and the Noteholders. In making such a determination, the Note Trustee shall be entitled to take into account, among other things, any confirmation by the Rating Agencies (if available) that the then current rating of the Notes of the relevant Class would or, as the case may be, would not, be adversely affected by such event, matter or thing.

However, it should be noted that the decision as to whether or not to reconfirm any particular rating may be made on the basis of a variety of factors and no assurance can be given that any such reconfirmation will not be given in circumstances where the relevant proposed matter would materially adversely affect the interests of Noteholders of a particular Class. The Ratings Agencies, in assigning credit ratings, do not comment upon the interests of holders of securities (such as the Notes). In addition, no assurance can be given that the Rating Agencies will provide any such reconfirmation.

### ***Denominations and trading***

The Notes of each Class will be issued in the denomination of £50,000. However, for so long as the Notes of any relevant Class are represented by a Global Note, and the rules of Euroclear and Clearstream, Luxembourg so permit, the Notes will be tradeable in minimum nominal amounts of £50,000 and integral multiples of £1,000 in excess thereof. However, if Definitive Notes for that Class of Notes are required to be issued and printed, any Noteholder holding Notes having a nominal amount which cannot be represented by a Definitive Note in the denomination of £50,000 will not be entitled to receive a Definitive Note in respect of such Notes and will not therefore be able to receive principal or interest in respect of such Notes.

Furthermore, at any meeting of Noteholders of any Class while the Notes of that Class are represented by a Global Note, any vote cast will be valid only if it is in respect of £50,000 in nominal amount. The quorum requirements for meetings of Noteholders will also disregard any holdings to the extent that they cannot be represented by a holding of £50,000.

### ***Post-Enforcement Call Option***

The Note Trustee will, on or before the Closing Date, grant to Optionco an option to require the transfer to Optionco, for a nominal amount only, of all (but not some only) of the Class A Notes and Class B Notes together with accrued interest thereon, in the event that the Issuer Security is enforced and if after payment of all other claims ranking in priority to the Class A Notes and Class B Notes, the remaining proceeds of such enforcement are insufficient to pay in full the principal, interest and other amounts due in respect of the Class A Notes and the Class B Notes and all other claims ranking in priority therewith. The Class A Noteholders and the Class B Noteholders will be bound by the terms of the Trust Deed and the Conditions in respect of the post-enforcement call option and the Note Trustee will be irrevocably authorised to enter into the post-enforcement call option agreement as agent for the Class A Noteholders and the Class B Noteholders.

### ***Refinancing Risk at Final Maturity of the Notes***

The ability of the Issuer to redeem the Notes on the Interest Payment Date falling in October 2014 will be dependent on the ability of the Borrower to repay the Issuer/Borrower Loans under the Issuer/Borrower Loan Agreement. In order to make such a repayment under the Issuer/Borrower Loan Agreement, the Borrower will be required to refinance the Issuer/Borrower Loan Agreement by, for example, having the Propcos sell the Properties to a third party or raising new finance in an amount at least equal to the amount outstanding under the Issuer/Borrower Loan Agreement. No assurance can be given that market conditions will be such that the Obligors will be able to sell the Properties or refinance the Issuer/Borrower Loans in full and on time

in order to enable it to meet its obligations to repay the Issuer/Borrower Loans and hence to enable the Issuer to meet its obligations under the Notes on the Interest Payment Date falling in October 2014.

### ***Availability of Liquidity Facility***

Pursuant to the terms of the Liquidity Facility Agreement, the Issuer will be entitled to make drawings under the Liquidity Facility Agreement from time to time to cover shortfalls in the amounts available to the Issuer to make payments of, among other things: (a) amounts due and payable to the Issuer Secured Creditors which rank senior payments of interest on the Notes; and (b) interest on the Notes.

See "*Summary of Principal Documents – The Liquidity Facility Agreement*".

## **Risks relating to the Properties and the Occupational Leases**

### ***Swap Counterparty Risks***

If the Swap Counterparty fails to provide the Borrower with amounts equal to the full amount of interest due on the relevant tranche of the Issuer/Borrower Loan or the B Loan on any Interest Payment Date or if the Swap Agreement is otherwise terminated, then the Borrower may have insufficient funds to make payments due on that Issuer/Borrower Loan or the B Loan. The Swap Counterparty is required to meet certain requirements (such as providing collateral in support of its obligations or obtaining a guarantee) if the Swap Guarantor is downgraded. In the event that the Swap Counterparty is unable to fulfil such requirements within the required time period following a downgrade of the Swap Guarantor, the Borrower has the right to terminate the Swap Agreement and this may result in the Borrower being required to pay a swap termination payment to the Swap Counterparty thus reducing the funds available to the Borrower for making payments it is obliged to make pursuant to the Issuer/Borrower Loan Agreement and/or the B Loan Agreement. In addition, following such a termination of the Swap Agreement, until such time as the Borrower puts in place a replacement swap agreement, the Borrower will be exposed to interest rate risk which may result in the Borrower having insufficient funds to make the payments it is obliged to make pursuant to the Issuer/Borrower Loan Agreement and/or the B Loan Agreement.

The Swap Counterparty may terminate the Issuer/Borrower Loan Swap Transaction(s) in certain circumstances including (i) if the Borrower fails to pay the full amount it is required to pay on any payment date pursuant to an Issuer/Borrower Loan Swap Transaction, (ii) the occurrence of an illegality or certain tax-related events pursuant to the Swap Agreement, (iii) to the extent that the aggregate notional amount of the Issuer/Borrower Loan Swap Transaction(s) (excluding interest rate caps or captions) entered into pursuant to the Swap Agreement exceeds the sum of £100,000 and the outstanding principal amount of all the loans made under the Issuer/Borrower Loan Agreement, (iv) if there is a disposal of any of the assets of the Borrower following an acceleration of any Issuer/Borrower Loan and the proceeds of such disposal are used to repay such accelerated Issuer/Borrower Loan (in such case, the Issuer/Borrower Loan Swap Transactions may be terminated such that the notional amount applicable with respect to such transactions is reduced by an amount equal to the amount of such repayment) and/or (v) if there is a prepayment, or cancellation in part or in whole of any Issuer/Borrower Loan, as the case may be (but if such prepayment or cancellation is only in part then the relevant Issuer/Borrower Swap Transaction will only be terminated in a proportionate amount).

The Swap Counterparty may terminate the B Loan Swap Transaction(s) in certain circumstances including (i) if the Borrower fails to pay the full amount it is required to pay on any payment date pursuant to a Swap Transaction, (ii) the occurrence of an illegality or certain tax-related events pursuant to the Swap Agreement, (iii) if there is an acceleration, prepayment or cancellation in part or in whole of any B Loan, as the case may be (but if such prepayment or cancellation is only in part then the relevant B Loan Swap Transaction will only be terminated in a proportionate amount), and/or (iv) to the extent that the aggregate notional amount of the B Loan Swap Transaction(s) (excluding interest rate caps or captions) entered into pursuant to the Swap Agreement exceeds the sum of £100,000 and the outstanding principal amount of all the loans made under the B Loan Agreement.

If a Swap Transaction is terminated by the Swap Counterparty, this may result in the Borrower being required to pay a swap termination payment to the Swap Counterparty thus reducing the funds available to the Borrower for making payments it is obliged to make pursuant to the Issuer/Borrower Loan Agreement and/or the B Loan Agreement. In addition, following such a termination of the Swap Transaction, until such time as the Borrower puts in place a replacement swap agreement, the Borrower will be exposed to interest rate risk which may result in the Borrower having insufficient funds to make the payments it is obliged to make pursuant to the Issuer/Borrower Loan Agreement and/or the B Loan Agreement.

The Propcos (except LR (Manchester) Limited) have existing interest rate swap agreements with various counterparties. On or about the Closing Date they will novate their rights and obligations under these swaps (save for one swap) to the Borrower, who will immediately novate those rights and obligations to the Swap Counterparty. It is anticipated that the relevant Propcos will be in out-of-money positions in respect of these existing swap arrangements. Consequently the fixed rate payable by the Borrower to the Swap Counterparty under the Swap Transactions will be a rate higher than the rate which the Borrower would otherwise have been able to get for a similar swap in the market to reflect the fact that the Swap Counterparty has assumed the relevant Propcos' positions in respect of the existing hedging arrangements. It is anticipated that one of these existing hedging arrangements will be terminated on or about the Closing Date. On the same day, the Swap Counterparty will make an initial payment to the Borrower under the Swap Agreement, the amount of which the Borrower will then pass to the relevant Propco through the Intra-Group Loan Agreement. The relevant Propco will apply such amount to discharge its early termination payment obligation to the original swap counterparty. Due to this arrangement, if the Swap Transactions are terminated early, a substantial termination payment may be payable by the Borrower to the Swap Counterparty and consequently the Borrower may have insufficient funds to make payments due on the Issuer/Borrower Loan or the B Loan.

### ***Title***

Title to St. Georges Court, Skipton House and King William Street has been investigated by Taylor Wessing; title to Guinness Headquarters has been investigated by Lawrence Graham LLP and title to Trinity Bridge House has been investigated by Herbert Smith LLP (together, the **Solicitors**). The Solicitors have produced certificates of title on the Properties (the **Certificates of Title**). The Certificates of Title address the quality of title of each Property as at October 2005 and have been issued by the Solicitors on the basis of a review of the title documents and the usual conveyancing searches and enquiries.

The Certificates of Title reveal the following information:

#### *St. Georges Court*

1. The head lease may be determined by the landlord or the tenant if the property is damaged by an insured risk and reinstatement is not commenced within ten years because a statutory, public, local or other competent authority or court of competent jurisdiction or legal provision prevents reinstatement. On termination, insurance proceeds (less certain outlays and expenses) will be divided up according to the respective open market values of the freeholder and head leaseholder's interest and based on certain assumptions. These provisions do not apply whilst the Secretary of State for Defence is the undertenant.
2. The property is not currently insured because the Secretary of State for Defence bears its own risk and is obliged to rebuild and reinstate in the event of damage or destruction.

#### *King William Street*

1. The landlord has the right to break the House of Fraser lease in 2028 or 2033 to pursue certain development proposals. If the landlord exercises the right to break, the tenant has certain rights to take an underlease in the new development. The landlord's right to break is subject to payment of premiums. Similarly, if the tenant exercises its right to break, it must pay a certain premium.

2. There is a subway licence relating to a pedestrian subway at King William Street. Transport for London may terminate the licence either for breach or where it considers it necessary for the proper exercise of its function as the Highway Authority. If the subway licence is terminated, the rent attributable to the lower ground floor of the premises (believed to currently be in the order of £530,000 (calculated on a square footage basis)) under the House of Fraser lease is reduced by 25 per cent. until such time as the subway is reinstated.
3. Inherent defects causing damage before 15 September 2014 are excluded from the tenant's repairing liability under the House of Fraser lease.
4. Under the House of Fraser lease, if the property suffers damage by an insured risk, the landlord is obliged to reinstate in the usual way. If four years after the date of damage the landlord has not started substantial works of rebuilding, either party, including the tenant, can terminate the lease. If the property suffers damage by an insured risk, the rent ceases to be payable until such time as the property is reinstated (there is no maximum time limit on the rent cesser period).

If the property is damaged or destroyed by an act of terrorism which is not insured, the landlord may elect within 18 months to reinstate the property. If it does so elect, it must rebuild and the rent will continue to be payable. If the landlord does not so elect, either party can terminate the lease but if the tenant wishes to terminate, it must pay a premium of three years rent.

5. Under the Regus lease, the provisions relating to damage by an act of terrorism which is uninsured is similar to the House of Fraser lease but if the landlord elects to reinstate, the rent will cease to be payable until the property is reinstated. If the landlord chooses not to reinstate, if the tenant then exercises its right to terminate, the tenant is not required to pay a premium.

#### *Skipton House*

1. While the tenant remains the Secretary of State for the Environment, it has a right of pre-emption over the freehold.
2. The tenant has a right of deduction for lawful set-off. This is not considered to be significant because the landlord has no general service charge obligations to the tenant under the lease (although it does have an obligation to maintain an accessway).
3. Whilst the Secretary of State for the Environment is the tenant, it bears its own risk and is obliged to rebuild and reinstate in the event of damage or destruction.
4. The property may not be elected for VAT whilst the Secretary of State for the Environment or any other minister of the Crown, government department, government agency or other body or authority carrying out functions on behalf of the Crown is the tenant.

#### *Guinness Headquarters*

1. The lease to Guinness Limited contains a rent cesser clause such that if the property is rendered incapable of or unfit for occupational use, the rents are suspended until the property is reinstated. On its face, this applies whether the damage is caused by insured risks or not. If the landlord does not commence the reinstatement within two years of the relevant damage or destruction, the tenant may terminate the lease. If the works have not been completed within four years of the relevant damage or destruction, then the tenant may also terminate the lease.
2. There are also various restrictive covenants affecting the property prohibiting use other than as private dwelling houses and in particular prohibiting trades or businesses. The covenants date from 1897 and 1934 and there are some additional covenants from 1902 which are unknown. There is a restrictive covenant indemnity policy in place with a limit of indemnity of £60,000,000.



3. There is a section 106 agreement relating to the 22 acre development site of which the property forms part. There are obligations to make financial payments as contribution towards local services and employment opportunities. The obligation to pay these falls on Guinness Limited as tenant.

#### *Trinity Bridge House*

Trinity Bridge House is owned by London & Regional (Manchester) Limited and is held under a lease for 150 years at a peppercorn rent. There is an intermediate underlease (the **Intermediate Lease**) of the whole of Trinity Bridge House to LR (Manchester) Limited for a term of 23 years from 18 March 1997 and a further sublease (the **Trinity Occupational Lease**) of the ground to 7th Floor of Trinity Bridge House to The Secretary of State for the Environment (the **Authority**) for a term from 14 August 1998 to 13 August 2013 under which the property is occupied by HM Revenue and Customs. The Intermediate and Trinity Occupational Leases are granted in connection with an agreement (the **Project Agreement**) under the Private Finance Initiative of Her Majesty's Government dated 18 March 1997 between LR (Manchester) Limited and the Authority under which LR (Manchester) Limited agreed to develop the property, grant the Trinity Occupational Lease and provide facilities management services in return for payment of a unitary charge, payable in accordance with the terms of the Project Agreement (the **Unitary Charge**). The unitary charge is subject to detailed provisions for deduction in the event of default in the provision of facilities management services and premises being unavailable for occupation. There is no cap on the amount of the deductions.

No rent is payable under the Trinity Occupational Lease but the tenant covenants to make all payments due under the Project Agreement. Similarly provisions for repairs, insurance, the provision of services and dealings with Trinity Bridge House are dealt with under the Project Agreement.

If the Project Agreement is terminated as to the whole or part of Trinity Bridge House the Trinity Occupational Lease automatically determines as to the whole or part also. The Authority has the right to determine the Project Agreement in the event of LR Manchester Limited's insolvency and in certain instances of corrupt payments, but the risk of such events occurring are considered limited as LR Manchester Limited currently pursues no other business activities other than those which are related or ancillary to the management and development of Trinity Bridge House.

The Project Agreement relieves both parties from liability for failure to perform any obligation as a result of Force Majeure and if any party is unable to substantially perform any obligation for a continuous period of six months as a result of Force Majeure the other party can terminate the Project Agreement on notice.

If the Project Agreement is terminated, then the Borrower may have insufficient funds to make payments due on that Issuer/Borrower Loan.

#### **Reports**

Apart from the Certificates of Title and the Valuation Reports, no new reports have been prepared specifically for the purpose of this document or the transactions contemplated herein and none of the Issuer, the Lead Manager, the Note Trustee or the Borrower Security Trustee has made any independent investigation of any of the matters stated therein except as disclosed in this document.

#### **Dependence on Occupational Tenants**

The ability of the Issuer to make interest payments on, and repayments of principal of, the Notes is dependent on the payments made by the Borrower under the Issuer/Borrower Loan Agreement, which in turn is dependent, *inter alia*, on the payments made by the Propcos to the Borrower under the Intra-Group Loan Agreement. The Propcos will apply the Net Rental Income generated under any lease or license or other right of occupation or right to receive rent to which a Property may at any time be subject (the **Occupational Leases**) to make payments under the Intra-Group Loan Agreement. The Borrower will apply amounts received under the Intra-Group Loan Agreement to make payments under the Issuer/Borrower Loan

Agreement. The payments in respect of the Notes will be dependent on the due performance of the obligations on the part of the tenant to pay all rents and to observe and perform the covenants, undertakings and obligations contained in the Occupational Leases. Any failure of an occupational tenant to pay rents due pursuant to the relevant Occupational Lease could affect the Issuer's ability to make payments in respect of the Notes, unless the rental payments generated by the other Occupational Leases are sufficient to allow the Borrower to pay interest under the Issuer/Borrower Loans or the Issuer can remedy a temporary shortfall by drawing under the Liquidity Facility Agreement.

### ***Default of Occupational Tenants***

The Rental Income under the Occupational Leases is not insured or guaranteed. Following a default under the Issuer/Borrower Loan Agreement, it may be necessary to offer to re-let or, as appropriate, sell the relevant Property. Amounts received in respect of the Properties following a reletting or sale could be insufficient to pay accrued interest on and to repay principal of the Issuer/Borrower Loan Agreement in full in which case Noteholders may ultimately suffer a loss.

The amount of the Rental Income for which any Property could be re-let or the liquidation value of the Properties may be adversely affected by risks generally incidental to interests in real property, including: changes in political and economic conditions or in specific industry segments; declines in property values; variations in supply of and demand for commercial property; declines in rental or occupancy rates; increases in interest rates; changes in governmental rules, regulations and fiscal policies; terrorism; acts of God; and other factors which are beyond the control of L&R and any other party to the transaction.

### ***Requirement to find new tenants***

Although none of the leases are scheduled to expire prior to the Expected Maturity Date, during the full term of the Notes some of the leases may become subject to renewals or the relevant space may need to be re-let and there can be no assurance that the Propcos will be able to re-let or, if re-let, that the new leases for such space will be on terms as favourable to the relevant Propco as those currently, or then, existing or that the covenants given by and/or status of any tenants under new leases will be the same as those, or equivalent to, any tenants under the leases.

The ability to attract tenants paying rent levels sufficient to allow the Borrower to make payments in full due under the Issuer/Borrower Loans will be dependent, among other things, on the performance of the commercial property market generally in the United Kingdom. Both tenant demand and rental levels can generally be influenced by a number of factors, including availability of suitable space, demand for space and the performance of the local economy generally.

Upon the re-letting of any Property no assurance can be given that the rent on such re-letting will be equal to or higher than the rental value achieved previously on such Property or that (unless such is the market norm at the time) the rent review provisions in the new lease of such Property will be on an upwards-only basis.

### ***Terms of Occupational Leases***

Save for the Certificates of Title prepared by the Solicitors, no due diligence has been performed in respect of the terms of the Occupational Leases. However, the Obligors have represented to the Issuer that the obligation to make payments under an Occupational Lease in respect of the Properties is or, as applicable, will be, an unconditional obligation on the part of the relevant occupational tenant. Save as disclosed under "Title" above substantially all the Occupational Leases (except Occupational Leases granted in respect of Trinity Bridge House) are either (a) "fully repairing and insuring" leases; that is, substantially all of the economic liabilities arising in relation to the upkeep and operation of the relevant leased premises are borne by the tenant, including the costs of repairing, maintaining and insuring the relevant premises subject to certain limited exceptions in certain cases, or (b) effective fully repairing and insuring leases; *i.e.* the tenant has an internal repairing lease and other costs are fully recoverable through the service charge.

In each Occupational Lease, the original owner has covenanted or undertaken, or as applicable the Propcos will covenant or undertake, with the tenant to, inter alia, allow such tenant quiet enjoyment of that part of the Property which is leased to it. A breach by a Propco of any of these covenants or undertakings could give rise to a dispute with the tenant, and the tenant might seek to withhold rental payments (notwithstanding any contractual prohibition contained in the relevant Occupational Lease against the tenant exercising any such set-off).

### ***Uninsured Loss***

The Issuer/Borrower Loan Agreement requires the Obligors to procure that insurance is maintained with respect to the Properties (other than Skipton House and St. Georges Court, in respect of which the tenant (for so long as it is a government tenant) is not obliged to insure as it self-insures and/or for so long as the lease with the government tenant complies with certain other restrictions) in accordance with the terms set out in the Issuer/Borrower Loan Agreement. There are, however, certain types of losses (such as losses resulting from wars, nuclear radiation, radioactive contamination and settling of structures) which are not covered by the required insurance policies. Losses resulting from wars, nuclear radiation and radioactive contamination are nevertheless the subject of a statutory indemnity from the UK Government and, accordingly, are excluded from all UK insurance policies. Losses resulting from terrorism, heave and subsidence are currently covered by UK insurance policies (except in relation to Northern Ireland policies where terrorism is not covered but where there is a statutory compensation scheme in existence in respect of losses resulting from terrorist acts). Furthermore, there can be no guarantee, that losses from heave and subsidence or certain other types of losses will remain insurable or economically insurable and therefore covered by the required insurance policies throughout the term of the Notes. The Borrower's ability to repay the Issuer/Borrower Loan Agreement might be affected adversely if such an uninsured or insurable loss were to occur.

### ***Reliance on Valuation***

There can be no assurance that the Market Value of each of the Properties will continue at a level equal to or in excess of such valuations. To the extent that the Market Value of each of the Properties fluctuate, there is no assurance that the aggregate of the Market Values of the Properties will be equal to or greater than the unpaid principal and accrued interest and any other amounts due under the Issuer/Borrower Loan Agreement. If any Property is sold following a Loan Event of Default, there is no assurance that the net proceeds of such sale will be sufficient to pay in full all or any amounts due under the Issuer/Borrower Loan Agreement.

### ***Environmental risks***

The Obligors have covenanted in the Issuer/Borrower Loan Agreement to ensure that, they have been and are in compliance in all material respects with environmental and health and safety laws and regulations currently applicable to them. They are also committed, as a matter of policy, to operate their business in material compliance with all applicable environmental and health and safety laws and regulations. However, there can be no assurance that the Propcos will not be found to be in breach of any environmental and health and safety regulations in the future. Sanctions for alleged or actual non-compliance with environmental and health and safety regulations could have a material adverse effect on its business or financial condition.

No environmental due diligence in respect of the Properties has been carried out in connection with the issue of the Notes and related transactions.

Various environmental laws may require a current or previous owner, occupier or operator of property to remediate substances or releases at or from such property that cause or are likely to cause harm to the environment or water pollution. These owners, occupiers or operators may also be obliged to pay damages in legal proceedings for property damage, for investigation and clean-up costs and liabilities to third parties in connection with such substances.

If an environmental liability arises in relation to the Properties and it is not remedied, or is not capable of being remedied, this may result in the Properties either being sold at a reduced sale price or becoming unlettable or unsellable.

If any environmental liability were to exist or arise in respect of any Property, none of the Borrower Security Trustee or the Note Trustee should incur any such liability prior to enforcement of the Deed of Charge, unless it could be established that the Borrower Security Trustee or the Note Trustee had entered into possession of the relevant Property(ies) or had exercised a significant degree of control or management of either the relevant Property(ies) or the relevant environmental problem(s). After enforcement, the Borrower Security Trustee or the Note Trustee, if deemed to be a mortgagee in possession, or a receiver appointed on behalf of the Borrower Security Trustee or the Note Trustee, could become responsible for environmental liabilities in respect of a Property and any such liability could affect the amounts available to the Issuer to make payments under the Notes. If the Borrower Security Trustee or the Note Trustee unduly directed or interfered with the actions of the directors or the legal owners of the Properties or directed or interfered with the receiver's actions or if a receiver's indemnity had been given and that indemnity covered environmental liabilities, this could also result in a liability for the Issuer, the Borrower Security Trustee and/or the Note Trustee. Even if either of them could incur such a liability solely by virtue of being the owner and/or lessor of such Property(ies) they may be able to obtain an indemnity from the relevant tenant in possession.

The Obligors will warrant in the Issuer/Borrower Loan Agreement, in respect of each of the Properties as to environmental matters as summarised in "*Summary of Principal Documents – The Issuer/Borrower Loan Agreement – Warranties*" below. It will be an event of default under the Issuer/Borrower Loan Agreement if there is a breach of any of the environmental representations and warranties contained in the Issuer/Borrower Loan Agreement which has a Material Adverse Effect.

### ***Compulsory Purchase***

Any property in the United Kingdom may at any time be compulsorily acquired in whole or in part by, *inter alios*, a local authority or a Government Department (for example the Department of Transport), generally in connection with proposed redevelopment or infrastructure projects. No such compulsory purchase proposals have been revealed in the Certificate of Title issued in relation to each Property.

In the event of a compulsory purchase order being made in respect of a Property, compensation would be payable by the relevant Government Department or local authority on the basis of the open market value of all owners' and tenants' proprietary interests in the Property, as valued by such Government Department or local authority, at the time of the related purchase. Following such a purchase the tenants would cease to be obliged to make any further rental payments to the relevant Propco under the relevant occupational lease (or rental payments would be reduced to reflect the compulsory purchase of a part of its Property if applicable). Such a purchase might also constitute a Loan Event of Default and lead to an acceleration of the Issuer/Borrower Loans and the B Loans. The risk to Noteholders is that the amount received from the proceeds of purchase of the freehold or leasehold estate of such Property may be less than the original value ascribed to it.

It should be noted that there is often a delay between the compulsory purchase of a property and the payment of compensation (although interest may be payable from the date upon which the acquiring authority takes possession of the property), which will largely depend upon the ability of the property owner and the entity acquiring the property to agree on the open market value of the property. Such a delay may, unless the relevant Propco has other funds available to it, give rise to a Loan Event of Default under the Issuer/Borrower Loan Agreement and the B Loan Agreement.

### ***Forfeiture in respect of Leaseholds***

In the case of non-payment of rent and other remediable breaches the tenant is likely (provided that it does remedy such non-payment or other breach) to obtain relief from any attempts to terminate the lease (i.e.

forfeiture) thus preventing termination of the lease. The Propcos have undertaken under the Issuer/Borrower Loan Agreement to comply with the terms of the headleases.

### ***Frustration***

An Occupational Lease in respect of a Property could, in exceptional circumstances, be frustrated under English law. Frustration may occur where a supervening event so radically alters the implications of the continuance of a lease for a party thereto that it would be inequitable for such lease to continue. If a tenancy granted in respect of a Property were to be frustrated, this could operate to have an adverse effect on the income derived from, or able to be generated by, such Property. This in turn could cause the Borrower to have insufficient funds to make payments in full in respect of the Issuer/Borrower Loan Agreement, which could lead to a default thereunder.

### ***Late Payment of Rent***

There is a risk that rental payments due under the Occupational Leases will not be paid on the due date therefor or not paid at all. In the event of a late payment of rent which is not received on or prior to the immediately following Interest Payment Date and any resultant shortfall is not otherwise compensated for by any excess spread on the other Occupational Leases and the Borrower fails to pay the amount due on the next Interest Payment Date, an event of default will occur in relation to the Issuer/Borrower Loan Agreement. Such a Loan Event of Default may cause a Note Event of Default if the Issuer cannot remedy such shortfall by a drawing under the Liquidity Facility Agreement. No assurance can be given that the resources available to the Issuer will be sufficient to cover any such shortfall and that a Note Event of Default will not in fact occur as a result of the late payment of rent.

### ***Landlord's responsibilities***

One of the Properties is a multi-tenanted property in respect of which the relevant Propco, as landlord, is obliged to provide services relating to the areas of the Property that are used by all the tenants and their visitors collectively, rather than by an individual tenant. Although tenants are required by the terms of their leases to make service charge contributions towards the landlord's costs in this regard, the relevant Propco would be responsible for meeting any shortfalls in contributions and covering the contribution that would otherwise be made by tenants of unlet units.

### ***Enforcement of the Obligor Security***

Subject to the terms of the Intercreditor Agreement, in the event of a notice to the Borrower by the Issuer or the Borrower Security Trustee declaring all or part of any amounts outstanding under the Finance Documents due and payable and/or payable on demand by the Issuer, recourse will be available only to the assets the subject of the Obligor Security (including the Properties, the benefit of the covenants and undertakings in favour of the Borrower and Propcos pursuant to the terms of the Transaction Documents and the Obligor Accounts). Enforcement of the Obligors Security may not result in immediate realisation from the property and assets secured pursuant to the terms thereof and a significant delay could be experienced in recovery by the Borrower Security Trustee of, *inter alia*, amounts owed under the Intra-Group Loan Agreement, the Issuer/Borrower Loan Agreement and the B Loan Agreement (in particular, please see "*Insolvency Considerations*" below). Any receiver appointed would usually require an indemnity to meet his costs and expenses (which rank ahead of payments on the Notes) as a condition of his appointment. Furthermore, there can be no assurance that the Borrower Security Trustee would recover all amounts secured upon enforcement of the Obligor Security and, accordingly, sufficient funds may not be realised or available to make all required payments to the Issuer and, accordingly, the Issuer may not have sufficient funds available to make all required payments to the Noteholders.

### ***Market risks upon the sale of the Properties***

In the event of enforcement of the Obligor Security it may be necessary to sell the Properties. Sale proceeds could be insufficient to pay accrued interest and repay principal under the Intra-Group Loan Agreement and the Issuer/Borrower Loan Agreement in full, in which case Noteholders may ultimately suffer a loss.

The value and income generating potential of the Properties may be adversely affected by risks generally incidental to interests in real property, including changes in political and economic conditions and/or in business conditions in specific industry and regional segments, legislative and policy change that results in deterioration in the demand for office, retail and industrial accommodation and/or increasing available supply of such space and/or terrorism and acts of God, and other factors which are beyond the control of any party to the transaction.

### ***Monitoring of compliance with representations, warranties and covenants and the occurrence of a Loan Event of Default***

The Issuer/Borrower Loan Agreement and the Intra-Group Loan Agreement will provide that the Borrower Security Trustee will be entitled to assume, unless it is otherwise disclosed in a quarterly investor report or any other report delivered in accordance with the terms of the Issuer/Borrower Loan Agreement and the Intra-Group Loan Agreement or in any compliance certificate delivered thereunder or the Borrower Security Trustee is expressly informed otherwise by an Obligor, that no Loan Event of Default has occurred which is continuing. The Borrower Security Trustee will not monitor whether any such event has occurred but will (unless expressly informed to the contrary by an Obligor) rely on such reports and certificates delivered under the Issuer/Borrower Loan Agreement and the Intra-Group Loan Agreement as to whether a Loan Event of Default has occurred.

Moreover, as the Issuer is a special purpose company, it will not, nor does it possess the resources to, actively monitor whether a Loan Event of Default has occurred, including, for this purpose, the continued accuracy of the representations and warranties made by the Obligors and compliance by the Obligors with their covenants and undertakings.

The Issuer/Borrower Loan Agreement will require the Obligors to inform the Issuer and the Borrower Security Trustee of the occurrence of any Loan Event of Default promptly upon becoming aware of the same.

The occurrence of a Loan Event of Default will entitle the Borrower Security Trustee to pursue any of the courses of action available to it.

### ***Mortgagee in possession liability***

The Borrower Security Trustee may be deemed to be a mortgagee in possession if there is physical entry into possession of any Property or an act of control or influence which may amount to possession (such as receiving rents directly from the relevant tenant or sub-tenant). A mortgagee in possession may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation) and in certain circumstances, can incur the liabilities of a property owner. The Borrower Security Trustee has the absolute discretion, at any time, to serve a written notice on a Propco requiring the Propco from the date such notice is served to obtain the Borrower Security Trustee's prior written consent before taking any action which would be likely to lead to the Borrower Security Trustee becoming a mortgagee in possession in respect of a Property.

### ***Property Management***

Whilst London & Regional Properties Limited, as the Property Manager appointed on or about the Closing Date, is experienced in managing commercial retail property, there can be no assurance that it will continue

to act as Property Manager, although any successor manager of a Property appointed by the Propcos is required to be experienced in managing commercial retail and office premises.

### ***Delegation***

Except to the limited extent described herein, none of the Borrower Security Trustee, the Note Trustee, any Noteholder or any other Borrower Secured Creditor or Issuer Secured Creditor has any right to participate in the management or affairs of the Propcos, the Borrower or the Issuer. In particular, such parties cannot supervise the functions relating to the management or operation of the Properties and the leasing and releasing of the space within the Properties or otherwise. The Issuer, the Borrower and the Propcos will each rely upon, *inter alios*, the Cash Manager, the Property Manager and other service providers for all cash and asset servicing functions. Failure by any such party to perform its obligations could have a material adverse effect upon the Issuer's ability to repay the Notes. There can be no assurance that, were any such party to resign or its appointment be terminated, a suitable replacement service provider could be found or found in a timely manner, and engaged on terms acceptable to the Borrower Security Trustee and/or the Note Trustee (as applicable).

### **Risks relating to Taxation**

#### ***Withholding tax in respect of the Issuer/Borrower Loan Agreement***

Based on advice received, the directors of the Issuer believe that, under current law, all payments made to it under the Issuer/Borrower Loan Agreement can be made without deduction or withholding for or on account of any United Kingdom tax. In the event that any withholding or deduction for or on account of tax is required to be made from any payment due to the Issuer under the Issuer/Borrower Loan Agreement, the amount of that payment will be increased so that, after that withholding or deduction has been made, the Issuer will receive a cash amount equal to that which it would have received had no such withholding or deduction been required to be made. If the Borrower does not have sufficient funds to enable it to make such increased payments to the Issuer, the Issuer's ability to meet its payment obligations under the Notes could be adversely affected.

In such circumstances, the Borrower may choose to exercise its right to prepay the outstanding Issuer/Borrower Loans in full. If the Borrower chooses to prepay the Issuer/Borrower Loans, the Issuer will then be obliged to redeem the Notes.

#### ***Withholding tax in respect of the Notes***

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Notes (as to which, in relation to United Kingdom tax, see "*United Kingdom Taxation*" below), neither the Issuer nor any Paying Agent nor any other person will be obliged to pay any additional amounts to Noteholders or, if Definitive Notes are issued, Couponholders or to otherwise compensate Noteholders or Couponholders for the reduction in the amounts they will receive as a result of such withholding or deduction. For the avoidance of doubt, neither the Note Trustee nor Noteholders nor, if Definitive Notes are issued, Couponholders will have the right to require the Issuer to redeem the Notes in these circumstances.

#### ***European Union Directive on the Taxation of Savings Income***

Under the EC Council Directive 2003/48/EC on the taxation of savings income Member States are required, from 1 July 2005, 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 are instead 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). A number of non-EU countries and territories,

including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

### ***Contingent Taxation Liabilities***

London & Regional (King William St) Limited acquired King William Street from another company which was, at the time of that acquisition, a member of the same capital gains tax and/or stamp duty land tax group.

As a consequence, London & Regional (King William St) Limited will have contingent liabilities to pay United Kingdom corporation tax on chargeable gains of £8,100,000 and stamp duty land tax of £3,020,000 if (broadly) London & Regional (King William St) Limited ceases to be a member of the relevant tax group within a period specified by statute. In relation to corporation tax on chargeable gains, the specified period will end during the year 2011. In relation to stamp duty land tax, the specified period will end during the year 2008 (unless arrangements for London & Regional (King William St) Limited to leave the relevant tax group have been made before the end of that period, in which case it may be extended). Although a degrouping is not currently anticipated, if it were to happen and such a contingent liability to pay tax were to become an actual liability to pay tax, the discharge of that tax liability could reduce the amount of post-tax income available to London & Regional (King William St) Limited to make payments of interest, principal and fees under the Intra-Group Loan Agreement and the Borrower's ability to meet its payment obligations under the Issuer/Borrower Loan Agreement (and consequently the Issuer's ability to meet its payment obligations under the Notes) could be adversely affected.

To mitigate this risk, London & Regional Group Holdings Limited will undertake (on behalf of itself and each other member of the L&R Group from time to time) not to do anything which could result in such contingent liabilities becoming actual liabilities to pay tax. This undertaking will be secured by the Mortgage of Shares.

### ***General Taxation Liabilities***

The ability of each Propco to satisfy its payment obligations under the Intra-Group Loan Agreement will depend, *inter alia*, on the tax position of the relevant Propco. Deemed income may arise in respect of certain intra-group loans (made by the Propcos and an L&R Group entity using surplus proceeds advanced to the Propcos under the Intra-Group Loan Agreement) however, in line with L&R Group's transfer pricing policy, L&R Group do not expect such deemed income to arise. London & Regional Group Holdings Limited will undertake in the Tax Deed of Covenant (on behalf of itself and each other member of the L&R Group from time to time) to make or procure the making of payments to the Propcos to compensate the Propcos in respect of any tax liabilities arising in respect of this deemed income (should any such income arise). If London & Regional Group Holdings Limited does not comply with this undertaking or if there were generally insufficient deductions available to the Propcos, this may result in a shortfall in the amounts available for payments under the Intra-Group Loan Agreement, affecting the ability of the Borrower to meet its obligations under the Issuer/Borrower Loan Agreement. Any such resulting default would entitle the Borrower Security Trustee to take enforcement action.

### ***Insolvency Considerations***

#### ***Appointment of a receiver***

At any time after the Issuer Security has become enforceable, the Note Trustee (provided that it is indemnified and/or secured to its satisfaction) may pursue a number of different remedies. One such remedy is the appointment of a receiver over all, or part, of the assets and undertakings of the Issuer.

#### ***Enterprise Act 2002***

The corporate insolvency provisions of the Enterprise Act 2002, which amend certain provisions of the Insolvency Act, 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 gives 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 interests 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 the floating charge granted by the Issuer pursuant to the Issuer Deed of Charge and the Borrower and the Propcos pursuant to the Deed of Charge) 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 Deed of Charge) 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 the issue of a capital market investment (also defined by generally a rated, listed or traded bond).

The Issuer is of the view that the floating charges granted by the Issuer, the Borrower and the Propcos 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 chargeholder, 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 and/or the Obligors ever subject to administration.

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 preferential 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 Propcos were incorporated as special purpose entities but as they have been historically active companies, they are likely to have unsecured creditors, although each Propco will provide

representations as to its solvency as at the Closing Date and that there are no administrative proceedings which are current or, to its knowledge, pending or threatened against it or any of its assets or properties, which are reasonably likely to be material. The Borrower was incorporated in 1999 but has been dormant until recently and has only engaged in such activities as were incidental to its registration, the matters referred to or otherwise contemplated in this Offering Circular and the authorisation, execution, delivery and performance of the other documents referred to in this Offering Circular to which it is a party and matters which are incidental or ancillary to the foregoing.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder 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 Security and the relevant Loan Security may be reduced by the operation of these "ring fencing" provisions.

### ***Receiver as agent***

A receiver would generally be the agent of the relevant company until the company's liquidation, and thus, while acting within his powers, will enter into agreements and take actions in the name of, and on behalf of, the company. The receiver will be personally liable on any contract entered into by him in carrying out his functions (except in so far as the contract provides otherwise) but will have an indemnity out of the assets of the company. If, however, the receiver's appointor unduly directed or interfered with or influenced the receiver's actions, a court may decide that the receiver was the agent of his appointor and that his appointor should be responsible for the receiver's acts and omissions.

Each of the Borrower Security Trustee and the Note Trustee is entitled to receive remuneration and reimbursement for its expenses and an indemnity out of the assets of the Obligors or the Issuer, as applicable, for their potential liabilities. Such payments to the Borrower Security Trustee will rank ahead of the interest and principal due under the Intra-Group Loan Agreement or the Issuer/Borrower Loan Agreement respectively (and, in turn, payments by the Issuer under the Notes). Similarly, such payments to the Note Trustee will rank ahead of payments by the Issuer under the Notes. Accordingly, should the Borrower Security Trustee or the Note Trustee become liable for acts of such a receiver, the amount that would otherwise be available for payment to the Noteholders may be reduced.

If the company to which the receiver is appointed goes into liquidation, then, as noted above, the receiver will cease to be that company's agent. At such time he will then act either as agent of his appointor or as principal according to the facts existing at that time. If he acts as agent of his appointor, then for the reasons set out in the foregoing paragraph, the amount that would otherwise be available for payment to Noteholders may be reduced. If the receiver acts as principal and incurs a personal liability, he will have a right of indemnity out of the assets in his hands in respect of that liability and the amount that would otherwise have been available for payment to the Noteholders (subject to any claims of the Borrower Security Trustee or the Note Trustee) would be reduced accordingly.

### ***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 arrangement 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 or the relevant Obligor will not, at any given time, be determined to be a small company. The Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for small companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Noteholders.

However, secondary legislation has been enacted which excludes certain special purpose companies in relation to capital market transactions from the optional moratorium provisions. Such exceptions include (a) a company which is a party to an 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 issue of a capital market investment (also defined, but generally a rated, listed or traded bond) and (b) 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 and each Obligor 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 can be given that any modification of the eligibility requirements for these exceptions will not be detrimental to the interests of Noteholders.

If the Issuer and/or each Obligor is 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 may, for a period, be prohibited by the imposition of a moratorium.

### ***Administration***

If the Borrower Security Trustee or the Note Trustee are prohibited from appointing an administrative receiver, whether by virtue of the amendments made to the Insolvency Act by the Enterprise Act or otherwise, or fails to exercise its right to appoint an administrative receiver within the relevant notice period, and the Obligors or, as the case may be, the Issuer were to go into administration, the expenses of the administration would also rank ahead of the claims of the Borrower Security Trustee or the Note Trustee (as the case may be) as floating charge holder. Furthermore, in such circumstances, the administrator would be free to dispose of floating charge assets without the leave of the court, although the Borrower Security Trustee or the Note Trustee (as the case may be) would have the same priority in respect of the property of the company representing the floating charge assets disposed of (if any) as it would have had in respect of such floating charge assets.

The Share Mortgagors will not be granting floating charges and it will therefore not be possible to block the making of an administration order in respect of any of the Share Mortgagors and its respective assets by the appointment of an administrative receiver pursuant to a qualifying floating charge. As a result of the stay in proceedings upon the making of such an administration order, the Borrower Security Trustee would not be entitled to enforce its security over the relevant Share Mortgagor's assets, unless it obtained the consent of the administrator or approval of the court.

### ***Recharacterisation of fixed security interest***

There is a possibility that a Court could find that certain of the fixed security interests expressed to be created by the Deed of Charge and the Issuer Deed of Charge, which are governed by English law, could take effect as floating charges notwithstanding that they are expressed to be fixed charges.

If the fixed security interests are recharacterised as floating security interests, the claims of: (i) the unsecured creditors of the relevant Obligor or, as the case may be, of the Issuer in respect of that part of the Obligor's or, as the case may be, the Issuer's net property which is ring fenced as a result of the Enterprise Act; and (ii) certain statutorily defined preferential creditors of the relevant Obligor or, as the case may be, the Issuer may

have priority over the rights of the Borrower Security Trustee or the Note Trustee, as the case may be, to the proceeds of enforcement of such security.

## **General considerations**

### ***Modifications, Waivers and Consents in respect of Transaction Documents***

The Issuer/Borrower Loan Agreement and the B Loan Agreement require that, to make an amendment to any Finance Document, the consent of all the parties to the relevant agreement must be obtained.

Notwithstanding the requirements in the Issuer/Borrower Loan Agreement and the B Loan Agreement or any other Finance Document, the Intercreditor Agreement states that an amendment can be made to any Finance Document with the consent of the majority lenders under the Issuer/Borrower Loan Agreement (subject to certain agreed exceptions requiring the consent of all creditors).

The Issuer may request the Note Trustee to agree to any modification to, or to give its consent to any event, matter or thing, or grant any waiver in respect of the Issuer Transaction Documents to which it is a party or in respect of which it holds security (other than in certain circumstances, a Basic Terms Modification).

The Note Trustee will, in accordance with and pursuant to the terms of the Trust Deed consent (other than in the case of paragraphs (a), (c) and (d) in respect of a Basic Terms Modification) to such request if:

- (a) in its opinion, the interests of the holders of the Most Senior Class of Notes then outstanding would not be materially prejudiced thereby; or
- (b) in its opinion, such modification is required to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven; or
- (c) it is required or permitted, subject to the satisfaction of specified conditions, under the terms of the Conditions to the Transaction Document provided such conditions are satisfied; or
- (d) the Rating Agencies have confirmed that the then current ratings of the Notes will not be subject to downgrade, withdrawal or suspension or put on negative credit watch, in relation to, and the Note Trustee considers that such confirmation from the Rating Agencies is an appropriate test or the only appropriate test to apply in that circumstance in exercising any such power, trust, authority, duty or discretion or, as the case may be, in giving the relevant consent.

There can be no assurance that any modification, consent or waiver in respect of the Transaction Documents will be favourable to all Noteholders (or any Class thereof). Such changes may be detrimental to the interests of some or all Noteholders (or any Class thereof), despite the ratings of such Notes being affirmed.

The Note Trustee may seek the approval of, *inter alios*, the Class A Noteholders so long as there are any Class A Notes outstanding and, thereafter, the Class B Noteholders (by way of an Extraordinary Resolution) as a condition to, *inter alia*, concurring in making modifications to, giving consents under or granting waivers in respect of breaches or potential breaches of, the Transaction Documents (other than Basic Terms Modifications in respect of which the consent of each Class of Notes must be sought). Therefore, certain modifications to, consents under or grants of waivers in respect of breaches or potential breaches of, the Transaction Documents may be approved without the consent of every Noteholder.

### ***Changes to the Basel Capital Accord (Basel II)***

The Basel Committee on Banking Supervision published the text of the new capital accord on 26 June 2004 under the title *Basel II: International Convergence of Capital Management and Capital Standards: a Revised Framework* (the **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 (or any legislative implementation thereof) 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.

### ***Risks relating to the Introduction of International Financial Reporting Standards***

The UK corporation tax position of the Issuer, the Borrower and each of the Propcos depends to a significant extent on the accounting treatment applicable to it. From 1 January 2005, the accounts of the Issuer and, from the 1 January 2006, the accounts of the Borrower and the Propcos, may be required to comply with International Financial Reporting Standards (**IFRS**) or with new UK Financial Reporting Standards which have been substantially aligned with IFRS (**new UK GAAP**). There is a concern (unless tax legislation provides otherwise) that certain companies that prepare their accounts under either IFRS or new UK GAAP, might be required to recognise in their accounts movements in the fair value of their assets that could result in profits or losses for accounting purposes, which bear little or no relationship to the company's cash position.

This concern has been addressed in part by the introduction of the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004 (the **Disregard Regulations**). These regulations enable a company, broadly, for UK corporation tax purposes, to disregard accounting gains and losses relating to changes in the fair value of its derivative contracts or loan relationships if those contracts hedge items which are not themselves required to be fair valued for accounting purposes, and instead to compute its gains and losses in relation to those contracts in accordance with an appropriate accruals basis.

This concern is also addressed in relation to certain companies in the Finance Act 2005, which contains legislation requiring "securitisation companies" to prepare tax computations for accounting periods ending before 1 January 2007 (the **moratorium period**) on the basis of UK GAAP as applicable up to 31 December 2004, notwithstanding any requirement to prepare statutory accounts under IFRS or new UK GAAP. The Issuer is likely to be a "securitisation company" for these purposes.

The Finance Act 2005 provides for the power on the part of the Treasury to introduce regulations to establish a permanent tax regime for securitisation companies.

The stated policy of H.M. Revenue and 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 or new UK GAAP and they are working with participants in the securitisation industry to identify appropriate measures of preventing such disruption.

Unless further extensions to the moratorium period or other measures are introduced by H.M. Revenue and Customs to deal with accounting periods ending on or after 1 January 2007, then profits or losses (which are not ignored for tax purposes under the Disregard Regulations) could arise in the Issuer as a result of the application of IFRS or new UK GAAP which could have tax effects not contemplated in the cashflows for the transaction and as such adversely affect the Issuer and/or the Borrower and consequently may affect the Noteholders.

### ***Changes of law***

The structure of the issue of the Notes, the ratings which are to be assigned to the Notes and the related transactions described in this Offering Circular are based on English and European laws and administrative practice in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to English or European laws or administrative practice after the date of this Offering

Circular nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Notes.

### ***European Monetary Union***

It is possible that prior to the maturity of the Notes, the United Kingdom may become a participating member state in the European Economic Monetary Union and therefore the Euro may become the lawful currency of the United Kingdom. In that event, all amounts payable in respect of the Notes may become payable in Euro and applicable provisions of law may allow the Issuer to redenominate respectively each Class of Notes in Euro and take additional measures in respect of the Notes. 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, published or displayed. If the Notes are outstanding at a time when the Euro becomes the lawful currency of the United Kingdom, the Issuer intends to make payment on the Notes in accordance with the then prevailing market practice of payment on such debts. The introduction of the Euro could also be accompanied by a volatile interest rate environment which could adversely affect investors. It cannot be said with certainty what effect the adoption of the Euro by the United Kingdom (if it occurs) would have on investors in the Notes.

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

## SUMMARY OF PRINCIPAL DOCUMENTS

The following is intended only to be a summary of certain provisions of the principal transaction documents.

### 1. The Issuer/Borrower Loan Agreement

#### *Issuer/Borrower Loan Agreement*

The Issuer/Borrower Loan Agreement will be made between, *inter alia*, the Issuer, the Borrower, the Propcos, the Cash Manager and the Borrower Security Trustee on or about the Closing Date. Under the terms of the Issuer/Borrower Loan Agreement, the Issuer will advance to the Borrower, on or about the Closing Date, an amount of £234,200,000 (the **Issuer/Borrower Loans**), in two tranches: an A1 tranche in an aggregate principal amount of £207,700,000 (the **A1 Facility**) and an A2 tranche in an aggregate principal amount of £26,500,000 (the **A2 Facility**). The Issuer/Borrower Loans will be used by the Borrower to make an advance to the Propcos under the Intra-Group Loan Agreement. The Propcos will be a party to the Issuer/Borrower Loan Agreement only for the purpose of giving certain representations and warranties, making covenants in respect of the Properties for the benefit of the Issuer and giving guarantees.

The Borrower will be required under the terms of the Issuer/Borrower Loan Agreement to pay to the Issuer and the Borrower Security Trustee the costs and expenses incurred in connection with the preparation of the Offering Circular, the issue of the Notes and the negotiation, preparation and execution of each Borrower Transaction Document.

The Borrower will be entitled to incur new financial indebtedness for the purposes of a simultaneous refinancing of the B Loans. This new debt must be fully subordinated and on financial and intercreditor terms no less favourable to the Issuer than the B Loans or on such terms as the Rating Agencies confirm will not affect the then current ratings of the Notes.

#### *Payment of Interest and Repayment of Principal*

Interest in respect of each of the A1 Facility and the A2 Facility will be payable during the term of the Issuer/Borrower Loan Agreement on each Interest Payment Date commencing with the Interest Payment Date falling in January 2006. The Issuer/Borrower Loan Agreement contains provisions for determining the amount of interest payable on each Interest Payment Date in respect of each of the A1 Facility and the A2 Facility. Interest on the A1 Facility and on the A2 Facility will accrue at floating rates. The Borrower will undertake to enter into Swap Transactions with respect to interest payable under the Issuer/Borrower Loan Agreement. Please see "*The Swap Agreements*" below for further detail.

The Borrower will pay to the Issuer on each Interest Payment Date a fee of 0.01 per cent. per annum of the aggregate amount of interest receivable by the Issuer under the Issuer/Borrower Loans and, on the date they fall due, an amount equal to such amounts as are then necessary to enable the Issuer to pay or provide for all amounts (other than any payments of interest on, and repayments of principal in respect of the Notes) falling due, in accordance with the terms of the Issuer Transaction Documents, to be paid by the Issuer on such date.

All payments due under the Issuer/Borrower Loan Agreement will be made free and clear of, and without withholding or deduction for, any tax unless such withholding or deduction is required by law. If any such withholding or deduction is so required, the amount of the payment due to the Issuer will be increased to the extent necessary to ensure that, after any withholding or deduction has been made, the amount received by the Issuer is equal to the amount that it would have received had that withholding or deduction not been required to be made.

Each Issuer/Borrower Loan is repayable in full on the Interest Payment Date falling in October 2012.

***Prepayment of the Issuer/Borrower Loans***

Any principal prepaid by a Propco under the Intra-Group Loan Agreement will be applied by the Borrower in or towards prepayment of the Issuer/Borrower Loans in accordance with the terms of the Issuer/Borrower Loan Agreement and the Intercreditor Agreement.

The Borrower is obliged (on giving ten Business Days notice to the Borrower Security Trustee) to make a prepayment of principal under the Issuer/Borrower Loan Agreement (subject to the terms of the Intercreditor Agreement) on a *pro rata* basis across the A1 Facility and the A2 Facility in the following circumstances:

- (a) if a Propco makes a disposal of a Property (as permitted under the Issuer/Borrower Loan Agreement) and either:
  - (i) that Property is not substituted with an additional property in accordance with the conditions set out in the Issuer/Borrower Loan Agreement relating to substitutions (see further "*Substitution, disposal and alterations of the Properties*" below); or
  - (ii) the Borrower does not warehouse the proceeds of that disposal by paying them into the Cash Collateral Account and use those proceeds to finance the acquisition of an additional property by no later than the fourth Interest Payment Date following the disposal in accordance with the conditions set out in the Issuer/Borrower Loan Agreement;
- (b) if the Borrower Security Trustee so requires, if any insurance proceeds are received and, among other things, the basis of settlement under any insurances held by the relevant Propco or the relevant Occupational Lease or agreement to grant an Occupational Lease of all or part of a Property (each a **Lease Document**) does not require that those insurance proceeds received in respect of a Property be applied towards (or it is not commercially reasonable to) replacing, restoring or reinstating that Property;
- (c) in an amount equal to any other repayment or prepayment it receives from a Propco under the Intra-Group Loan Agreement; and

all prepayments in accordance with paragraphs (a) to (c) above will be deposited into the Cash Collateral Account pending application on the next Interest Payment Date.

The Borrower must prepay or repay the required amounts of the Issuer/Borrower Loans if, under the terms of the Notes, the Issuer elects or is required to redeem any Notes.

On receipt of any prepayment of the A1 Facility and the A2 Facility, the Issuer will be obliged to redeem the Class A Notes and the Class B Notes *pro rata* in an amount corresponding to the amount of principal received in prepayment of the A1 Facility and the A2 Facility (see **Condition 7.3**).

Subject to the Intercreditor Agreement, in addition to the mandatory prepayment requirements described above, the Borrower may voluntarily prepay the Issuer/Borrower Loan Agreement (in an order as determined by the Borrower) in whole or part on any Interest Payment Date provided that it gives not less than ten Business Days' prior written notice to the Issuer. Any amounts voluntarily prepaid will be applied across the A1 Facility and the A2 Facility at the discretion of the Borrower.



### ***Bank Accounts***

Each Propco will undertake in the Issuer/Borrower Loan Agreement to maintain a rent account (each such account, a **Rent Account**) in its name into which it must ensure all Net Rental Income due to it is paid. To the extent Rental Income is paid into any Rent Account and if the Borrower so requests, the Borrower Security Trustee may authorise the transfer of amounts equal to any Key Expenses into the General Account. The Borrower Security Trustee will have sole signing rights in relation to each Rent Account and will be authorised by each Obligor to withdraw necessary amounts from any Rent Account to meet amounts due under the headlease and prior to each Interest Payment Date, transfer amounts standing to the credit of any Rent Account to, subject to the satisfaction of certain conditions, the Borrower Transaction Account and apply them in accordance with the Intercreditor Agreement (see below under "*The Borrower Transaction Account*" and "*The Intercreditor Agreement*"). The Borrower Security Trustee may authorise withdrawals at any time from any Rent Account to pay any due but unpaid amount under the Finance Documents.

The **Net Rental Income** will be the Rental Income less Key Expenses.

The **Key Expenses** payable to an Obligor by any tenant under any head lease or licence in respect of the Properties by way of contribution to insurance premiums, the cost of an insurance valuation, a service charge in respect of an Obligor's costs under any repairing or similar obligation, a sinking fund or value added tax which, in each case, are due and payable in the relevant Interest Period.

The Propcos and the Borrower will also undertake in the Issuer/Borrower Loan Agreement to maintain a cash collateral account (the **Cash Collateral Account**) in the name of the Borrower Security Trustee into which all amounts received or receivable by the Propcos or the Borrower: (i) on a disposal of any Property, (ii) on receipt of any proceeds of insurance or (iii) on receipt of any other payments made to the Borrower under the Intra-Group Loan Agreement will be deposited. In addition, amounts paid by the Borrower to cure a breach of the Interest Cover covenant (to the extent the Borrower is permitted to do so) and (until the next Interest Payment Date) paid by the Borrower in voluntary prepayment, will also be deposited to the Cash Collateral Account. Each of the Obligor Accounts is subject to a security interest, which is expressed to create a first priority fixed security interest created in favour of the Borrower Security Trustee pursuant to the Deed of Charge.

The Borrower and the Propcos must maintain in the name of the Borrower and the Propcos a current general account (the **General Account**) into which all amounts received or receivable by the Propcos or the Borrower that are not required to be paid into any other Account will be paid. If there is a Loan Event of Default (or potential Loan Event of Default) outstanding, the Borrower Security Trustee will be authorised by the Borrower and each of the Propcos to withdraw from and apply amounts standing to the credit of the General Account in or towards any purpose for which moneys in any other Account may be applied. If no actual or potential Loan Event of Default is outstanding, the Borrower and the Propcos may withdraw any amount from the General Account, to make dividend distributions, subordinated intra-group loans and any other payments.

The Borrower will undertake in the Issuer/Borrower Loan Agreement to maintain a borrower transaction account (the **Borrower Transaction Account** and together with each Rent Account, the Cash Collateral Account and the General Account, the **Obligor Accounts**) into which all amounts standing to the credit of each Rent Account will be transferred three days prior to each Interest Payment Date. The Borrower Transaction Account is subject to the fixed charge created in favour of the Borrower Security Trustee pursuant to the Deed of Charge.

### ***Warranties and Undertakings***

The Issuer/Borrower Loan Agreement contains several representations, warranties and undertakings to be made by the Obligors. There follows a summary of certain warranties and undertakings to be given by the Obligors, each of which is subject to the qualifications and disclosure set out in the

Issuer/Borrower Loan Agreement, certain of which will also be given by the Share Mortgagors under the Mortgage of Shares.

### ***Hedging Loans***

If on any Calculation Date the Cash Manager determines that the Borrower has insufficient funds to enable it to pay any amount that it is required to pay under one or more of the Issuer/Borrower Loan Swap Transactions (excluding any termination payments), then the Cash Manager shall notify the Issuer of such insufficiency on behalf of the Borrower and the Issuer shall utilise the Liquidity Facility to make a loan to the Borrower to enable it to pay such amount (a **Hedging Loan**). A Hedging Loan will be repayable on demand on any Interest Payment Date or on or after the date the Note Trustee by notice to the Borrower cancels any outstanding commitments under the Issuer/Borrower Loan Agreement and/or demands that all or part of the Issuer/Borrower Loans together with accrued interest and all other amounts accrued under the Finance Documents become immediately due and payable and/or demands that all or part of the Issuer/Borrower Loans become payable on demand and/or applies any monies standing to the credit of each Obligor Account in or towards repayment of any amount due to the Borrower Secured Creditors under the Finance Documents. A relevant Hedging Loan will bear interest at a default rate which expresses as a percentage rate per annum the cost to the Issuer of funding that Hedging Loan by making an Income Deficiency Drawing (as defined below) under the Liquidity Facility Agreement and will be repaid from monies standing to the credit of the Rent Account or from the proceeds of a loan from a subordinated creditor to the Borrower or otherwise in accordance with the Issuer/Borrower Agreement.

### ***Warranties***

No independent investigation with respect to the matters warranted in the Issuer/Borrower Loan Agreement will be made by the Issuer, the Note Trustee or the Borrower Security Trustee, other than searches made on or about the Closing Date against the Obligors in the relevant file held, in respect of the Obligors and the Share Mortgagors at the Companies Registry and an oral enquiry made to the Central Registry of Winding-Up Petitions and searches against the Properties at H.M. Land Registry. Apart from such searches, in relation to such matters, the Issuer, the Note Trustee and the Borrower Security Trustee will rely entirely on the warranties to be given by the Obligors and the Share Mortgagors in the Issuer/Borrower Loan Agreement and the Mortgage of Shares (as applicable).

These will include warranties all of which will be given by the Obligors and certain of which will also be given by the Share Mortgagors, each subject to grace periods and certain materiality thresholds, including as to the following:

- (a) Obligors having the necessary power and authority to enter into the Transaction Documents;
- (b) no Loan Event of Default or potential Loan Event of Default having occurred;
- (c) the basis of preparation of financial statements;
- (d) no event that would have a Material Adverse Effect having occurred;
- (e) no litigation, arbitration or administrative proceedings likely to have a Material Adverse Effect;
- (f) on and from the Closing Date, the Propcos (as applicable) being the sole legal and beneficial owner of their interest in each Property and having good and marketable title to that interest;
- (g) the Obligors' solvency;

- (h) no conflict with applicable laws and regulations;
- (i) the relevant Obligors not having carried on any business or engaged in any activities other than as described in the Transaction Documents;
- (j) on and from the Closing Date, any security granted by the Obligors or the Share Mortgagors (as applicable) under the Deed of Charge or the Mortgages of Shares constitutes a security interest of the type described therein over the assets that are the subject of the Deed of Charge or the Mortgages of Shares and those assets are not subject to any prior *pari passu* security interest;
- (k) all written information supplied by it or on its behalf to the Issuer, the Borrower Security Trustee, the Valuer and the lawyers who prepared the Report on Title in connection with the Transaction Documents, the Valuation and the Report on Title (as applicable) was true and accurate as at its date; and
- (l) (only on the Closing Date) the Borrower not being required to make any deduction or withholding from any payment under the Borrower Transaction Documents.

For the purpose of the Issuer/Borrower Loan Agreement, **Material Adverse Effect** will be any material adverse effect on:

- (a) the ability of an Obligor to perform its payment obligations under any Finance Document or comply with its Interest Cover covenant under the Issuer/Borrower Loan Agreement; or
- (b) the validity or enforceability of any Finance Document.

### ***Undertakings***

The Borrower and the Propcos will undertake not to dispose of any of their assets (and will procure that no Share Mortgagor disposes of its shares in a Propco) except as permitted under the Issuer/Borrower Loan Agreement, the B Loan Agreement and (if applicable) the Mortgage of Shares. Additional undertakings will include, *inter alia*, the application of compulsory acquisition proceeds, compliance with the detailed procedure in relation to substitution and disposal of Properties, procuring that insurance is maintained in relation to certain of the Properties, the provision of information and accounts, notification of default, provision of compliance certificates, maintenance of Interest Cover at 110 per cent. (subject to the right of the Borrower to cure a breach by voluntarily prepaying a part of the Issuer/Borrower Loans or by placing an amount on deposit in the Cash Collateral Account that is treated as Net Rental Income for the purposes of one Interest Cover calculation only), maintenance of authorisations and consents, ranking of liabilities, compliance with environmental law and approvals, a negative pledge (subject to agreed exceptions) and restrictions on transactions similar to security, change of business, mergers and acquisitions (subject to agreed exceptions), lending and borrowing (subject to agreed exceptions), entering into other contracts (subject to agreed exceptions), issuance of shares or declaration of dividends (subject to agreed exceptions), granting new Occupational Leases or underleases and alterations to Properties and will not include any undertaking to maintain a particular loan to value ratio. Certain of these undertakings are subject to grace periods, reasonableness or materiality thresholds.

The **Interest Cover** is Actual Interest Cover or Projected Interest Cover.

The **Actual Interest Cover** is, as at each Calculation Date, quarterly rental expressed as a percentage of quarterly finance costs, in each case as at that Interest Payment Date. For the purposes of this definition:

- (a) **quarterly finance costs** as at any Interest Payment Date means the aggregate amount payable to the Issuer under the Issuer/Borrower Loan Agreement (other than the principal repayment amounts of the Issuer/Borrower Loans) during the quarterly period ending on that Calculation Date;
- (b) **quarterly rental** as at any Interest Payment Date means the passing Net Rental Income received by the Propcos (and paid to the Borrower under the Intra-Group Loan Agreement) less the fees referred to in section "*Summary of Principal Documents – Property Management Agreement*" payable by the Propcos in each case since the quarterly period ending on that Calculation Date; and
- (c) in determining quarterly rental, the Cash Manager will exclude:
  - (i) any Rental Income attributable to any Occupational Lease granted to or vested in the Borrower or any affiliate of the Borrower;
  - (ii) any amounts or shortfall a Propco is obliged to discharge in respect of any part of its Property available for letting due to it being unlet; and
  - (iii) any rent or other monies payable in respect of any Headlease.

The **Projected Interest Cover** is, as at a Calculation Date, projected rental expressed as a percentage of projected finance costs. Where:

- (a) **projected finance costs** on the Calculation Date means the Cash Manager's estimate of the aggregate amount payable by the Borrower to the Issuer under the Issuer/Borrower Loan Agreement (other than the principal repayment amounts of the Issuer/Borrower Loans) during each quarterly period ending on the fourth Interest Payment Date following the Calculation Date; and
- (b) **projected rental** on the Calculation Date means the Cash Manager's estimate of the Net Rental Income that will be received by the Propcos (and paid to the Borrower under the Intra-Group Loan Agreement) less the fees referred to in section "*Summary of Principal Documents – Property Management Agreement*" payable by the Propcos, in each case during each quarterly period ending on the fourth Interest Payment Date following the Calculation Date. For the purposes of making this estimate:
  - (i) the Cash Manager will assume that a break clause under any Lease Document will be deemed to be exercised at the earliest date available to the relevant tenant unless:
    - (A) a new Lease Document has been entered into to take effect on the expiry of the notice period for exercise of the relevant break clause upon the same or better rental terms (as determined by the Borrower Security Trustee); or
    - (B) confirmation in form satisfactory to the Borrower Security Trustee (acting reasonably) is received that the break clause will not be exercised;
  - (ii) Net Rental Income will be ignored unless payable under an unconditional and binding Lease Document;
  - (iii) potential Net Rental Income increases as a result of rent reviews will be ignored other than where there are fixed rental increases under the relevant Lease Documents;

- (iv) Net Rental Income payable by a tenant that is in arrears on its rental payments on the Calculation Date will be ignored; and
- (v) Net Rental Income will be reduced by the amounts (together with any related value added or similar taxes) of ground rent, rates, service charges, insurance premia, maintenance and other outgoings with respect to each Property to the extent that any of those items are not fully funded by the tenants under the Lease Documents; and
- (vi) any Rental Income attributable to any Occupational Lease granted to or vested in the Borrower or any affiliate of the Borrower will be ignored.

**Calculation Date** means the relevant Utilisation Date, three Business Days prior to each Interest Payment Date (in the case of which the relevant calculations are calculated as at that Interest Payment Date) and in the case of a disposal (as described in section "*Substitution, Disposal and Alterations of Properties*"), the date of the relevant disposal.

### ***Insurance***

The Propcos shall procure that insurance is maintained in respect of the Properties (other than Skipton House and St. Georges Court, in respect of which the tenant (for so long as it is a government tenant) is not obliged to insure as it self-insures and/or for so long as the lease with the government tenant complies with certain other restrictions) for their full replacement value (i) for all normally insurable risks of loss or damage, (ii) for site clearance and professional fees (with allowance for inflation), (iii) against acts of sabotage and terrorism (to the extent available on commercially reasonable terms in the United Kingdom or European market) and (iv) a three year loss of rent. The Obligors must also have property owners liability insurance and in the case of Guinness Headquarters, restrictive covenant indemnity insurance and such other insurances that a reasonable and prudent property owner of similar properties would accept. All insurances must be in a form acceptable to the Issuer and the Borrower Security Trustee (acting reasonably). All new insurance must be with insurance companies or underwriters rated at least A by Fitch and S&P to the extent insurance is taken out by an Obligor after the Closing Date. In relation to existing insurance, the required rating is the respective rating of the existing insurance providers as they are rated at the Closing Date.

The Obligors will procure that all such insurances name the Borrower Security Trustee as co-insured and loss-payee (other than any public or third party liability insurance, the restrictive covenant indemnity insurance in connection with the Guinness Headquarters or any claims not exceeding £100,000).

### ***Relationship between Issuer/Borrower Loan Agreement and the Notes***

The occurrence of a Loan Event of Default will not automatically constitute a Note Event of Default (as defined in **Condition 11**) under the Notes. However, the occurrence of a Note Event of Default will automatically constitute a Loan Event of Default.

### ***Security for the Issuer/Borrower Loan Agreement***

The Issuer/Borrower Loan Agreement is secured over the assets, property and undertakings of the Borrower and each Propco and each Share Mortgagor's shares in each Propco, the Issuer and the Borrower, respectively, as described in "*The Deed of Charge*" and "*The Mortgage of Shares*" below.

### ***Events of Default***

The Issuer/Borrower Loan Agreement contains a number of events of default (each, a **Loan Event of Default**) which fall into two main categories, namely those which are unqualified (such as events

of default for non-payment or insolvency of an Obligor) and those which, to constitute an event of default, must have a Material Adverse Effect.

The occurrence of a Loan Event of Default will, upon notice being given by the Borrower Security Trustee, result in the floating charge granted by the Obligors and contained in the Deed of Charge crystallising so as to become a fixed charge.

The Issuer/Borrower Loan Agreement will be governed by English law.

## 2. **B Loan Agreement**

The B Loan Agreement will be made between, *inter alia*, the Borrower, the Propcos, the Borrower Security Trustee and the B Lender on or about the Closing Date. Under the terms of the B Loan Agreement, the B Lender will advance to the Borrower, on or about the Closing Date, an amount of £128,252,500 (the **B Loan**), in two tranches, a B tranche in an aggregate principal amount of £111,962,500 (the **B Facility**) and a C tranche in an aggregate principal amount of £16,290,000 (the **C Facility**). The B Loan will be used by the Borrower to make advances to the Propcos under the Intra-Group Loan Agreement.

The B Loan Agreement contains provisions for determining the amount of interest payable on each Interest Payment Date in respect of each of the B Facility and the C Facility. Interest on the B Facility and the C Facility will accrue at floating rates. Prior to any Loan Event of Default and after all transaction expenses and other senior ranking expenses have been paid and interest has been paid on the A1 Facility, A2 Facility, B Facility and C Facility, any excess amounts credited to the Borrower Transaction Account will be applied in repayment of amounts under the C Facility, and to the extent there are no amounts outstanding in relation to the C Facility, to repay amounts due in relation to the B Facility.

The B Loan Agreement will reflect substantially the same terms as disclosed under "*The Issuer/Borrower Loan Agreement*", save as provided above.

The B Loan Agreement will be governed by English law.

## 3. **The Intra-Group Loan Agreement**

The Intra-Group Loan Agreement will be made between, *inter alia*, the Borrower, the Propcos and the Borrower Security Trustee on or about the Closing Date. The Intra-Group Loan will be used by the Propcos to finance or refinance their indebtedness incurred in connection with the acquisition of the Properties, following which any remaining surplus funds may be on-lent or otherwise distributed to London and Regional Group Finance Limited and/or London & Regional Properties Limited in accordance with the Finance Documents.

Under the terms of the Intra-Group Loan Agreement, the Borrower will advance to the Propcos, on or about the Closing Date, an aggregate amount of £362,452,500. Interest owing on the loans made available pursuant to the Intra-Group Loan Agreement will accrue interest at a fixed rate.

The Intra-Group Loan Agreement will provide that all amounts owing by the Borrower or the Propcos under the Issuer/Borrower Loan Agreement (other than interest) will be paid to the Borrower under the Intra-Group Loan Agreement to be applied in accordance with the other Borrower Transaction Documents.

The Intra-Group Loan Agreement will be governed by English law.

#### 4. **Intercreditor Agreement**

The Intercreditor Agreement will be made, *inter alia*, between the Issuer, the B Lender, the Borrower Security Trustee, the Swap Counterparty each Obligor and Share Mortgagor and will govern the relationship between the Issuer/Borrower Lenders under the Issuer/Borrower Loan Agreement and the B Lenders under the B Loan Agreement. Both the Issuer/Borrower Loans and the B Loans will be secured equally by the Borrower Security.

The Intercreditor Agreement will contain waterfalls setting out the priority of payments prior to and following the occurrence of a payment Loan Event of Default (other than a payment Loan Event of Default caused by the blocking of an account in consequence of any other Loan Event of Default) or an insolvency Loan Event of Default (relating to actual, rather than potential, insolvency events) (in each case, a **Material Senior Default**).

Following a Material Senior Default, all amounts received from the Borrower and the proceeds of enforcement of any security will be applied against the Issuer/Borrower Loans, then against the B Loans.

The Intercreditor Agreement will provide that the unpaid fees, costs and expenses of the administrative parties (including any receiver following a Material Senior Default), amounts due to the Swap Counterparty, amounts due in respect of Hedging Loans, amounts due to the Property Manager and any amounts due in respect of corporation tax on income will be paid in priority to the payments against the Issuer/Borrower Loans and B Loans referred to above.

The Intercreditor Agreement includes provisions relating to holding amounts that would have been paid to the B Lenders in escrow following a Material Senior Default, but before the taking of any relevant enforcement action and provisions relating to the release of such amounts under certain circumstances.

Any increase in the amount of the debt under the Issuer/Borrower Loan Agreement beyond the initial amount will rank behind the debt under the B Loan Agreement.

At any time after the occurrence of a payment event of default (other than a payment event of default caused by the blocking of an account in consequence of another event of default) or insolvency default under the B Loan Agreement or at any time after any enforcement action has been taken the B Lenders may elect to acquire the Issuer/Borrower Loans (including a transfer of any hedging arrangements) at par plus accrued interest plus costs (including default interest (to the extent that the same is recoverable from the Borrower), but excluding prepayment premiums).

Upon the occurrence of any Loan Event of Default or potential Loan Event of Default or any actual or potential event of default under the B Loan Agreement (other than certain Loan Event of Defaults or event of defaults under the B Loan Agreement relating to insolvency) which is remediable within the relevant grace period (a **Remediable Default**) (prior to the earlier of the taking of any enforcement action in respect of the Remediable Default or written notice that the B Lenders cure right has ceased), the B Lenders may remedy such Remediable Default within the following grace periods (which commence upon delivery of a notification of a Remediable Default to the B Lenders, such notice to be served by the Borrower Security Trustee within an agreed timeframe):

- (i) payment Remediable Default: three Business Days after the expiry of any applicable grace period for the Borrower to remedy that payment Remediable Default; and
- (ii) all other Remediable Defaults: the later of (i) 15 Business Days and (ii) three Business Days after the expiry of any applicable grace period for the Borrower to remedy that Remediable Default,

and the Issuer/Borrower Lender will delay taking any enforcement action during such grace period.

There will be a limit on the number of times that a payment Remediable Default or Interest Cover Remediable Default can be cured, so that the cure right may not be exercised more than twice in any one 12 month period and no more than four times during the term of the Issuer/Borrower Loan Agreement. There will be no limit on curing other Remediable Defaults. Any payments made by the B Lender in exercising cure rights will rank behind the Issuer/Borrower Loans but ahead of the B Loans following a Material Senior Default.

Subject to certain exceptions set out in the Intercreditor Agreement (including changes to dates or amounts of payments, interest payable, releases of Obligors or security or the priority of payments), the majority Issuer/Borrower Lenders may amend or waive a term of, or give any consent under, any Finance Document.

The B Lenders will have no right to accelerate or take enforcement action unless: (i) the relevant Loan Event of Default is still outstanding at the end of a 90 day period (for a payment Loan Event of Default), a 120 day period (for a Loan Event of Default relating to Interest Cover) or 150 days (for any other Loan Event of Default) and the market value of the Property is greater than 120 per cent of the Issuer/Borrower Loans (determined by reference to the most recent Valuation); or (ii) payment of the Issuer/Borrower Loans has been accelerated.

### ***Excess spread***

Prior to the occurrence of a Material Senior Default, on each Interest Payment Date, amounts credited to the Borrower Transaction Account and which are not necessary to pay transaction expenses and amounts owed by the Obligors under the Issuer/Borrower Loan Agreement will be used, after payment in full of prior ranking amounts, to repay amounts due in relation to the C Facility under the B Loan Agreement, and to the extent there are no amounts outstanding in relation to the C Facility, to repay amounts due in relation to the B Facility under the B Loan Agreement. All prepayments (including from the proceeds of insurance and disposals permitted under the Finance Documents) will be applied *pro rata* across the Issuer/Borrower Loans and B Loans other than voluntary prepayments which shall be applied at the discretion of the Borrower.

Each Obligor will be a party to the Intercreditor Agreement to acknowledge its terms and give undertakings in respect of the priority of payments described above.

The Intercreditor Agreement will include terms relating to the cooperation by the Issuer/Borrower Lender and the B Lenders to, among other things, facilitate the rating of any Issuer/Borrower Lender interest in the Finance Documents by the Rating Agencies (at the cost of the Issuer/Borrower Lender).

The Intercreditor Agreement will be governed by English law.

## **5. The Security Agreements**

### ***The Deed of Charge***

To secure the obligations of each Obligor under the Finance Documents, the Borrower and each Propco will on and from the Closing Date grant security over its assets and undertakings pursuant to the Deed of Charge. The Deed of Charge is expressed to create the following security (the **Borrower Security** and, together with the Share Mortgagor's Security (as defined below), the **Obligor Security**) over the assets of the Borrower and each Propco in favour of the Borrower Security Trustee on trust for itself and the Issuer, the B Lender, the Cash Manager, the Account Bank and the Swap Counterparty, (the **Borrower Secured Creditors**) over all of its properties, assets and undertakings:



- (a) first priority fixed charges, mortgages or, as the case may be, assignments by way of security of or over, *inter alia*: (i) any amount standing to the credit of its Obligor Account, or any other accounts; (ii) its rights to all Rental Income and its rights under each Lease Document, any guarantee of Rental Income contained in or relating to any Lease Document, each appointment of a Property Manager, any purchase agreement for a Property by it, any Swap Agreement, the Cash Management Agreement, the Property Management Agreement, the Tax Deed of Covenant, the Account Bank Agreement, the Intra-Group Loan Agreement, the Intra-Group Subordinated Loan Agreement and under all agreements specified by the Borrower Security Trustee to which it is a party; (iii) all estates or interest in the Properties or any other freehold or leasehold property it holds; (iv) all its interests in shares, stocks, debentures, bonds or other securities and investments; (v) all plant and machinery owned by it; (vi) its book and other debts and all moneys owing to it; and (vii) all of its rights under any contract or policy of insurance taken out by it; and
- (b) a floating charge over all of the assets and undertakings of the Borrower and each Propco.

The **Rental Income** means the aggregate of all amounts paid or payable to or for the account of any Obligor in connection with the letting of any part of a Property, including the Unitary Charge payable in accordance with the Project Agreement in respect of Trinity Bridge House.

### ***The Mortgage of Shares***

To secure the obligations of each Obligor under the Finance Documents and certain obligations of the L&R Parent under the Tax Deed of Covenant, each Share Mortgagor will on and from the Closing Date grant to the Borrower Security Trustee for the benefit of the Borrower Secured Creditors pursuant to the Mortgage of Shares security by way of first legal mortgage over all shares in the Borrower or any Propco (as applicable) owned by it (the **Share Mortgagor's Security**).

The recourse of the Borrower Secured Creditors to the Share Mortgagors will be limited to amounts recoverable from a disposal of the shares and related rights.

The Mortgage of Shares will also contain a number of representations and covenants from the Share Mortgagors including an undertaking in connection with the disposal of the relevant shares in the Propcos in accordance with the terms of the Finance Documents (see further "*Substitution, Disposal and Alterations of Properties*" below).

Upon the delivery of a notice to the Borrower by the Issuer or the Borrower Security Trustee, declaring all or part of any amounts outstanding under the Finance Documents due and payable and/or payable on demand by the Issuer, (and in the case of the Mortgage of Shares certain other events in respect of the Share Mortgagors) pursuant to the terms of the Issuer/Borrower Loan Agreement, all payments under or arising from the Finance Documents will be required to be made to the Borrower Security Trustee or to its order. The proceeds of enforcement of the security constituted pursuant to the Deed of Charge and Mortgage of Shares will be applied in accordance with the Intercreditor Agreement.

The Note Trustee, as holder of the assigned rights under the Issuer Deed of Charge, will hold the benefit of the Issuer's interest in the security held by the Borrower Security Trustee in the Issuer's favour under the Deed of Charge and Mortgage of Shares on trust for the benefit of itself and the other Issuer Secured Creditors upon and subject to the terms of the Issuer Deed of Charge (see below under "*The Issuer Deed of Charge*"). All proceeds of realisation of the security received by the Note Trustee and the Borrower Security Trustee will be applied in the manner described under "*Available funds and their priority of application*" below.

The Deed of Charge and the Mortgage of Shares will be governed by English law.

## 6. Intra-Group Subordinated Loan Agreement

Under the Intra-Group Subordinated Loan Agreement each Propco undertakes to each other Propco to make an advance if required by the other Propco to such Propco. The Intra-Group Subordinated Loan Agreement will be available for a Propco to make a drawing on an Interest Payment Date. The facility can be used in all circumstances and will be uncommitted.

The Intra-Group Subordinated Loan Agreement will be governed by English law.

## 7. The Issuer Deed of Charge

The Issuer Deed of Charge will be entered into between, *inter alios*, the Note Trustee and the Issuer.

The Issuer Deed of Charge is expressed to create the following security in favour of the Note Trustee on trust for itself, any receiver and any other appointee of the Note Trustee, the Noteholders, the Couponholders, the Paying Agents, the Agent Bank, the Liquidity Facility Provider, the Cash Manager, the Account Bank, the Agent Bank and any receiver appointed by the Note Trustee (together, the **Issuer Secured Creditors**) over all of its property, assets and undertakings:

- (a) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit, present and future, in, to and under the Issuer Transaction Documents other than the Trust Deed and the Issuer Deed of Charge;
- (b) a first fixed charge of its right, title, interest and benefit, present and future, in and to all amounts in the Issuer Accounts;
- (c) a first fixed charge over its interest in any Eligible Investments permitted to be made by it pursuant to the Cash Management Agreement; and
- (d) a first ranking floating charge over the whole of its undertaking and of its property and assets not already subject to fixed security.

### *Application of Funds Available to the Issuer*

The Issuer will apply the payments made by the Borrower to the Issuer under the Issuer/Borrower Loan Agreement to pay fees, costs and expenses of the Issuer, provided always that, in the event there are insufficient funds standing to the credit of the Issuer Transaction Account on any Interest Payment Date to pay all amounts due on such Interest Payment Date, such funds will be utilised in the manner more particularly set out under "*Available funds and their priority of application - Monies available to the Issuer*" below.

The proceeds of enforcement of the security constituted by the Issuer Deed of Charge will be applied in accordance with the order of application of payments specified in the Post-Acceleration Priority of Payments.

The Issuer Deed of Charge will be governed by English law.

## 8. The Account Bank Agreement

The Issuer, the Borrower, the Propcos, the Cash Manager, the Note Trustee and the Borrower Security Trustee will enter into an Account Bank Agreement (the **Account Bank Agreement**) with The Bank of New York, acting through its office at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, on or about the Closing Date in connection with the maintenance of certain banking arrangements for the Issuer, the Borrower and the Propcos and the waiver by the Account Bank of all rights of set-off in relation thereto.

Under the terms of the mandate governing each account, the Account Bank has agreed to comply with the instructions set out therein in relation to each Obligor Account and each Issuer Account.

The Account Bank has been assigned short-term credit ratings of F1+ and A-1+ from Fitch and S&P respectively and long-term credit ratings of AA- and AA- from Fitch and S&P respectively.

### ***The Obligor Accounts***

For further information on the Obligor Accounts, please see "*The Issuer/Borrower Loan Agreement – Bank Accounts*" above.

### ***The Issuer Accounts***

The Issuer will establish a transaction account with the Account Bank (the **Issuer Transaction Account**) and, in the circumstances described in "*The Liquidity Facility Agreement*" below, will establish a stand-by account either with the Account Bank or with the Liquidity Facility Provider into which the Stand-by Loan is to be deposited. The Issuer Transaction Account and the Stand-by Account are referred to herein as the **Issuer Accounts**.

All amounts received by the Issuer under the Issuer/Borrower Loan Agreement will be paid into the Issuer Transaction Account until such time as it is invested in Eligible Investments or applied in making payments due by the Issuer on each Interest Payment Date.

Each of the Issuer Accounts will be subject to a first priority fixed security interest, created in favour of the Note Trustee pursuant to the Issuer Deed of Charge. However, following enforcement of the Notes, amounts credited to the Stand-by Account will not be available for the Issuer Secured Creditors other than the Liquidity Facility Provider and, in such circumstances, will be held on trust by the Note Trustee for the sole benefit of the Liquidity Facility Provider.

The Account Bank Agreement will be governed by English law.

## **9. Cash Management Agreement**

The Cash Management Agreement will be made between, *inter alios*, the Issuer, the Borrower, the Propcos, the Note Trustee, the Borrower Security Trustee and the Cash Manager on or around the Closing Date.

The Cash Management Agreement contains provisions, *inter alia*, for the transfer of amounts between the Obligor Accounts and the Issuer Accounts.

The Borrower and the Propcos may not withdraw any monies from the Obligor Accounts otherwise than in accordance with the provisions of the Issuer/Borrower Loan Agreement, the Intra-Group Loan Agreement, the Intercreditor Agreement, the Account Bank Agreement, the Deed of Charge and the Cash Management Agreement.

The Issuer may not withdraw any money from the Issuer Accounts otherwise than in accordance with the provisions of the Account Bank Agreement, the Issuer Deed of Charge and the Cash Management Agreement and, in respect of the Stand-by Account, the Liquidity Facility Agreement.

The appointment of the Cash Manager may be terminated by the Issuer and the Obligors (acting jointly) with the Borrower Security Trustee and the Note Trustee (acting jointly) or (following a Loan Acceleration Notice or a Note Acceleration Notice) by the Note Trustee and the Borrower Security Trustee (acting jointly) or following the occurrence of certain events including a failure by the Cash Manager to perform its duties under the Cash Management Agreement or an insolvency

related event in relation to the Cash Manager. However, the appointment of the Cash Manager shall not be terminated until a replacement cash manager has been appointed.

The Borrower, the Propcos and the Issuer (acting jointly) shall appoint a replacement Cash Manager approved by the Note Trustee and the Borrower Security Trustee (acting jointly) in the event that the appointment of the Cash Manager is terminated.

Pursuant to the Cash Management Agreement, the Cash Manager has agreed that it will undertake the day-to-day cash management requirements of the Issuer, the Borrower and the Propcos.

The Cash Manager will, acting as agent of the Issuer, the Borrower and the Propcos arrange for payments to be made to and from the Obligor Accounts and the Issuer Accounts in accordance with the Transaction Documents and invest monies standing to the credit from time to time of the Obligor Accounts and the Issuer Transaction Account in Eligible Investments.

### ***Eligible Investments***

Pursuant to the Cash Management Agreement, amounts held in the Issuer Transaction Account and the Obligor Accounts may be invested from time to time in Eligible Investments at the direction of the Cash Manager.

#### ***Eligible Investments are:***

- (a) sterling gilt-edged securities; and
- (b) sterling demand or time deposits, certificates of deposit and short term debt obligations (including commercial paper) (which may include deposits in any account which earns a rate of interest related to LIBOR), provided that in all cases (i) such investments have a maturity date falling no later than the next following Interest Payment Date and (ii) the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000) (as amended from time to time) are rated at least equal to A-1+ by S&P and F1 by Fitch or such other credit ratings as may be approved by the Rating Agencies from time to time;

The Issuer, the Borrower and the Propcos will each pay to the Cash Manager an agreed annual fee (inclusive of VAT). Payment of the Cash Manager's fee by the Issuer ranks senior to payments to the Noteholders.

The Cash Management Agreement will be governed by English law.

## **10. Property Management Agreement**

On or about the Closing Date, each of London & Regional Properties Limited, the Propcos (as applicable) and the Borrower Security Trustee will enter into the Property Management Agreement pursuant to which London & Regional Properties Limited will be appointed as property manager in relation to the Properties (the **Property Manager**).

The Property Manager will be responsible for, *inter alia*, (a) the collection of rent on behalf of the Propcos, (b), the payment and administration of all third party Property costs and expenses (including the Key Expenses), (c) the procurement of operational services, including all requisite repairs and maintenance; (d) the procuring and maintenance of insurance in accordance with the Property Management Agreement and (e) assisting in relation to alterations, substitutions and disposals of Properties in accordance with the Occupational Leases and the Issuer/Borrower Loan Agreement, as applicable. The Property Manager will also provide or make available post-issuance

transaction reporting information on a quarterly basis starting from the first Interest Payment Date in January 2006 at www.lrp.co.uk.

The appointment of the Property Manager may be terminated in certain circumstances including following a breach of certain obligations, insolvency of the Property Manager or a Loan Acceleration Notice being served. However, the appointment of the Property Manager will not be terminated until a replacement property manager has been appointed.

Security will be granted by way of assignment over each Propcos' rights under the relevant Property Management Agreement under the terms of the Deed of Charge.

The occupational tenants will be directed to pay all Rental Income into an account opened in the name of each respective Propco to collect the rent in respect of the Properties (each, a **Rent Account**).

In consideration for providing asset management and property management services, the Property Manager will be entitled to payment of a fee from the Borrower on behalf of each Propco. The fee shall be made up of a senior management fee element (the **Senior Management Fee**, being 0.20 per cent. of the initial market value of the Properties being managed) and a junior management fee element (the **Junior Management Fee**) (calculated as a percentage of the initial market value of the Properties being managed), the latter only becoming payable as of August 2008. The percentage based upon which the Junior Management Fee is calculated, shall be increased in accordance with the terms of the Property Management Agreement, provided that certain interest cover tests are met. On any Interest Payment Date, the Junior Management Fee shall only be paid if all amounts of interest due on that Interest Payment Date in respect of the C Facility have been paid.

The Property Management Agreement will be governed by English law.

## 11. The Liquidity Facility Agreement

The Issuer will maintain, save as described below, a liquidity facility provided by a bank with the Requisite Ratings (as defined below) on terms acceptable to the Rating Agencies. The Liquidity Facility Agreement will be entered into on or about the Closing Date and is a 364-day revolving facility under which a liquidity drawing may be made on any Interest Payment Date in the circumstances further set out under "*Available funds and their priority of application*" below. All payments due to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than in respect of Liquidity Subordinated Amounts) will rank in priority to payments of interest and principal on the Notes. The commitment fee may be increased as a result of Basel II regulatory requirements from the initial level of 0.15 per cent. per annum but such increased amounts will only be recoverable in priority to the Notes up to a maximum of 0.35 per cent. per annum of the commitment provided under the Liquidity Facility Agreement.

**Liquidity Subordinated Amounts** are any amounts in respect of increased costs (including increases in the commitment fee as a result of Basel II regulatory requirements), mandatory costs and tax gross up amounts payable to the Liquidity Facility Provider which exceed in aggregate 0.20 per cent. per annum of the commitment provided under the Liquidity Facility Agreement (provided that increases that are not as a result of Basel II regulatory requirements may not exceed 0.075 per cent. per annum within such 0.20 per cent. margin).

The initial aggregate principal amount available for drawing under the Liquidity Facility will be £13,250,000 (the **Liquidity Facility**).

The Liquidity Facility will furthermore automatically reduce on the Interest Payment Date after a partial redemption on the Notes in accordance with **Condition 7** (such reduction to be in a proportionately equal amount to the relevant redemption) or after the receipt of confirmation from

the Rating Agencies that the proposed reduction in the amount of the commitment will not adversely affect the then current ratings of the Notes.

The commitment made available under the Liquidity Facility Agreement will be available to be drawn (and any such drawing, an **Income Deficiency Drawing**), pursuant to the terms of the Liquidity Facility Agreement, to the extent that Available Issuer Income (as defined below, but excluding any available commitment under the Liquidity Facility Agreement) is insufficient to make the payments set out under paragraph (a) to (h) of the Pre-Enforcement Priority of Payments on the next Interest Payment Date (including, without limitation, any Hedging Loans), for as long as a Note Acceleration Notice has not been served.

The Issuer will repay each drawing under the Liquidity Facility upon each Interest Payment Date, to the extent that funds are available in accordance with the Pre-Enforcement Priority of Payments or, as applicable, the Post-Acceleration Priority of Payments. Amounts repaid may, subject to various conditions for drawing, be redrawn. At the Closing Date the Liquidity Facility Provider is Lloyds TSB Bank plc.

If:

- (a) the short-term, unsecured, unsubordinated and unguaranteed debt of any party then being the Liquidity Facility Provider ceases to be rated at least F-1 by Fitch and A-1+ by S&P so long as such Rating Agency is then rating the Notes (such ratings being the **Requisite Ratings** for the purposes hereof); or
- (b) the Liquidity Facility Provider elects not to renew the Liquidity Facility within ten days after receipt of a request to renew the Liquidity Facility (which may be made not more than 60 and not later than 30 days prior to the end of its 364-day term),

then the Issuer shall either (i) request the Liquidity Facility Provider to advance a drawing (a **Stand-by Loan**) of the total commitment under the Liquidity Facility Agreement then available for drawing under the Liquidity Facility or (ii) replace the Liquidity Facility Provider with a party having the Requisite Ratings and which meets certain other criteria (whether by means of the novation of the Liquidity Facility Agreement or the entry into a new liquidity facility with that party).

The Stand-by Loan will generally be repayable only if the Liquidity Facility Provider is re-rated with the Requisite Ratings or a replacement liquidity facility on terms acceptable to the Rating Agencies (which could contain more restrictive conditions in relation to making drawings thereunder than the Liquidity Facility Agreement or the then expiring liquidity facility) is entered into or if and to the extent such replacement facility is no longer required in order to maintain the ratings for the Notes from the Rating Agencies.

The proceeds of the Stand-by Loan will be placed in an account of the Issuer (the **Stand-by Account**), which will, if the event leading to a Stand-by Loan corresponds to the one described in paragraph (a), be opened with the Account Bank. If the event leading to the Stand-by Loan corresponds to the one described in paragraph (b), the Stand-by Account will be opened with the Liquidity Facility Provider. The Issuer will grant security to the Note Trustee over the Stand-by Account pursuant to the Issuer Deed of Charge. However, the Note Trustee will, upon enforcement, hold the benefit of the Stand-by Account on trust for the sole benefit of the Liquidity Facility Provider. The Stand-by Account will be operated by the Issuer and the Cash Manager in accordance with the provisions of the Liquidity Facility Agreement.

Interest will accrue on any drawing (other than a Stand-by Loan) under the Liquidity Facility Agreement at the rate per annum equal to three-month sterling LIBOR plus a margin of 0.30 per cent. per annum until such drawing is repaid.

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

The Liquidity Facility Provider has been assigned short-term credit ratings of F1 + and A-1 + from Fitch and S&P, respectively and long-term credit ratings of AA+ and AA from Fitch and S&P, respectively.

The Liquidity Facility Agreement will be governed by English Law.

## 12. The Swap Agreement

On or about the Closing Date, the Borrower will become a party to one or more interest rate swap transactions (each a **Swap Transaction** and together, the **Swap Transactions**), each evidenced by a **Swap Confirmation** with the Swap Counterparty which shall be entered into pursuant to a master agreement which shall be in the form of an International Swaps and Derivatives Association, Inc (**ISDA**) 1992 Master Agreement (Multicurrency-Cross Border) (together with the Schedule thereto and all of the Swap Confirmations, the **Swap Agreement**). The purpose of such Swap Transactions (the **Issuer/Borrower Loan Swap Transactions** to the extent they relate to the Issuer/Borrower Loan Agreement, and the **B Loan Swap Transactions** to the extent they relate to the B Loan Agreement) is to mitigate certain interest rate risks borne by the Borrower in respect of its floating rate interest obligations under the Issuer/Borrower Loan Agreement and the B Loan Agreement. Under the Swap Transactions, on each Interest Payment Date, the Borrower will pay to the Swap Counterparty amounts determined by applying fixed rates to the expected principal amount of the Issuer/Borrower Loans and the B Loans, as applicable, in exchange for the Swap Counterparty paying to the Borrower amounts determined by applying floating rates (determined by reference to Sterling Libor) to the expected principal amount outstanding of the Issuer/Borrower Loans and the B Loans. The obligations of the Swap Provider under the Swap Agreement will be guaranteed by the Swap Guarantor.

It is anticipated that the amounts payable by the Borrower to the Swap Counterparty will be determined based on fixed rates that are higher than those available in the market at the Closing Date. This reflects the fact that the Swap Counterparty will be taking on the rights and obligations of the Borrower under swap arrangements which are currently in place between the Propcos (except LR (Manchester) Limited) and market counterparties (in respect of which the relevant Propcos have out-of-the-money positions) and which shall first be novated from the relevant Propco to the Borrower on the Closing Date before being novated by the Borrower to the Swap Counterparty.

The Swap Counterparty may, at its own discretion and at its own expense, transfer its rights and obligations under the Swap Agreement (including the Swap Transactions) to any third party provided the Borrower and the Borrower Security Trustee have consented to such transfer and the Rating Agencies have been given reasonable notice of such transfer and such third party has short-term, unsecured, unsubordinated debt obligations that are rated at least F1 by Fitch and at least A-1 by S&P and has long term, unsecured, unsubordinated debt obligations that are rated at least A by Fitch, and provided further that such third party agrees to be bound by, *inter alia*, the terms of the Swap Agreement and the Swap Transactions thereunder on substantially the same terms as the Swap Counterparty it replaces.

### ***Termination of Swap Transactions***

The Swap Transactions may be terminated in accordance with certain termination events and events of default, some of which are more particularly described below.

Subject to the following, the Swap Counterparty is obliged to make payments under the Swap Transactions only to the extent that the Borrower makes the corresponding payments thereunder.

Furthermore, a failure by the Borrower to make timely payment of amounts due from it under the Swap Agreement may constitute a default thereunder and entitle the Swap Counterparty to terminate the Swap Transaction.

The Swap Counterparty may terminate the Issuer/Borrower Loan Swap Transaction(s) in certain circumstances including (i) if the Borrower fails to pay the full amount it is required to pay on any payment date pursuant to a Swap Transaction, (ii) the occurrence of an illegality or certain tax-related events pursuant to the Swap Agreement, (iii) to the extent that the aggregate notional amount of the Issuer/Borrower Loan Swap Transaction(s) (excluding interest rate caps or captions) entered into pursuant to the Swap Agreement exceeds the sum of £100,000 and the outstanding principal amount of all the loans made under the Issuer/Borrower Loan Agreement and/or (iv) if there is a disposal of any of the assets of the Borrower following an acceleration of any Issuer/Borrower Loan and the proceeds of such disposal are used to repay such accelerated Issuer/Borrower Loan (in such case, the Issuer/Borrower Loan Swap Transactions may be terminated such that the notional amount applicable with respect to such transactions is reduced by an amount equal to the amount of such repayment) and/or (v) if there is a prepayment, or cancellation in part or in whole of any Issuer/Borrower Loan, as the case may be (but if such prepayment or cancellation is only in part then the relevant Issuer/Borrower Swap Transaction will only be terminated in a proportionate amount).

The Swap Counterparty may terminate the B Loan Swap Transaction(s) in certain circumstances including (i) if the Borrower fails to pay the full amount it is required to pay on any payment date pursuant to a B Loan Swap Transaction, (ii) the occurrence of an illegality or certain tax-related events pursuant to the Swap Agreement, (iii) if there is an acceleration, prepayment or cancellation (in part or in whole, but if in part the B Loan Swap Transaction(s) may only be terminated in a proportionate amount) of or any B Loan and/or (iv) to the extent that the aggregate notional amount of the B Loan Swap Transaction(s) (excluding interest rate caps or captions) entered into pursuant to the Swap Agreement exceeds the sum of £100,000 and the outstanding principal amount of all the loans made under the B Loan Agreement.

If the Swap Transactions under the Swap Agreement are terminated by the Swap Counterparty, this may result in the Borrower either being required to pay a swap termination payment to, or being entitled to receive a swap termination payment from, the Swap Counterparty. If the Borrower is required to pay a swap termination payment to the Swap Counterparty then this will reduce the funds available to the Borrower for making payments it is obliged to make pursuant to the Issuer/Borrower Loan Agreement and/or the B Loan Agreement.

If the Borrower is required to make a termination payment to the Swap Counterparty in respect of a termination of a B Loan Swap Transaction following a failure to pay by the Borrower or an acceleration of a B Loan, then that payment shall be deferred until the earlier of (i) enforcement of the Issuer Security, (ii) the Final Maturity Date of the relevant Loan, (iii) the giving of a Note Acceleration Notice, (iv) the occurrence of an Event of Default under Condition 11(a) and (v) a disposal of any of the Properties.

Pursuant to the terms of the Swap Agreement, for so long as any of the Notes are outstanding, if the rating of the Swap Guarantor (in respect of its short term unsecured, unsubordinated, and unguaranteed debt obligations) falls below F1 by Fitch or A-1 by S&P or (in respect of its long term, unsecured, unsubordinated and unguaranteed debt obligations) falls below A by Fitch, then the Swap Counterparty will be obliged, during the 30 days following the announcement of such downgrade, or possible downgrade, to do one of the following:

- (a) provide collateral in support of its obligations under the relevant Swap Transaction; or
- (b) transfer all of its rights and obligations with respect to the Swap Transactions to a replacement third party with the required ratings; or



- (c) obtain a guarantee of its rights and obligations with respect to the Swap Transactions from a third party with the required ratings; or
- (d) take such other action as it may agree with the Rating Agencies as will result in the ratings of the Notes being maintained at, or restored to, the level they would have been at immediately prior to such downgrading.

The Swap Counterparty will be obliged to gross up payments made by it to the Borrower under the Swap Transactions if withholding taxes are imposed on such payments, although in such circumstances the Swap Transactions may be terminated early by the Swap Counterparty. The Borrower will equally be obliged to gross up payments made by it to the Swap Counterparty under the Swap Transactions if withholding taxes are imposed on such payments and the Borrower will similarly have a right to terminate the Swap Transactions in such circumstances. If either the Swap Counterparty or the Borrower terminates the Swap Transactions then the Borrower may be required to pay (or entitled to receive) a swap termination payment.

#### ***The Swap Guarantee***

The Swap Counterparty's obligations under the Swap Transactions are guaranteed pursuant to, and subject to the terms of, the Swap Guarantee provided by the Swap Guarantor. In the event that Morgan Stanley & Co. International Limited ceases (other than by virtue of its own default) to be the Swap Provider or it is replaced by a suitably rated third party, Morgan Stanley will cease to be the Swap Guarantor.

#### ***The Swap Agreement Credit Support Document***

The Swap Counterparty and the Borrower have entered into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) (the **Swap Agreement Credit Support Document**) on or around the Closing Date in support of the obligations of the Swap Counterparty under the Swap Agreement. Pursuant to the terms of such Swap Agreement Credit Support Document, if at any time the Swap Counterparty is required to provide collateral in respect of any of its obligations under the Swap Agreement, the Swap Agreement Credit Support Document will provide that, from time to time, subject to the conditions specified in the Swap Agreement Credit Support Document and the Swap Agreement, the Swap Counterparty will make transfers of collateral to the Borrower in support of its obligations under the Swap Agreement and the Borrower will be obliged to return such collateral in accordance with the terms of the Swap Agreement Credit Support Document.

The Borrower will keep any collateral received from the Swap Counterparty pursuant to the Swap Agreement Credit Support Document in a separate account (the **Swap Collateral Account**). The Borrower may only make payments or transfers utilising any monies and securities held in the Swap Collateral Account if such payments and transfers are made in accordance with the terms of the Swap Agreement Credit Support Document.

The Swap Agreement will be governed by English Law.

### **13. Tax Deed of Covenant**

The obligations of the Issuer and the Obligors under the Issuer Transaction Documents and the Borrower Transaction Documents will be supported by a deed of covenant (the **Tax Deed of Covenant**) to be entered into on or about the Closing Date under which, *inter alia*, the Issuer will give certain representations, warranties and covenants in relation to its tax affairs, and the Obligors will give certain representations, warranties and covenants in relation to the tax affairs of the Obligors and the L&R Group, for the benefit of the Borrower Security Trustee and the Note Trustee.

The Tax Deed of Covenant will be governed by English law.

## SUBSTITUTION, DISPOSAL AND ALTERATIONS OF PROPERTIES

In accordance with the terms of the Issuer/Borrower Loan Agreement, the B Loan Agreement and the Mortgage of Shares, a Property or the shares in a Propco may be disposed of and released from the relevant security provided that:

- (a) no Loan Event of Default or potential Loan Event of Default is outstanding or would result from that disposal;
- (b) the disposal is on arm's length terms;
- (c) following the disposal and the corresponding required prepayment, the Projected Interest Cover will not be less than the Projected Interest Cover immediately prior to the disposal;
- (d) the Property known as Trinity Bridge House does not represent greater than 40 per cent. of the total value of the remaining Properties (as determined from the initial Valuation) except where the aggregate of the Issuer/Borrower Loans and the B Loans as a percentage of the aggregate value of the Properties (determined in accordance with the most recent Valuation of the Properties at the time of the relevant disposal) following such disposal is less than or equal to 75 per cent.;
- (e) the Net Disposal Proceeds are not less than the Release Price Amount provided that if the disposal proceeds are less than the Release Price Amount, a Propco may dispose of its Property if any shortfall between the disposal proceeds and the Release Price Amount is paid by an equity contribution or fully subordinated shareholder loan to the Borrower; and
- (f) the relevant Obligor satisfies its obligations under the Tax Deed of Covenant with respect to the disposal.

The **Net Disposal Proceeds** are the gross proceeds of any disposal permitted under paragraphs (a) to (f) above less any Taxes payable by the relevant Propco in connection with that disposal and an amount determined by the Issuer and the Borrower Security Trustee as the reasonable costs and expenses associated with that disposal.

The **Release Price Amount** is, in relation to a Property (or a Propco), the aggregate of:

- (i) 110 per cent. of the amount determined as the allocated loan amount in relation to the relevant Property (or, in the case of a disposal of a Propco, the Property held by that Propco) and as set out in the Issuer/Borrower Loan Agreement for that Property;
- (ii) the amount confirmed in writing by the Swap Counterparty as being payable to it to terminate the Swap Agreement (in part) in connection with the relevant Issuer/Borrower Loan prepayment;
- (iii) the difference between:
  - (A) any interest that would have been payable on the amount referred to in paragraph (i) above under the Issuer/Borrower Loan Agreement and the Intra-Group Loan Agreement; and
  - (B) any interest paid by the Account Bank on the amount referred to in paragraph (i) above, in respect of the period between the date of the relevant disposal and the next Interest Payment Date; and
- (iv) all other amounts payable by the Borrower under the Issuer/Borrower Loan Agreement in connection with such prepayment (including break costs).

The Release Price Amount (including any prepayment fees) will be calculated separately under the B Loan Agreement for the purposes of a prepayment of the B Loans. No Property or, if applicable, the shares in a Propco will be released from the security unless the Release Price Amount can be prepaid under both the Issuer/Borrower Loan Agreement and the B Loan Agreement.

### **Disposal of Properties with no intention to acquire a Substitute Property**

If the relevant Propco disposes of a Property (or the relevant Share Mortgagor disposes of its shares in a Propco) for the purpose of making a prepayment under the Intra-Group Loan Agreement (and the Borrower making a prepayment, in turn, under the Issuer/Borrower Loan Agreement and B Loan Agreement), such prepayment will be made on the next Interest Payment Date following the relevant disposal. Upon disposal, the relevant Propco or (in the case of a disposal of the shares in a Propco by a Share Mortgagor and the required on-lending by way of interest free loan or other method agreed with the Borrower Security Trustee) the Borrower, as applicable, will pay into the Cash Collateral Account an amount equal to the Net Disposal Proceeds pending such prepayment and, following such prepayment, will be permitted to pay into the General Account any Net Disposal Proceeds in excess of the Release Price Amount provided there is no Loan Event of Default or potential Loan Event of Default outstanding.

### **Substitution of Properties**

#### *Substitution criteria*

If the relevant Propco proposes to make a substitution of a Property or the relevant Share Mortgagor proposes to make a substitution of a Propco that it is otherwise permitted to dispose of and provided (i) no Loan Event of Default or potential Loan Event of Default is outstanding, (ii) (in circumstances where the relevant Obligor may be unable (whether in law or otherwise) to make an election to waive exemption pursuant to Schedule 10 to the Value Added Tax Act 1994 in relation to the relevant Additional Property) the relevant Obligor demonstrating to the satisfaction of the Borrower Security Trustee that the incurring of any irrecoverable VAT by the relevant Obligor in relation to the relevant Additional Property will not adversely affect the ability of the Borrower to make any payment in accordance with this agreement or in accordance with the B Loan Agreement and (iii) neither the Actual Interest Cover nor the Projected Interest Cover covenants would be breached, the Borrower may request that the Borrower Security Trustee releases the security over a Property or the shares in the relevant Propco, if applicable, and give alternative security over an additional property (the **Additional Property**) or shares in an additional property company, if applicable (the **Additional Propco**). The Borrower Security Trustee will provide its consent to such substitution and the substitution may be effected:

- (a) without seeking confirmation from the Rating Agencies provided that:
  - (i) an independent expert confirms that the value of the Additional Property (as determined by the Valuation relating to that Additional Property), net of any Tax attributable to any contingent capital gains for which the relevant Propco or the Additional Propco, as applicable, may be liable in relation to the Additional Property is not less than the value of the substituted property (as determined by the initial Valuation), net of any Tax attributable to any contingent capital gains for which the relevant Propco or Share Mortgagor, as applicable, may be liable in relation to the substituted property at the Closing Date;
  - (ii) the Obligors supply such information and details concerning any offered Additional Property and, if applicable, Additional Propco as the Issuer or the Borrower Security Trustee may reasonably request;
  - (iii) the Additional Property is used for retail and/or office premises only;
  - (iv) the proposed substitution will not cause a reduction in the Actual Interest Cover or the Projected Interest Cover;

- (v) the Additional Property is located in one of the five largest cities in the U.K. (by population) and, following the substitution, not less than 50 per cent. by value of the Portfolio (determined from the most recent Valuation) is located in London;
  - (vi) no other Property has been substituted;
  - (vii) the tenant of the Additional Property or the substituted property is in occupation at the time of the substitution;
  - (viii) the weighted average credit rating of the tenants (weighted by their annual contractual lease income at the time of the substitution) of the Additional Property is not less than the average credit rating of the tenants of the substituted property or, if any of the tenants of the Additional Property are not rated, the tenants of the Additional Property must have, in the view of the Property Manager with reference to *inter alia*, historical financial information, third party reports and publicly available information, substantially the same or better credit worthiness as those of the substituted property;
  - (ix) the net present value of the aggregate rent payable by occupational tenants on the Additional Property (using the fixed rate applicable to amounts borrowed by the Propcos under IGLA as the discount factor) is not less than that of the substituted property;
  - (x) the weighted average remaining term of the Occupational Leases of the Additional Property is not less than the weighted average remaining term of the Occupational Leases of the substituted property in each case (weighted by reference to the annual contracted rent and assuming break options are exercised); and
  - (xi) there is no continuing Loan Event of Default or potential Loan Event of Default under the Issuer/Borrower Loan Agreement, the B Loan Agreement or the Intra-Group Loan Agreement;
  - (xii) the Property Manager certifies that to the best of its knowledge after due enquiry, there are no material liabilities, actual or contingent, associated with the Additional Property or, if applicable, the Additional Propco; and
  - (xiii) the Property Manager has sent a certificate to the Issuer and the Borrower Security Trustee at least five Business Days prior to the proposed substitution confirming that the substitution criteria contained in sub-paragraphs (i) to (x) above have been or will be met and a law firm approved by the Borrower Security Trustee confirms to the Issuer and the Borrower Security Trustee that the Additional Property and, if applicable, the shares in the Additional Propco have been (or will be, by the date of the proposed substitution) mortgaged in accordance with a Security Document; or
- (b) subject to the confirmation by each of the Rating Agencies to the Borrower Security Trustee that the Notes will not be downgraded, withdrawn or qualified following such substitution.

At the request of the Borrower, the Borrower Security Trustee will release the security over a substituted property (and if applicable, the shares of the substituted Propco) following satisfaction with paragraph (a) or (b) above, subject to:

- (a) the Borrower Security Trustee confirming the Allocated Loan Amount for the Additional Property (which will be the same as the Allocated Loan Amount for the substituted property);
- (b) certain conditions precedent relating to the Additional Property, and, if applicable, the Additional Propco, being received by the Borrower Security Trustee (including an appropriate certificate of title and compliance with the representations and warranties given on or about the Closing Date in

respect of the initial Properties, to the extent that the representations and warranties are then applicable); and

- (c) the payment of the reasonable costs incurred by the Issuer or the Borrower Security Trustee in connection with paragraphs (i) and (ii) above.

***Warehousing proceeds for substitution***

If the relevant Propco plans to substitute a Property or a Share Mortgagor plans to substitute a Propco, it may elect to warehouse the Net Disposal Proceeds (the **Warehoused Proceeds**) by paying them to the Cash Collateral Account provided that the following conditions are satisfied:

- (a) the Borrower must select a date (the **Proposed Acquisition Date**) falling within 12 months of the date of the relevant disposal (but no later than the fourth Interest Payment Date after the disposal) by which it will use the Warehoused Proceeds to finance the acquisition of an Additional Property, or, if applicable, the Additional Propco;
- (b) if the Warehoused Proceeds are not used to finance the acquisition of an Additional Property, or, if applicable, the Additional Propco before the Proposed Acquisition Date, the Borrower must on the Proposed Acquisition Date use the Warehoused Proceeds to prepay the Issuer/Borrower Loans and B Loans in an amount which would have been required to be prepaid in accordance with section "*Substitution, Disposal and Alteration of Properties – Disposal of Properties with no intention to acquire a Substitute Property*" but for the alternative set out under this heading "*Substitution, Disposal and Alteration of Properties – Warehousing proceeds for substitutions*";
- (c) the Borrower must on the date of the relevant disposal purchase from the Swap Counterparty an option to break the Swap on the Proposed Acquisition Date in an amount equal to the maximum notional principal amount which may be required to be prepaid under paragraph (b) above; and
- (d) the Warehoused Proceeds must exceed the aggregate of:
  - (i) the amounts set out in sub-paragraph (i), (ii) and (iv) of the definition of Release Price Amount above;
  - (ii) any Tax liabilities associated with the relevant disposal (excluding Tax liabilities calculated by reference to the net income of the L&R Group); and
  - (iii) the difference between:
    - (A) the applicable LIBOR and Margin on the amount of the Warehoused Proceeds (if it were treated as an Issuer/Borrower Loan); and
    - (B) the interest that will accrue in respect of the Warehoused Proceeds as determined by the Cash Manager,

for a period beginning on the Interest Payment Date immediately prior to the Warehoused Proceeds being paid into the Cash Collateral Account and ending on the next Interest Payment Date after the Proposed Acquisition Date.

## AVAILABLE FUNDS AND THEIR PRIORITY OF APPLICATION

The Cash Manager will, subject to there being amounts available after making payments ranking in priority thereto, transfer from the Borrower Transaction Account to the Issuer Transaction Account on each Interest Payment Date monies due to the Issuer under the Issuer/Borrower Loan Agreement and in accordance with the Issuer/Borrower Loan Agreement and the Intercreditor Agreement.

Three Business Days prior to each Interest Payment Date prior to a Note Acceleration Notice being served, the Cash Manager will determine whether sufficient monies are standing to the credit of the Borrower Transaction Account (including any interest thereon and any proceeds from any Eligible Investments) to pay all sums then due under the Issuer/Borrower Loan Agreement after reserving for payments to be made in priority thereto.

### *Monies available to the Issuer and priority of payments*

Prior to a Note Acceleration Notice being served, monies which the Issuer has available to it to enable it to perform its obligations under or in respect of the Notes on each Interest Payment Date will comprise:

- (a) all monies paid to it under the Issuer/Borrower Loan Agreement;
- (b) interest accruing on amounts standing to the credit of the Issuer Accounts and amounts otherwise standing to the credit of the Issuer Accounts;
- (c) any available commitment under the Liquidity Facility Agreement; and
- (d) amounts deriving from investment of amounts standing to the credit of the Issuer Transaction Account in Eligible Investments,

(together, **Available Issuer Income**).

Prior to a Note Acceleration Notice being served, on each Interest Payment Date the amount standing to the credit of the Issuer Transaction Account shall be applied in the following order of priorities (the **Pre-Enforcement Priority of Payments**), in each case only to the extent that items ranking in priority of payment have been paid in full and the relevant payment does not cause the Issuer Transaction Account to become overdrawn:

- (a) *firstly*, to pay all of the remuneration, costs, expenses and indemnification of the Note Trustee or any appointee;
- (b) *then*, to pay, *pari passu* and *pro rata*, the remuneration, costs and expenses of the Paying Agents, the Agent Bank under the Agency Agreement, the Cash Manager under the Cash Management Agreement and the Account Bank under the Account Bank Agreement;
- (c) *then*, in or towards payment, *pro rata*, of any amounts that the Issuer has agreed to pay to the Borrower or the Swap Counterparty on the Borrower's behalf in respect of any Hedging Loans on such Interest Payment Date;
- (d) *then*, to pay all fees and interest due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (but excluding any Liquidity Subordinated Amounts);
- (e) *then*, to pay all principal due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (except, in the case of a Stand-by Loan, to the extent repaid using funds standing to the credit of the Stand-by Account);

- (f) *then, to pay, pari passu and pro rata:*
- (i) any amounts payable by the Issuer in respect of the Issuer's operating expenses incurred in the course of the Issuer's business (other than as provided elsewhere in this priority of payments) that have become due and payable, including any amounts payable by the Issuer in respect of its establishment, maintenance and good standing; and
  - (ii) any amounts payable by the Issuer in respect of any tax (including United Kingdom corporation tax) for which the Issuer is primarily liable under the laws of any jurisdiction,
- (together with expenses provided in paragraphs (a) to (e) of the Pre-Enforcement Priority of Payments, the **Senior Expenses**);
- (g) *then, to pay all amounts of interest due and payable in respect of the Class A Notes;*
  - (h) *then, to pay all amounts of interest due and payable under the Class B Notes;*
  - (i) *then, to pay all amounts of principal due and payable under the Class A Notes;*
  - (j) *then, to pay all amounts of principal due and payable under the Class B Notes;*
  - (k) *then, to pay to the Liquidity Facility Provider any Liquidity Subordinated Amounts; and*
  - (l) *finally, to pay amounts equal to 0.01 per cent. of Available Issuer Income in respect of such Interest Payment Date to the Issuer.*

Whilst any of the Notes are outstanding, any surplus funds in the Issuer Transaction Account may be invested in Eligible Investments or applied in accordance with the Cash Management Agreement and the Issuer Deed of Charge.

Following a Note Acceleration Notice being served, amounts standing to the credit of the Issuer Transaction Account shall be applied in the following order of priorities (the **Post-Acceleration Priority of Payments**) in each case only to the extent that the items ranking in priority of payment have been paid in full and the relevant payment does not cause the Issuer Transaction Account to become overdrawn:

- (a) *firstly, to pay all of the remuneration, costs, expenses and indemnification of the Note Trustee or any appointee and any receiver appointed by the Note Trustee;*
- (b) *then, to pay, pari passu and pro rata, the remuneration, costs and expenses of the Agent Bank and the Paying Agents under the Agency Agreement, the Cash Manager under the Cash Management Agreement and the Account Bank under the Account Bank Agreement;*
- (c) *then, to pay to the Liquidity Facility Provider all amounts due under the Liquidity Facility Agreement (excluding any Liquidity Subordinated Amounts and, in the case of a Stand-by Loan, amounts due to the extent repaid using funds standing to the credit of the Stand-by Account);*
- (d) *then, to pay all amounts of interest due in respect of the Class A Notes;*
- (e) *then, to pay all amounts of principal due under the Class A Notes;*
- (f) *then, to pay all amounts of interest due in respect of the Class B Notes;*

- (g) *then*, to pay all amounts of principal due under the Class B Notes; and
- (h) *then*, to pay, to the Liquidity Facility Provider any Liquidity Subordinated Amounts.

Any surplus shall be paid to the Issuer.



## **USE OF PROCEEDS**

The gross proceeds of the issue of the Notes will be £234,200,000. On or about the Closing Date, the Issuer will make two advances to the Borrower of £234,030,000 in total, pursuant to the Issuer/Borrower Loan Agreement. On or about the Closing Date, the Borrower will make five advances (using the proceeds of the Notes and the advances made under the B Loan Agreement) to the Propcos of £362,452,500 in total under the Intra-Group Loan Agreement.

On or about the Closing Date, the Borrower will pay to the Issuer the initial facility fee in an amount equal to all the fees, costs and expenses incurred by the Issuer on or before the Closing Date in connection with the issue of the Notes and the negotiation, preparation and execution of each Issuer Transaction Document.

## THE ISSUER

The Issuer, London & Regional Debt Securitisation No.1 plc, was incorporated in England and Wales on 26 October 2005 (registered number 05604389), as a public company with limited liability under the Companies Act 1985. The registered office of the Issuer is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH and its contact telephone number is +44 (0)20 7216 4600 . The Issuer is organised as a special purpose vehicle and its activities are limited accordingly. The Issuer has no subsidiaries. The entire issued share capital of the Issuer is held by L&R Parent and London and Regional Commercial Properties Holdings Limited.

### 1. Principal Activities

The principal objects of the Issuer are set out in Clause 4 of its Memorandum of Association and are, among other things, to lend money and give credit, secured and unsecured, to borrow or raise money and secure the payment of money, and to grant security over its property for the performance of its obligations or the payment of money. The Issuer was established for the limited purposes of the issue of the Notes, making the Issuer/Borrower Loans and certain related transactions described elsewhere in this document.

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

The activities of the Issuer will be restricted by the Conditions and will be limited to the issue of the Notes, the making of the Issuer/Borrower Loans, the exercise of related rights and powers and the other activities described in this document. See further **Condition 4**.

### 2. Directors and Secretary

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

Name	Business Address	Principal Activities
Christopher King	105 Wigmore Street, W1U 1QY	Director
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director

The company secretary of the Issuer is Richard Luck, whose business address is 105 Wigmore Street, W1U 1QY.

### 3. Capitalisation and Indebtedness

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

Authorised Share Capital	Issued Share Capital	Value of each Share	Shares Fully Paid Up	Paid Up Share Capital
(£)	(£)	(£)		
50,000	50,000	1	12,500	12,500

One-quarter of the issued shares (being 12,500 shares of £1 each), is fully paid up. L & R Parent holds 49,999 of the issued shares and London and Regional Commercial Properties Holdings Limited holds one issued share.

### **Loan Capital**

Class A Commercial Mortgage Backed Floating Rate Notes due 2014	£207,700,000
Class B Commercial Mortgage Backed Floating Rate Notes due 2014	£26,500,000
Total Loan Capital	£234,200,000

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

#### **4. Financial Information**

The Issuer will publish annual reports and accounts. The Issuer has not prepared audited financial statements as of the date of the Offering Circular.

## THE BORROWER

The Borrower, London & Regional Offices Finance Limited, was incorporated in England and Wales on 28 April 1999 (registered number 03760586), as a private company with limited liability under the Companies Act 1985. The registered office of the Borrower is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH and its contact telephone number is +44 (0)20 7216 4600 .

The authorised share capital of the Borrower is £100, divided into 100 ordinary shares of £1 each, one of which has been issued fully paid and is held by L&R Parent.

### 1. Principal Activities

The principal objects of the Borrower are set out in Clause 3 of its Memorandum of Association. Its object is to carry on business as a general commercial company, which includes:

- (a) purchasing, selling, renting, leasing, managing, and encumbering registered property and the financing and realising of building projects;
- (b) participating in, financing of and managing of other companies, of whatever nature, borrowing and granting loans, the granting of guarantees for indebtedness of others and granting of security; and
- (c) managing of and investing in business assets,

as well as everything that relates to the aforementioned or may be in furtherance thereof.

### 2. Directors and Secretary

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

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Christopher King	105 Wigmore Street, W1U 1QY	Director
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director

The company secretary of the Borrower is Richard Luck. The Borrower has no employees.

### 3. Capitalisation and Indebtedness Statement

It is estimated that the capitalisation of the Borrower on or about the Closing Date will be as follows:

#### Share Capital:

Authorised and issued:

100 ordinary shares of £1 each of which one share has been issued fully paid £1

#### Loan Capital

Issuer/Borrower Loan Agreement (to be advanced on or about the Closing Date) £234,200,000

B Loan Agreement (to be advanced on or about the Closing Date)	£128,252,500
<b>Total capitalisation and indebtedness:</b>	<b>£362,452,501</b>

Save for the foregoing, at the date of this document, 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. All loan capital is secured over the assets of the Borrower and (by way of third party security) over certain assets of the Borrower. The loan capital of the Borrower is not guaranteed.

#### **4. Auditors' Report**

The following is the text of a report received by the directors of the Borrower from UHY Hacker Young, the registered auditors to the Borrower. The financial information contained therein does not comprise the Borrower's statutory accounts. No statutory accounts have been prepared or delivered since incorporation. The Borrower's accounting reference date is 30 September with the first statutory accounts being drawn up to 30 September 2000.

**Registered number  
3760586**

**London & Regional Manchester Finance Limited  
(formerly Tontrade Limited)  
Report and Accounts**

**30 September 2004**

**London & Regional Manchester Finance Limited**  
**Report and accounts**  
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**London & Regional Manchester Finance Limited  
Company Information**

**Directors**

Mr I M Livingstone  
Mr C King

**Secretary**

Mr R N Luck

**Registered Office**

St Alphage House  
2 Fore Street  
London  
EC2Y 5DH

**Auditors**

UHY Hacker Young  
168 Church Road  
Hove  
East Sussex  
BN3 2DL

**Registered number**

3760586



**London & Regional Manchester Finance Limited**  
**Directors' Report**

The directors present their report and accounts for the year ended 30 September 2004.

**Principal activities and review of the business**

The directors consider the financial position at 30 September 2004 to be satisfactory. Formerly Tontrade Limited, the company changed its name to London & Regional Manchester Finance Limited on 5 January 2004.

**Results and dividends**

The company did not trade during the year, accordingly no profit and loss account is presented. The directors do not recommend the payment of a dividend.

**Directors**

The directors who served during the year were:

Mr I M Livingstone	
Mr G A Springer	- resigned 6 January 2004
Mr C King	- appointed 16 January 2004

The directors had no interest in the ordinary shares of the company at any time during the year.

**Auditors**

The Company passed an Elective Resolution during the year, pursuant to Section 386 of the Companies Act 1985, electing to dispense with the obligation to re-appoint auditors annually. The resolution remains in force.

This report was approved by the board on 6 June 2005.

Mr R N Luck

Secretary

**London & Regional Manchester Finance Limited**  
**Statement of Directors' Responsibilities**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**London & Regional Manchester Finance Limited**  
**Independent auditors' report**  
**to the shareholders of London & Regional Manchester Finance Limited**

We have audited the accounts of London & Regional Manchester Finance Limited (formerly Tontrade Limited) for the year ended 30 September 2004 which comprise pages 5 to 7. These accounts have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 September 2004 and have been properly prepared in accordance with the Companies Act 1985.

UHY Hacker Young  
Chartered Accountants and Registered Auditors

168 Church Road  
Hove  
East Sussex  
BN3 2DL

6 June 2005

**London & Regional Manchester Finance Limited**  
**Balance Sheet**  
**as at 30 September 2004**

	Notes	2004 £	2003 £
<b>Current assets</b>			
Debtors	2	1	1
<b>Net current assets</b>		<u>1</u>	<u>1</u>
<b>Capital and reserves</b>			
Called up share capital	3	1	1
Shareholders' funds:			
Equity		<u>1</u>	<u>1</u>
	4	<u>1</u>	<u>1</u>

These Financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

Mr I M Livingstone  
 Director  
 Approved by the board on 6 June 2005

**London & Regional Manchester Finance Limited**  
**Notes to the Accounts**  
**for the year ended 30 September 2004**

**1 Accounting policies**

The accounts have been prepared in accordance with applicable accounting standards. A summary of the more important accounting policies which have been consistently applied are given below.

**Accounting convention**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

**Deferred taxation**

Deferred taxation is provided on the liability method on all timing differences which are expected in the foreseeable future, calculated at the rate at which it is estimated that the tax will be payable.

**Cash flow statement**

The company has taken advantage of the exemption permitted by Financial Reporting Standard 1, whereby a cash flow statement need not be prepared by a small company as defined in the Companies Act 1985.

<b>2 Debtors</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Other debtors	1	1

<b>3 Share capital</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
Authorised:		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>No</b>	<b>No</b>	<b>£</b>	<b>£</b>
Allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

<b>4 Reconciliation of movement in shareholders' funds</b>	<b>2004</b>	<b>2003</b>
	<b>£</b>	<b>£</b>
At 1 October 2003	1	1
At 30 September 2004	<u>1</u>	<u>1</u>

**5 Related party transactions**

The company has taken advantage of the exemption in FRS8 that transactions do not need to be disclosed with companies 90% or more of whose voting rights are controlled within the group.

**London & Regional Manchester Finance Limited**  
**Notes to the Accounts**  
**for the year ended 30 September 2004**

**6 Parent undertaking**

The company is a wholly owned subsidiary of London & Regional Group Finance Limited, a company incorporated and registered in England and Wales. During the year, the ultimate parent undertaking was Nutmeg Ltd, a company incorporated in Guernsey, Channel Islands. In November 2004, the ultimate parent undertaking changed to Loopsign Ltd, a company incorporated in England & Wales. The ultimate controlling parties are IM Livingstone and RJ Livingstone through their joint ownership of Loopsign Ltd.

**London & Regional Manchester Finance Limited**

**Registered number  
3760586**

**London & Regional Manchester Finance Limited  
(formerly Tontrade Limited)  
Report and Accounts**

**30 September 2003**

**London & Regional Manchester Finance Limited**  
**Report and accounts**  
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Company information

**Directors**

Mr I M Livingstone  
Mr G A Springer

**Secretary**

Mr R N Luck

**Registered Office**

St Alphage House  
2 Fore Street  
London  
EC2Y 5DH

**Auditors**

Hacker Young  
168 Church Road  
Hove  
East Sussex  
BN3 2DL

**Registered number**

3760586



## **Directors' Report**

The directors present their report and accounts for the year ended 30 September 2003.

### **Principal activities and review of the business**

The directors consider the financial position at 30 September 2003 to be satisfactory. Formerly Tontrade Limited, the company changed its name to London & Regional Manchester Finance Limited on 5 January 2004.

### **Results and dividends**

The company did not trade during the year, accordingly no profit and loss account is presented. The directors do not recommend the payment of a dividend,

### **Directors**

The directors who served during the year were:

Mr I M Livingstone  
Mr G A Springer

The directors had no interest in the ordinary shares of the company at any time during the year.

### **Auditors**

The Company passed an Elective Resolution during the year, pursuant to Section 386 of the Companies Act 1985, electing to dispense with the obligation to re-appoint auditors annually. The resolution remains in force.

This report was approved by the board on 20 April 2004.

Mr R N Luck

Secretary

### **Statement of Directors' Responsibilities**

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Independent auditors' report  
to the shareholders of London & Regional Manchester Finance Limited**

We have audited the accounts of Tontrade Limited for the year ended 30 September 2003 which comprise pages 5 to 6. These accounts have been prepared under the historical cost convention and the accounting policies set out therein,

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors' are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 30 September 2003 and have been properly prepared in accordance with the Companies Act 1985.

Hacker Young  
Chartered Accountants and Registered Auditors

168 Church Road  
Hove  
East Sussex  
BN3 2DL

**Balance Sheet  
as at 30 September 2003**

	Notes	2003 £	2002 £
<b>Current assets</b>			
Debtors	2	1	1
<b>Net current assets</b>		<u>1</u>	<u>1</u>
<b>Capital and reserves</b>			
Called up share capital	3	1	1
Shareholders' funds: Equity		<u>1</u>	<u>1</u>
	4	<u>1</u>	<u>1</u>

Mr I M Livingstone  
Director  
Approved by the board on 20 April 2004

**Notes to the Accounts  
for the year ended 30 September 2003**

**1 Accounting policies**

The accounts have been prepared in accordance with applicable accounting standards. A summary of the more important accounting policies which have been consistently applied are given below.

**Accounting convention**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

**Cash flow statement**

The company has taken advantage of the exemption permitted by Financial Reporting Standard 1, whereby a cash flow statement need not be prepared by a small company as defined in the Companies Act 1985.

<b>2 Debtors</b>	<b>2003</b>	<b>2002</b>
	£	£
Other debtors	1	1
	<u>1</u>	<u>1</u>

<b>3 Share capital</b>	<b>2003</b>	<b>2002</b>
	£	£
Authorised:		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

<b>4 Reconciliation of movement in shareholders' funds</b>	<b>2003</b>	<b>2002</b>
	£	£
At 1 October 2002	1	1
At 30 September 2003	<u>1</u>	<u>1</u>

**5 Parent undertaking**

The company is a wholly owned subsidiary of LR Developments Limited, a company incorporated and registered in England and Wales. The ultimate parent undertaking is Nutmeg Limited a company incorporated in Guernsey, Channel Islands.

## THE PROPCOS

### PROPCO 1

LR Skipton House Limited (**Propco 1**) was incorporated and registered in England and Wales under the Companies Act 1985 with company number 04272477 as a private limited liability company on 17 August 2001. The registered office of Propco 1 is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH. The authorised share capital of Propco 1 is £1,000 divided into 1,000 ordinary shares of £1 each of which one has been issued and is held by London and Regional Commercial Properties Holdings Limited.

#### 1. Principal Activities

The objects of Propco 1 are set out in Clause 3 of its Memorandum of Association. Its object is to carry on business as a general commercial company, which includes:

- (a) carrying on a business in connection with property development, property management and property investment;
- (b) purchasing, taking on lease or otherwise acquiring any estate or interest in any lands, buildings and easements for such consideration and on such terms as may be considered expedient;
- (c) erecting, constructing, altering and maintaining any buildings, works, plant and machinery necessary or convenient for its business; and
- (d) to borrow or raise or secure the payment of money for the purposes of or in connection with its business.

#### 2. Directors and Secretary

The Director of Propco 1 and his business address and other principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director
Christopher King	105 Wigmore Street, W1U 1QY	Director

The Secretary of Propco 1 is Richard Luck.

#### 3. Capitalisation and Indebtedness Statement

It is estimated that the capitalisation of Propco 1 on or about the Closing Date (following discharge of any existing indebtedness on the Closing Date) will be as follows:

##### **Share Capital:**

Authorised and issued:

1,000 ordinary shares of £1 each of which one share has been issued fully paid £1

##### **Loan Capital:**

Propco Advance (to be advanced on or about the Closing Date under the Intra-Group Loan Agreement) £73,202,500

**Total capitalisation and indebtedness:** £73,202,501

Save for the foregoing, at the date of this document, Propco 1 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. All loan capital is secured over the assets of Propco 1. The loan capital of Propco 1 is not guaranteed.

## **PROPCO 2**

LR (First Central Phase A) Limited (**Propco 2**) was incorporated and registered in England and Wales under the Companies Act 1985 with company number 03355428 as a private limited liability company on 17 April 1997. The registered office of Propco 2 is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH. The authorised share capital of Propco 2 is £1,000 divided into 1,000 ordinary shares of £1 each of which two have been issued and are held by London and Regional Commercial Properties Holdings Limited.

### **1. Principal Activities**

The objects of Propco 2 are set out in Clause 3 of its Memorandum of Association . Its object is to carry on business as a general commercial company, which includes:

- (a) carrying on a business in connection with property development, property management and property investment;
- (b) purchasing, taking on lease or otherwise acquiring any estate or interest in any lands, buildings and easements for such consideration and on such terms as may be considered expedient;
- (c) erecting, constructing, altering and maintaining any buildings, works, plant and machinery necessary or convenient for its business; and
- (d) to borrow or raise or secure the payment of money for the purposes of or in connection with its business.

### **2. Directors and Secretary**

The Director of Propco 2 and his respective business address and other principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director
Christopher King	105 Wigmore Street, W1U 1QY	Director

The Secretary of Propco 2 is Richard Luck.

### 3. Capitalisation and Indebtedness Statement

It is estimated that the capitalisation of Propco 2 on or about the Closing Date (following discharge of any existing indebtedness on the Closing Date) will be as follows:

#### Share Capital:

Authorised and issued:

1,000 ordinary shares of £1 each of which two shares have been issued fully paid £2

#### Loan Capital:

Propco Advance (to be advanced on or about the Closing Date under the Intra-Group Loan Agreement) £77,430,000

**Total capitalisation and indebtedness:** £77,430,002

Save for the foregoing, at the date of this document, Propco 2 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. All loan capital is secured over the assets of Propco 2. The loan capital of Propco 2 is not guaranteed.

### PROPCO 3

London & Regional (Manchester) Limited (**Propco 3**) was incorporated and registered in England and Wales under the Companies Act 1985 with company number 03315372 as a private limited liability company on 4 February 1997. The registered office of Propco 3 is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH. The authorised share capital of Propco 3 is £1,000 divided into 1,000 ordinary shares of £1 each of which two have been issued and are held by London & Regional PFI Projects Holdings Limited.

#### 1. Principal Activities

The objects of Propco 3 are set out in Clause 3 of its Memorandum of Association. Its object is to carry on business as a general commercial company, which includes:

- (a) carrying on a business in connection with property development, property management and property investment;
- (b) purchasing, taking on lease or otherwise acquiring any estate or interest in any lands, buildings and easements for such consideration and on such terms as may be considered expedient;
- (c) erecting, constructing, altering and maintaining any buildings, works, plant and machinery necessary or convenient for its business; and
- (d) to borrow or raise or secure the payment of money for the purposes of or in connection with its business.



## 2. Directors and Secretary

The Director of Propco 3 and his respective business address and other principal activities are:

Name	Business Address	Principal Activities
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director
Christopher King	105 Wigmore Street, W1U 1QY	Director

The Secretary of Propco 3 is Richard Luck.

## 3. Capitalisation and Indebtedness Statement

It is estimated that the capitalisation of Propco 3 on or about the Closing Date (following discharge of any existing indebtedness on the Closing Date) will be as follows:

### Share Capital:

Authorised and issued:

1,000 ordinary shares of £1 each of which two shares have been issued fully paid £2

### Loan Capital:

Propco Advance (to be advanced on or about the Closing Date under the Intra-Group Loan Agreement) £68,085,000

**Total capitalisation and indebtedness:** £68,085,002

Save for the foregoing, at the date of this document, Propco 3 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. All loan capital is secured over the assets of Propco 3. The loan capital of Propco 3 is not guaranteed.

## PROPCO 4

LR (Manchester) Limited (**Propco 4**) was incorporated and registered in England and Wales under the Companies Act 1985 with company number 03315357 as a private limited liability company on 4 February 1997. The registered office of Propco 4 is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH. The authorised share capital of Propco 4 is £1,000 divided into 1,000 ordinary shares of £1 each of which two have been issued and are held by London & Regional PFI Projects Holdings Limited.

### 1. Principal Activities

The objects of Propco 4 are set out in Clause 3 of its Memorandum of Association. Its object is to carry on business as a general commercial company, which includes:

- (a) carrying on a business in connection with property development, property management and property investment;

- (b) purchasing, taking on lease or otherwise acquiring any estate or interest in any lands, buildings and easements for such consideration and on such terms as may be considered expedient;
- (c) erecting, constructing, altering and maintaining any buildings, works, plant and machinery necessary or convenient for its business; and
- (d) to borrow or raise or secure the payment of money for the purposes of or in connection with its business.

## 2. Directors and Secretary

The Director of Propco 4 and his respective business address and other principal activities are:

Name	Business Address	Principal Activities
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director
Christopher King	105 Wigmore Street, W1U 1QY	Director

The Secretary of Propco 4 is Richard Luck.

## 3. Capitalisation and Indebtedness Statement

It is estimated that the capitalisation of Propco 4 on or about the Closing Date (following discharge of any existing indebtedness on the Closing Date) will be as follows:

### Share Capital:

Authorised and issued:

1,000 ordinary shares of £1 each of which two shares have been issued fully paid	£2
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### Loan Capital:

Propco Advance (to be advanced on or about the Closing Date under the Intra-Group Loan Agreement)	Nil
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<b>Total capitalisation and indebtedness:</b>	<b>£2</b>
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Save for the foregoing, at the date of this document, Propco 4 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. All loan capital is secured over the assets of Propco 4. The loan capital of Propco 4 is not guaranteed.

## PROPCO 5

London & Regional (King William St) Limited (**Propco 5**) was incorporated and registered in England and Wales under the Companies Act 1985 with company number 05495948 as a private limited liability company on 30 June 2005. The registered office of Propco 5 is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH. The authorised share capital of Propco 5 is £40,000,000 divided into 40,000,000

ordinary shares of £1 each of which 34,851,000 have been issued and are held by London and Regional Commercial Properties Holdings Limited.

### 1. Principal Activities

The objects of Propco 5 are set out in Clause 3 of its Memorandum of Association. Its object is to carry on business as a general commercial company, which includes:

- (a) carrying on a business in connection with property development, property management and property investment;
- (b) purchasing, taking on lease or otherwise acquiring any estate or interest in any lands, buildings and easements for such consideration and on such terms as may be considered expedient;
- (c) erecting, constructing, altering and maintaining any buildings, works, plant and machinery necessary or convenient for its business; and
- (d) to borrow or raise or secure the payment of money for the purposes of or in connection with its business.

### 2. Directors and Secretary

The Directors of Propco 5 and their respective business addresses and other principal activities are:

Name	Business Address	Principal Activities
Christopher King	105 Wigmore Street, W1U 1QY	Director
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director

The Secretary of Propco 5 is Richard Luck.

### 3. Capitalisation and Indebtedness Statement

It is estimated that the capitalisation of Propco 5 on or about the Closing Date (following discharge of any existing indebtedness on the Closing Date) will be as follows:

#### Share Capital:

Authorised and issued:

40,000,000 ordinary shares of £1 each of which 34,851,000 shares have been issued fully paid	£34,851,000
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#### Loan Capital:

Propco Advance (to be advanced on or about the Closing Date under the Intra-Group Loan Agreement)	£67,195,000
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<b>Total capitalisation and indebtedness:</b>	<b>£102,046,000</b>
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Save for the foregoing, at the date of this document, Propco 5 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. All loan capital is secured over the assets of Propco 5. The loan capital of Propco 5 is not guaranteed.

## **PROPCO 6**

London & Regional (St. Georges Court) Limited (**Propco 6**) was incorporated and registered in England and Wales under the Companies Act 1985 with company number 03355433 as a private limited liability company on 17 April 1997. The registered office of Propco 6 is at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH. The authorised share capital of Propco 6 is £1,000 divided into 1,000 ordinary shares of £1 each of which two have been issued and are held by London and Regional Commercial Properties Holdings Limited.

### **1. Principal Activities**

The objects of Propco 6 are set out in Clause 3 of its Memorandum of Association. Its object is to carry on business as a general commercial company, which includes:

- (a) carrying on a business in connection with property development, property management and property investment;
- (b) purchasing, taking on lease or otherwise acquiring any estate or interest in any lands, buildings and easements for such consideration and on such terms as may be considered expedient;
- (c) erecting, constructing, altering and maintaining any buildings, works, plant and machinery necessary or convenient for its business; and
- (d) to borrow or raise or secure the payment of money for the purposes of or in connection with its business.

### **2. Directors and Secretary**

The Directors of Propco 6 and their respective business addresses and other principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Ian Livingstone	105 Wigmore Street, W1U 1QY	Director
Geoffrey Springer	105 Wigmore Street, W1U 1QY	Director
Christopher King	105 Wigmore Street, W1U 1QY	Director

The Secretary of Propco 6 is Richard Luck.

### **3. Capitalisation and Indebtedness Statement**

It is estimated that the capitalisation of Propco 6 on or about the Closing Date (following discharge of any existing indebtedness on the Closing Date) will be as follows:

#### **Share Capital:**

Authorised and issued:

1,000 ordinary shares of £1 each of which two shares have been issued fully paid	£2
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**Loan Capital:**

Propco Advance (to be advanced on or about the Closing Date under the Intra-Group Loan Agreement)	£76,540,000
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<b>Total capitalisation and indebtedness:</b>	£76,540,002
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Save for the foregoing, at the date of this document, Propco 6 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. All loan capital is secured over the assets of Propco 6. The loan capital of Propco 6 is not guaranteed.

## THE PROPERTIES

### INTRODUCTION

#### Overview

The Properties charged on the Closing Date comprise four properties located in London and one property located in Manchester. The total market value of the Properties as at the Valuation Date was £407,250,000, representing an entry LTV of 57.5 per cent. The table below provides key data for each property.

<b>Properties Summary</b>											
<b>Property Name</b>	<b>City</b>	<b>Market Value (£ MM)</b>	<b>% of Total</b>	<b>NIA (sqf)</b>	<b>Tenants</b>	<b>Occupancy</b>	<b>Net Rent (£ MM)</b>	<b>NIY (%)<sup>1</sup></b>	<b>TEY (%)<sup>2</sup></b>	<b>Years to Break<sup>3</sup></b>	<b>Years to End<sup>3</sup></b>
Guinness Headquarters	Greater London	87.00	21.4	155,609	Guinness	100%	4.71	5.14	6.09	16.8	16.9
St. Georges Court	Central London	86.00	21.1	166,617	Sec. of State for Defence	100%	5.20	5.71	5.81	12.0	17.0
Skipton House	Central London	82.25	20.2	217,941	Sec. of State for the Environment	100%	4.50	5.18	6.12	11.1	11.1
Trinity Bridge House	Manchester	76.50	18.8	200,092	Sec of State for the Environment	100%	5.59	6.91	6.91	7.8 <sup>4</sup>	7.8
King William Street	Central London	75.50	18.5	97,878	House of Fraser; Regus	100%	4.30	5.21	5.22	21.4 <sup>5</sup> ave	25.4 <sup>5</sup> ave
<b>Total / Weighted Average<sup>5</sup></b>		<b>407.25</b>	<b>100</b>	<b>838,137</b>		<b>100%</b>	<b>24.30</b>	<b>5.62</b>	<b>6.00</b>	<b>13.5</b>	<b>15.3</b>

The Asset Type by current rental income is comprised of 82 per cent. office and 18 per cent. retail/office. The Properties are 100 per cent. let, with 62.9 per cent. of current rental income coming from HM Government. The table below provides key data related to all six tenants in the portfolio.

<sup>1</sup> NIY = Net Initial Yield. Calculated net of head leases and assumes 5.75% in purchaser's costs.

<sup>2</sup> TEY = True Equivalent Yield. Calculated using the actual timing of rental payments and fixed rental uplifts during the term of the lease.

<sup>3</sup> Assuming a pool cut-off date of 31 October 2005.

<sup>4</sup> H.M. Revenue and Customs has an option to vacate up to 20% of its let space from August 2008 on six months' notice.

<sup>5</sup> Weighted averages applied to yields (weighted by Market Value) and to lease terms (weighted by day-one rents).

Tenant Summary (rounded to nearest decimal, where applicable)										
Tenant	Building	Net Rent (£ MM)	% of Total	ERV (£ MM)	% of Total	NIA <sup>6</sup> (sq ft)	% of Total	Lease Break	Lease Expiry	Credit Rating (F/M/S)
Guinness	Guinness	4.7	19.4	4.7	19.7	155,609	18.6	NA	Sept. 2022	A+/A2/A
Secretary of State for Defence	St Georges Court	5.2	21.4	5.5	23.2	166,617	19.9	Nov. 2017	Nov. 2022	AAA/Aaa/AAA
Sec. of State for the Environment	Skipton House	4.5	18.5	4.9	20.6	217,941	26.0	NA	Dec 2016	AAA/Aaa/AAA
Sec. of State for the Environment	Trinity Bridge House	5.6	23.0	4.7	19.7	200,092	23.9	August 2008 <sup>7</sup> (partial break)	Aug. 2013	AAA/Aaa/AAA
House of Fraser (Stores) Ltd	King William Street	2.3	9.4	2.3	9.6	57,394	6.8	April 2033	April 2038	NR
Regus (UK) Ltd	King William Street	2.0	8.3	1.7	7.2	40,484	4.8	May 2020	May 2023	NR
<b>Total</b>		<b>24.3</b>	<b>100</b>	<b>23.8</b>	<b>100</b>	<b>838,137</b>	<b>100%</b>			

The weighted average lease term is 13.5 years assuming all lease breaks are exercised and 15.3 years when leases are all held to maturity<sup>8</sup>. The table below summarises the lease rollover profile for the portfolio.

Period	0-5 Years	6-10 Years	11-15 Years	15 Years +	Total	
No. of renewal		0	1	3	2	6
Rent subject to renewal	£ MM	0	5.59	11.72	6.99	24.30
	%	0.0%	23.0%	48.2%	28.8%	100.0%

<sup>6</sup> NIA = Net Internal Area.

<sup>7</sup> H.M. Revenue and Customs has an option to vacate up to 20% of its let space from August 2008 on six months' notice.

<sup>8</sup> Assuming a pool cut-off date of 31 October 2005.

## GUINNESS HEADQUARTERS, PARK ROYAL, LONDON

### Overview

The Guinness Headquarters building (**Guinness Headquarters**) is an office property located in the First Central Business Park, Park Royal, approximately seven miles west of Central London and is entirely let to Guinness Ltd., serving as their UK headquarters. The Guinness Headquarters long leasehold was acquired by LR (First Central Phase A) Limited in 2001 and then developed and completed in 2002.

Property Summary	
Total Number of Properties	1
Number of Buildings	1
Address	First Central Business Park, Park Royal
Location	Greater London
Size	155,609 sq ft
Market Value	£ 87.00 MM
Property Valuer	DTZ Debenham Tie Leung
Valuation Date	October 2005
Property Type	Office
Number of Tenants	1
Tenants	Guinness Ltd.
Net Passing Rent	£ 4.71 MM
Net ERV	£ 4.67 MM
Net Initial Yield	5.14%
True Equivalent Yield	6.09%
Occupancy	100.0%
Tenure	150 Year Long Leasehold expiring in 2151

### Location

Guinness Headquarters is located at Park Royal, approximately seven miles west of central London, two miles south west of Wembley and a similar distance North East of Ealing. The area has been an established industrial location since the 1930s. Guinness Headquarters was built together with significant infrastructure and landscaping as the first phase of a 1.25 million sq ft office park fronting the A40.

For road access, the A40 is almost adjacent to the site, providing access to the North Circular Road (A406), while the M1 and M4 motorways are located within five miles. By tube, both the Park Royal (Piccadilly line) and Hanger Lane (Central line) Underground Stations are situated close by.

### Situation

Guinness Headquarters fronts Lakeside Drive, which has been constructed together with a link road to the A40 to open up access to the office park. It overlooks extensive lakes and landscaping to its rear.

The existing building stock in Park Royal tends to date from the 1970s and is mainly located within the existing Park Royal Business Park. The Park Royal Business Park plays host to numerous SMEs.



## Property Description

Guinness Headquarters was completed in October 2002, forming part of a comprehensive redevelopment scheme of the former Guinness Brewery. It is a seven-storey office building consisting of 155,609 sq ft with a central full height atrium, and 400 car spaces mainly arranged over two basement levels.

Guinness Headquarters is held on a long leasehold basis from Guinness Ltd. for a term of 150 years from 31 January 2001 at an annual fixed ground rent.

## Tenant Description

Guinness Headquarters is entirely let to Guinness Ltd for £4,711,388 per annum. The lease expires on 9 September 2022. The rent is increased annually by an amount equal to 3 per cent. of the amount of rent payable in respect of the preceding twelve months. Guinness is rated A+/A2/A by Fitch, Moody's and S&P, respectively.

Tenant Summary								
Tenant	Net Rent (£ MM)	% of Total	Area (sq ft)	Rent/sq ft	Lease Start	Lease Break	Lease Expiry	Description
Guinness Ltd.	4.71	19.4	155,609	£30.28	Sept. 2002	NA	Sept. 2022	Rated Corporate Entity

## Valuation

The Market Value of Guinness Headquarters as at 10 October 2005, as provided by DTZ Debenham Tie Leung, was £87,000,000 while the Estimated Rental Value was £4,668,000 per annum.

## ST. GEORGES COURT, LONDON

### Overview

St. Georges Court (**St. Georges Court**) is an office property located on New Oxford Street in Central London, which is entirely let (other than the electricity transformer chamber in the basement) to the Secretary of State for Defence. St. Georges Court was acquired by London & Regional (St. Georges Court) Limited on leasehold in 2001 and was entirely refurbished in 2002.

Property Summary	
Total Number of Properties	1
Number of Buildings	1
Address	2-28 New Oxford Street, London
Location	Central London
Size	166,617 sq ft
Property Value	£ 86.00 MM
Property Valuer	DTZ Debenham Tie Leung
Valuation Date	October 2005
Property Type	Office
Number of Tenants	1
Tenants	Secretary of State for Defence
Net Passing Rent	£ 5.20 MM
Net ERV	£ 5.52 MM
Net Initial Yield	5.71%
True Equivalent Yield	5.81%
Occupancy	100.0%
Tenure	125 Year Long Leasehold expiring in 2126

### Location

St. Georges Court is located within the administrative area of the London Borough of Camden, an area which incorporates much of the Mid Town area between the City and the West End of London.

New Oxford Street is a busy thoroughfare extending in an easterly direction from the junction of Oxford Street and Tottenham Court Road to High Holborn, and forming part of the A40, which in turn provides access to the main arterial routes out of central London.

Both Tottenham Court Road (Northern and Central lines) and Holborn (Central and Piccadilly lines) London Underground stations are nearby. In addition, both Euston and Kings Cross/St Pancras main line railway stations are readily accessible to the north of St. Georges Court.

The building occupies a triangular shaped island site bounded by New Oxford Street to the south, Bloomsbury Way to the north and Bury Place to the east. The immediate vicinity comprises a mix of commercial and residential uses, with the British Museum located a short distance to the north.

## Property Description

St. Georges Court consists of ten storeys of office and retail space arranged over lower ground, ground and eight upper floors totalling approximately 166,617 sq ft.

Originally constructed in the late 1940's, St. Georges Court underwent a substantial refurbishment in 2002 to provide a modern high quality office property. The office floors provide open plan floor plates averaging approximately 18,192 sq ft. Raised floors are provided to all open plan office areas.

Ten car parking spaces are provided within the basement, accessed via a car lift from the Bloomsbury Way elevation.

St. Georges Court is held as leasehold under a 125 year lease expiring in January 2126, with an annual rent of £575,651.

## Tenant Description

St. Georges Court is let (other than the electricity transformer chamber in the basement) to the Secretary of State for Defence for £5,779,009 per annum. The lease expires in November 2022 with a tenant only break option in November 2017.

Tenant Summary								
Tenant	Net Rent (£ MM)	% of Total	Area (sq ft)	Rent/sq ft	Lease Start	Lease Break	Lease Expiry	Description
Secretary of State for Defence	5.20	21.4	166,617	£31.23	Nov. 2002	Nov. 2017	Nov. 2022	UK Government Entity

## Valuation

The Market Value of St. Georges Court as at 10 October 2005, as provided by DTZ Debenham Tie Leung, was £86,000,000 while the Estimated Rental Value was £5,522,000 per annum.

## SKIPTON HOUSE, LONDON

### Overview

Skipton House (**Skipton House**) is an office property located in the Elephant and Castle area of inner south London, which is entirely let to the Secretary of State for the Environment. Skipton House was acquired by LR (Skipton House) Limited in 2001.

Property Summary	
Total Number of Properties	1
Number of Buildings	1
Address	80 London Road, Southwark
Location	Central London
Size	217,941 sq ft
Market Value	£ 82.25 MM
Property Valuer	DTZ Debenham Tie Leung
Valuation Date	October 2005
Property Type	Office
Number of Tenants	1
Tenants	Secretary of State for the Environment
Net Passing Rent	£ 4.50 MM
Net ERV	£ 4.90 MM
Net Initial Yield	5.18%
True Equivalent Yield	6.12%
Occupancy	100.0%
Tenure	Freehold

### Location

Skipton House is situated within London in the Borough of Southwark in close proximity to the main Elephant and Castle roundabout. Elephant and Castle is approximately equidistant from Waterloo to the North West, London Bridge to the North East and Vauxhall to the South West (all approximately within 0.75 miles). Blackfriars Road is a short distance to the North, along which there is a concentration of major employers/occupiers.

### Situation

Skipton House is situated on the East side of London Road, near its intersection with the main Elephant and Castle roundabout.

To the North side of Skipton House is part of the South Bank University, and immediately to the South is one of the many entrances into the Elephant and Castle London Underground Station, served by both the Bakerloo and Northern London Underground lines.

## Property Description

Skipton House is a high quality office building of 217,941 sq ft constructed on basement, ground and six upper floors.

The building was constructed in the early 1990s and is rectangular in shape, with open plan office space arranged around a large central atrium. At each level, there are also several terraces facing into the atrium, creating informal open meeting areas.

Skipton House is utilised as offices on the second floor upwards, with meeting rooms and conference facilities at first floor level and computer rooms, a staff restaurant, a gymnasium and a library situated at ground floor level. The basement is used for ancillary storage and car parking, with 77 marked spaces accessed via a security controlled ramp/service road off Ontario Street to the north of Skipton House

## Tenant Description

Skipton House is entirely let to Her Majesty's Government for £4,500,000 per annum. The lease has fixed uplifts at five yearly intervals at 3.0 per cent. per annum compounded. The existing lease expires on 6 May 2007 and a reversionary lease commences on 7 May 2007. From 6 May 2007, the rent will increase to £5,216,733 per annum and from 6 May 2012 it will increase to £6,047,624 per annum. The lease expires in December 2016. The Department of Health has occupied Skipton House since it was constructed, and they have twice extended their lease.

Tenant Summary								
Tenant	Net Rent (£ MM)	% of Total	Area (sq ft)	Rent/ sq ft	Lease Start	Lease Break	Lease Expiry	Description
Sec. of State for the Environment	4.50	18.5	217,941	£ 20.65	May 1992	NA	Dec 2016	UK Government Entity

## Valuation

The Market Value of Skipton House as at 10 October 2005, as provided by DTZ Debenham Tie Leung, was £82,250,000 while the Estimated Rental Value was £4,904,000 per annum.

## TRINITY BRIDGE HOUSE, SALFORD, MANCHESTER

### Overview

Trinity Bridge House (**Trinity Bridge House**) is an office property entirely let to the Secretary of State for the Environment located in Salford, Manchester. This property was acquired on a long leasehold basis by London & Regional (Manchester) Limited on 18 March 1997 for a term of 150 years and built specifically for the Secretary of State for the Environment in 1998 as one of the first developments constructed under the Private Finance Initiative by Her Majesty's Government.

Property Summary	
Total Number of Properties	1
Number of Buildings	1
Address	2 Dearmans Place, Salford
Location	Manchester
Size (NIA)	200,092 sq ft
Market Value	£ 76.50 MM
Property Valuer	DTZ Debenham Tie Leung
Valuation Date	October 2005
Property Type	Office
Number of Tenants	1
Tenants	Secretary of State for the Environment
Net Passing Rent	£ 5.59 MM
Net ERV	£ 4.68 MM
Net Initial Yield	6.91%
True Equivalent Yield	6.91%
Occupancy	100.0%
Tenure	150 Year Long Leasehold expiring in 2147

### Location

Manchester is the regional capital of the North West of England, the UK's largest economic region outside London. Trinity Bridge House is located on the Salford side of the River Irwell, adjacent to Manchester City Centre.

Manchester Piccadilly rail station connects to all major UK cities, although services are also provided from Manchester Victoria. There is an hourly service to and from London Euston. Salford is served by two railway stations: Salford Crescent and Salford Central, the latter being in close proximity to Trinity Bridge House.

### Situation

Trinity Bridge House occupies a site bounded by Chapel Street to the North, Dearmans Place to the East, Worsley Street to the South and Quay Street to the West. Chapel Street provides access to Trinity Way, part of Manchester's inner ring road 300 metres to the West.

## Property Description

Trinity Bridge House is a high quality office building completed in 1998, consisting of 200,092 sq ft net internal area arranged over ground and seven upper floors with large flexible floor plates constructed in two wings linked by a central core. In addition, there are 183 basement car parking spaces.

London & Regional's superior landlord under the aforementioned 150 year lease is Chapel Wharf Limited. The rent reserved under the lease is a peppercorn, although London & Regional is required to contribute 35 per cent. of the service costs incurred by the superior landlord in maintaining the walkways, roadways and boulevards in the common use.

## Tenant Description

Trinity Bridge House is entirely let to the Secretary of State for the Environment (occupied by H.M. Revenue and Customs) pursuant to an agreement (the **Project Agreement**) under the Private Finance Initiative of Her Majesty's Government. The Project Agreement is for a term of 15 years from 14 August 1998 and expires in August 2013. The Secretary of State for the Environment has an automatic right to a new five-year lease on an effectively full repairing and insuring basis at the expiry of the Project Agreement at the higher of open market rental value or £22.47 psf.

Under the Project Agreement, London & Regional contracts to provide general services and facilities management for Trinity Bridge House in accordance with a detailed service level agreement. Responsibility for delivering the services and facilities management under the Project Agreement has been passed by London & Regional to Haden Facilities Management Limited under a facilities management agreement. There are strict provisions relating to performance and responsibility for compliance with the provisions set out in that agreement.

Under the Project Agreement a unitary charge (**Gross Income**) is payable by the tenant, equivalent to £6.95MM per annum in 2005, with five yearly contractual uplifts of 4 per cent. per annum compounded. The next uplift will take place in August 2008, when the current Gross Income will be uplifted by 21.66 per cent. or 4 per cent. compounded by five years.

Certain deductions need to be taken into account for the running of the Project Agreement. Non-recoverable expenditure items include the facilities management fees of approximately £0.92MM paid to Haden Facilities Management Limited. The facilities management fees are subject to contractual annual uplifts of 3.0 per cent. per annum.

In addition, there is a further contractual life cycle fund to which the landlord has to contribute an annual sum of £0.27MM. The amount paid for life cycle expenditure is fixed over time and has been calculated as the amount required to fund all life cycle works to Trinity Bridge House over the life of the Project Agreement. As at the Valuation Date, the life cycle fund has accumulated in excess of more than £1.55MM.

Other non-recoverable items include an annual insurance charge, the service charge under the headlease agreement, maintenance, spares and consumables (e.g. toiletries), not covered under the life cycle fund, which will total approximately £0.18MM in 2005.

The Project Agreement allows for changes to the costs of running the building under the circumstances described in the risk factors section (see "*Valuation Reports*" below). DTZ Debenham Tie Leung has assumed for valuation purposes that these variable expenses increase in line with the fixed annual facilities management fee uplifts of 3.0 per cent. per annum.

The resulting net income of Trinity Bridge House is £5.59MM for 2005.

The Secretary of State for the Environment has the right to exercise an option to vacate the top two floors of the building (or a part or parts thereof) representing approximately 20 per cent. of the net internal area at any time after August 2008 with a six month notice period.

<b>Tenant Summary</b>								
<b>Tenant</b>	<b>Net Rent (£ MM)</b>	<b>% of Total</b>	<b>Area (sq ft)</b>	<b>Rent/ sq ft</b>	<b>Lease Start</b>	<b>Lease Break</b>	<b>Lease Expiry</b>	<b>Description</b>
Sec. of State for the Environment	5.59	23.0	200,092	£ 27.92	Aug. 1998	Partial August 2008	Aug. 2013	UK Government Entity

### **Valuation**

The Market Value of Trinity Bridge House as at 10 October 2005, as provided by DTZ Debenham Tie Leung, was £76,500,000 while the Estimated Rental Value was £4,680,000 per annum.



## 68 KING WILLIAM STREET, LONDON and 42-44 GRACECHURCH STREET, LONDON

### Overview

68 King William Street and 42-44 Gracechurch Street (**King William Street**) is a mixed retail and office property located in the City of London, which is entirely let to House of Fraser (Stores) Ltd. and Regus (UK) Ltd. London & Regional (King William Street) Limited was granted the leasehold in King William Street in 2001. The office and retail development was completed by London & Regional in 2002. Subsequently, the freehold title was acquired in 2005.

<b>Property Summary</b>	
Total Number of Properties	1
No. of Buildings	1
Address	68 King William Street and 42-44 Gracechurch Street, London
Location	Central London
Size	97,878 sq ft
Market Value	£ 75.50 MM
Property Valuer	DTZ Debenham Tie Leung
Valuation Date	October 2005
Property Type	Retail/Office
Number of Tenants	2
Tenants	House of Fraser (Stores) Ltd, Regus (UK) Ltd
Net Passing Rent	£ 4.30 MM
Net ERV	£ 3.98 MM
Net Initial Yield	5.21%
True Equivalent Yield	5.22%
Occupancy	100.0%
Tenure	Freehold

### Location

King William Street is located in The City of London, to the North of London Bridge and the River Thames. It has a prominent frontage onto King William Street and is situated at the junction of King William Street, Cannon Street, Gracechurch Street and Eastcheap.

Monument underground station, offering District and Circle line service, is adjacent to King William Street, with a direct link to the Lower Ground floor of the retail space. The Monument underground station also interconnects with Bank underground station, which offers access to the Central, Northern and Waterloo & City underground lines, as well as the Docklands Light Railway.

### Situation

The office accommodation has its main entrance at the junction of King William Street and Cannon Street, at the West side of the building when facing its front facade. The main entrance for the retail accommodation directly overlooks the main junction, with King William Street and London Bridge to the South.

## Property Description

King William Street was originally constructed in 1921. In 1995, planning permission was granted for a new building behind the retained façade. The full redevelopment was completed in 2002. The building now consists of 97,878 sq ft, arranged over two basements, ground, mezzanine and eight upper floors, with plant on the roof. The office areas have been fitted out to a Grade A specification, with suspended ceilings and central air conditioning.

## Tenant Description

King William Street is leased to two tenants; the retail space is fully let to House of Fraser (Stores) Ltd at £2,276,800 per annum and the office space is fully let to Regus (UK) Ltd at £2,021,773 per annum and Regus Limited acts as guarantor. The House of Fraser lease expires on 16 April 2038 with a mutual break option in 2033 and a landlord only break option in 2028. The Regus lease expires in 14 May 2023, with a tenant only break option in 2020.

Tenant Summary								
Tenant	Net Rent (£ MM)	% of Total	Area (sq ft)	Rent/ sq ft	Lease Start	Lease Break	Lease Expiry	Description
House of Fraser (Stores) Ltd	2.28	9.4	57,394	£ 39.67	Apr. 2003	Apr. 2033	Apr. 2038	High Street Retail
Regus (UK) Ltd	2.02	8.3	40,484	£ 49.94	May 2003	May 2020	May 2023	Stores/Office

## Valuation

The Value of King William Street as at 10 October 2005, as provided by DTZ Debenham Tie Leung, was £75,500,000 while the Estimated Rental Value was £3,977,000 per annum.

## VALUATION REPORTS

*(Full report reproduced as Appendix 1)*

Your ref: Leonardo Database  
Our ref: Val/PWI/Lon/L&R/Leonardo  
Direct tel: (020) 7643 6300  
Direct fax: (020) 7643 6435  
E-mail: Paul.wolfenden@dtz.com

DRAFT

24 November 2005

London & Regional Offices Finance Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Borrower")

London & Regional (King William Street) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Chargors")

London & Regional Debt Securitisation No. 1 Plc  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Issuer")

London & Regional (Manchester) Limited & LR  
(Manchester) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Chargors")

London & Regional (St Georges Court) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Chargors")

**The Bank of New York**  
48<sup>th</sup> Floor, One Canada Square  
London  
E14 5AL  
("Borrower Security Trustee and Note  
Trustee")

LR Skipton House Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Chargors")

Hypo Real Estate Bank International  
21<sup>st</sup> Floor, 30 St Mary Axe  
London  
EC3A 8BF  
("B- Piece Lender")

LR (First Central Phase A) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
("Chargors")

Morgan Stanley and Co. International Limited  
(the Lead Manager on behalf of itself and the Co-  
Managers)  
20 Cabot Square  
Canary Wharf  
London E14 4QW  
("Lead Manager")

Dear Sirs

**Borrower:** London & Regional Offices Finance Limited  
**Properties:** St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London WC1A 2SH  
Skipton House, 80 London Road, London SE1 6LH  
Guinness Headquarters, First Central Business Park, Park Royal NW10 7RR  
68 King William Street and 42 – 44 Gracechurch Street, London EC4N 7HR

## Trinity Bridge House, 2 Dearmans Place, Salford, Manchester M3 5BH

(each the “Property” and collectively the “Properties” or the “Portfolio”)

### 1 Terms of instruction, confidentiality and disclosure

#### 1.1 Loan proposition

We understand that London & Regional Offices Finance Limited (“the Borrower”) intends to refinance the above Properties. We understand that our report and valuation (the “Valuation Report”) is required to assist you in considering the suitability of the Properties as security for a commercial mortgage advance, secured by way of a fixed first legal charge over the interests valued in this report.

#### 1.2 Our appointment

In accordance with your letter of instruction, dated 25 August 2005 (Appendix A), we have valued the 2 freehold and 3 long leasehold interests in the Properties, as at 10 October 2005 (the “valuation date”), in connection with the proposed loan facility. The Properties are described in the following sections of this Report, which forms an integral part hereof.

#### 1.3 Inspections

The Properties were inspected between 30 August and 2 September 2005. We were able to inspect all of the Properties internally apart from St Georges Court, which was inspected externally due to security restrictions imposed by the tenant, the Secretary of State for Defence.

We have set out below a schedule detailing the surveyor who inspected each Property, the date of the inspections and any restrictions to the inspections:-

Address	Date of Inspection	Surveyor	Restrictions to Inspection
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	1 September 2005	Gerard Righetti, AAPI	External Only
Skipton House, 80 London Road, London	1 September 2005	Naomi Schilling, AAPI	N/A
Guinness Headquarters, First Central Business Park, Park Royal	2 September 2005	Anthony Long, NZAPI	N/A
68 King William Street and 42 – 44 Gracechurch Street, London	1 September 2005	Vicki Rudken, MRICS	N/A
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	30 August 2005	Gareth Wilson, MRICS	N/A

#### **1.4 Compliance with Appraisal and Valuation Standards**

We confirm that the valuations have been prepared in accordance with the appropriate sections of the Practice Statements (“PS”) and United Kingdom Practice Statements (“UKPS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”).

#### **1.5 Status of valuer and conflicts of interest**

We confirm that we have undertaken the valuations acting as an External Valuer, qualified for the purpose of the valuation.

We confirm that DTZ Debenham Tie Leung (“DTZ”) have previously provided valuation advice to banks providing debt finance in respect of four of the Properties. We further confirm that DTZ Debenham Tie Leung (“DTZ”) provide valuation advice, in connection with the acquisition and debt financing of other Properties by London and Regional Properties Limited.

We also confirm that DTZ provide debt valuation services to Morgan Stanley & Co. International Limited. This has been discussed with Morgan Stanley & Co. International Limited and notwithstanding our previous involvement, Morgan Stanley & Co. International Limited has confirmed that we may proceed with the valuation.

We further confirm that we have had no previous recent involvement with the Properties or parties to the transaction and do not therefore consider that any conflict arises in preparing the advice requested.

#### **1.6 Bases of valuations**

Our opinion of the Market Value of each of the Properties has been primarily derived using comparable recent market transactions on arm's length terms.

In accordance with your instructions, we have undertaken our valuations on the following bases: -

- a. Estimated Rental Value
- b. Market Value

We have set out the definitions of the above bases of valuation in appendix B.

In addition you have requested that we provide additional valuations on the following bases: -

- a. Market Value assuming vacant possession throughout
- b. Market Rent

In preparing our valuations on these bases it is necessary for us to prepare valuations on a Special Assumption. A Special Assumption is referred to in the Glossary in the Red Book as an Assumption that either:

- Requires the valuation to be based on facts that differ materially from those that exist at the date of valuation; or
- Is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances.

In the circumstances of this instruction, we consider the above Special Assumption(s) may be regarded as realistic, relevant and valid.

Our valuations are subject to our standard valuation terms, conditions and Assumptions, which are included in Appendix C. In the event that any of our Assumptions prove to be incorrect then our valuations should be reviewed.

## 1.7 Equivalent yields

There are references in this report to both NEY (Ann in arr) and TEY (Qly in adv). These terms are defined as follows: -

NEY (Ann in arr) is the Nominal equivalent yield (annually in arrears). In order to calculate a NEY (Ann in arr) it is assumed that the rental is paid annually in arrears, even though this is not actually the case.

TEY (Qly in adv) is the True equivalent yield (quarterly in advance). In order to calculate a TEY the actual timing of the rental payments is reflected, so that if rent is payable quarterly in advance the term TEY (Qly in adv) is used.

## 1.8 Valuations

### 1.8.1 Estimated Rental Value

We are of the opinion that the Estimated Rental Values of the Properties, assessed in accordance with the rent review provisions in the leases, as at 10 October 2005, subject to the Assumptions and comments in this Valuation Report and the appendices, are: -

Address	Tenure	Estimated Rental Value
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£5,522,000
Skipton House, 80 London Road, Southwark	Freehold	£4,904,000
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£4,668,000
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£3,977,000
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£4,680,000
<b>Totals</b>		<b>£23,751,000</b>

### 1.8.2 Market Value

We are of the opinion that the Market Values of the 2 freehold and 3 leasehold interests in the Properties described in detail in the following report sections subject to the existing tenancies, as at 10 October 2005, subject to the Assumptions and comments in this Valuation Report and the Appendices, are: -

Address	Tenure	Market Value	Net Initial Yield	True Equivalent Yield (QTR) (Ann in Adv)	Nominal Equivalent Yield (NEY) (Ann in Arr)
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£86,000,000 (Eighty Six Million Pounds)	5.71%	5.81%	5.60%
Skipton House, 80 London Road, Southwark	Freehold	£82,250,000 (Eighty Two Million, Two Hundred and Fifty Thousand Pounds)	5.18%	6.12%	5.89%
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£87,000,000 (Eighty Seven Million Pounds)	5.14%	6.09%	5.85%
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£75,500,000 (Seventy Five Million Five Hundred Thousand Pounds)	5.21%	5.22%	5.05%
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£76,500,000 (Seventy Six Million Five Hundred Thousand Pounds)	6.91%	6.91%	6.60%
<b>Totals</b>		<b>£407,250,000 (Four Hundred and Seven Million Pounds)</b>	<b>5.62%</b>	<b>6%</b>	<b>5.78%</b>

## 1.9 Valuations undertaken based on “special assumptions”

The valuations detailed below should be considered in the context of our comments under paragraph 1.2.

### 1.9.1 Market Value assuming vacant possession throughout

We are of the opinion that the Market Value of the 2 freehold and 3 leaseholds interests in the Properties, on the “special assumption” that vacant possession is available throughout, as at 10 October 2005, subject to the assumptions and comments in this Report and the Appendices are: -

<b>Address</b>	<b>Tenure</b>	<b>Market Value Assuming Vacant Possession Throughout</b>
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£67,000,000 (Sixty Seven Million Pounds)
Skipton House, 80 London Road, Southwark	Freehold	£70,500,000 (Seventy Million Five Hundred Thousand Pounds)
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£71,000,000 (Seventy One Million Pounds)
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£59,500,000 (Fifty Nine Million Five Hundred Thousand Pounds)
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£63,000,000 (Sixty Three Million Pounds)
<b>Totals</b>		<b>£331,000,000</b>

### 1.9.2 Market Rent

We are of the opinion that the Market Rent based on the “special assumption” the Properties are vacant, as at 10 October 2005, subject to the assumptions and comments in this Report and the Appendices are: -

<b>Address</b>	<b>Tenure</b>	<b>Market Rent</b>
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£5,832,000
Skipton House, 80 London Road, Southwark	Freehold	£4,903,500
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£4,669,000
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£4,014,500
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£4,680,000
<b>Totals</b>		<b>£24,099,000</b>

We have assessed Market Rent in accordance with Practice Statement 3.4. Under these provisions the term “Market Rent” means ‘The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.’

Alternatively the Estimated Rental Value is defined as the rent that will be achievable, based on comparable evidence, as if the property were let at the date of valuation on the current lease terms, having regard to any detailed rent review provisions creating a hypothetical rent at rent review, and excluding any ‘upwards only’ rent review provisions within the lease.



## **1.10 Confidentiality and disclosure**

The contents of this Valuation Report and its appendices are confidential to the parties to whom they are addressed, are for their use only and for the specific purpose of the Transaction. In respect of any unnamed party which may become involved in any offer or circular at some future date who are not specifically identified by name, no reliance may be placed on this Report and its appendices until such time as the identities of all such parties are notified to us in writing and it is further confirmed in writing that all such parties have seen the entirety of this Valuation Report and the letter of instruction. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of their contents.

Before this Valuation Report, or any part thereof, is reproduced or referred to, in any document, circular or statement, and before its contents, or any part thereof, are disclosed orally or otherwise to a third party, the valuer's written approval as to the form and context of such publication or disclosure must first be obtained. Such publication or disclosure will not be permitted unless, where relevant, it incorporates adequate reference to the Special Assumptions referred to herein. For the avoidance of doubt such approval is required whether or not DTZ Debenham Tie Leung Limited are referred to by name and whether or not the contents of our report are combined with others.

Yours faithfully

**PAUL WOLFENDEN**  
**CHARTERED SURVEYOR**  
**DIRECTOR**  
FOR AND ON BEHALF OF  
DTZ DEBENHAM TIE LEUNG

## LONDON & REGIONAL

The London Regional Group of companies (**L&R Group**) has grown rapidly and is now one of the UK's largest and most active private company developers. The group operates in four main areas: commercial property development; long-term property investment; corporate and public sector outsourcing – financed private and public sector accommodation; and hotels.

The L&R Group is one of the most active developers in the UK market. Current projects range from building major business parks, shopping centres, hotels and leisure complexes to refurbishing existing office and retail space.

The L&R Group also holds a substantial portfolio of prime investment properties, such that the UK portfolio is now valued in the region of £2bn. The outsourcing team has closed seven PFI deals in the last seven years. The L&R Group owns 26 hotels with over 3,700 rooms, including three central London hotels for Hilton (most notably the Park Lane Hilton and the Trafalgar, the latter was constructed by L&R). In Europe (excluding Scandinavia), the L&R Group has acquired the Hilton hotel in Frankfurt, and most recently a portfolio of 271 properties let to ATU, Germany's largest motor service company. The latter has been valued at €710m.

The L&R Group has been active in the UK corporate outsourcing market, with the largest deal to date being the Woolworths' sale and leaseback. Other sale and leaseback deals in the last five years include an acquisition of 17 leisure units from First Leisure, the acquisition of 180 Shell Petrol stations under the terms of a highly innovative sale and leaseback structure (this is currently being marketed, with offers anticipated to be in the region of £425m), and three portfolios of IBIS branded hotels from Accor. The L&R Group has also acquired a pub portfolio from The Laurel Pub Company, as well as four portfolios in northern Europe. This investment activity highlights the group's strong position in the sale and leaseback market.

The L&R Group has set up an office in Stockholm to target the northern European market, and now has a property portfolio valued in the region of €1.3bn. The portfolio includes seven office buildings let to the Government of Sweden and let to SEB, a company owning a portfolio of hotels, a portfolio of offices/industrial let to ABB and third party tenants servicing the technology industry, and 14 distribution units let to ICA, the largest regional food retailer. In addition to these core property assets, the L&R Group also owns one of the largest regional leasing businesses and Holiday Club in Finland a time share business.

The L&R Group has also been active in the more traditional investment market, acquiring the ownership of the JP Morgan Headquarter building on Victoria Embankment (c 390,000 sq. ft.), as well as several smaller ticket properties.

Amongst its current development projects, the L&R Group has entered into a Development Agreement with Guinness to construct a £450m business park in North West London comprising nine headquarters offices buildings totalling 125,000 sq. m. The first building of 18,800 sq. m. was let to Guinness (which is included in this portfolio) and has won a number of design awards. Other major lettings are in negotiation. This will be the largest business park development in London. Other properties in the portfolio being the subject of the securitization which were developed by the Group include the 25,000 sq. m. refurbishment of 68 King William Street in London (providing a new department store for House of Fraser and Regus serviced offices), and the refurbishment of St Georges Court, Oxford St, to provide 20,000 sq. m. of office accommodation for the Ministry of Defence, as well as H. M. Revenue and Customs office building in Manchester, which was the first office building to be built under the PFI procurement process.

## PROVISIONS RELATING TO NOTES WHILST IN GLOBAL FORM

Each Class of Notes will initially be in the form of a Temporary Global Note (without Coupons or Talons) which will be deposited on behalf of the subscribers of the Notes on or around the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit the account of each Noteholder with the principal amount of Notes for which it has subscribed and paid. Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note (without Coupons or Talons) of the same Class on a date not earlier than 40 days after the Closing Date (the **Exchange Date**) upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Notes unless exchange for interests in the relevant Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for Notes in definitive form (**Definitive Notes**) in the denomination of £50,000 each at the request of the bearer of the relevant Permanent Global Note against presentation and surrender of such Permanent Global Note to the Principal Paying Agent if either of the following events (each, an **Exchange Event**) occurs: (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announce an intention permanently to cease business or in fact do so and no alternative clearing system satisfactory to the Note Trustee is available or (b) by reason of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date, the Issuer or any Paying Agent is, or will on the next Interest Payment Date be, required to make any withholding or deduction from any payment in respect of the Notes for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any United Kingdom Tax Authority (other than by reason of the relevant holder having some connection with the United Kingdom, other than the holding of the Notes or the related Coupons) or the Issuer suffers or will suffer any other disadvantage as a result of such change, which withholding or deduction would not be required or other disadvantage would not be suffered (as the case may be) if the Notes were in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Note Trustee.

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the Principal Amount Outstanding of the relevant Permanent Global Note to the bearer of such Permanent Global Note against the surrender of such Permanent Global Note at the Specified Office of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

For so long as the Notes of a Class are represented by one or both Global Notes in respect of that Class, 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 such Notes (an **Accountholder**) as the holder of such principal amount of such Notes, 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 error (including for the purposes of any quorum 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 Trust Deed. The expressions Noteholders and holder of Notes and related expressions shall be construed accordingly.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of each Temporary Global Note and each Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Note or (as the case may be) the relevant Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

*Notices:* Notwithstanding **Condition 17**, while all the Notes are represented by Permanent Global Notes (or by Permanent Global Notes and/or Temporary Global Notes) and the Permanent Global Notes (or each Permanent Global Note and/or each Temporary Global Note) are deposited with a common depository for Euroclear and Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg rather than by publication in accordance with **Condition 17**, provided that for so long as the Notes are listed on the Stock Exchange the rules of the Stock Exchange so permit. Such notices shall be deemed to have been given to the Noteholders in accordance with **Condition 17** on the date of delivery to Euroclear and Clearstream, Luxembourg.

*Meetings:* The holder of a Global Note will be deemed to be two persons for the purpose of forming a quorum at a meeting of Noteholders.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions (the **Conditions** and any reference to a **Condition** shall be construed accordingly) of the Notes in the form (subject to amendment) in which they will be set out in the Trust Deed.*

The £207,700,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2014 (the **Class A Notes**) of London & Regional Debt Securitisation No. 1 plc (the **Issuer**) and the £26,500,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2014 of the Issuer (the **Class B Notes**, together with the Class A Notes, the **Notes**), issued on 29 November 2005 (the **Closing Date**) are constituted by a trust deed dated the Closing Date (the **Trust Deed** as modified, supplemented and amended from time to time) made between the Issuer and The Bank of New York (the **Note Trustee**, which expression includes its successor or any further or other trustee under the Trust Deed as trustee for the holders for the time being of the Notes (the **Noteholders**)). Any reference to a "Class" of Notes or of Noteholders shall be a reference each of the Class A Notes and the Class B Notes, or any, or all, of their respective holders, as the case may be. The security for the Notes is created pursuant to, and on terms set out in, a deed of charge and assignment (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) dated the Closing Date and made between, *inter alios*, the Issuer and the Note Trustee. By an agency agreement dated the Closing Date and made, between, *inter alios*, the Issuer, the Note Trustee, The Bank of New York as principal paying agent (the **Principal Paying Agent** and, as agent bank (the **Agent Bank**) and AIB/BNY Fund Management (Ireland) Limited as Irish paying agent (the **Irish Paying Agent**, together with the Principal Paying Agent and any further or other paying agent, for the time being appointed in respect of the Notes, the **Paying Agents**, which expression includes any successor paying agent appointed in respect of the Notes) (the **Agency Agreement**, which expression includes such agency agreement as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes of each Class. A liquidity facility will be provided to the Issuer by Lloyds TSB Bank plc (the **Liquidity Facility Provider**) pursuant to the terms of a 364 day facility agreement to be entered into on or about the Closing Date between the Liquidity Facility Provider and the Issuer (the **Liquidity Facility Agreement**). The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement and the Issuer Deed of Charge. Copies of the Trust Deed, the Agency Agreement, the Issuer Deed of Charge and the other Issuer Transaction Documents (as defined below) are available for inspection by the Noteholders at the principal office for the time being of the Note Trustee, being at the date hereof at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL and at the specified offices of the Paying Agents. The Noteholders and the holders for the time being of the Coupons (the **Couponholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Issuer Deed of Charge, the Agency Agreement and the other Issuer Transaction Documents.

### 1. DEFINITIONS

In these Conditions, the following defined terms have the meanings set out below:

**A1 Facility** means the advance representing the proceeds of the Class A Notes made by the Issuer to the Borrower under the Issuer/Borrower Loan Agreement on or about the Closing Date;

**A2 Facility** means the advance representing the proceeds of the Class B Notes made by the Issuer to the Borrower under the Issuer/Borrower Loan Agreement on or about the Closing Date;

**Account Bank** means The Bank of New York, acting through its office at 48<sup>th</sup> Floor, One Canada Square, London E14 5AL, in its capacity as account bank or such other entity appointed as account

bank from time to time, subject to and in accordance with the terms of the Account Bank Agreement;

**Account Bank Agreement** means the account bank agreement entered into on or about the Closing Date between the Issuer, the Propcos, the Borrower, the Cash Manager, the Note Trustee, the Borrower Security Trustee and the Account Bank;

**Basic Terms Modification** means (i) a modification of the date of maturity of the Notes or either Class thereof or (ii) a modification which would have the effect of postponing any day for payment of interest thereon, modifying the amount of principal or the rate of interest payable in respect of the Notes or either Class thereof, altering the currency of payment of the Notes or either Class thereof, altering the quorum or majority required in relation to an Extraordinary Resolution, altering the nature of the Issuer Security or altering the Pre-Enforcement Priority of Payments or the Post-Acceleration Priority of Payments or to amend this definition;

**B Lender** means the third party investor, being a United Kingdom based financial institution, which has entered into the B Loan Agreement with the Borrower;

**B Loan Agreement** means the loan agreement dated on or about the Closing Date between, *inter alios*, the Borrower, the Propcos and the B Lender;

**Borrower** means London & Regional Offices Finance Limited, a private limited liability company incorporated in England and Wales with registered number 03760586;

**Borrower Secured Creditors** means the secured parties under the Deed of Charge, namely: (a) the Borrower Security Trustee and any agent or appointee thereof, (b) the Issuer, (c) the Cash Manager (in its capacity as cash manager to the Borrower), (d) the Account Bank (in its capacity as account bank to the Borrower), (e) the Swap Counterparty, (f) any Receiver appointed under the Deed of Charge, (g) the B Lender and (h) any other creditor who accedes to the Deed of Charge from time to time in accordance with its terms and is designated a Borrower Secured Creditor;

**Borrower Security Documents** means the Deed of Charge, the Mortgage of Shares and any document entered into pursuant to or in accordance with the Deed of Charge;

**Borrower Security Trustee** means The Bank of New York or such other entity or entities appointed as security trustee for the Borrower Secured Creditors from time to time, subject to and in accordance with the terms of the Deed of Charge;

**Borrower Transaction Documents** means (a) Finance Documents, (b) the Intra-Group Loan Agreement, (c) the Cash Management Agreement, (d) the Account Bank Agreement, (e) the Intra-Group Subordinated Loan Agreement, (f) the Property Management Agreement, (g) the Swap Agreement and (h) any other document designated as such from time to time by the Borrower and the Borrower Security Trustee, and **Borrower Transaction Document** means all or any of them;

**Business Day** means a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for general business and settle payments in London except in the case of **Condition 8.6** (Payment) when it shall mean a day on which commercial banks settle payments and are open for general business in the place where any Coupon or Note is presented for payment and in London;

**Cash Management Agreement** means a cash management agreement dated on or about the Closing Date between, *inter alios*, the Issuer, the Borrower, the Propcos, the Cash Manager, the Note Trustee and the Borrower Security Trustee;

**Cash Manager** means The Bank of New York or such other entity appointed as cash manager of the Issuer, the Borrower and the Propcos from time to time in accordance with the terms of the Cash Management Agreement;

**Class A Coupons** means the interest coupons related to the Class A Definitive Notes and for the time being outstanding, or as the context may require, a specific number of such coupons;

**Class A Definitive Notes** means any Class A Notes issued in definitive form in accordance with the Trust Deed;

**Class A Noteholders** means the holders of the Class A Notes;

**Class B Coupons** means the interest coupons related to the Class B Definitive Notes and for the time being outstanding, or as the context may require, a specific number of such coupons;

**Class B Definitive Notes** means any Class B Notes issued in definitive form in accordance with the Trust Deed;

**Class B Noteholders** means the holders of the Class B Notes;

**Coupons** means the Class A Coupons and the Class B Coupons;

**Day Count Fraction** means in respect of an Interest Period, the actual number of days in such period divided by (a) before the Redenomination Date, 365 and (b) after the Redenomination Date (if any) 360;

**Deed of Charge** means the deed of charge dated on or about the Closing Date and made between, *inter alios*, the Borrower, the Issuer, the Propcos, the Borrower Security Trustee and the other Borrower Secured Creditors;

**Deferred Interest** has the meaning given in **Condition 5.8** (Deferral of Payment);

**Definitive Notes** means either Class of Notes issued in definitive bearer form;

**Eligible Bank** means an authorised institution under the Financial Services and Markets Act 2000 (as amended from time to time);

**Eligible Investments** means:

- (a) sterling gilt-edged securities; and
- (b) sterling demand or time deposits, certificates of deposit and short term debt obligations (including commercial paper) (which may include deposits in any account which earns a rate of interest related to LIBOR), provided that in all cases (i) such investments have a maturity date falling no later than the next following Interest Payment Date and (ii) the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an Eligible Bank) are rated at least equal to A-1+ by S&P and F1 by Fitch or such other credit ratings as may be approved by the Rating Agencies from time to time;

**EMU** means European Economic and Monetary Union;

**EU** means the European Union;

**Euro** means the single currency introduced on 1 January 1999 at the start of the third stage of EMU pursuant to the Treaty;

**Euro Exchange Date** means, where the Notes have been issued in definitive form, the date on which all unmatured Coupons denominated in sterling (whether or not attached to the Notes) will become void;

**Euro Exchange Notice** means the notice given by the Issuer to the Noteholders and the Note Trustee that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect of the original Notes and Coupons;

**Extraordinary Resolution** means a resolution passed at a Meeting duly convened and held in accordance with the Trust Deed by not less than three quarters of the votes cast;

**Fitch** means Fitch Ratings Ltd, and any successor to its ratings business;

**Floating Rate** means the rates of interest payable from time to time in respect of the Class A Notes and the Class B Notes;

**Interest Amount** means:

- (a) in respect of a Note for any Interest Period, the aggregate amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date next following such Interest Determination Date by the relevant Floating Rate and multiplying the amount so calculated by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Denomination; and
- (b) in relation to a Class for any Interest Period, the aggregate amount calculated in accordance with paragraph (a) above, in respect of such Class for such Interest Period;

**Interest Determination Date** means:

- (a) prior to the Redenomination Date (if any), each Interest Payment Date or, in the case of the first Interest Period, the Closing Date; and
- (b) on or after the Redenomination Date (if any), each day which is two Business Days prior to an Interest Payment Date,

and, in relation to an Interest Period, the **related Interest Determination Date** means, on or prior to the Redenomination Date (if any), the Interest Determination Date which falls on the first day of such Interest Period and, after the Redenomination Date (if any), the Interest Determination Date immediately preceding the commencement of such Interest Period;

**Interest Payment Date** means 15 January, 15 April, 15 July and 15 October in each year, subject to the adjustments provided in **Condition 5.2** (Interest – Interest Payment Dates and Interest Periods), with the first Interest Payment Date being the Interest Payment Date falling in January 2006;

**Interest Period** means the period from (and including) an Interest Payment Date or, in respect of the payment of the first Interest Amounts the Closing Date, to (but excluding) the next following (or first) Interest Payment Date;



**Intra-Group Loan Agreement** means the intra-group loan agreement dated on or about the Closing Date between, *inter alios*, the Propcos, the Borrower and the Borrower Security Trustee;

**Issuer Accounts** means the Issuer Transaction Account and any other account opened by the Issuer in accordance with the terms of the Account Bank Agreement;

**Issuer/Borrower Loan** means the aggregate amount of the A1 Facility and the A2 Facility advanced by the Issuer to the Borrower under the Issuer/Borrower Loan Agreement;

**Issuer/Borrower Loan Agreement** means the loan agreement entered into on or about the Closing Date between, *inter alios*, the Issuer, the Obligors and the Borrower Security Trustee;

**Issuer Secured Creditors** means: (a) the Note Trustee and any agent or other appointee thereof, (b) the Noteholders and the Couponholders, (c) the Liquidity Facility Provider, (d) the Cash Manager (in its capacity as cash manager to the Issuer), (e) the Account Bank (in its capacity as account bank to the Issuer), (f) the Agent Bank, (g) the Paying Agents, (h) any receiver appointed under the Issuer Deed of Charge and (i) any other creditor who accedes to the Issuer Deed of Charge from time to time in accordance with its terms and is designated an Issuer Secured Creditor;

**Issuer Security** means the Security Interests created by the Issuer in favour of the Note Trustee (for itself and for and on behalf of the Noteholders and the other Issuer Secured Creditors) by or pursuant to the Issuer Deed of Charge;

**Issuer Transaction Account** means an account known as the "London & Regional Debt Securitisation No. 1 plc Transaction Account", held in the name of the Issuer and maintained by the Account Bank pursuant to the terms of the Account Bank Agreement, or such other account as may be opened, with the consent of the Note Trustee, with the Account Bank or at an Eligible Bank in replacement of such account;

**Issuer Transaction Documents** means the: (a) Trust Deed, (b) the Issuer Deed of Charge, (c) the Issuer/Borrower Loan Agreement, (d) the Liquidity Facility Agreement, (e) the Cash Management Agreement, (f) the Agency Agreement, (g) the Account Bank Agreement and (h) any other document designated as such from time to time by the Issuer, the Borrower, the Borrower Security Trustee and the Note Trustee, and **Issuer Transaction Document** means each or any of them;

**L&R Parent** means London and Regional Group Finance Limited, a private limited company incorporated in England and Wales with registered number 04312421;

**Lead Manager** means Morgan Stanley & Co. International Limited;

**LIBOR Screen Rate** has the meaning given to it in **Condition 5.4(a)** (Interest – Determination of LIBOR);

**Loan Acceleration Notice** means the notice delivered by the Borrower Security Trustee pursuant to **Clause 19.17** (Acceleration) of the Issuer/Borrower Loan Agreement;

**Meeting** means a meeting of Noteholders of either Class (whether originally convened or resumed following an adjournment) held in accordance with the Trust Deed;

**Minimum Denomination** means, prior to the Redenomination Date, £0.01 and, after the Redenomination Date, Euro 0.01;

**Mortgage of Shares** means the security document entered into by each Share Mortgagor pursuant to which it holds its respective interests in the Issuer, the Borrower and the relevant Propco(s), on trust for itself, the Borrower Security Trustee and the other Borrower Secured Creditors;

**Most Senior Class of Notes** means the Class A Notes for so long as there are any Class A Notes outstanding and thereafter the Class B Notes;

**Note Acceleration Notice** means a notice given by the Note Trustee to the Issuer declaring the Notes to be immediately due and repayable at any time after the happening of a Note Event of Default;

**Note Event of Default** has the meaning given to it in **Condition 11** (Events of Default);

**Obligors** means the Borrower and each Propco;

**Obligor Security** means the Security Interests created by the Obligors in favour of the Borrower Security Trustee by or pursuant to the Deed of Charge and the Mortgage of Shares;

**Participating Member State** means a Member State of the European Communities which has adopted the Euro as its lawful currency in accordance with the Treaty;

**Principal Amount Outstanding** means, in respect of a Note on any date, its original principal amount on the Closing Date less the aggregate amount of all principal payments in respect of such Note which have become due and payable and have been paid on or prior to such date;

**Propcos** means LR Skipton House Limited, a limited liability special purpose company incorporated in England and Wales with registered number 04272477; LR (First Central Phase A) Limited, a limited liability special purpose company incorporated in England and Wales with registered number 03355428; London & Regional (Manchester) Limited, a limited liability special purpose company incorporated in England and Wales with registered number 03315372; LR (Manchester) Limited, a limited liability special purpose company incorporated in England and Wales with registered number 03315357; London & Regional (King William St) Limited, a private limited liability special purpose company incorporated in England and Wales with a registered number 05495948; and London & Regional (St. Georges Court) Limited, a limited liability special purpose company incorporated in England and Wales with registered number 03355433 and each a **Propco**;

**Properties** means, at any time, an interest in any property over which the Propcos have granted a mortgage or fixed charge pursuant to the terms of the Deed of Charge and **Property** means each or any of them;

**Property Management Agreement** means a property management agreement to be entered into on or about the Closing Date between, *inter alia*, the Property Manager, each Propco and the Borrower Security Trustee;

**Property Manager** means London & Regional Properties Limited in its capacity as property manager under the Property Management Agreement or any other property manager appointed in accordance with the Issuer/Borrower Loan Agreement and the Property Management Agreement;

**Rating Agencies** means Fitch and S&P and **Rating Agency** means either of them;

**Receiver** means any receiver, manager, or administrative receiver appointed in respect of the Issuer by the Note Trustee in accordance with **Clause 8** (*Receiver*) of the Issuer Deed of Charge;

**Redenomination Date** means the Interest Payment Date falling on or after the Euro Commencement Date on which the Issuer intends to redenominate the currency of any of the Notes into Euro (if any);

**Reference Banks** means the four major reference banks in the London interbank market, selected by the Principal Paying Agent under the Notes;

**relevant date** has the meaning given to it in **Condition 10** (Prescription);

**Relevant Margin** means:

(a) in respect of the Class A Notes, 0.21 per cent. per annum; and

(b) in respect of the Class B Notes, 0.32 per cent. per annum;

**S&P** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. and any successor to its rating business;

**Security Interest** means any mortgage, charge, pledge, lien, assignment or security interest or any other agreement or arrangement having a similar effect;

**Share Mortgagor** means London & Regional PFI Projects Holdings Limited, London and Regional Commercial Properties Holdings Limited and the L&R Parent or any other person who owns or acquires a Propco;

**Stand-By-Account** means an account of the Issuer opened in accordance with the Liquidity Facility Agreement;

**Stock Exchange** means the Irish Stock Exchange Limited;

**Subscription Agreement** means the subscription agreement entered into on or about the Closing Date between, *inter alios*, the Issuer, the Lead Manager and the Obligors;

**Swap Agreement** means the agreement so named dated on or about the Closing Date and made between the Borrower and the Swap Counterparty;

**Swap Counterparty** means Morgan Stanley & Co. International Limited, in its capacity as swap counterparty or such other entity appointed as swap counterparty from time to time, subject to and in accordance with the terms of the Swap Agreement and the Issuer/Borrower Loan Agreement;

**Talon** and **Talons** means the talons for further Coupons attached to the Definitive Notes on issue;

**TARGET System** means the Trans-European Automated Real-time Gross Settlement Express Transfer system or any successor or replacement systems;

**Tax** means any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of a Tax Authority and **Taxes, taxation, taxable** and comparable expressions shall be construed accordingly;

**Tax Authority** means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including H.M. Revenue and Customs and any successor thereto);

**Tax Deed of Covenant** means the deed of covenant relating to tax matters entered into on or about the Closing Date between, *inter alios*, the Issuer and the Obligors;

**Transaction Documents** means the Issuer Transaction Documents and the Borrower Transaction Documents;

**Treaty** means the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam;

**Trust Documents** means the Trust Deed and the Issuer Deed of Charge (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Issuer Deed of Charge and expressed to be supplemental to the Trust Deed or the Issuer Deed of Charge (as applicable); and

**VAT** means value added tax as imposed by the Value Added Tax Act 1994 and any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere from time to time.

## **2. FORM, DENOMINATION AND TITLE**

### **2.1 Form**

The Notes are in bearer form in the denomination of £50,000 with, Coupons and Talons for further Coupons attached at the time of issue. Title to the Notes, the Coupons and the Talons will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

### **2.2 Trading in differing nominal amounts**

- (a) For so long as the Notes of either Class are represented by a Global Note, and the rules of Euroclear and Clearstream, Luxembourg so permit, the Notes of that Class will be tradeable in the minimum nominal amount of £50,000 and integral multiples of £1,000 in excess thereof.
- (b) If Definitive Notes for that Class of Notes are required to be issued and printed, any Noteholder holding Notes having a nominal amount which cannot be represented by a Definitive Note in the denomination of £50,000 will not be entitled to receive a Definitive Note in respect of such Notes and will not therefore be able to receive principal or interest in respect of such Notes.
- (c) At any meeting of Noteholders of either Class while the Notes of that Class are represented by a Global Note:
  - (i) any vote cast will be valid only if it is in respect of not less than £50,000 in nominal amount; and
  - (ii) any such holding will be counted for the purposes of determining whether or not a meeting is quorate only to the extent that it is in respect of not less than £50,000 in nominal amount.

### 3. STATUS, SECURITY AND PRIORITY

#### 3.1 Status and relationship between the Notes

- (a) The Class A Notes and the Coupons and Talons relating thereto constitute direct, secured and unconditional obligations of the Issuer and are secured by the Issuer Security (as defined below). The Class A Notes rank *pari passu* without preference or priority amongst themselves and prior to and following enforcement of the Issuer Security, payments of principal and interest on the Class A Notes rank ahead of, *inter alia*, payments of principal and interest on the Class B Notes, subject to **Conditions 7.2** (Redemption and Cancellation – Redemption for Taxation or Other Reasons) and **7.3** (Redemption and Cancellation – Mandatory Redemption).
- (b) The Class B Notes and Coupons and Talons relating thereto constitute direct, secured and (subject as provided herein) unconditional obligations of the Issuer and are secured by the Issuer Security. The Class B Notes rank *pari passu* without preference or priority amongst themselves and prior to and following enforcement of the Issuer Security, payments of principal and interest on the Class B Notes are subordinated to, *inter alia*, payments of principal and interest on the Class A Notes, subject to **Conditions 7.2** (Redemption and Cancellation – Redemption for Taxation or Other Reasons) and **7.3** (Redemption and Cancellation – Mandatory Redemption).
- (c) The Trust Deed and the Issuer Deed of Charge contain provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders and the Class B Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise and in relation to any consent, approval, modification, waiver authorisation or determination pursuant to **Conditions 14.1, 14.2 and 14.3** and **Clause 17** of the Trust Deed), but requiring the Note Trustee in any such case (except in relation to the enforcement of the security pursuant to the Issuer Deed of Charge as referred to in **Condition 3.2**, below) to have regard only to 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.

So long as any of the Notes remains outstanding, the Note Trustee is not required to have regard to the interests of any persons (other than the Noteholders) entitled to the benefit of the security constituted by the Issuer Deed of Charge or any other person.

- (d) In the event of an issue of Further Notes (as defined in **Condition 20.1** (Further Notes)), Replacement Notes (as defined in **Condition 20.2** (Replacement Notes)) or New Notes (as defined in **Condition 20.3** (New Notes)), the provisions of these Conditions, the Trust Deed, the Issuer Deed of Charge and the other Transaction Documents, including (in the case of Replacement Notes or New Notes) those concerning:
  - (i) the basis on which the Note Trustee will be required to exercise its rights, powers, trusts, authorities, duties and discretions (including in circumstances where, in the opinion of the Note Trustee, there is a conflict between the interests of any Class of the Noteholders and the holders of such Replacement Notes or New Notes);
  - (ii) the circumstances in which the Note Trustee will become bound to take action, as referred to in **Condition 11** (Events of Default);
  - (iii) meetings of Noteholders and the passing of effective Extraordinary Resolutions; and

- (iv) the order of priority of payments both prior to, and upon, enforcement of the Security constituted by the Issuer Deed of Charge

will be modified in such manner as the Note Trustee considers necessary to reflect the issue of such Further Notes, Replacement Notes or, as the case may be, New Notes and any new Transaction Documents entered into in connection with such Further Notes, Replacement Notes or, as the case may be, New Notes and the ranking thereof and of the claims of any party to any of such new Transaction Documents in relation to each Class of the Notes.

### **3.2 Security**

The Notes are subject to the Issuer Deed of Charge and the Deed of Charge pursuant to which the claims and exercise of rights of the Noteholders against the Issuer and of the Issuer against the Borrower in respect of the Issuer/Borrower Loan Agreement and the claims of the Borrower against the Propcos are regulated.

Subject to the terms of the Issuer Deed of Charge and the Deed of Charge, the Note Trustee (as assignee of the rights of the Issuer under the Issuer Transaction Documents) has the exclusive right, power and authority to direct, or to refrain from directing, the Borrower Security Trustee to exercise its rights to enforce the Deed of Charge, the Issuer/Borrower Loan Agreement and the Intra-Group Loan Agreement following the service of a Loan Acceleration Notice and in the exercise of certain other of its rights in respect of the Issuer/Borrower Loan Agreement, Intra-Group Loan Agreement and the other Borrower Transaction Documents against the Obligors all as more particularly described in the Issuer Deed of Charge and the Deed of Charge.

As continuing security for the payment of all monies payable in respect of the Notes and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of 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:

- (a) an assignment by way of first fixed security of the Issuer's right, title, interest and benefit, present and future, in, to and under the Issuer Transaction Documents other than the Trust Deed and the Issuer Deed of Charge;
- (b) a first fixed charge over the Issuer's right, title, interest and benefit, present and future, in and to all amounts in the Issuer Accounts;
- (c) a first fixed charge over its interests in any Eligible Investments permitted to be made by the Issuer pursuant to the Cash Management Agreement; and
- (d) a first ranking floating charge over all and the whole of its undertaking not effectively charged or assigned as fixed security pursuant to (a) – (c) (inclusive) above, all as more particularly set out in the Issuer Deed of Charge.

### **3.3 Enforcement of the Issuer Security**

The Issuer Security will become enforceable upon the Note Trustee giving a Note Acceleration Notice 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 Most Senior Class of Notes then outstanding, the Note Trustee will not be entitled to dispose of the assets comprising the Issuer Security or any part thereof unless (a) a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders and the Couponholders and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes or (b) the Note

Trustee is of the opinion, which shall be binding on the Noteholders, the Couponholders and the other Issuer Secured Creditors, reached after considering at any time and from time to time the advice of such professional advisers as are selected by the Note Trustee upon which the Note Trustee shall be entitled to rely (provided that if the Note Trustee is unable to obtain such advice having made reasonable efforts to do so this **Condition 3.3(b)** (Status, Security and Priority – Enforcement of the Issuer Security) shall not apply), 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 relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and the Couponholders and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes or (c) the Note Trustee considers, in its sole discretion, that not to effect such disposal would place the Issuer Security in jeopardy. In respect of all powers, trusts, authorities, duties and discretions of the Note Trustee in relation to the enforcement of the security pursuant to the Issuer Deed of Charge (except where expressly provided otherwise), the Note Trustee will be obliged to consider the interests of both Classes of Noteholders (notwithstanding **Condition 3.1** (Status and relationship between the Notes) and (save as specified below) so long as any of the Notes are outstanding, the Note Trustee shall, as regards all powers, trusts, duties and discretions of the Note Trustee (except where expressly provided otherwise), have no regard to the interests of, and will be relieved of all duties and liabilities to the Issuer Secured Creditors (other than the Noteholders) provided that the Note Trustee shall not be bound to make any determination contained in this **Condition 3.3** (Status, Security and Priority – Enforcement of the Issuer Security) unless the Note Trustee has been indemnified and/or secured to its satisfaction.

#### 4. COVENANTS

##### 4.1 Restrictions

Save with the prior written consent of the Note Trustee or unless otherwise provided in or envisaged by these Conditions or the Issuer Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

(a) Negative Pledge

create or permit to subsist any mortgage, sub-mortgage, charge, sub-charge, pledge, lien (unless arising by operation of law) or other security interest whatsoever over any of its assets, property or undertakings, present or future (including any uncalled capital) or any interest, estate, right, title or benefit therein or use, invest or dispose of, including by way of sale or the grant of any security interest of whatsoever nature or otherwise deal with, or agree or attempt or purport to sell or otherwise dispose of or grant any option or right to acquire any such assets, property or undertakings present or future;

(b) Restrictions on Activities

- (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities which the Issuer Transaction Documents provide or envisage that the Issuer will engage in;
- (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985) or any employees or premises;
- (iii) amend, supplement or otherwise modify its Memorandum and Articles of Association or the Issuer Transaction Documents; or
- (iv) issue any further shares;

(c) Disposal of Assets

transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire, any of its assets (including any uncalled capital) or undertakings or any interest, estate, right, title or benefit therein, present or future, or the assets subject to the Issuer Security;

(d) Dividends or Distributions

pay any dividend or make any other distribution to its shareholders or issue any further shares, other than in accordance with the Cash Management Agreement and the Issuer Deed of Charge;

(e) Borrowings

incur or permit to subsist any indebtedness in respect of borrowed money whatsoever, except in respect of the Notes or give any guarantee or indemnity in respect of any indebtedness or of any obligation of any person;

(f) Merger

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

(g) Other

permit the validity or effectiveness of any of the Issuer Transaction Documents, or the priority of the Security Interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise, any powers of consent or waiver pursuant to the terms of, the Trust Deed, these Conditions, the Issuer Deed of Charge or any of the other Issuer Transaction Documents, or permit any party to any of the Issuer Transaction Documents or any person whose obligations form part of the Issuer Security to be released from such obligations, or dispose of any part of the Issuer Security, save as envisaged in the Issuer Transaction Documents;

(h) VAT

be or apply to form or become part of any group of companies for VAT purposes (including any group of companies for the purposes of sections 43 to 43D (inclusive) of the Value Added Tax Act 1994) with any other company or group of companies unless required to do so by applicable law or regulations;

(i) Bank accounts

have an interest in any bank account other than the Issuer Transaction Account or the Stand-by Account, unless such account or interest therein is charged to the Note Trustee on terms acceptable to it;

(j) Surrender of group relief

offer or consent to surrender to any company any amounts which are available:

(i) for surrender by way of group relief under Chapter IV of Part X of the Income and Corporation Taxes Act 1988; or

(ii) to be treated pursuant to section 102 Finance Act 1989 as amounts of United Kingdom corporation tax or interest paid by another company,



save as provided in the Tax Deed of Covenant;

(k) Residence

do any act or thing, the effect of which would be to make the Issuer resident for Tax purposes in any jurisdiction other than the United Kingdom or its "centre of main interests" (within the meaning of Council Regulation (EC) no. 1346/2000 on insolvency proceedings) to be in any jurisdiction other than England and Wales;

(l) Group Payment Arrangements

enter into arrangements with any other company or companies and/or any Tax Authority providing for the discharge of any other company's Tax liability by it;

(m) UK withholding tax

do any act or thing, or fail to do any act or thing, the effect of which would be that an amount for or on account of any Taxes imposed, levied, collected or assessed by or on behalf of any United Kingdom Tax Authority would be required to be withheld or deducted from any payment due to the Issuer under the Issuer/Borrower Loan Agreement; or

(n) Notional transfers of capital assets

enter into an election or other arrangements with any company and/or any Tax Authority for the deemed transfer to the Issuer and/or deemed disposal by the Issuer of any asset or part of an asset for the purposes of United Kingdom corporation tax on chargeable gains.

In giving any consent to the foregoing, the Note Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Issuer 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 each of the Rating Agencies then rating the Notes confirm in writing to the Note Trustee that such modifications or additions do not cause any downgrade in the then current ratings of either Class of the Notes assigned by such Rating Agency.

## 4.2 Cash Manager and Agent Bank

So long as any of the Notes remain outstanding, the Issuer will procure that there will at all times be a cash manager in respect of the monies from time to time standing to the credit of the Issuer Accounts and an agent bank. Any appointment of a cash manager or agent bank (other than the initial Cash Manager or the initial Agent Bank) is subject to the prior written approval of the Note Trustee and the Borrower Security Trustee. The Cash Manager and the Agent Bank will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Note Trustee and the Borrower Security Trustee.

## 5. INTEREST

### 5.1 Period of Accrual

The Notes bear interest on their 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 and including 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 or default is otherwise made in respect of the payment. In such event, interest will

continue to accrue thereon (as well after as before any judgment or decree) 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 seventh day after notice is duly given to the holder thereof (either in accordance with **Condition 17** (Notices to Noteholders) or individually) that, upon presentation thereof being duly made, such payment will be made, provided that upon presentation thereof being duly made, payment is in fact made.

## **5.2 Interest Payment Dates and Interest Periods**

Interest on the Notes is payable quarterly, other than in respect of the first Interest Period, in arrear on each Interest Payment Date 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) in respect of the Interest Period ending immediately prior thereto.

## **5.3 Rates of Interest**

The Floating Rate will be determined by the Agent Bank as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date.

The Floating Rates applicable to the Class A Notes and the Class B Notes for any Interest Period shall be the aggregate of:

- (a) the Relevant Margin; and
- (b) LIBOR;

There will be no minimum or maximum Floating Rate.

## **5.4 Determination of LIBOR**

For the purposes of determining each Floating Rate under **Condition 5.3** (Interest – Rates of Interest), LIBOR will be determined by the Agent Bank on the basis of the following provisions:

- (a) on each Interest Determination Date, the Agent Bank will determine the interest rate on sterling deposits for a period of three months (or, in respect of the first Interest Period, the rate for two month sterling deposits) quoted on the display designated as the British Bankers Association's Interest Settlement Rate as quoted on the Telerate Monitor, Telerate Screen No. 3750 (or (i) such other page as may replace Telerate Screen 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 previously approved in writing by the Note Trustee) as may replace the Telerate Monitor) (the **LIBOR Screen Rate**)) at or about 11.00 a.m. (London time) on the Interest Determination Date in question; and
- (b) if, on any Interest Determination Date, the LIBOR Screen Rate is unavailable, the Agent Bank will request each Reference Bank to provide the Agent Bank with its offered quotation to leading banks for three month sterling deposits in an amount that is representative for a single transaction in the market at that time in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Floating Rate for the relevant Interest Period shall be the arithmetic average (rounded, if necessary, to the nearest one thousandth of a percentage point, 0.0005 being rounded upwards) of the offered quotations of those Reference Banks and the Relevant Margin. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered

quotations to the Agent Bank, the Floating Rate for the relevant Interest Period 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, one only 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 purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional 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 Floating 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 not or do not provide such a quotation or quotations, then the rate of interest for the relevant Interest Period shall be the Floating Rate in effect for the last preceding Interest Period to which paragraph (a) or the foregoing provisions of this paragraph (b) shall have applied.

#### **5.5 Determination of Floating Rates and Calculation of Interest Amounts for Notes**

The Agent Bank shall, on or as soon as practicable after each Interest Determination Date but in no event later than the third Business Day thereafter, determine, and notify the Issuer, the Note Trustee, the Swap Counterparty, the Cash Manager and the Paying Agents of, (a) the Floating Rates applicable to the Class A Notes and the Class B Notes for the Interest Period beginning on and including the Interest Payment Date relating to such Interest Determination Date and (b) the Interest Amount payable in respect of such Interest Period in respect of each Class of the Notes.

#### **5.6 Publication of Floating Rates, Interest Amounts and other Notices**

As soon as practicable after receiving notification thereof and in no event later than the second Business Day thereafter, the Issuer will cause the Floating Rate and the Interest Amount applicable to each Class of Notes for each Interest Period and the immediately succeeding Interest Payment Date to be notified to the Stock Exchange (for so long as the Notes are admitted to trading on the Stock Exchange) and will cause notice thereof to be given to the Noteholders in accordance with **Condition 17** (Notices to Noteholders). The Interest Amounts and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period.

#### **5.7 Determination or Calculation by the Note Trustee**

If the Agent Bank does not at any time for any reason determine a Floating Rate for the Class A Notes or the Class B Notes and/or calculate the Interest Amount for the Notes of each Class in accordance with the foregoing Conditions, the Note Trustee may (but without any liability accruing to the Note Trustee as a result) (a) determine the Floating Rate for the Class A Notes or the Class B Notes (as the case may be) at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described above), it shall deem fair and reasonable in all the circumstances and/or (as the case may be) (b) calculate the Interest Amount for each Class of the Notes in the manner specified in these Conditions, and any such determination and/or calculation shall be deemed to have been made by the Agent Bank.

#### **5.8 Deferral of Payment**

- (a) Interest on the Notes is payable subject to, and in accordance with the order of priorities set out in the Pre-Enforcement Priority of Payments or the Post-Enforcement Priority of Payments. If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any Deferred Interest (as defined below))

and accrued interest thereon) payable in respect of the Class B Notes after having paid or provided for items of higher priority, then the Issuer shall be entitled (unless there are then no Class A Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class B Notes to the extent only of any insufficiency of funds after having paid or provided for all amounts specified as having a higher priority than interest payable in respect of the Class B Notes.

- (b) Any amount of interest (including any Deferred Interest arising on any preceding Interest Payment Date and accrued interest thereon) on the Class B Notes which is not due and payable on an Interest Payment Date as a result of the provisions of this **Condition 5.8** is the Deferred Interest arising on any such Interest Payment Date. Interest will accrue on the amount of any such **Deferred Interest** at the rate from time to time applicable to the Class B Notes and on the same basis as interest on the Class B Notes then applicable. Any Deferred Interest and accrued interest thereon is payable on the next Interest Payment Date unless and to the extent that this **Condition 5.8** applies.
- (c) As soon as practicable after becoming aware that any part of a payment of interest on the Class B Notes will be deferred or that a payment previously deferred will be made in accordance with this **Condition 5.8** the Issuer will give notice thereof to the Class B Noteholders in accordance with **Condition 17** (Notices to Noteholders). Any deferral of interest in accordance with this **Condition 5.8** will not constitute a Note Event of Default. The provisions of this **Condition 5.8** shall cease to apply on the Final Maturity Date or any earlier date on which the Notes become repayable in full or upon acceleration of the Notes pursuant to **Condition 11** (Events of Default), at which time all Deferred Interest and accrued interest thereon shall become due and payable.

## 6. NOTIFICATIONS

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of **Condition 5** (Interest), whether by the Reference Banks (or any of them) or the Agent Bank or the Note Trustee shall (in the absence of wilful default, negligence, fraud or manifest error) be binding on the Issuer, the Agent Bank, the Note Trustee, the Cash Manager, the Paying Agents, all Noteholders and Couponholders and (in such absence as aforesaid) no liability to the Issuer, the Noteholders or Couponholders shall attach to 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.

## 7. REDEMPTION AND CANCELLATION

### 7.1 Final Redemption

Unless previously redeemed in full and cancelled as provided in this **Condition 7** (Redemption and Cancellation), the Issuer shall redeem the Notes at their Principal Amount Outstanding together with accrued interest on the Interest Payment Date falling in October 2014.

Without prejudice to **Condition 11** (Events of Default), the Issuer shall not redeem the Notes in whole or in part prior to that date except as provided in **Condition 7.2** (Redemption for Taxation or Other Reasons) or **Condition 7.3** (Mandatory Redemption) or **Condition 7.4** (Optional Redemption in whole or in part).

### 7.2 Redemption for Taxation or Other Reasons

- (a) If the Issuer at any time satisfies the Note Trustee immediately prior to the giving of the notice referred to below that, on the occasion of the next Interest Payment Date, the Issuer

would either (i) become subject to tax on its income in more than one jurisdiction or the Issuer would be required to make any withholding or deduction from any payment of principal or interest in respect of any of the Notes, or the Issuer would suffer any withholding or deduction from any payment in respect of the Issuer/Borrower Loans, for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the United Kingdom or any authority thereof or therein having power to tax or (ii) by reason of a change in law, which change becomes effective on or after the Closing Date, it has become unlawful for the Issuer to make, lend or allow to remain outstanding all or any advances made or to be made by it under the Issuer/Borrower Loans Agreement, then the Issuer shall inform the Note Trustee accordingly and shall, in order to avoid the event described, use its reasonable 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 in accordance with **Condition 14.6** (Substitution of Principal Debtor).

- (b) If the Issuer is unable to arrange such a substitution which would have the result of avoiding the event described above, then the Issuer shall, having given not more than 60 nor less than ten days' notice (or in the case of paragraph (ii) above, such shorter notice period expiring on or before the latest date permitted by the relevant law) to the Noteholders in accordance with **Condition 17** (Notices to Noteholders), redeem all (but not some only) of the Notes at their respective Principal Amount Outstanding together with accrued interest on the next Interest Payment Date, provided that, prior to giving any such notice, the Issuer shall have satisfied the Note Trustee that it will have the funds, not subject to the interest of any other person, required to fulfil its obligations hereunder in respect of the Notes and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes and shall have delivered to the Note Trustee a certificate signed by two directors of the Issuer stating that the event described above will apply on the occasion of the next Interest Payment Date and cannot be avoided by the Issuer using reasonable endeavours to arrange a substitution as aforesaid and that the Issuer will have the funds referred to above; and the Note Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and it shall be conclusive and binding on the Noteholders.

### 7.3 Mandatory Redemption in whole or in part

The Borrower has the option under the Issuer/Borrower Loan Agreement to repay all or part of the Issuer/Borrower Loans on any Interest Payment Date. If the Borrower voluntarily prepays all or part of the Issuer/Borrower Loans, the Borrower will prepay the A1 Facility and the A2 Facility in the order specified at its discretion. The Borrower will be under an obligation to prepay the Issuer/Borrower Loans in the amount specified therein upon the occurrence of certain events specified in the Issuer/Borrower Loan Agreement, including following (i) the sale or other disposal of a Property or a Propco, (ii) the receipt of certain insurance proceeds and (iii) a prepayment of all or part of the Intra-Group Loans. If the Borrower is obliged to prepay all or part of the Issuer/Borrower Loans or if it elects to prepay the Issuer/Borrower Loans when certain tax payments are payable under the Issuer/Borrower Loan Agreement to the Issuer, the Borrower will prepay the A1 Facility and the A2 Facility *pro rata*. In each case, the Issuer shall, provided that it gives no more than 60 and no less than ten Business Days' notice to the Note Trustee and to the Noteholders in accordance with **Condition 17** (Notices to Noteholders), apply such prepayment to redeem *pro rata* the corresponding principal amount of the Class A Notes and the Class B Notes outstanding on such Interest Payment Date together with accrued interest.

#### **7.4 Optional Redemption in whole or in part**

The Issuer has the option to redeem all or part of the Notes or all or part of any Class of Notes on any Interest Payment Date provided that it gives not more than 60 nor less than ten Business Days' notice to the Note Trustee and to the Noteholders in accordance with **Condition 17** (Notices to Noteholders) and that prior to the publication of each notice of redemption the Issuer has provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem such Notes at their respective Principal Amount Outstanding together with accrued interest pursuant to this Condition and to discharge in full all payment obligations that rank in priority to, or *pari passu* with, the Notes under the Pre-Enforcement Priority of Payments.

#### **7.5 Notice of Redemption**

Any such notice as is referred to in **Condition 7.2** (Redemption and Cancellation – Redemption for Taxation or Other Reasons) **Condition 7.3** (Mandatory Redemption in whole or in part) or **Condition 7.4** (Optional Redemption in whole or in part) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes in the amounts specified in such notice (provided such amounts are in compliance with these Conditions).

#### **7.6 No Purchase by Issuer**

The Issuer may not purchase Notes.

#### **7.7 Cancellation**

All Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith, together with any unmatured and unused Coupons and Talons appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

### **8. PAYMENTS**

- 8.1 Payments of principal and interest will be made against presentation and surrender of the relevant Note or Coupon at the specified office of any Paying Agent. Such payment will be made in sterling at the specified office of any Paying Agent by transfer to a sterling account maintained by the payee with a bank in London. No payment with respect to any Note will be made at an office of any Paying Agent in the United States or by transfer to an account in the United States.
- 8.2 Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.
- 8.3 Upon the date upon which any Note becomes due and payable in full, unmatured Coupons appertaining thereto (whether or not attached to such Note) shall become void and no payment or, as the case may be, exchange shall be made in respect thereof. If the due date for redemption of any Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of such Note. As used herein, "unmatured" Coupons include any Talon insofar as it relates entirely to unmatured Coupons.
- 8.4 If payment of principal is improperly withheld or refused on, or in respect of, any Note or part thereof, the interest which continues to accrue in respect of such Note or part thereof in accordance with **Condition 5.1** (Interest – Period of Accrual) will be paid against presentation of such Note at the specified office of any Paying Agent.

- 8.5 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 and to appoint additional or other Paying Agents. The Issuer will at all times maintain a Paying Agent with a specified office in London. The Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with **Condition 17** (Notices to Noteholders).
- 8.6 If the due date for payment of any amount in respect of any Note or Coupon is not a Business Day in the place of presentation, payment shall not be made on such day but on the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Coupon or, as the case may be, such Note.
- 8.7 On or after the Interest Payment Date specified on each final Coupon forming part of any Coupon sheet, the Talon may be surrendered at any specified office of any Paying Agent in exchange for a further Coupon sheet (including a further Talon but excluding any Coupon which shall have become void). Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relevant Coupon sheet matures.

## 9. TAXATION

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law 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 be entitled to withhold or deduct the required amount for or on account of Tax from such payment and shall account to the relevant Tax Authorities for the amount so withheld or deducted. Neither the Issuer nor any Paying Agent nor any other person will be obliged to make any additional payments to holders of Notes in respect of any amounts so withheld or deducted.

## 10. PRESCRIPTION

Claims in respect of the Notes shall become void unless the relevant Notes or Coupons are presented for payment within a period of ten years, in the case of principal, and five years, in the case of interest from the relevant date in respect thereof. After the date on which a Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof. In this Condition, the "relevant date" is the date on which the payment in question first becomes due or (if the full amount of the monies payable has not been duly received by the Principal Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such monies having been so received, notice to that effect is duly given to the Noteholders in accordance with **Condition 17** (Notices to Noteholders).

## 11. EVENTS OF DEFAULT

For so long as any Class A Notes and/or 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 Most Senior Class of Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding shall, (subject, in each case, to being indemnified and/ or secured to its satisfaction), give a Note Acceleration 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**):

- (a) default is made for a period of five Business Days from the due date thereof in the payment of principal in respect of, or default is made for a period of five Business Days from the due

date thereof in the payment of interest on, any Note as and when the same ought to be paid in accordance with these Conditions provided that a deferral of interest in accordance with **Condition 5.8** (Deferral of Payment) shall not constitute a default in the payment of such interest for the purposes of this **Condition 11(a)**; or

- (b) default is made by the Issuer in the performance or observance of any other obligation binding upon it under any of the Notes, the Trust Deed, the Issuer Deed of Charge or the other Issuer Transaction Documents to which it is a party and, in any such case (except where the Note Trustee certifies that, in its opinion, such default is incapable of remedy when no notice will be required) such default continues for a period of 30 days following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as referred to in **Condition 11(e)** (Events of Default) below, 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 unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986 (as that section may be amended); or
- (d) it has or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes and/or the Issuer Transaction Documents;
- (e) an order is made by any competent court or an effective resolution is passed for the winding-up of the Issuer except a solvent 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 each of the Class A Noteholders and the Class B Noteholders; or
- (f) 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, documents being filed with a court for the appointment of an administrator or notice of intention to appoint an administrator being served by its shareholders, directors or other officers) and such proceedings are not, in the opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success, 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 undertakings or assets of the Issuer, or an encumbrancer shall take possession of the whole or any substantial part of the undertakings or assets of the Issuer, or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertakings 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 30 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 the events described in paragraph (b) above, the Note Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding.

For the avoidance of doubt, upon any declaration being made by the Note Trustee in accordance with this **Condition 11** (Events of Default) that the Notes are due and repayable, each of the Notes then outstanding shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed.



## **12. ENFORCEMENT OF NOTES**

- 12.1** The Note Trustee may, at any time, at its discretion and without giving any notice take such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes, the Trust Deed, the Issuer Deed of Charge and any other Issuer Transaction Document, to which it is a party and at any time after the giving of a Note Acceleration 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 but it shall not be bound to take any such proceedings or steps unless it shall have been (a) so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding, or so requested in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; and (b) indemnified and/or secured to its satisfaction.
- 12.2** No Noteholder shall be entitled to proceed against the Issuer or any other party to the Transaction Documents or to enforce the Issuer Security unless the Note Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Note Trustee cannot, while any of the Notes are outstanding, be required to enforce the Issuer Security at the request of any of the Issuer Secured Creditors (other than the Noteholders) under the Issuer Deed of Charge.

## **13. MEETINGS OF NOTEHOLDERS**

### **13.1 Convening**

The Trust Deed contains provisions for convening separate meetings of the Noteholders of each Class to consider any matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the provisions of the Trust Deed, the Notes or these Conditions or the provisions of any of the other Issuer Transaction Documents.

### **13.2 Request from Noteholders**

A meeting of each Class of Noteholders may be convened by the Note Trustee or the Issuer at any time and must be convened by the Note Trustee or the Issuer upon the request in writing of holders of such Class holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that.

### **13.3 Quorum**

The Trust Deed provides that:

- (a) subject to paragraphs (b) and (c) below, at any Meeting, two or more persons present holding voting certificates or being proxies and holding or representing, in the aggregate, not less than one-twentieth of the aggregate Principal Amount Outstanding of the Notes of the relevant Class for the time being outstanding shall (except for the purpose of passing an Extraordinary Resolution) form a quorum for the transaction of business and no business (other than choosing a Chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of the meeting;
- (b) subject to paragraph (c) the quorum at any Meeting to pass an Extraordinary Resolution, other than regarding a Basic Terms Modification, will be two or more persons present holding voting certificates or being proxies and holding or representing not less than one-third of the aggregate Principal Amount Outstanding of the Notes of the relevant Class then outstanding or, at any adjourned such meeting, two or more persons being or representing

Noteholders of the relevant Class, whatever the aggregate Principal Amount Outstanding of the Notes of such Class then outstanding so held or represented; and

- (c) the quorum at any meeting for passing an Extraordinary Resolution to sanction a Basic Terms Modification will be two or more persons present holding voting certificates, or being proxies, and holding or representing, in the aggregate, not less than one half of the aggregate Principal Amount Outstanding of the Notes of the relevant Class then outstanding or, at any adjourned such meeting, one or more persons holding or representing in the aggregate not less than one-quarter of the Principal Amount Outstanding of the Notes of such Class then outstanding.

#### **13.4 Relationship between Classes**

- (a) No Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one Class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of the other Class of Notes at a separate meeting convened for that purpose (to the extent that there are Notes outstanding of each Class);
- (b) no Extraordinary Resolution to approve any matter other than a Basic Terms Modification that is passed by the holders of the Class B Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of the Class A Notes (to the extent that there are Class A Notes outstanding), or the Note Trustee considers that the interests of the holders of the Class A Notes would not be materially prejudiced by the implementation of such Extraordinary Resolution;
- (c) any resolution passed at a meeting of the Noteholders of either Class duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such Class, whether or not present at such meeting and whether or not voting and upon Couponholders Couponholders of such Class; and
- (d) subject to paragraph (a) above, any resolution passed at a meeting of the holders of the Class A Notes then outstanding which is duly convened and held as aforesaid shall also be binding upon the holders of the Class B Notes and Couponholders relating thereto.

#### **13.5 Resolution in Writing**

An Extraordinary Resolution may be passed in writing if it is signed by or on behalf of not less than 90 per cent. in aggregate Principal Amount Outstanding of the Noteholders of a Class, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders of that Class and shall be as valid, effective and binding as a resolution duly passed at a meeting held in accordance with these Conditions.

### **14. MODIFICATION, WAIVER AND SUBSTITUTION**

#### **14.1 Modifications**

The Note Trustee may concur with the Issuer and any other relevant parties but without the consent or sanction of the Noteholders or the Couponholders in making any modification to these Conditions, the Trust Documents, the Notes or the other Issuer Transaction Documents to which it is a party or over which it has security, or may give its consent to any event, matter or thing (other than in the case of paragraphs (a), (c) or (d), below in respect of a Basic Terms Modification), if:

- (a) in its opinion, the interests of the holders of the Most Senior Class of Notes then outstanding would not be materially prejudiced thereby; or

- (b) in its opinion, such modification is required to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven or is of a formal, minor or technical nature; or
- (c) it is required or permitted, subject to the satisfaction of specified conditions, under the terms of these Conditions or the Transaction Documents provided such conditions are satisfied; or
- (d) the Rating Agencies have confirmed that the then current ratings of the Notes will not be subject to downgrade, withdrawal or suspension or put on negative credit watch, in relation thereto and the Note Trustee considers that such confirmation from the Rating Agencies is an appropriate test or the only appropriate test to apply in that circumstance in exercising any such power, trust, authority, duty or discretion or, as the case may be, in giving the relevant consent.

## 14.2 Waiver

In addition the Note Trustee may (subject as provided in **Condition 14.3(c)** (Waiver – Restriction on Power to Waive) below), without the consent or sanction of the Noteholders, the Couponholders or the Issuer Secured Creditors and without prejudice to its rights in respect of any subsequent breach, Note Event of Default or potential Note Event of Default authorise or waive any proposed breach or breach by the Issuer or any other person of the covenants or provisions contained in the Trust Deed, the Notes or any other Issuer Transaction Document (including a Note Event of Default) or determine that any Note Event of Default or potential Note Event of Default shall not be treated as such, but only if and in so far as, in its opinion, the interests of the holders of the Most Senior Class of Notes then outstanding shall not be materially prejudiced thereby.

In connection with any substitution of principal debtor as is referred to in **Condition 14.6** (Substitution of Principal Debtor), the Note Trustee may also agree, without the consent of the Noteholders, the Couponholders or any other Issuer Secured Creditor, to a change of the laws governing the Notes and/or the Issuer Transaction Documents to which the Note Trustee is a party or over which it has security, provided that such change would not, in the opinion of the Note Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding.

## 14.3 Restriction on Power to Waive

The Note Trustee shall not exercise any powers conferred upon it by **Condition 14.2** (Modification, Waiver and Substitution – Waiver) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding, but so that no such direction or request shall:

- (a) affect any authorisation, waiver or determination previously given or made;
- (b) authorise or waive any such proposed breach or breach relating to a Basic Terms Modification unless the holders of the other Class of Notes have authorised or waived any such proposed breach or breach pursuant to an Extraordinary Resolution of the holders of such other Class of Notes then outstanding; or
- (c) authorise or waive any such proposed breach or breach relating to the Liquidity Facility Agreement unless the Liquidity Facility Provider consents to such authorisation or waiver.

#### 14.4 Notification

Unless the Note Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification or determination to be notified to the Noteholders in accordance with **Condition 17** (Notices to Noteholders) and the other Issuer Secured Creditors in accordance with the Issuer Transaction Documents, as soon as practicable after it has been made.

#### 14.5 Binding Nature

Any authorisation, waiver, determination or modification referred to in **Condition 14.1** (Modification, Waiver and Substitution – Modifications) or **Condition 14.2** (Modification, Waiver and Substitution – Waiver) shall be binding on the Noteholders and the Couponholders.

#### 14.6 Substitution of Principal Debtor

If the Issuer at any time satisfies the Note Trustee (by way of legal opinions, directors certificates or otherwise) immediately prior to giving the notice referred to below that, as a result of a change in Tax law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date:

- (a) on the next Interest Payment Date, the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Note (other than where the relevant holder or beneficial owner has some connection with the United Kingdom other than the holding of Notes) any amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any United Kingdom Tax Authority; or
- (b) the Issuer would not be entitled to relief for United Kingdom tax purposes for any material amount which it is obliged to pay, or would be treated as receiving for United Kingdom Tax purposes any material amount which it is not entitled to receive, in each case under the Issuer Transaction Documents to which it is a party; or
- (c) on the next Interest Payment Date, the Borrower would be required to deduct or withhold from any payment due to be made by it under the Issuer/Borrower Loan Agreement any amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by or on behalf of any United Kingdom,

then the Issuer shall inform the Note Trustee accordingly and the Issuer shall, in order to avoid the relevant event described in (a) (b) or (c) above, use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Note Trustee as principal debtor under the Notes.

The Note Trustee shall agree, subject to such amendment of these Conditions and of any of the Issuer Transaction Documents and to such other conditions as the Note Trustee may require and subject to the terms of the Trust Deed, but without the consent of the Noteholders, or the Couponholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Notes and in respect of the other Issuer's obligations under the Issuer Transaction Documents, subject to the Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets and/or contractual rights and obligations of the Issuer are transferred to such body corporate (being a single purpose vehicle)) and an undertaking to be bound by provisions corresponding to those set out in **Condition 4** (Covenants) and the covenants applying to the Issuer under the Trust Deed.

## **15. INDEMNIFICATION AND EXONERATION OF THE NOTE TRUSTEE**

The Trust Deed and certain of the Issuer 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 or enforcing the Issuer Security or directing the Borrower Security Trustee to enforce the Obligor Security unless indemnified and/or secured 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 Issuer Security or the Obligor Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of other parties to the Issuer Transaction Documents, clearing organisations or their operators or by intermediaries such as banks, depositories, warehousemen or other similar persons on behalf of the Note Trustee.

The Trust Deed contains provisions pursuant to which the Note Trustee or any of its related companies is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any other person who is party to the Issuer Transaction Documents or whose obligations are comprised in the Issuer Security and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any of their subsidiary or associated companies, (b) 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 (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Trust Deed also relieves the 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. The Note Trustee has no responsibility in relation to the validity, sufficiency and enforceability of the Issuer Security or the Borrower Security. The Note Trustee will not be obliged to take any action which might result in its incurring personal liabilities unless indemnified and/or secured to its satisfaction or to supervise the performance by the Cash Manager, the Account Bank, the Paying Agents or any other person of their obligations under the Issuer Transaction Documents or the Borrower Transaction Documents and the Note Trustee shall assume, until it has written notice to the contrary, that all such persons are properly performing their duties, notwithstanding that the Issuer Security (or any part thereof) may, as a consequence, be treated as floating rather than fixed security.

The Trust Deed and the Issuer Deed of Charge contain other provisions limiting the responsibility, duties and liability of the Note Trustee.

## **16. REPLACEMENT OF NOTES AND COUPONS**

If any Note Coupon or Talon is mutilated, defaced, lost or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Note Coupon or Talon will only be made on 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. Mutilated or defaced Notes Coupons or talons must be surrendered before new ones will be issued.

## **17. NOTICES TO NOTEHOLDERS**

Any notice to the Noteholders shall be validly given if published in the Financial Times and (for so long as the Notes are listed on the Stock Exchange and the rules of the Stock Exchange so require) the Irish Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Note Trustee shall approve having a general circulation in Ireland. Any such notice shall be deemed to have been given

on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required.

Notices to Noteholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear for communication by them to Noteholders provided that so long as the Notes are listed on the Stock Exchange, the Stock Exchange so agrees. 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 17** (Notices to Noteholders) shall be provided to each of the Rating Agencies which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer, with prior written approval of the Note Trustee, to provide a credit rating in respect of the Notes) if they are then rating the Notes and, for so long as the Notes of any Class are admitted to listing on the Stock Exchange, to the Stock Exchange. 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 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.

Couponholders will be deemed for all purposes to have notices of the contents of any notice given to the Noteholders in accordance with this Condition.

## **18. RIGHTS OF THIRD PARTIES**

Neither this Note nor any Coupon confers any right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note or any such Coupon, 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.

## **19. EUROPEAN ECONOMIC AND MONETARY UNION**

- 19.1 If the United Kingdom becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and Couponholders and the Paying Agents and having notified the Note Trustee prior to the provision of such notice, designate a Redenomination Date, being an Interest Payment Date falling on or after the date on which the United Kingdom becomes a Participating Member State.
- 19.2 Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
- (a) the Notes shall be deemed to be redenominated in Euro in the denomination of Euro 0.01 with a principal amount for each Note equal to the principal amount outstanding of that Note in sterling converted into Euro at the rate for conversion of sterling into Euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); provided, however, that, if the Issuer determines, with the agreement of the Note Trustee, that the then market practice in respect of the redenomination into Euro 0.01 of internationally offered

securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, each stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the Paying Agents of such deemed amendments;

- (b) if the Notes have been issued in definitive form:
  - (i) all unmatured Coupons denominated in sterling (whether or not attached to the Notes) will become void with effect from the Euro Exchange Date on which the Issuer gives the Euro Exchange Notice to the Noteholders and the Note Trustee that replacement Notes and Coupons denominated in Euro are available for exchange (provided that such Notes and Coupons are available) and no payments will be made in respect thereof;
  - (ii) the payment obligations contained in all Notes denominated in sterling will become void on the Euro Exchange Date but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this **Condition 19** (European Economic and Monetary Union)), shall remain in full force and effect; and
  - (iii) new Notes and Coupons denominated in Euro will be issued in exchange for Notes and Coupons denominated in Sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Euro Exchange Notice.
- (c) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as Sterling ceases to be a sub-division of the Euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in Euro by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and
- (d) a Note or Coupon may only be presented for payment on a day which is a Business Day in the place of presentation and which is also a day on which the TARGET System is operating.
- (e) Following redenomination of the Notes pursuant to this **Condition 19** (European Economic and Monetary Union) where Notes have been issued in definitive form, the amount of interest due in respect of the Notes will be calculated by reference to the principal amount then outstanding of the Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest Euro 0.01.

## **20. FURTHER NOTES, REPLACEMENT NOTES AND NEW NOTES**

### **20.1 Further Notes**

The Issuer may, without the consent of the Noteholders, raise further funds, from time to time, on any date by the creation and issue of further notes (**Further Notes**) carrying the same terms and conditions in all respects (or in all respects except for the first Interest Period) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, either Class of the Notes provided that:

- (a) the aggregate principal amount of all Further Notes to be issued on such date is not less than £3,000,000;
- (b) any Further Notes are assigned the same ratings as are then applicable to the Class of Notes with which they are to be consolidated and form a single series;
- (c) the ratings of each Class of Notes at that time outstanding are not adversely affected as a result of such issue of Further Notes and none of such ratings is lower than it was upon the date of issue of any of the Notes;
- (d) an amount equal to the aggregate principal amount of such Further Notes will be on-lent by the Issuer pursuant to the provisions of the Issuer/Borrower Loan Agreement; and
- (e) application will be made, in respect of the Further Notes, for such notes to be admitted to trading on the Stock Exchange and admitted to the Official List of the Stock Exchange or, if the Notes then issued are no longer admitted to that exchange, such exchange, if any, on which the Notes then issued are then admitted to.

## 20.2 Replacement Notes

The Issuer may, without the consent of the Noteholders, issue one or more Classes of replacement notes (the **Replacement Notes**) to replace one or more Classes of the Notes, each Class of which shall have the same terms and conditions in all respects as the Class of Notes which is replaced (except for the rate of interest applicable to such Replacement Notes which, if not the same, must be lower than the rate of interest applicable to the Class of Notes being replaced and except that such Replacement Notes may have the benefit of a financial guarantee or similar arrangement (a **Financial Guarantee**) and which may on issue be in an aggregate principal amount which is different from the aggregate Principal Amount Outstanding of the Class of Notes which it replaces, provided that the Class or Classes of Notes to be replaced are redeemed in full in accordance with **Condition 7.4** (Optional Redemption in whole or in part) and the conditions to the issue of Further Notes as set out in **Condition 20.1(a), (c), (d) and (e)** are satisfied, *mutatis mutandis*, in respect of such issue of Replacement Notes and provided further that, for the purposes of this **Condition 20.2(b)**, (i) where interest in respect of the Replacement Notes or the Class of Notes being replaced is payable on a floating rate basis, the rate of interest applicable to the Replacement Notes or, as the case may be, the Class of Notes being replaced shall be deemed to be the fixed rate payable by the Issuer under the interest rate exchange agreement entered into by the Issuer in relation to the Replacement Notes or, as the case may be, the Class of Notes being replaced; and (ii) where the Replacement Notes or the Class of Notes being replaced have the benefit of a Financial Guarantee, the guarantee fee and any other amounts payable to the provider of the Financial Guarantee, other than any such amounts the payment of which is subordinated to payments in respect of all of the Notes, (expressed as a percentage rate per annum on the principal amount of the Replacement Notes or, as the case may be, the Class of Notes being replaced) shall be added to the rate of interest applicable to the Replacement Notes or, as the case may be, the Class of Notes being replaced.

## 20.3 New Notes

The Issuer may, without the consent of the Noteholders, raise further funds, from time to time and on any date, by the creation and issue of new notes (**New Notes**) which may rank *pari passu* with the Class A Notes or Class B Notes or after the Class A Notes but ahead of the Class B Notes or after the Class B Notes and which may have terms and conditions which differ from the Notes and which may have the benefit of a Financial Guarantee 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 20.1(a), (c), (d) and (e)** are satisfied, *mutatis mutandis*, in respect of such issue of New Notes.



#### **20.4 Supplemental trust deeds and security**

Any such Further Notes, Replacement Notes or New Notes will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the security constituted by the Issuer Deed of Charge. Any of the Transaction Documents may be amended, and further Transaction Documents may be entered into, in connection with the issue of such Further Notes, Replacement Notes or New Notes and the claims of the parties to any amended Transaction Document or any further Transaction Document may rank ahead of, *pari passu* with, or behind, any Class or Classes of the Notes, provided, in each case, that the condition set out in **Condition 20.1(c)** is satisfied, *mutatis mutandis*.

#### **21. POST-ENFORCEMENT CALL OPTION**

In the event that the Issuer Security is enforced and, after payment of all other claims ranking in priority to the Class A Notes and the Class B Notes, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class A Notes or the Class B Notes (as the case may be) and all other claims ranking *pari passu* therewith, then the Class A Noteholders and/or the Class B Noteholders (as the case may be) shall, upon the Issuer Security having been enforced and realised to the maximum possible extent as certified by the Note Trustee, at the request of Optionco or its assignee or transferee, transfer for the consideration of one penny per Note (each Note being in a denomination of £50,000) all (but not some only) of the Class A Notes and/or the Class B Notes to Optionco pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) pursuant to a post-enforcement call option agreement (the **Post-Enforcement Call Option Agreement**) dated on or about the Closing Date, between, *inter alios*, the Issuer, Optionco and the Note Trustee. Immediately upon such transfer, no such former Noteholder shall have any further interest in the Class A Notes or the Class B Notes (as the case may be).

Each Class A Noteholder and each Class B Noteholder acknowledges that the Note Trustee has the authority and the power to bind the Class A Noteholders and the Class B Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Agreement and each Class A Noteholder and Class B Noteholder, by subscribing for or purchasing the relevant Class A Notes and the Class B Notes, agrees to be so bound.

Notice of such determination will be given by the Note Trustee to the Class A Noteholders and the Class B Noteholders in accordance with **Condition 17**. The consideration will be paid in the same manner as payment of principal under these Conditions.

#### **22. GOVERNING LAW**

The Trust Deed, the Notes and the Coupons are governed by, and shall be construed in accordance with, English law.

## UNITED KINGDOM TAXATION

*The following is a summary of the Issuer's understanding of current United Kingdom tax law and H.M. Revenue and Customs' generally published practice as at the date of this Offering Circular relating to certain aspects of the United Kingdom taxation of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain Classes of Noteholders (such as dealers). The comments are made on the assumption that there will be no substitution of the Issuer pursuant to the Trust Deed or **Condition 14.6** and do not consider the tax consequences of any such substitution.*

*The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions). In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

### **(A) Interest on the Notes**

#### **1. Withholding tax on payments of interest on the Notes**

For so long as the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the **Act**) (the Stock Exchange is such a "recognised stock exchange" for this purpose – under a United Kingdom H.M. Revenue and Customs (**HMRC**) interpretation, the Notes will satisfy this requirement if they are listed by the competent authority in Ireland and are admitted to trading by the Stock Exchange) interest payments on each of the Notes will be treated as a "payment of interest on a quoted Eurobond" within the meaning of section 349 of the Act. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax irrespective of whether the Notes are in global form or in definitive form.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid to a person who belongs in the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax. In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, or, where a Noteholder is associated with the Issuer, resident in a Member State of the EU and entitled in practice to the benefit of the European Council Directive 2003/49/EC, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

## **2. Provision of Information**

Noteholders who are individuals may wish to note that HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

## **3. Further United Kingdom tax issues for non-United Kingdom resident Noteholders**

Interest on the Notes will constitute United Kingdom source income and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which 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). The provisions of an applicable double taxation treaty may be relevant for such Noteholders.

### **(B) United Kingdom corporation tax payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax in respect of the Notes will be charged to tax and obtain relief as income on all returns, profits and gains on, and fluctuations in value of the Notes (whether attributable to currency fluctuation or otherwise) broadly in accordance with their statutory accounting treatment.

### **(C) Other United Kingdom tax payers**

#### **1. Taxation of chargeable gains**

The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder of a Note will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

#### **2. Accrued income scheme**

On a disposal of Notes by a Noteholder, any interest which has accrued between the last Interest Payment Date and the date of disposal may be chargeable to tax as income under the rules of the "*accrued income scheme*" as set out in Chapter II of Part XVII of the Act, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

### **(D) Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue or transfer by delivery of the Notes.

**(E) EU Directive on the Taxation of Savings Income**

Under the EU Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, 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 are instead 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 dependant upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

## SUBSCRIPTION AND SALE

The Lead Manager has, pursuant to a subscription agreement dated 24 November 2005 and entered into by, *inter alios*, the Lead Manager, the Issuer, the Obligors and London and Regional Commercial Properties Holdings Limited (the **Subscription Agreement**), agreed subject to certain conditions, to procure subscribers and failing which itself to subscribe and pay for:

- (a) the Class A Notes at an issue price of 100 per cent. of the principal amount thereof; and
- (b) the Class B Notes at an issue price of 100 per cent. of the principal amount thereof.

The Issuer has agreed to pay to the Lead Manager a and management commission.

The Subscription Agreement is subject to a number of conditions and may be terminated by the Lead Manager in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Lead Manager against certain liabilities in connection with the offer and sale of the Notes.

### **Austria**

No prospectus has been or will be approved and/or published pursuant to the Austrian Capital Markets Act (Kapitalmarktgesetz) as amended. Neither this document nor any other document connected therewith constitutes a prospectus according to the Austrian Capital Markets Act and neither this document nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Lead Manager. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria. The Lead Manager has represented and agreed that it will offer the Notes in Austria only in compliance with the provisions of the Capital Markets Act and all other laws and regulations in Austria applicable to the offer and sale of the Notes in Austria.

### **Belgium**

The offering circular and related documents are not intended to constitute a public offer in Belgium and may not be distributed to the Belgian public. The Belgian Commission for Banking, Finance and Insurance has not reviewed nor approved this (these) document(s) or commented as to its (their) accuracy or adequacy or recommended or endorsed the purchase of Notes.

The Lead Manager has represented and agreed that it will not:

- (a) offer for sale, sell or market in Belgium such Notes by means of a public offer within the meaning of the Law of 22 April 2003 on the public offer of securities; or
- (b) sell Notes to any person qualifying as a consumer within the meaning of Article 1.7° of the Belgian law of 14 July 1991 on consumer protection and trade practices unless such sale is made in compliance with this law and its implementing regulation.

### **Denmark**

The Lead Manager has represented and agreed that the Notes have not been offered or sold and will not be offered, sold or delivered directly or indirectly in the Kingdom of Denmark by way of a public offering, unless in compliance with the Danish Securities Trading Act, Consolidation Act No. 1269 of 19 December 2003 as amended from time to time and any Orders issued thereunder.

### **France**

The Lead Manager and the Issuer has represented and agreed that:

- (a) it has only made and will only make an offer of Notes to the public (appel public à l'épargne) in France in the period beginning (i) when a prospectus in relation to those Notes has been approved by the Autorité des marchés financiers (AMF), on the date of such publication or), (ii) when a prospectus has been approved in another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC, on the date of notification of such approval to the AMF, all in accordance with articles L.412-1 and L.621-8 of the French Code monétaire et financier and the Règlement général of the AMF, and ending at the latest on the date which is 12 months after the date of such publication; or
- (b) it has only made and will only make an offer of Notes to the public in France (appel public à l'épargne) and/or it has only required and will only require the admission to trading on Euronext Paris S.A. in circumstances which do not require the publication by the offeror of a prospectus pursuant to articles L.411-2 and L.412-1 of the French Code monétaire et financier; and
- (c) otherwise, it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Offering Circular or any other offering material relating to the Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (investisseurs qualifiés), all as defined in, and in accordance with, articles L.411-1, L.411-2, D.411-1 of the French Code monétaire et financier.

## **Ireland**

The Lead Manager has represented and agreed that:

- (a) in respect of a local offer (within the meaning of section 38(1) of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland) of Notes in Ireland, it has complied and will comply with section 49 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland;
- (b) it has complied and will comply with all applicable provisions of the Investment Intermediaries Acts, 1995 to 2000 of Ireland (as amended) with respect to anything done by it in relation to the Notes or operating in, or otherwise involving, Ireland and, in the case of a Lead Manager acting under and within the terms of an authorisation to do so for the purposes of EU Council Directive 93/22/EEC of 10 May 1993 (as amended or extended), it has complied with any codes of conduct made under the Investment Intermediaries Acts 1995 to 2000, of Ireland (as amended) and, in the case of a Lead Manager acting within the terms of an authorisation granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March 2000 (as amended or extended), it has complied with any codes of conduct or practice made under section 117(1) of the Central Bank Act, 1989 of Ireland (as amended); and
- (c) in connection with offers or sales of Notes, it has only issued or passed on, and will only issue or pass on, in Ireland, any document received by it in connection with the issue of the Notes to persons who are persons to whom the document may otherwise lawfully be issued or passed on.

## **Italy**

The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Offering Circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended; or
- (b) in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the Financial Services Act) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Offering Circular or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993 (the Banking Act); and
- (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (c) in compliance with any other applicable laws and regulations.

#### **Norway**

The Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Kingdom of Norway any Notes other than to persons who are registered with the Oslo Stock Exchange as professional investors.

#### **Sweden**

The Lead Manager has confirmed and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Kingdom of Sweden except in compliance with the laws of the Kingdom of Sweden.

#### **The Netherlands**

The Lead Manager has represented and agreed that it has not and will not, directly or indirectly, offer or sell any Notes (including rights representing an interest in a Global Note) to individuals or legal entities anywhere in the world other than Professional Market Parties (as defined below) who acquire the Notes for their own account and that trade or invest in securities in the conduct of their profession or business; provided that each such Professional Market Party will have sent to each person to which it (on)sells the Notes (including rights representing an interest in any Global Note) a confirmation or other notice setting forth the above restrictions and stating that by purchasing any Note, the purchaser represents and agrees that it will send to any other person to whom it sells any such Note a notice containing substantially the same statement as is contained in this sentence.

**Professional Market Parties** are any of the following persons but no other person:

- (a) banks, insurance companies, securities firms, investment institutions and pension funds that are (i) supervised or licensed under Dutch law or (ii) established and acting under supervision in a European Union member state (other than the Netherlands), Hungary, Monaco, Poland, Puerto Rico, Saudi Arabia, Slovakia, Czech Republic, Turkey, South Korea, the United States of America, Japan, Australia, Canada, Mexico, New Zealand or Switzerland;

- (b) investment institutions which are exempted pursuant to the Exemption Regulation to the Dutch Act on the Supervision of Investment Institutions 1991;
- (c) the State of the Netherlands, the Dutch Central Bank, a foreign central government body, a foreign central bank, Dutch regional and local governments and comparable foreign decentralised government bodies, international treaty organisations and supranational organisations;
- (d) enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) as per the balance sheet as of the year end preceding the obtaining of the repayable funds;
- (e) enterprises, entities or individuals with net assets of at least €10,000,000 (or the equivalent thereof in another currency) as of the year end preceding the obtaining of the repayable funds who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding the obtaining of the repayable funds;
- (f) subsidiaries of the entities referred to under a above provided such subsidiaries are subject to supervision; and
- (g) a professional market party within the meaning of Article 1a section 3 of the Exemption Regulation to the Dutch Act on the Supervision of Securities Transactions 1995.

All Notes (whether or not offered to Dutch Residents) shall bear the following legend:

"THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (**DUTCH RESIDENTS**) OTHER THAN TO PROFESSIONAL MARKET PARTIES (**PMPs**) WITHIN THE MEANING OF THE EXEMPTION REGULATION UNDER THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 (AS AMENDED).

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS A PMP AND IS ACQUIRING THIS NOTE (OR ANY INTEREST THEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING SUCH NOTE (OR ANY SUCH INTEREST), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH NOTE (OR ANY INTEREST THEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY DUTCH RESIDENTS OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP AND THAT (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE."

### **United Kingdom**

The Lead Manager has represented and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (**FSMA**), with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (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 any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.



## United States

The Notes have not been and will not be registered under the United States Securities Act of 1993, as amended (the **Securities Act**), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or in certain transactions exempt from the registration requirements of the Securities Act. The Lead Manager has agreed that, except as permitted by the Subscription Agreement it will not offer, sell or deliver the Notes, (A) as part of their distribution at any time or (B) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (for the purpose only of this section "*Subscription and Sale*", the **Restricted Period**) (except in accordance with Rule 903 of Regulation S) within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each distributor, dealer or other person receiving a selling commission fee or other remuneration who purchases Notes from it during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possession or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 (as amended) and regulations thereunder.

The Notes will have on their face a statement to the effect that any United States person who holds such Notes will be subject to limitations under the United States income tax laws including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code.

## General

Other than the approval by the IFSRA of this document as a prospectus in accordance with the requirements of the Prospectus Directive and relevant implementing measures in Ireland, no action is being taken by the Issuer or the Lead Manager 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, advertisement, form of application or other material 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 Lead Manager has undertaken not to offer or sell, directly or indirectly, 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.

## GENERAL INFORMATION

1. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 22 November 2005.
2. It is expected that listing of the Notes on the Official List of the Stock Exchange will be granted on or about 29 November 2005, subject only to the issue of the Global Notes. The listing of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction. The estimated cost of the applications for admission to the Official List and admission to trading on the Stock Exchange's market for listed securities is €8,000.
3. On 11 November 2005 the Issuer was granted a certificate under section 117 of the Companies Act 1985 entitling it to do business and to borrow.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	<b>Common Code</b>	<b>ISIN</b>
Class A	023531933	XS0235319331
Class B	023531968	XS0235319687

5. No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared. So long as the Notes are listed on the Official List of the Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Paying Agent in Dublin. The Issuer does not publish interim accounts.
6. Save as disclosed herein Issuer is not, and has not been, involved in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Issuer's financial position.
7. Since the date of its incorporation, the Issuer has not entered into any material contracts or arrangements other than as disclosed in this Offering Circular.
8. DTZ Debenham Tie Leung Limited (the **Valuer**) and a member of Royal Institute of Chartered Surveyors has given and not withdrawn its written consent to the inclusion of its report and references to its name in the form and context in which they are included and has authorised the contents of that part of this Offering Circular for the purposes of section 45 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005.
9. Save as disclosed herein, since 26 October 2005 (being the date of incorporation of the Issuer), there has been (a) no material adverse change in the financial position or prospects of the Issuer and (b) no significant change in the trading or financial position of the Issuer.
10. The Issuer Deed of Charge, the Trust Deed and the Deed of Charge will provide that the Note Trustee and the Borrower Security Trustee (as applicable) may rely on reports or other information from professional advisors or other experts in accordance with the Issuer Deed of Charge, the Trust Deed and the Deed of Charge (as applicable), whether or not such report or other information, engagement letter or other document entered into by the Note Trustee or the Borrower Security Trustee (as applicable) and the relevant professional advisor or expert in connection therewith contains any limit on the liability of that relevant professional advisor or expert.

11. Copies of the following documents may be physically inspected during usual business hours on any week day (excluding Saturdays, Sundays, and public holidays) at the offices of the Issuer at 4th Floor, St Alphage House, 2 Fore Street, London EC2Y 5DH and at the specified offices of the Irish Paying Agent in Dublin from the date of this document until the Final Maturity Date:
- (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the balance sheet and the profit and loss statement of the Borrower as at 30 September 2003 and 30 September 2004 and the accountant's report thereon;
  - (c) the Valuation Report;
  - (d) the Issuer/Borrower Loan Agreement;
  - (e) the Intra-Group Loan Agreement;
  - (f) the Intra-Group Subordinated Loan Agreement;
  - (g) the Intercreditor Agreement;
  - (h) the Trust Deed;
  - (i) the Issuer Deed of Charge;
  - (j) the Deed of Charge;
  - (k) the Mortgage of Shares;
  - (l) the Swap Agreement;
  - (m) the Liquidity Facility Agreement;
  - (n) the Account Bank Agreement;
  - (o) the Property Management Agreement;
  - (p) the Post-Enforcement Call Option Agreement;
  - (q) the Tax Deed of Covenant;
  - (r) the Agency Agreement; and
  - (s) the Cash Management Agreement.

## APPENDIX 1

Report and valuation for  
Morgan Stanley & Co. International Limited

St Georges Court  
2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London WC1A 2SH

Skipton House  
80 London Road, London SE1 6LW

Guinness Headquarters  
Block A, First Central Business Park, Coronation Road, Park Royal, London NW10  
7RR

68 King William Street and 42 – 44 Gracechurch Street, London EC4 7HR

Trinity Bridge House  
2 Dearmans Place, Salford M3 5BN

24 November 2005

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**Private and Confidential**

DTZ Debenham Tie Leung  
One Curzon Street  
LONDON W1A 5PZ

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## **Appendices**

- A. Letter of instruction
- B. Definitions of bases of valuation taxations and costs
- C. Valuation terms, conditions and Assumptions
- D. Market Commentary

Your ref: Leonardo Database  
Our ref: Val/PWI/Lon/L&R/Leonardo  
Direct tel: (020) 7643 6300  
Direct fax: (020) 7643 6435  
E-mail: Paul.wolfenden@dtz.com

DRAFT

24 November 2005

London & Regional Offices Finance Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Borrower**”)

London & Regional (King William Street) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Chargors**”)

London & Regional Debt Securitisation No. 1 Plc  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Issuer**”)

London & Regional (Manchester) Limited & LR  
(Manchester) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Chargors**”)

London & Regional (St Georges Court) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Chargors**”)

**The Bank of New York**  
48<sup>th</sup> Floor, One Canada Square  
London  
E14 5AL  
(“**Security and Note Trustee**”)

LR Skipton House Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Chargors**”)

Hypo Real Estate Bank International  
21<sup>st</sup> Floor, 30 St Mary Axe  
London  
EC3A 8BF  
(“**B- Piece Lender**”)

LR (First Central Phase A) Limited  
6<sup>th</sup> Floor, 105 Wigmore Street  
London  
W1U 1QY  
(“**Chargors**”)

Morgan Stanley and Co. International Limited  
(the Lead Manager on behalf of itself and the Co-  
Managers)  
20 Cabot Square  
Canary Wharf  
London E14 4QW  
(“**Lead Manager**”)

Dear Sirs

**Borrower:**  
**Properties:**

**London & Regional Offices Finance Limited**  
**St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London WC1A 2SH**  
**Skipton House, 80 London Road, London SE1 6LH**  
**Guinness Headquarters, First Central Business Park, Park Royal NW10 7RR**  
**68 King William Street and 42 – 44 Gracechurch Street, London EC4N 7HR**  
**Trinity Bridge House, 2 Dearmans Place, Salford, Manchester M3 5BH**  
(each the “**Property**” and collectively the “**Properties**” or the “**Portfolio**”)



## 1 Terms of instruction, confidentiality and disclosure

### 1.1 Loan proposition

We understand that London & Regional Offices Finance Limited (“the Borrower”) intends to refinance the above Properties. We understand that our report and valuation (the “Valuation Report”) is required to assist you in considering the suitability of the Properties as security for a commercial mortgage advance, secured by way of a fixed first legal charge over the interests valued in this report.

### 1.2 Our appointment

In accordance with your letter of instruction, dated 25 August 2005 (Appendix A), we have valued the 2 freehold and 3 long leasehold interests in the Properties, as at 10 October 2005 (the “valuation date”), in connection with the proposed loan facility. The Properties are described in the following sections of this Report, which forms an integral part hereof.

### 1.3 Inspections

The Properties were inspected between 30 August and 2 September 2005. We were able to inspect all of the Properties internally apart from St Georges Court, which was inspected externally due to security restrictions imposed by the tenant, the Secretary of State for Defence.

We have set out below a schedule detailing the surveyor who inspected each Property, the date of the inspections and any restrictions to the inspections:-

Address	Date of Inspection	Surveyor	Restrictions to Inspection
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	1 September 2005	Gerard Righetti, AAPI	External Only
Skipton House, 80 London Road, London	1 September 2005	Naomi Schilling, AAPI	N/A
Guinness Headquarters, First Central Business Park, Park Royal	2 September 2005	Anthony Long, NZAPI	N/A
68 King William Street and 42 – 44 Gracechurch Street, London	1 September 2005	Vicki Rudken, MRICS	N/A
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	30 August 2005	Gareth Wilson, MRICS	N/A

### 1.4 Compliance with Appraisal and Valuation Standards

We confirm that the valuations have been prepared in accordance with the appropriate sections of the Practice Statements (“PS”) and United Kingdom Practice Statements (“UKPS”) contained within the RICS Appraisal and Valuation Standards, 5th Edition (the “Red Book”).

## **1.5 Status of valuer and conflicts of interest**

We confirm that we have undertaken the valuations acting as an External Valuer, qualified for the purpose of the valuation.

We confirm that DTZ Debenham Tie Leung (“DTZ”) have previously provided valuation advice to banks providing debt finance in respect of four of the Properties. We further confirm that DTZ Debenham Tie Leung (“DTZ”) provide valuation advice, in connection with the acquisition and debt financing of other Properties by London and Regional Properties Limited.

We also confirm that DTZ provide debt valuation services to Morgan Stanley & Co. International Limited. This has been discussed with Morgan Stanley & Co. International Limited and notwithstanding our previous involvement, Morgan Stanley & Co. International Limited has confirmed that we may proceed with the valuation.

We further confirm that we have had no previous recent involvement with the Properties or parties to the transaction and do not therefore consider that any conflict arises in preparing the advice requested.

## **1.6 Bases of valuations**

Our opinion of the Market Value of each of the Properties has been primarily derived using comparable recent market transactions on arm's length terms.

In accordance with your instructions, we have undertaken our valuations on the following bases:-

- a. Estimated Rental Value
- b. Market Value

We have set out the definitions of the above bases of valuation in appendix B.

In addition you have requested that we provide additional valuations on the following bases: -

- a. Market Value assuming vacant possession throughout
- b. Market Rent

In preparing our valuations on these bases it is necessary for us to prepare valuations on a Special Assumption. A Special Assumption is referred to in the Glossary in the Red Book as an Assumption that either:

- Requires the valuation to be based on facts that differ materially from those that exist at the date of valuation; or
- Is one that a prospective purchaser (excluding a purchaser with a special interest) could not reasonably be expected to make at the date of valuation, having regard to prevailing market circumstances.

In the circumstances of this instruction, we consider the above Special Assumption(s) may be regarded as realistic, relevant and valid.

Our valuations are subject to our standard valuation terms, conditions and Assumptions, which are included in Appendix C. In the event that any of our Assumptions prove to be incorrect then our valuations should be reviewed.

## 1.7 Equivalent yields

There are references in this report to both NEY (Ann in arr) and TEY (Qly in adv). These terms are defined as follows: -

NEY (Ann in arr) is the Nominal equivalent yield (annually in arrears). In order to calculate a NEY (Ann in arr) it is assumed that the rental is paid annually in arrears, even though this is not actually the case.

TEY (Qly in adv) is the True equivalent yield (quarterly in advance). In order to calculate a TEY the actual timing of the rental payments is reflected, so that if rent is payable quarterly in advance the term TEY (Qly in adv) is used.

## 1.8 Valuations

### 1.8.1 Estimated Rental Value

We are of the opinion that the Estimated Rental Values of the Properties, assessed in accordance with the rent review provisions in the leases, as at 10 October 2005, subject to the Assumptions and comments in this Valuation Report and the appendices, are:-

Address	Tenure	Estimated Rental Value
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£5,522,000
Skipton House, 80 London Road, Southwark	Freehold	£4,904,000
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£4,668,000
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£3,977,000
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£4,680,000
<b>Totals</b>		<b>£23,751,000</b>

## 1.8.2 Market Value

We are of the opinion that the Market Values of the 2 freehold and 3 leasehold interests in the Properties described in detail in the following report sections subject to the existing tenancies, as at 10 October 2005, subject to the Assumptions and comments in this Valuation Report and the Appendices, are:-

Address	Tenure	Market Value	Net Initial Yield	True Equivalent Yield (QTR) (Ann in Adv)	Nominal Equivalent Yield (NEY) (Ann in Arr)
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£86,000,000 (Eighty Six Million Pounds)	5.71%	5.81%	5.60%
Skipton House, 80 London Road, Southwark	Freehold	£82,250,000 (Eighty Two Million, Two Hundred and Fifty Thousand Pounds)	5.18%	6.12%	5.89%
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£87,000,000 (Eighty Seven Million Pounds)	5.14%	6.09%	5.85%
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£75,500,000 (Seventy Five Million Five Hundred Thousand Pounds)	5.21%	5.22%	5.05%
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£76,500,000 (Seventy Six Million Five Hundred Thousand Pounds)	6.91%	6.91%	6.60%
<b>Totals</b>		<b>£407,250,000 (Four Hundred and Seven Million Pounds)</b>	<b>5.62%</b>	<b>6%</b>	<b>5.78%</b>

## 1.9 Valuations undertaken based on “special assumptions”

The valuations detailed below should be considered in the context of our comments under paragraph 1.2.

### 1.9.1 Market Value assuming vacant possession throughout

We are of the opinion that the Market Value of the 2 freehold and 3 leaseholds interests in the Properties, on the “special assumption” that vacant possession is available throughout, as at 10 October 2005, subject to the assumptions and comments in this Report and the Appendices are:-

Address	Tenure	Market Value Assuming Vacant Possession Throughout
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£67,000,000 (Sixty Seven Million Pounds)
Skipton House, 80 London Road, Southwark	Freehold	£70,500,000 (Seventy Million Five Hundred Thousand Pounds)
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£71,000,000 (Seventy One Million Pounds)
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£59,500,000 (Fifty Nine Million Five Hundred Thousand Pounds)
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£63,000,000 (Sixty Three Million Pounds)
<b>Totals</b>		<b>£331,000,000</b>

### 1.9.2 Market Rent

We are of the opinion that the Market Rent based on the “special assumption” the Properties are vacant, as at 10 October 2005, subject to the assumptions and comments in this Report and the Appendices are:-

Address	Tenure	Market Rent
St Georges Court, 2 – 28 New Oxford Street and 2 – 12 Bloomsbury Way, London	Leasehold (121 years)	£5,832,000
Skipton House, 80 London Road, Southwark	Freehold	£4,903,500
Guinness Headquarters, First Central Business Park, Park Royal	Leasehold (146 years)	£4,669,000
68 King William Street and 42 – 44 Gracechurch Street, London	Freehold	£4,014,500
Trinity Bridge House, 2 Dearmans Place, Salford, Manchester	Leasehold (142 years)	£4,680,000
<b>Totals</b>		<b>£24,099,000</b>

We have assessed Market Rent in accordance with Practice Statement 3.4. Under these provisions the term “Market Rent” means ‘The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.’

Alternatively the Estimated Rental Value is defined as the rent that will be achievable, based on comparable evidence, as if the property were let at the date of valuation on the current lease terms, having regard to any detailed rent review provisions creating a hypothetical rent at rent review, and excluding any ‘upwards only’ rent review provisions within the lease.

#### **1.10 Confidentiality and disclosure**

The contents of this Valuation Report and its appendices are confidential to the parties to whom they are addressed, are for their use only and for the specific purpose of the Transaction. In respect of any unnamed party which may become involved in any offer or circular at some future date who are not specifically identified by name, no reliance may be placed on this Report and its appendices until such time as the identities of all such parties are notified to us in writing and it is further confirmed in writing that all such parties have seen the entirety of this Valuation Report and the letter of instruction. Consequently, and in accordance with current practice, no responsibility is accepted to any other party in respect of the whole or any part of their contents.

Before this Valuation Report, or any part thereof, is reproduced or referred to, in any document, circular or statement, and before its contents, or any part thereof, are disclosed orally or otherwise to a third party, the valuer’s written approval as to the form and context of such publication or disclosure must first be obtained. Such publication or disclosure will not be permitted unless, where relevant, it incorporates adequate reference to the Special Assumptions referred to herein. For the avoidance of doubt such approval is required whether or not DTZ Debenham Tie Leung Limited are referred to by name and whether or not the contents of our report are combined with others.

Yours faithfully

**PAUL WOLFENDEN**

Chartered Surveyor

Director

For and on behalf of

DTZ Debenham Tie Leung

## **2 St Georges Court, 2-28 New Oxford Street and 2 – 12 Bloomsbury Way, London, WC1A 2SH (the “Property”)**

### **2.1 Location and situation**

The Property is located within the administrative area of the London Borough of Camden, an area that incorporates much of the Mid Town area between the City and the West End of London.

New Oxford Street is a busy thoroughfare extending in an easterly direction from the junction of Oxford Street/Tottenham Court Road and High Holborn. Road communications are good, with New Oxford Street forming part of the A40, which in turn provides access to the main arterial routes out of central London.

The transport facilities are also good with both Tottenham Court Road (Northern and Central Lines) and Holborn (Central and Piccadilly Lines) underground stations nearby. In addition, both Euston and Kings Cross/St Pancras main line railway stations are accessible to the north of the Property.

The Property occupies a prominent triangular shaped island site bound by New Oxford Street to the south, Bloomsbury Way to the north and Bury Place to the east. The immediate vicinity comprises a mix of commercial and residential uses and the British Museum is located a short distance to the north.

Photographs, plans, and an Ordnance Survey extract are attached at the rear of this report section.

### **2.2 Inspection**

The Property was externally inspected only, internal access was not available due to security restrictions in place by the tenant, the Secretary of State for Defence. DTZ previously inspected and valued the building during 2002 we have relied on information contained on file and supplied by the Borrower for all internal areas and reserve our right to revisit this report when access is available. The previous inspection was carried out prior to the building refurbishment.

### **2.3 Description and construction**

The Property comprises a substantial 10 storey office and retail building arranged over lower ground, ground and eight upper floors totalling approximately 15,478.72 sq m (166,617 sq ft). We estimate that the Property was originally constructed in the late 1940's, of a framed construction, with solid concrete floors with red brick elevations and Portland stone to the ground and first floor façade. The building steps in at the seventh and eighth floors. The floor to ceiling height on the ground to fifth floors is approximately 2.5 m (8 ft) and is slightly lower at 2.2 m (7 ft) on the sixth to eighth floors.

We understand the Property underwent a substantial refurbishment circa 2002, in accordance a detailed specification retained on file, we comment that our previous inspection was carried out prior to refurbishment works. Our discussions with the current building Manager indicate these works were completed. We reserve our right to revisit this report when access is available. We set out below the main works to that were undertaken:

The stone work and brickwork underwent remedial repair and cleaning. The existing windows were replaced throughout with double glazing metal units. The main entrance to the office area is now through the Bloomsbury Way entrance. There is a reception area with a 24 hour security guard, set behind a secure barrier; Five new 21 person passenger lifts are now located in the central core.

Another stairwell was constructed to form an escape stair to New Oxford Street, whilst two staircases act as fire fighting stairs with fire fighting lifts adjacent.

We have utilised floor areas provided by the Borrowers. The office floors provide predominantly open plan floor plates averaging approximately 1,690 sq m (18,192 sq ft). The floors provide the following specifications.

- New metal perforated acoustic suspended ceiling tiled with recessed Category II light fittings. The external perimeter of the ceiling form a bulkhead to stop 300 – 450 mm from the windows to allow them to pivot for cleaning;
- Raised floors provided to all open plan office areas. The basement areas are not being raised;
- A four pipe fan coil air conditioning system provided within the suspended ceiling.

Male and female WC facilities are provided to each floor. We understand that, in terms of disabled WC facilities, the Property complies with DDA Regulations.

We understand that 20 car parking spaces are provided within the basement, externally accessed via Bloomsbury Way.

#### **2.4 Floor areas**

We have been provided with an overall floor area by London and Regional Properties of 166,617 sqm (15,478 sq ft). In accordance with your instructions we have relied upon the floor areas and have not undertaken check measurements.

#### **2.5 Site**

The Property occupies an irregular shaped site with a frontage to New Oxford Street of 96.15 m (315 ft), Bloomsbury Way of 87.57 m (287 ft) and Bury Place of 45.54 m (149 ft) and an approximate site area of 0.231 hectares (0.571 acres).

Our understanding of the site boundary is shown outlined on the attached photocopied extract from the Ordnance Survey. This site plan is for identification purposes only. If verification of the accuracy of the plan is required, it should be referred to your solicitors.

#### **2.6 Condition**

The Property has only been inspected externally and generally appears to present in good condition therefore we have not undertaken a condition survey. Access has not been made available to the building internally, we have made the assumption that the accommodation is as described above and has been maintained in adequate condition.

#### **2.7 Deleterious materials**

The age and style of construction of the Property are such that materials such as high alumina cement concrete, woodwool shuttering, calcium chloride or asbestos may have been used in its original construction, although due to extensive renovation works carried out in recent years we have made the assumption that any materials of an adverse nature would have been removed or isolated in a satisfactory manner.



## **2.8 Environmental matters**

We have made enquiries of the Environmental Health Officer in order, so far as reasonably possible, to establish the potential existence of contamination arising out of previous or present uses of the site and any adjoining sites.

Our enquiries and inspections have provided no evidence that there is a significant risk of contamination in respect of the Property. The Property is situated in an area of commercial rather than industrial uses. Accordingly, we have assumed that no contamination or other adverse environmental matters exist in relation to the Property sufficient to affect value. Other than as referred to above, we have not made any investigations to establish whether there is any contamination or potential for contamination to the Property. A purchaser in the market might, in practice, undertake further investigations than those undertaken by us. If it is subsequently established that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use then this might reduce the value now reported.

Commensurate with our assumptions set out above we have not made any allowance in the valuation for any effect in respect of actual or potential contamination of land or buildings.

## **2.9 Planning**

London Borough of Camden  
Town Hall  
Euston Road  
London  
NW1 2RU

Telephone: 020 7278 4444

We have made verbal enquiries of the local authority and have been advised the Property has planning permission for its current use as offices. Planning permission for the refurbishment of the Property was (ref 0104017 and 0104018) was granted 10 May 2001. We understand that the Property is not subject to any enforcement action. We have been further advised that the Property is not listed but does lie within the Bloomsbury Conservation Area.

We have made enquiries with a view to identifying any highway or development proposals, which are likely to affect the value of the Property. In this regard, we have been advised that there are none.

Planning policy for the area is contained within the Camden Unitary Development Plan, which was adopted 2 March 2000. The Property is located in an area zoned for commercial uses.

## **2.10 Rateable value**

We have confirmed verbally with the Valuation Office Agency (VOA) the rateable value at 1 April 2005 is £4,000,000. We comment that the VOA list the Property's address as 2-12 Bloomsbury Way.

## **2.11 Tenure**

Retained on file are draft copies of the Report on Title (now dated) and head lease. We understand that the Property is held leasehold in accordance with the terms detailed below:-

**Demise:** St Georges Court, New Oxford Street/Bloomsbury Way, London, WC1.

<b>Lease date:</b>	28 March 2001
<b>Lessor:</b>	Her Majesty and her Successors and The Crown Estate Commissioners and any other person charged with the management of the Crown Estate.
<b>Lessee:</b>	London & Regional (St. Georges Court) Limited.
<b>Term:</b>	125 years expiring on 4 January 2126.
<b>Current passing rent:</b>	£575,651 per annum.
<b>Next rent review dates:</b>	12 November 2007
<b>Rent review basis:</b>	Upwards only every five years subject to the usual assumptions and disregards. The reviewed rent shall be the rent immediately before the review date or (if greater) 5% of the Estimated Rental Value. The variable rent is the rent representing 10% of the net rents receivable.
<b>Repairing obligations:</b>	The tenant is to keep the premises at all times in good and substantial repair and condition and in a clean and tidy condition. The tenant is to clean the exterior stonework, brickwork and concrete work in 2014 and every twelfth year thereafter and is to paint any exterior parts in 2006 and every fourth year thereafter.
<b>Insurance provisions:</b>	The tenant is to insure the premises under the joint names of the tenant and the landlord except for so long as the underlease to the Secretary of State for Defence subsists and the under tenant is the Secretary of State for Defence.
<b>User:</b>	Retail parts: use for retail and/or office and/or restaurant purposes within Class A1, A2, A3 and/or B1(a).  Office parts: use for offices within Class B1(a) together with ancillary car parking and storage or for such other commercial use as the landlord may approve (not to be unreasonably withheld).
<b>Alterations:</b>	The tenant is not to carry out any alterations other than 'permitted alterations' and 'approval alterations'. Permitted alterations include the alteration and removal of demountable partitions that do not affect the structure of the Property and minor alterations to any conduit or facility.  Approval alterations cover the alteration to the interior of the Property or a conduit or facility, which does not affect the appearance of the Property. The tenant must submit drawings and specifications to the landlord and obtain landlord's consent for approval of alterations.
<b>Alienation:</b>	Assignment of part is prohibited. Assignment of whole is prohibited prior to the later of the date on which the Commissioners' surveyors certify a completion under the Building Agreement and the date upon which the Ministry of Defence lease is granted. Assignment of

whole is also prohibited during the last seven years of the term. As conditions to assignment the proposed assignee must be respectable and responsible in the reasonable opinion of the landlord or the tenant must enter into an Authorised Guarantee Agreement with the landlord.

The tenant cannot underlet the whole premises without prior written approval of the landlord (not to be unreasonably withheld). The number of occupiers must not exceed five on any one floor or 20 in aggregate. The proposed under tenant must covenant by deed with the landlord to perform all provisions of the underlease and the underlease must be a permitted underlease granted without a fine or premium with the proposed rent being not less than Open Market Rent.

**Service Charge:** Not applicable.

## 2.12 Tenancy

Retained on file is a copy of the draft Agreement granted to the Ministry of Defence, we have detailed the primary terms below together with information provided within a recent tenancy schedule:-

**Demise:** St George's Court, New Oxford Street/Bloomsbury Way, London, WC1.

**Lease date:** 22 January 2003

**Lessor:** London & Regional (St George's Court) Limited.

**Lessee:** Secretary of State for Defence.

**Term:** 20 years from 12 November 2002.

**Current passing rent:** £5,779,009 per annum (£5,756,510 + £22,499)

**Next rent review dates:** 12 November 2007 and every five years thereafter.

**Rent review basis:** Upwards only every five years to the Estimated Rental Value subject to the usual assumptions and disregards.

**Repairing obligations:** The tenant is to repair, maintain, clean and otherwise keep in good and substantial condition the premises. The tenant is to clean all outside stone work, brick work and concrete work in the year 2014 and in the last year of the term. The tenant is to paint all outside parts in the year 2006 and every fourth year thereafter.

**Insurance provisions:** The head tenant is to insure and keep insured the premises other than plate glass) against loss or damage by insured risks to the full cost of rebuilding/reinstating the premises, with the under tenant responsible for the cost of premiums, except for so long as the underlease to the Secretary of State for Defence subsists and the under tenant is the Secretary of State for Defence.

**User:** The tenant is to use the premises for retail and/or office and/or restaurant purposes within Class A1, A2, A3 and/or B1(a) in relation

to the retail parts and as offices within Class B1(a) in relation to the offices.

**Alterations:** The tenant is not to erect any new buildings nor make any structural alterations to the premises or load bearing part. The tenant is to make no additional alteration, which affects the exterior or the external appearance of the premises but may make internal non-structural alterations with consent from the landlord.

**Alienation:** Assignment of part is prohibited. The tenant is not to assign the whole of the premises without qualified consent of the landlord. The proposed assignee must be capable of carrying out the covenants under the tenant's lease, the tenant must enter into an Authorised Guarantee Agreement with the landlord and the assignee may have to provide guarantors.

The tenant can underlet the whole or parts of the premises with qualified consent of the landlord. Any underletting must be at the best rent obtainable in the open market without taking a fine or premium. The tenant must obtain a guarantor for the under tenant and the number of occupiers must not exceed five on any one floor or 20 in aggregate.

**Service Charge:** The tenant is to pay sums expended by the landlord in Insuring the premises.

**General Comments:** The lease is a new lease within the meaning of the Landlord and Tenant (Covenants) Act 1995.

We note there is a lease to London Power relating to a transformer chamber in the Property basement. The lease term is 99 years expiring 2101 on a peppercorn rental (5 pence if demanded). We refer you to the lease schedule at the end of this report section.

### **2.13 Market commentary**

We refer you to Appendix D at the rear of this report.

### **2.14 Specific comments and valuation approach**

The Property comprises a prominent office building arranged over basement, ground and eight upper floors, situated on a triangular shaped island site. The Property is held by way of a long leasehold interest for a term expiring on 4 January 2126 (approximately 121 years un-expired) at a passing ground rent of £575,651 per annum. The ground rent is subject to a five year upward only rent review pattern, to the greater of 5% of the Estimated Rental Value or 10% of the net rent receivable. There is a lease to London Power relating to a transformer chamber in the Property basement. The lease term is 99 years expiring 2101 on a peppercorn rental (5 pence if demanded). We refer you to the lease schedule at the end of this report section.

The Property (excluding the transformer chamber in the basement) is let to the Secretary of State for Defence, an undoubted covenant, for a term of 20 years (17 years un-expired) at a passing rent of £5,779,009 per annum exclusive. Of this amount only £5,756,510 is subject to the ground rent calculation as set out above, the balance (£22,499) represents an allowance for enhancements that has been costed and amortised over life of the lease. The lease is subject to a tenant's break option at the end of the fifteenth year (12 November 2017). The lease is subject to a five year upward only rent review pattern in parallel with the head lease. For the purpose of this valuation we have adopted

those floor areas provided to us by the Borrower, although comment that we have not internally sighted the building and are unable to confirm these measurements.

DTZ Research indicates that prime rents in Mid Town are generally in the range of £320 - £430 per sq m (£30 - £40 per sq ft). The passing rent is £5,779,009 per annum (gross), equates to £380 per sq m (£35 per sq ft). In arriving at our opinion of Estimated Rental Value, we have applied £355 per sq m (£33 per sq ft) as an average across the whole building, we therefore consider the building is marginally over rented. We note that there has been a dearth of transactions involving areas as large as the Property, therefore we have made the necessary allowances to account for variations between our evidence and the Property. We refer you to our schedule of comparable evidence at the end of this report in Appendix D, in particular we mention the following recent lettings:

Chancery Exchange, 10 Furnival Street, EC4 was let to AYH Ltd, a construction firm. The transaction involved 3,172 sq m (34,138 sq ft) of office space let on a 15 year term. The headline rental rate for this property was £376.64 per sq m (£35 per sq ft). After consideration of the 26 month rent free period this equates to a net effective rent of £322.28 per sq m (£29.95 per sq ft). This building is considered not as good as the subject given the age of the improvements and the level of amenity.

Dial House at 151 Shaftsbury Avenue was let to British Race Horseracing Board in July 2004. This property has good exposure to passing traffic being located on a main thoroughfare. The transaction involved 1,655 sq m (17,814 sq ft) of office space let for 10 years. The headline rent achieved was £425.17 per sq m (£39.50 per sq ft). There was an 18 month rent free period, which equated to a net effective rental of £361.45 per sq m (£33.58 sq ft). The improvements are older than the subject and the area substantially smaller than the subject.

The lease is drawn on a full repairing and insuring basis and it is therefore unlikely that the landlord will suffer from any shortfall or non-recoverable expenditure during the term of the lease to the Ministry of Defence.

In adopting a yield we have given consideration to the covenant strength of the tenant, the length of lease and quality of building. We have applied an equivalent yield of 5.60%, considered at the lower end of current market sentiment although reflective of the security of income. We refer you to the comparable evidence attached in Appendix D, in particular we mention the following sales, considered the most comparable although overall considered inferior in nature, therefore we have extrapolated this data to arrive at our equivalent yield:

26 South Hamptons Buildings, High Holborn Street, WC2 1BP sold in August 2005 for £85,483,870. The property comprises predominately office accommodation with retail space on the ground floor. It has a total area of 14,859 sq m (160,000 sq ft), which produces an annual rental income of approximately £5,300,000. The main tenants include Natwest, Financial Dynamics Ltd, Pinemont Securities Ltd, Hogg Robinson Ltd and Zanasa plc. Lease expiries within the building occur between 2007 and 2018. Property is considered to have a superior location but inferior tenant mix and lease expiry profile.

Another building, which changed hands, was the Staple Inn Buildings in High Holborn Street, WC1V. Comprising a late 1800's part six level office building with ground level retail, this property was sold to a private investor for £20,500,000 reflecting a net initial yield of 5.8%. The property occupies a site area of 0.32 hectares (0.79 acres) with a building area of 3,997 sq m (43,027 sq ft), which comprises office and retail accommodation. The building occupies a prominent position on High Holborn Street. Covenant strength is considered not quite as good as the subject and is within a smaller price bracket.

In addition to the market value reported we have, as requested provided a vacant possession value although comment that having regard to the strength of tenant covenant, the likelihood of early termination is negligible. Our vacant possession value is a notional value based on the assumption that the building is let to four tenants on 10 year leases with a total Market Rental Value of £5,832,000 equating to an average rental of £377 per square metre (£35 per sq ft) across the building. We have adopted a slightly higher rental rate per sq ft to reflect the offering of reduced floor areas. We have based our assumption of the property being let to four separate tenants on the basis that smaller areas more readily let in the current market. We have adopted void periods ranging between 9-18 months. and the rent free periods of 12 months for each notional tenant, which has been confirmed by our specialist office leasing team. . Our adopted equivalent yield of 6.15% reflects the adopted void periods, rent free periods and risks associated in attracting new tenants to the building. We refer you to our valuation printouts at the end of this report for full valuation calculations.

The Property is situated in a sector of the investment market that has seen considerable activity over the past twelve months and we therefore consider that if the Property was offered to the investment market, there would be considerable demand, particularly due to the strength of the sitting tenant and un-expired lease term. Finally, we confirm that in our opinion, the interest valued in this report provides a suitable security for loan purposes.

**Summary table**  
**ST GEORGES COURT, 2-28 NEW OXFORD STREET, LONDON WC1**  
**DETAILS AS AT 10 OCTOBER 2005**

<b>TENANT</b>	<b>LEASE TERMS</b>	<b>FLOOR /USE</b>	<b>AREA NIA<sup>(1)</sup></b>		<b>Rateable value</b>	<b>CURRENT RENT £ per annum excl.</b>	<b>ESTIMATED RENTAL VALUE £ per annum excl.</b>	<b>COMMENTS</b>
Secretary of State for Defence	20 years from 12 November 2002 subject to a five year upward only rent review pattern and a tenant's break option at the end of the fifteenth year.	Office / Whole	15,478.72	166,617	£4,000,000	£5,779,009	£5,522,000	The basement incorporates twenty car parking spaces
London Power Networks PLC	99 years from 2 December 2002	Basement/ transformer chamber	N/A	N/A	N/A	5 Pence (if demanded)	N/A	Peppercorn rental relating to transformer chamber.
London & Regional (St. Georges Court) Limited	125 years expiring subject to five yearly rent reviews. The reviewed rent shall be the rent immediately before the review date or (if greater) 5% of the ERV. The variable rent is the rent representing 10% of the net rents receivable.	Leasehold interest	N/A	N/A	N/A	(£575, 651)	N/A	Leasehold Interest in the Property. Lessor is the Crown Estate Commissioners.

<b>TOTAL</b>			<b>15,478.72</b>	<b>166,617</b>		<b>£5,203,358</b>	<b>£5,522,000</b>	
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Notes:

- (1) As instructed, we have utilised the floors areas provided by the Borrower for the purposes of our valuation. We have assumed that these areas have been measured and calculated in accordance with the Code of Measuring Practice prepared by the Royal Institution of Chartered Surveyors.



### **3 Skipton House, 80 London Road, London SE1 6LW (The “Property”)**

#### **3.1 Location and situation**

The Property is located within London in the Borough of Southwark. More specifically the Property is situated on the east side of London Road, in close proximity to the main Elephant and Castle roundabout. In addition the property is located approximately 1.5 kilometres south of the River Thames and within 3 to 4 stations on the underground to the City and the West End.

In the immediate vicinity is part of the South Bank University to the north and Newington Causeway to the east. Located to the south of the Property is one of the many entrances to the Elephant and Castle Underground Station and Shopping Centre.

The main occupiers within the area include the South Bank University, the London College of Printing, the Imperial War Museum and Government Offices. The main land use is residential, with a mix of large Council housing estates and private terraced dwellings. In addition there are large areas of office and industrial development. In close proximity of the Property is the Elephant and Castle Shopping Centre, which includes a cinema, bingo hall, restaurant and office uses.

Photographs, plans and an Ordnance Survey extract are attached at the end of this report section.

#### **3.2 Description and construction**

Skipton House consists of a basement, ground and six upper floors. The Property is an office building that was constructed in the early 1990's with a total floor area of 20,247 sq m (217,941 sq ft).

The building is of steel frame construction with reinforced concrete floors under a low pitched suspended concrete roof. The external walls are finished with part polished granite cladding and part glazed curtain walling set between large sealed aluminium framed double glazed window units. The atrium roof is of steel frame construction with strengthened glazing.

Internally the Property provides regular shaped floor plates configured around a central atrium and at each level there are a number of terraces facing into the atrium creating informal open meeting areas.

The building at each level provides fully accessible metal raised floors, commercial grade carpet floor tiles, part vinyl covered and part emulsion painted walls and columns, hardwood door finishes, suspended ceilings, flush category 2 lighting integrated into the suspended ceilings, double glazed window units and four pipe fan coil air conditioning system dispersed through ceiling void.

The Property has two main cores, which are located at opposite corners of the atrium. Each of these cores contain internal lifts, wall climbing lifts, staircases and male and female toilets. In addition there are two more service cores, which contain staircases and lifts.

Access from the street to the building is provided via two sets of electrically operated sliding glass doors.

Currently, Skipton House is utilised as office accommodation from the second floor upwards. First floor level is used as a conference facility and at ground floor level is the computers rooms, staff restaurant, a gymnasium and a library. The basement provides 77 marked car bays along with ancillary storage areas. The car parking area is accessed via a security controlled ramp/service road off Ontario Street to the north of the property. A bridge situated at ground floor level crosses the

lower ground roadway and provide access to the car park and links the adjacent property, South Bank University.

### 3.3. Floor areas

We have been provided with the following floor areas by the Borrower. In accordance with your instructions we have relied upon the floor areas and have not undertaken check measurements. The floor areas are summarised as follows:

Net Internal Area

DEMISE	FLOOR AREA (SQ FT)	FLOOR AREA (SQ M)
6	27,320	2538
5	<b>32,075</b>	<b>2979.8</b>
4	32,424	3012.2
3	32,894	3055.9
2	33,366	3099.7
1	26,898	2498.8
Ground	23,640	2196.2
<b>Total</b>	<b>208,617</b>	<b>19,380.6</b>
Terraces	1,980	183.9
Atrium	7,344	682.3
<b>Grand Total</b>	<b>217,941</b>	<b>20,246.8</b>

### 3.4 Site

The Property occupies an irregular shaped site with a frontage to London Road of 64.32 m (692.34 ft) and an approximate site area of 0.622 hectares (1.537 acres).

An Ordnance Survey extract showing the boundaries of the property edged in red is attached at the rear of this report. This site plan is for identification purposes only. If verification of the accuracy of the plan is required, it should be referred to your solicitors.

### 3.5 Condition

The Property appears to have been well maintained having regard to its age, use and construction. However, we have not undertaken a condition survey and we would draw your attention to Appendix C.

### 3.6 Deleterious materials

The age and style of construction of the subject property are such that materials such as high alumina cement concrete, woodwool shuttering, calcium chloride or asbestos are unlikely to have been used in its original construction or subsequent alteration. We would draw your attention to item 2 of Appendix C.

### 3.7 Environmental matters

We have made verbal and written enquiries of the Pollution Control Team in order, so far as reasonably possible, to establish the potential existence of contamination arising out of previous or present uses of the site and any adjoining sites. At the time of writing we await their response.

Commensurate with our assumptions set out elsewhere in the report we have not made any allowance in the valuation for any effect in respect of actual or potential contamination of land or buildings.

### **3.8 Planning**

London Borough of Southwark  
Town Hall, Peckham Road  
London SE5 8UB

Telephone: 020 7525 5000

Planning policy for the area is contained within the London Borough of Southwark Unitary Development Plan, which was adopted in 1995. The revised development plan is at planning enquiry and an inspectors report is expected in Summer 2006. We have made verbal enquiries of the local authority and have been advised that the property has consent for its current use and is within an employment area in which the council seek to maintain employment uses. We were further informed that the property is not subject to any enforcement action and there are no outstanding planning applications. The subject property is not listed nor in a Conservation Area.

### **3.9 Rateable value**

The general Non-Domestic Rating Multiplier for the fiscal year 2005/6 for England has been set at 42.2 pence.

The rateable value for the Property as at 1 April 2005 is £2,160,000.

### **3.10 Tenure**

We have been provided with a copy of the draft Certificate of Title. Save as disclosed in the draft Certificate on Title we understand that the property is held freehold, free from rent charge, restriction as to use, title or occupation and free from any other restriction which may affect value. We have not had sight of the title deeds.

The transferee (at the time of the agreement Tegel 1 Real Estate BV (1), the previous owners) are responsible to pay and contribute on written demand 32% of the costs and expenses fully incurred by the transferor in the repair and maintenance of the car park access, which includes the roadway beneath the bridge.

There is an agreement with London Underground Limited which allows access on foot only to cross and re-cross over a portion of their land to gain access to the property but so as not to interfere with the construction of the new means of exit from the station.

### **3.11 Tenancy**

We have been provided with a copy of the occupational lease, and have detailed the primary terms below.

The entire property is let to the Secretary of State for the Environment under the terms of a lease dated 7 May 1992. The lease was varied in consideration for the tenant agreeing to enter into a reversionary lease by way of Deed of Variation dated 18 February 2000. The Reversionary Lease is dated 18 February 2000 and commences on 7 May 2007 and is in a similar form to the original lease. A further Deed of Variation dated 20 December 2001 varied the term of the reversionary lease so

that it expires on 19 December 2016, and also incorporates fixed uplifts in the rent instead of open market rent reviews.

We understand that the Reversionary Lease will be a new lease under the Landlord and Tenant (Covenants) Act 1995. Therefore privity of contract is enjoyed by the Landlord up to 6 May 2007 when the original lease expires, only and not during the reversionary lease.

We have been provided with summary details of the above mentioned documents and the provisions are as follows:

<b>Demise:</b>	Skipton House, 80 London Road, London
<b>Lessee:</b>	The Secretary of State for the Environment
<b>Term:</b>	The original lease was for a term of 15 years from 7 May 1992, expiring on 6 May 2007. The Reversionary Lease, commences on 7 May 2007 and expires on 19 December 2016, thus there are presently just over 10 years and 4 months left.
<b>Current passing rent:</b>	£4,500,000 per annum exclusive, payable quarterly in advance.
<b>Next rent review dates:</b>	6 June 2007 and every 5 years thereafter.
<b>Rent review basis:</b>	Fixed uplifts at five yearly intervals at 3.0% per annum compound. From 6 May 2007 the rent will increase to £5,216,733 per annum and from 6 May 2012 it will increase to £6,047,624 per annum. All references to the rent review clause in the lease and reversionary lease are to be disregarded.
<b>Repairing obligations:</b>	<p>The lease is drawn on full repairing and insuring terms, under which the tenant covenants "...at all times during the Term to repair, cleanse and keep the whole of the Demised Premises... in good and substantial repair and condition..." including the car park and access bridge.</p> <p>The tenant covenants to yield up the premises at the end or sooner determination of the term of the reversionary lease in good and substantial repair in accordance with the tenant covenants and by reference to the standard of repair at the date of the original lease.</p> <p>Specifically, the tenant covenants to decorate externally every 5 years and internally every 7 years.</p>
<b>Insurance provisions:</b>	<p>The landlord covenants to insure the premises to the full reinstatement value, plus 4 years' loss of rent, with provision for the tenant to reimburse the cost.</p> <p>However, while the Secretary of State is the tenant or until the premises have been assigned or are wholly underlet, the landlord is not obliged to insure the premises.</p>
<b>User:</b>	The tenant covenants not to use the premises for any purpose other than as "...offices and uses ancillary thereto".

**Alienation:**

Subject to various conditions, assignment of the whole only is permitted. By reference to the earlier Deed of Variation, the lease has been amended to state that if the lease is assigned, the assignee must also take a simultaneous assignment of the Reversionary Lease. The landlord may refuse consent if the proposed assignee in the landlords reasonable opinion is not of sufficient financial standing or unless a guarantor of the tenant enters into a deed of guarantee of the obligations of the tenant contained within any authorised guarantee agreement (AGA).

Underletting of the whole or of a Permitted Part is permitted. A Permitted Part is defined as “one or more whole floors of the Demised Premises or a part of a floor which shall be capable of being occupied and used as a separate self-contained unit with all necessary and proper services”. Occupation by up to 20 sub-tenants in total is permitted, the current tenant counting as one.

**Right of Pre-emption:**

The Tenant has a right of pre-emption in the event that the Landlord wishes to sell the Freehold Interest. This right is personal to the Secretary of State only. Should the landlord wish to sell, the lease specifies a procedure to be followed for first offering the property to the tenant. Should the tenant wish to buy, then this shall be at full market value.

We have not discounted the current value of the property on account of this right. Although it could be argued that the existence of such a right potentially damages the landlord’s ability to choose the timing and means of marketing. In practice the disadvantages are ephemeral, particularly as the tenant is obliged to pay full market value.

**3.12 Market commentary**

We refer you to appendix E at the rear of this report.

**3.13 Specific comments and valuation approach**

The Property comprises a 1990’s style office building let to an undoubted covenant, The Secretary of State for an unexpired term of 10 years and four months. The 20,247 sq m (217,941 sq ft) is utilised predominately as office accommodation with the exception of the ground and first floors, which are used for conference rooms, staff restaurant, computer rooms, gymnasium and a library.

Based on the floor areas provided, the passing rent of £4,500,000 per annum equates to £222.26 per sq m (£20.65 per sq ft) overall. The Property is in our opinion almost rack rented at £222.26 per sq m (£20.65 per sq ft) which reflects that the building is slightly dated and its location.

This assumption is supported by the rental evidence in Appendix D. As illustrated rents for offices in fringe city areas are generally in the region of £296.01 per sq m (£25 per sq ft) to £431 per sq m (£40 per sq ft) depending upon the quality of the accommodation and the location. There has been limited evidence of transactions involving an area as large as the subject. Therefore we have extrapolated the available evidence to ascertain our opinion of ERV, this evidence is detailed below and in Appendix D.

4 More London Riverside, London SE1 2AP, was let in October 2004 by DTZ Debenham Tie Leung who acted on behalf of Lawrence Graham who took 11,613 sq m (125,000 sq ft) of office space from More London Development Ltd on a 25-year lease at a rent of £5,000,000 per annum, equating to £431 per sq m (£40 per sq ft), subject to a break option at the 20<sup>th</sup> year. This transaction involved a brand new building in a superior office locality. Lawrence Graham will take occupation in 2007 when the building is complete. The building has a total area of 13,940 sq m (150,000 sq ft) over ten levels. We have considered this transaction in our analysis given the quantum of space taken.

185 Park Street, London SE1 9DY this property was let in April 2005 to Iris Nation Ltd. They took 1,858 sq m (20,000 sq ft) of part first, part second, part third and part fifth-floor of office space within the North Block on a three-year lease expiring September 2008, at £500,000 per annum, equating to £269.10 per sq m (£25 per sq ft). Again this property is considered a better office locality although the improvements are dated and considered inferior to the subject property. The building has a total area of 8,361 sq m (90,000 sq ft). The quantum of space is substantially less and the lease term shorter, hence the higher rate per sq ft.

Cottons Centre, Hays Lane, London SE1 2QF was let to Pearson Government Solutions Ltd in January 2005, they took 2,028 sq m (21,830 sq ft) of fourth-floor office space from St Martins Property Investment Ltd on a 10-year and seven months lease at a rent of £600,325 per annum, equating to £296.01 per sq m (£27.50 per sq ft). It is also subject to five yearly rent reviews. This property is located on the waterfront and is considered a better locality but a dated style. The Cottons Centre comprises more than 27,870 sq m (300,000 sq ft) of offices and the occupiers include Risks Group Ltd, Iron Mountain and Canada Imperial Bank of Commerce. Again this transaction is for a substantially smaller area, which is reflected, in the higher rate.

Having regard to the comparable rental evidence outlined in Appendix D, we have applied an overall rate of £242.21 per sq m (£22.50 per sq ft).

From an investment point of view this holding is particularly attractive, given the property is let to a government tenant for a remaining 10 years and four months. The most likely investor would be an institutional investor or large property company who is prepared to wait for rent and capital growth.

In arriving at our opinion of Market Value, we have applied an equivalent yield of 5.89% and a net initial yield of 5.18%, which we believe reflects the secure nature of the covenant in place and the guaranteed income stream. In adopting these yields we have had reliance on a number of transactions, which are provided within Appendix D. Discussed below, is the most comparable piece of evidence:

The following two buildings were acquired by a private investor in August 2005. The properties include Sampson House and Ludgate House, both in SE1. Sampson House comprises 35,886 square metres (386,288 sq ft) of office accommodation leased to IBM (UK) Limited until December 2025. This property produces an annual rental income of £8,000,000 and was purchased for £150,500,000, which produces a net initial yield of 5.32%. The annual rental income of this property will increase to £9,000,000 in December 2005. The covenant in place is considered strong and the building is a similar age to the subject. Ludgate House has 16,131 square metres (173,633 sq ft) of office accommodation with a total rental income of £4,870,000 expiring March 2005. The property is leased to United Business Media plc.. Ludgate House was purchased for £78,500,000, which reflects a net initial yield of 6.20%. Overall the building is a similar age to the subject but the lease covenant is considered not as good as the subject's lease to a government tenant, which is reflected in the above yield.

Overall the total purchase price for the two buildings was £229,000,000, which produced a net initial yield of 5.9%. The higher yield reflects the inferior lease covenants and a slight discount for acquiring the two buildings together rather than separately.

In addition to the market value reported we have, as requested provided a vacant possession, although comment that having regard to the strength of tenant covenant, it is unlikely that the tenant will terminate. Our vacant possession value is a notional value based on the assumption that the building is let to seven tenants on 5 and 10 year terms with a total Market Rental Value of £4,903,500 equating to an average rental of £242.21 per square metre (£22.50 per sq ft) across the building. We have based our assumption of the property being let to seven separate tenants on the basis that smaller areas more readily let in the current market, which is also supported by our market transactions detailed above and in Appendix D. We have adopted void periods ranging between 12 to 18 months. and rent free periods of between 12 and 24 months depending on the term of the lease. We have also factored in acquisition costs at 5.76%. These void and rent free period have been confirmed by our specialist office leasing team who concur that these assumptions reflect the current market. Our adopted equivalent yield of 5.79% reflects the adopted void periods, rent free periods and risks associated in attracting new tenants to the building. We refer you to our valuation printouts at the end of this report for full valuation calculations.

Finally, we are pleased to confirm that the interest valued in this report provides suitable security for loan purposes.

**Summary table**  
**Skipton House, 80 London Road, London SE1 6LW**  
**Details as at 10 OCTOBER 2005**

Description/ Floor/ Tenant	Terms of lease		Floor/use	Area NIA <sup>(1)</sup>		Rateable value	Current rent £ pa excl	Estimated rental value £ pa excl	Rent review frequency (date of next review)
	From	To		sq m	sq ft				
Whole Building	7 May 1992	19 December 2016	Office	20,246.8	217,941	£2,160,000	£4,500,000	£4,904,000	5 yearly
Totals				<b>20,4246.8</b> sq m	<b>217,941</b> sq ft	<b>£2,160,000</b>	<b>£4,500,000</b>	<b>£4,904,000</b>	

**Notes:**

- (1) As instructed, we have utilised the floor areas provided by London and Regional Properties for the purposes of our valuation(s). We have assumed that these areas have been measured and calculated in accordance with the current Code of Measuring Practice prepared by the Royal Institution of Chartered Surveyors.



## **4 Guinness HQ, Block A, First Central Business Park, Coronation Road, Park Royal, London NW10 7RR (the “Property”)**

### **4.1 Location and situation**

Park Royal is located approximately 11.2 kilometres (7 miles) west of central London, 3.2 kilometres (2 miles) south west of Wembley and a similar distance north east of Ealing. The area has been an established industrial location since the 1930s and is particularly popular with service industries involved in food preparation. However, the largest employer in Park Royal is still Guinness Ltd who occupy a manufacturing/distribution plant on Coronation Road. A recent report by North West London Tec has also identified the significant growth of the hospitality sector in the area, which is expected to be influenced by the planned redevelopment of Wembley Stadium and associated spin-off developments.

Road communications are excellent with the A40 almost adjacent to the Property providing access to the North Circular Road (A406). The M1 and M4 motorways are located within five miles of the Property. The area is also well served by London Underground stations with Park Royal Station (Piccadilly line) situated close by. In addition, as part of the First Central development, we understand that a new Park Royal Central line station will be built next to the proposed scheme to accommodate the increase in passenger numbers as a result of the business park development. We also understand that there will be enhanced bus services to the site, along with a new bus interchange.

The site itself is bound by Coronation Road to the south and west, the Guinness brewery and distribution site to the east and Twyford Abbey Road to the north. The immediate area is characterised by light industrial units to the east and residential accommodation to the north/north east.

Photographs, location plans and an Ordnance Survey extract are attached at the rear of this report section.

### **4.2 Description and construction**

The Property forms part of a comprehensive redevelopment scheme of the former Guinness Brewery site being undertaken by the Borrower. Guinness’ new Coronation Road brewery is adjacent to the site, however there is a definite divide between the brewery and First Central Business Park, with the two sites each having separate entrances. The Guinness headquarters building occupies a plot of land amounting to approximately 2.7 hectares (6.67 acres). The building was completed in 2002 and was understood to have been occupied in December of that year.

The Property comprises a distinctive Grade A category office building on seven storeys above basement car parking comprising approximately 14,267 sq m (155,602 sq ft). Internally, the office specification includes raised floors, suspended ceilings, category 2 lighting and four pipe fan coil air conditioning throughout. Externally, the building is clad in a grey powder-coated aluminium curtain walling system with limestone-clad metal curtain walling on the east, west and north elevations. Other features include a full height glazed atrium ‘street’ which splits the building into two separate sections. Each floor is accessed via four lifts, which open onto bridges linking each side of the building. Floors 4, 5 and 6 wrap all the way around at one end of the building. In addition the building contains three fire fighting lifts and one goods lift. There are 375 underground car parking spaces at basement level and 25 open car parks along the side of the building.

### 4.3 Floor areas

We have been provided with the following floor areas by the Borrowers. In accordance with your instructions we have relied upon the floor areas and have not undertaken check measurements. The floor areas are summarised as follows:

Net Internal Area

DEMISE	FLOOR AREA (SQ FT)	FLOOR AREA (SQ M)
6	17,827	1656.16
5	22,791	2117.38
4	22,791	2117.38
3	20,193	1875.97
2	20,193	1875.97
1	19,430	1805.12
Ground	20,094	1866.84
Lower Ground	12,290	1141.79
<b>Total</b>	<b>155,609</b>	<b>14,456</b>

### 4.4 Site

The development occupies a regular shaped site with an approximate site area of 2.7 hectares (6.67 acres). The Property fronts Coronation Road that is understood to be significantly widened as part of planned infrastructure improvements.

Our understanding of the site boundary is shown outlined in red on the attached photocopied extract from the Ordnance Survey. This site plan is for identification purposes only. If verification of the accuracy of the plan is required, it should be referred to your solicitors.

### 4.5 Condition

The Property appears to have been well maintained having regard to its age, use and construction. However, we have not undertaken a condition survey and we would draw your attention to Appendix C. During the course of our inspection we noted the following defects:-

Minor water damage to the ceiling in the basement stairwell thought to have originated from external planter boxes. This is currently being repaired.

In our opinion, the remedial works associated with the above defects will fall within the repairing obligations of the tenant.

### 4.6 Deleterious materials

The age and style of construction of the Property are such that materials such as high alumina cement concrete, woodwool shuttering, calcium chloride or asbestos are unlikely to/ may have been used in its construction.

### 4.7 Environmental matters

We have made enquiries of the Environmental Health Officer in order, so far as reasonably possible, to establish the potential existence of contamination arising out of previous or present uses of the site and any adjoining sites.

Our enquiries and inspection have provided no evidence that there is a significant risk of contamination in respect of the Property. We understand that prior to the start of construction, the site for the Guinness HQ building was a greenfield parcel of land, which was used for farming up to the 1930s, and as playing fields after that. The Environmental Health Officer was not prepared to answer our enquiries unless they were made in writing and accompanied by an appropriate fee. We await your instructions on this matter. Other than as referred to above, we have not made any investigations to establish whether there is any contamination or potential for contamination to the Property. A purchaser in the market might, in practice, undertake further investigations than those undertaken by us. If it is subsequently established that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use then this might reduce the value now reported.

We have assumed that the information and opinions we have been given are complete and correct in respect of the Property and that further investigations would not reveal more information sufficient to affect value. We consider that this assumption is reasonable in the circumstances. However, purchasers may require further investigations to be made and if these were unexpectedly to reveal additional contamination then this might reduce the value now being reported.

Commensurate with our assumptions set out elsewhere in the report we have not made any allowance in the valuation for any effect in respect of actual or potential contamination of land or buildings.

#### **4.8 Planning**

Ealing London Borough Council  
Planning & Building Control  
Perceval House  
14/16 Uxbridge Road  
London W5 2HL

Tel: 020 8758 5282

We have made verbal enquiries of the local authority, and have been advised that a planning brief for the Guinness site was prepared by both the London Boroughs of Ealing and Brent in April 1996. The major development elements identified were as follows: -

- i) Improved accessibility.
- ii) A quality environment.
- iii) Creation of new employment opportunities.
- iv) Creation of new employment opportunities.
- v) Safeguarding the adjoining residential environment.

Planning policy for the area is contained within the Brent Unitary Development Plan, which was adopted on 14 January 2004. We understand that the Property is not subject to any enforcement action.

#### **4.9 Rateable value**

The general Non-Domestic Rating Multiplier for the fiscal year 2005/6 for England has been set at 42.2 pence.

The rateable value for the Property as at 1 April 2005 is £1,475,000. However this figure is understood to be inclusive of the adjoining brewery.

#### 4.10 Tenure

We understand that the Property is held as long leasehold from Guinness Ltd for a term of 150 years at a fixed ground rent of a peppercorn per annum. We understand that the premium paid by the Borrower to Guinness Ltd was £12,541,247 exclusive of VAT. The salient details are as follows:

<b>Demise:</b>	All that land and premises as shown on the plan annexed to the lease, and specified more particularly under Part 1 of the first schedule of the lease.
<b>Lease date:</b>	31 January 2001
<b>Lessor:</b>	Guinness Limited
<b>Head Lessee:</b>	London and Regional Properties Limited
<b>Management Company:</b>	First Central Management
<b>Term:</b>	150 years
<b>Current passing rent:</b>	One peppercorn
<b>Repairing obligations:</b>	The Tenant covenanted to construct the building on the Property in accordance with the plans and specification annexed to the Agreement for Lease dated 31 January 2001 between the Tenant and the Landlord by the thirty first day of December 2003. In addition to maintain and cultivate any landscaped areas which may lie within the Property and the Tenant must comply with a notice given by the Landlord or First Central Management Company requesting the Tenant to remedy any breach in relation to maintaining and cultivating the landscaped areas.
<b>Insurance provisions:</b>	The tenant is to insure all buildings on the demised premises at all times together with plant and machinery to the full cost of reinstatement.
<b>User:</b>	Not to use the premises during the Estate Development Period (that is 12 years from the date of the Lease) for any other use than for B1 offices, in accordance with the Town and Country Planning (Use Classes) Order 1987 with ancillary uses and thereafter for such alternative use as the Landlord and the First Central Management Company may have previously approved.
<b>Alterations:</b>	The tenant may not during the Estate Development Period erect any new building or structure on the Property except for the purpose of reinstatement following damage or destruction to the Building on the Property. Nor may the tenant make any alteration to the external appearance of the building or the landscape areas without consent of the Landlord (such consent not to be unreasonably withheld).
<b>Service Charge:</b>	The tenant is to pay the proportion which the gross external area of the building on the Property bears to the aggregate of the Gross External Areas of all the buildings on the Business Park. Until

such time as the Business Park is developed (and therefore the Gross External Area of all the buildings to be constructed known) the First Central Management Company is entitled to make fair and reasonable estimate of the likely Gross External Area of the buildings to be constructed on the Business Park and calculate the aggregate percentage of the service charge, which covers the common parts.

#### 4.11 Tenancy

We have not been provided with a copy of the lease. We have utilised information from a previous report on the Property. We summarise below the salient details as follows:-

<b>Demise:</b>	Block A, First Central Business Park, Park Royal, London NW10.
<b>Lease date:</b>	4 December 2002.
<b>Lessor:</b>	LR (First Central Phase A) Limited.
<b>Lessee:</b>	Guinness Limited.
<b>Term:</b>	20 years from term commencement date.
<b>Current passing rent:</b>	£4,711,388 per annum.
<b>Next rent review dates:</b>	7 October 2006
<b>Rent review basis:</b>	Each and every anniversary of the 7 October, the rent shall be increased by an amount equal to 3% of the amount of rent payable in respect of the preceding twelve months.
<b>Repairing obligations:</b>	The lessee is to keep the demised premises in good and substantial repair and condition throughout the term, including the sanitary water, heating, cooling and ventilating apparatus.
<b>Insurance provisions:</b>	The lessee is to insure all boilers and pressured vessels and the lessor is to keep the demised premises insured at all times.
<b>User:</b>	As an office, but with concessions for showrooms, stockrooms, storage, staff restaurants and bars, staff shop, banking and ATM facilities, computer centre, crèche and fitness facilities with the Landlord to be notified in writing of any change.
<b>Alterations:</b>	The lessee is not permitted to make alterations, which increase the gross floor area except with the Landlord's consent. The lessee may make non-structural alterations, additions and improvements without the lessor's consent, but must inform the Landlord in writing.
<b>Alienation:</b>	The lessee is not permitted to assign or charge part of the premises, but may share possession or occupation by means of an assignment or underletting in accordance with the terms of the lease. The lessor's consent to assign the whole cannot be

unreasonably withheld.

<b>Service Charge:</b>	The lessor is responsible for the payment of service charge without deduction or set off.
<b>VAT:</b>	We have been advised by the Borrower that an election has been made to waive exemption to VAT in respect of this Property. The capital valuation and rental included in this Report are net of valued added tax at the prevailing rate.
<b>General comments:</b>	The rent review provisions of the lease stipulate that the rent is reviewed annually by increasing the passing rent by 3%. The Term and Rent Commencement Date will be the date upon which the Tenant is given full access to all parts of the Premises in order to commence the Tenant's Works.

#### **4.12 Market commentary**

The existing building stock in Park Royal tends to date from the 1970s and is mainly located within the Park Royal Business Park, which is situated adjacent to the First Central site. The Business Park plays host to over 1,200 firms, which employ about 35,000 people. While the majority are small to medium sized enterprises, there are also major international companies represented. The range of businesses is also far more diversified than 10 years ago, with media and logistics firms moving into the area. This has been encouraged by the Park Royal Partnership, a limited company established by the private sector, the local authorities and the training and enterprise councils to provide support for inward investment facilitate regeneration projects funded by the Single Regeneration Budget (SRB) and develop an integrated transport and planning policy.

We are informed that there is a total of nine buildings are proposed for the First Central site. The Guinness HQ building was the first to be constructed and it is understood a second building is due to commence construction early in 2006 subject to securing a pre let for the proposed building. The project is the first major urban regeneration project for the area, which is characterised by dated stock and declining numbers of businesses.

In addition we are told that London and Regional are in the process of demolishing derelict buildings on an adjoining site of approximately 24 acres. They intend to sell the land for commercial redevelopment.

The current office stock in Park Royal is not comparable with the Property because the existing office stock in Park Royal tends to be of a secondary nature, mainly comprising small units with relatively small floor plates let to local occupiers. The pre-let at £296 per sq m (£27.50 per sq ft) set a precedent for Park Royal and was comparable with lettings at Chiswick Office Park, Green Park near Reading, Stockley Park and Bedfont Lakes both near Heathrow. The most comparable property in terms of its proximity to central London is at the Chiswick Office Park. We highlight comparable rentals within the Chiswick Office Park within Appendix D, investment comparables within Appendix E, and a general market commentary in Appendix F.

#### **4.13 Specific comments and valuation approach**

The Property is a modern office building fully let to a strong covenant in the form of Guinness for a further 17 years and 1 month. The Property comprises 14,456 sq m (155,609 sq ft) of office accommodation arranged over seven floors above basement car parking.

A single tenant occupies the building, which comprises a significant amount of floor space. In our opinion it would take eighteen to thirty six months to find tenants to occupy the entire building particularly if the tenant is responsible for fit out. The layout of the building however would allow for multiple tenancies as an alternative to the current single tenant situation.

Rent Review dates are set at the day preceding the first anniversary of the rent commencement date. As the rent is increased at 3% per annum compounded growth over the term of the lease is guaranteed. From an investment point of view this is particularly attractive, given the remaining term of the lease is 17 years. The most likely investor would be an institutional investor or large property company whom are prepared for a long term holding.

The Property is the first of a number of proposed buildings to be constructed on the former brewery site. The Property has good access to the A40 from which it is highly prominent and is well located in terms of the national motorway network. The Park Royal underground station via the Piccadilly Line lies approximately 200 metres south of the Property.

Based on the above floor areas, the passing rent of £4,711,388 per annum reflects an overall rate of £25.91 per sq m (£30.28 per sq ft). The next rent review in October 2006 will see the rent increase by 3% to £4,852,729 or £335.69 per sq m (£31.19 per sq ft).

Office rents in the north west of London as outlined in Appendix D generally lie in the range of £250 per sq m (£23 per sq ft) to £325 per sq m (£30 per sq ft) depending on factors such as size, location and quality of space. There is a dearth of evidence available in the immediate vicinity therefore it has been necessary to utilise the available evidence and extrapolate it to account for any differences. The key transactions are outline below:

#### Building 2, Chiswick Office Park

This property was leased to Discovery Channel on a 15 year lease term from May 2004. The modern building has an area of 9,300 sq m (100,000 sq ft) and is provided with raised floors and air-conditioning. The annual rental is £2,700,000, which reflects a rate of £290 per sq m (£27 per sq ft). The quantum of space is similar to the subject and the age of the building comparable although the quality is considered inferior to the subject. This transaction is also considered slightly dated hence the lower rate.

In addition in May 2005, 2,325 sq m (25,000 sq ft) was leased to Tullow Oil at £750,000 per annum on a 10 year term. The Grade A building is air-conditioned. The rental reflects a rate of £322.58 per sq m (£30 per sq ft), the headline rental rate was agreed at £344.09 per sq m (£32 per sq ft). Building is comparable to the subject although a smaller space.

In our opinion the quality and location of the Property lends itself to the higher end of this range, given the high quality amenities and accessibility. We have therefore adopted an Estimated Rental Value of £4,668,000 per annum or £323 per sq m (£30 per sq ft).

In arriving at our opinion of Market Value, we have applied an equivalent yield of 5.85%, which we believe reflects the secure nature of the income, the quality of the building and the tenants covenant strength. We have deducted full purchasers costs of 5.76 % to arrive at our Market Value of £87,000,000.

In arriving at the above equivalent yield we have utilised the available evidence, we note that there has been a dearth of comparable evidence and therefore it has been necessary to extrapolate the available information. This is detailed below, and also Appendix D:

This transaction involved two properties, a freehold interest and a long leasehold interest. The first property Railtrack House (freehold property) is leased to Network Rail until 2012 and 1 Eversholt Street (leasehold property) is currently let on 8 occupational leases in place. Railtrack House has a total area of 10,777 sq m (115,999 sq ft) and 1 Eversholt Street has 10,900 sq m (117,328 sq ft). The two properties sold for £124,000,000 in June 2004, which reflected an initial yield of 7%. The higher initial yield reflects the short term nature of the Network Rail lease.

The sale of College House on New College Parade and Finchley Road transacted in August 2005. The property was purchased by the French Chamber of Commerce for £8,200,000, which reflects a net initial yield of circa 5%. The property has an area of 2,323 sq m (25,000 sq ft) and is lease for a further 24 years, which is reflected by the yield of 5%. This transaction has been considered although a smaller quantum of value given the similar term to expiry and lease length.

In arriving at our opinion of Market Value assuming vacant possession we have adopted the same level of ERV as set out above and made assumptions that the Property would be re-let on a new 15 years lease, with 5 yearly reviews to market. Given that the space is relatively large we have further assumed that the Property would be relet to 4 separate tenants and that voids vary between 12 and 24 months. In addition rent-free periods are 25 months, with acquisition costs factored in at 5.76%.

To conclude, the Property occupies a site within a highly visible location. With Guinness in occupation we would expect the investment to sell within a short period of time on the assumption current market conditions apply. The attractiveness of the Property is likely to be enhanced when the whole park is completed together with the new underground station.



**Summary table**  
**Guinness HQ, Block A, First Central Business Park, Coronation Road, Park Royal, London NW10**  
**Details as at 10 October 2005**

Description/ Floor/ Tenant	Terms of lease		Floor/use	Area NIA <sup>(1)</sup>		Rateable value	Current rent £ pa excl	Estimated rental value £ pa excl	Rent review frequency (date of next review)	Comments
	From	To		sq m	sq ft					
Lower Ground	10-Sep-02	09-Sep-22	Office	14,456	155,609	n/a	4,711,388	4,668,000	07-Oct-06	
<b>Totals</b>				<b>14,456 sqm</b>	<b>155,609 sq ft</b>	<b>£n/a</b>	<b>£4,574,163</b>	<b>£4,668,000</b>		

**Notes:**

- (1) As instructed, we have utilised the floor areas provided by London and Regional Properties Ltd for the purposes of our valuation(s). We have assumed that these areas have been measured and calculated in accordance with the current Code of Measuring Practice prepared by the Royal Institution of Chartered Surveyors.

## **5 68 King William Street and 42 – 44 Gracechurch Street, London EC4 7HR (the “Property”)**

### **5.1 Location and situation**

The Property is located within the administrative area of the City of London Corporation, in the EC4 postal district. According to the Corporation of London, the City of London comprises an administrative area of 1.22 square miles, with a workforce of over 270,000 (Annual Employment Survey 1997). The area has a resident population of approximately 4,075 people. The EC4 district extends from Monument in the east, to the Temple Inns of Court in the west, and the River Thames to the south, St.Paul’s in the north, and includes the areas of Ludgate Hill, Cannon Street, Queen Victoria Street, and the former media area Fleet Street. The City of London is the financial centre of Europe and has the greatest concentration of office accommodation in the UK, which includes more than 500 banks, the world’s largest insurance market, the largest international shipping market and many of the world’s commodity exchanges and future markets.

Road communications in the area are good with London Bridge (A3) immediately to the south of the Property. The Property also fronts the intersection of Gracechurch Street (A10), King William Street (A3/A501), Cannon Street (A4), and Eastcheap (A3211). Lower Thames Street is also accessible just to the south providing direct access to Docklands and the West End. The area is well served by public transport facilities with Monument London Underground Station (Circle and District Lines) located immediately outside the Property. Monument Station is also linked by underground passages to Bank Station, providing combined access to the Central, Northern, Waterloo & City lines, and the DLR. Cannon Street mainline station is approximately 5 minutes walk to the west. All the other main stations that serve the City are within walking distance. There are also extensive bus services operating in the area. In addition to the existing transport links, there is direct access from Monument Station into the House of Fraser store as part of the redevelopment.

The Property is located within a prime City location, known as the gateway to the City because of its location dominating the southern view across London Bridge. To the front of the Property is the busy intersection of King William Street, Gracechurch Street, Cannon Street, and Eastcheap, and the London Bridge crossing over the River Thames. Immediately to the rear of the Property lies St. Clements Church and graveyard, accessed via St. Clements Court.

The surrounding area is principally an office location with major occupiers including Merrill Lynch, Mercury Asset Management, Dai Ichi Kangyo Bank, Standard Chartered Bank, Nicholson Graham Jones, West Deutsche LandesBank, and Sun Micro Systems. The area is dominated by the banking and financial sectors, interspersed with legal and IT firms. There are a number of local retail facilities including Boots the Chemist, Books together and numerous pubs, restaurants, coffee shops and sandwich bars along Cannon Street and Eastcheap. In addition there is a large new Marks and Spencer store being developed to the north east of the site, on the corner of Gracechurch Street and Fenchurch Street.

Photographs, plans and an Ordnance Survey extract are attached at the end of this report section.

### **5.2 Description and construction**

The Property is located on the east side of King William Street, with a frontage to Gracechurch Street, and was formerly used as offices. We understand that the Property was constructed in the 1930s and is broadly rectangular in shape, and extends back from the King William Street frontage to the north and east. Access to the rear of the building is available via St Clement’s Court.

The interior of the Property was redeveloped behind the existing facade to provide a mix of office and retail (department store) totalling a net internal area of approximately 9,093 sq m (97,878, sq ft) set around three central service cores, which provide access to all floors.

The retail element of the Property, let to House of Fraser is on basement, lower ground, ground and three upper floors and totals a net internal area of approximately 5,332 sq m (57,394 sq ft). The entrance to the retail element is in the middle of the facade of the building fronting King William Street, however there is an additional entrance directly from the adjacent Monument Underground Station into the Lower Ground floor of the store.

The original light well in the centre of the building has been utilised as the escalator core.

Internally, the retail element comprises a modern shop fit on all levels with tiled solid floors, plastered and painted walls, suspended ceilings with inset spot lighting and air-conditioning. Lower ground, basement and upper floors are accessed by two escalators in the middle of the floor plates and two Otis 2,000 kg (21 person) elevators. Each floor benefits from three small store rooms to the eastern and western sides of each floorplate, which contain unfinished walls and floors with basic floor to ceiling shelving where possible.

Male and female customer WC's are situated on the first floor, with a disabled WC on the third floor.

The management offices and secure cash office are located on the second floor, whilst the third floor houses staff WC's and locker rooms, a security office and a small staff canteen.

There is a plant room located on the third floor by the emergency exit.

The office element of the Property is let to Regus and has been reconstructed behind floors four to eight, with additional space created in the cupola above the eighth floor. The office element comprises a net internal area of approximately 3,761 sq m (40,484 sq ft). The office space is arranged around a central atrium, which extends from fourth to eighth floors and provides good natural light throughout all of the office floors. The entrance to the offices is located in the original access on the ground floor to the west of the main facade from King William Street.

The entrance lobby and reception provides direct access to the fourth to eighth floors only via three 1,000 kg (13 person) elevators.

The fourth floor is the only floor currently occupied and comprises a modern reception area with a staff office behind and there are 17 meeting rooms on the floor with capacity of between four and 80 people. All of the meeting rooms and offices are stud partitioned with raised floors, suspended ceilings, fluorescent down lighting and double glazed windows. There is a small kitchen area for preparation of sandwiches and drinks for the delegates but is not equipped to be able to provide hot food. There are male, female and disabled WC's on each of the floors.

The fifth to eighth floors are partially unfitted and not currently occupied by the tenant. These floors are virtually identical and provide the same specification with plastered and painted walls, suspended ceilings, florescent down lighting, air conditioning, double glazed windows and raised floors. There is currently no partitioning on any of the vacant floors and the eighth floor is the only floor that has been carpeted. The eighth floor also benefits from a spiral staircase leading to a cupola that was intended to be used as a break out room but could be used as an office or for storage. The sixth floor benefits from a large terrace to the northern side of the footplate, accessed via two double glazed doors, whilst the fifth floor contains a telecoms room.

The basement contains two boiler rooms and plant and machinery for the tenants. We understand the landlord maintains this area.

### 5.3 Floor areas

We have been provided with the following floor areas by the Borrowers. In accordance with your instructions we have relied upon the floor areas and have not undertaken check measurements. The floor area are summarised as follows:

Net Internal Area

DEMISE	FLOOR AREA (SQ FT)	FLOOR AREA (SQ M)
Part Basement, Lower Ground, Ground, First, Second and Third Floors	57,394	5,332
Fourth, Fifth, Sixth, Seventh and Eighth Floors	40,484	3,761
<b>Total</b>	<b>97,878 sq ft</b>	<b>9093 sq m</b>

### 5.4 Site

The Property occupies an irregular shaped site with a frontage to Gracechurch Street and an approximate site area of 0.13 hectares (0.321 acres).

An Ordnance Survey extract showing the boundaries of the Property edged in red is attached at the rear of this report. This site plan is for identification purposes only. If verification of the accuracy of the plan is required, it should be referred to your solicitors.

### 5.5 Condition

The Property appears to have been well maintained having regard to its age, use and construction. However, we have not undertaken a condition survey and we would draw your attention to Appendix C.

### 5.6 Deleterious materials

The age and style of construction of the Property are such that materials such as high alumina cement concrete, woodwool shuttering, calcium chloride or asbestos are unlikely to have been used in its original construction or subsequent alteration. We would draw your attention to item 2 of Appendix C.

### 5.7 Environmental matters

We have made enquiries of the Environmental Health Officer in order, so far as reasonably possible, to establish the potential existence of contamination arising out of previous or present uses of the site and any adjoining sites. We have been advised that there is a charge of £60 for environmental searches and we await your instructions as to whether you would like us to proceed with this enquiry.

Our enquiries and inspection have provided no evidence that there is a significant risk of contamination in respect of the Property. Accordingly, we have made the Assumption that no contamination or other adverse environmental matters exist in relation to the Property sufficient to

affect value. Other than as referred to above, we have not made any investigations to establish whether there is any contamination or potential for contamination to the Property. A purchaser in the market might, in practice, undertake further investigations than those undertaken by us. If it is subsequently established that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use then this might reduce the value now reported.

Commensurate with our Assumptions set out above we have not made any allowance in the valuation for any effect in respect of actual or potential contamination of land or buildings.

## **5.8 Planning**

Corporation of London  
Planning Department  
PO Box 270  
Guildhall  
London  
EC2P 2EJ

Telephone: 020 7332 1709

We have made verbal enquiries of the local authority and have been advised that the planning permission for the Property was granted on 17 October 2002 for retail (A1) and office (B1) uses. The Property is not subject to any enforcement action. We have been further advised that there are no outstanding planning applications in respect of the Property, but we are aware that there is an issue with one of the planning conditions relating to compliance with a refuse store. However, there has been no official enforcement action taken. We have been further advised that the Property is not listed, but does lie within the Bank Conservation Area.

We have made enquiries with a view to identifying any highway or development proposals, which are likely to affect the value of the Property. In this regard we have been advised that there are none.

Planning policy for the area is contained within the City of London Unitary Development Plan, which was adopted in April 2002.

## **5.9 Rateable value**

The general Non-Domestic Rating Multiplier for the fiscal year 2005/6 for England has been set at 42.2 pence. There is a surcharge for the City of London of 3 pence.

The rateable value for the Property as at 1 April 2005 is £1,000,000 for the House of Fraser tenancy and £1,530,000 for the Regus Office tenancy.

## **5.10 Tenure**

We have been provided with a copy of the Draft Certificate of Title. Save as disclosed in the Draft Certificate of Title. We understand that the property is held freehold, free from rent charge, restriction as to use, title or occupation and free from any other restriction which may affect value. We have not had sight of the title deeds.

We note that there is a right for 50 years commencing 2 June 2002 to construct and retain a ramp over part of St Clements Court and to have access to St Clements Court. There is an annual fee payable for this right to the Grantor of £10,000. This is subject to review on 2 June 2007 and on the fifth anniversary of that date to the greater or the prevailing annual fee and the figure determined at the relevant review day by multiplying the annual fee by the all items figure of the Index of Retail

Prices for the month preceding the relevant review date and dividing by the Index for the month preceding the rant of the deed.

There is also a benefit of a license to construct a pedestrian access from the pedestrian subway beneath King William Street to the part of the Property comprising the retail store. The consideration for this licence was £150,000 payable on commencement of construction. On every subsequent anniversary £650 is payable in respect of the Transport for London's costs of administering the licence.

## **5.11 Tenancies**

We have been provided with copies of the leases, and have summarised below the salient details.

### **5.11.1 Part Basement, Lower Ground, Ground, First, Second and Third Floors**

<b>Lease date:</b>	5 July 2004
<b>Lessor:</b>	LR (King William St) Limited
<b>Lessee:</b>	House of Fraser (Stores) Limited
<b>Surety:</b>	None.
<b>Term:</b>	35 years from 17 April 2003
<b>Current passing rent:</b>	£2,276,800 per annum exclusive
<b>Next rent review:</b>	17 April 2008
<b>Rent review basis:</b>	Five yearly upwards only rent reviews to the higher of: <ul style="list-style-type: none"><li>(a) the annual rent payable immediately prior to the rent review;</li><li>(b) the open market value of the notional premises at the review date multiplied by Z (a formula that varies according to whether the subway access to the Property has been built). The notional premises is linked to rents on Cheapside/Poultry for retail units that fit specified characteristics prescribed in the rent review clause; and</li><li>(c) the open market rent.</li></ul>
<b>Repairing obligations:</b>	The Tenant covenants to keep the Property in good and substantial repair and condition and is to reinstate, renew and rebuild (where it is a necessary part of repair) except where caused by inherent defects prior to 15 September 2014. Additionally, the Tenant is to replace the Landlord's fixtures, which become beyond repair during the term.
<b>Insurance provisions:</b>	The Landlord is to insure the Property for full cost of reinstatement and for loss of rent. The Tenant covenants to reimburse the Landlord for cost of the insurance premium.

<b>User:</b>	The Property is only to be used as a department store within Class A1 of the Town and Country Planning (Use Classes) Order 1987.
<b>Alienation:</b>	The Tenant is not permitted to assign or underlet in the first three years of the term. After this period, the Tenant is permitted to assign the whole of the premises with the Landlord's consent, not to be unreasonably withheld or delayed.
<b>Alterations:</b>	The Tenant is not permitted to make any structural alterations or additions to the Property without the Landlord's consent.
<b>Service charge:</b>	The Tenant covenants to pay 58.2% of the total costs properly incurred by the Landlord in providing the building services.
<b>General comments:</b>	The lease is subject to a Landlord only break option on the 25th anniversary of the term commencement and a mutual break option on the 30th anniversary of the term commencement. Both break options are subject to a minimum of 12 months notice. The Landlord can only break if there is an Approved Development Proposal in accordance with the Superior Lease.

#### **5.11.2 Part Ground, Fourth, Fifth, Sixth, Seventh and Eighth Floors and Part Roof Level**

<b>Lease date:</b>	21 March 2005
<b>Lessor:</b>	LR (King William St) Limited
<b>Lessee:</b>	Regus (UK) Limited
<b>Surety:</b>	Regus Limited
<b>Term:</b>	20 years from and including 15 May 2003
<b>Current passing rent:</b>	£2,021,773 per annum exclusive.
<b>Next rent review:</b>	15 May 2008
<b>Rent review basis:</b>	Five yearly upwards only rent reviews to open market rent.
<b>Repairing obligations:</b>	The Tenant covenants to keep the Property in good and substantial repair and condition and is to reinstate, renew and rebuild (where it is a necessary part of repair). When required by the Landlord, the Tenant will replace and renew the Landlord's fixtures and fittings.
<b>Insurance provisions:</b>	The Landlord is to insure the Property for full cost of reinstatement and for loss of rent. The Tenant covenants to reimburse the Landlord for cost of the insurance premium.
<b>User:</b>	The permitted use is offices.

<b>Alienation:</b>	The Tenant is permitted to assign the whole of the Property with the Landlord and the Superior Landlord's consent, not to be reasonably withheld or delayed.  Underletting of the whole or 'Permitted Part' (one or more entire floors or parts of a floor or floors provided that there will not be more than two underlettings on each floor) is permitted with the Landlord's consent, not to be unreasonably withheld or delayed.
<b>Alterations:</b>	The Tenant is not permitted to make any structural alterations, additions or improvements to the Property either internally nor externally. Internal non-structural alterations are permitted with the Landlord's consent, not to be unreasonably withheld or delayed. However, the installation, alteration or removal of internal non structural partitioning does not require the Landlord's consent, subject to the Tenant complying with all building, planning and other applicable fire and safety regulations.
<b>Service charge:</b>	The Tenant covenants to pay 41.8% of the total costs properly incurred by the Landlord in providing the building services.
<b>General comments:</b>	The lease is subject to a Tenant only break option on 15 May 2020 with at least six months written notice.

## 5.12 Market commentary

We refer you to appendix F at the rear of this report.

## 5.13 Specific comments and valuation approach

The Property comprises a 1930s building, which was redeveloped behind the existing façade to provide approximately 9,093 sq m (97,878, sq ft) of retail and office accommodation.

The retail element of the Property comprises part basement, lower ground, ground and first to third floors and is let to House of Fraser. Of the total rental income, approximately 53% relates to the retail element, which has an unexpired term of 33 years. Based on the floor areas provided, the passing rent of £2,276,800 per annum equates to £427 per sq m (£39.67 per sq ft) on an overall basis.

There is a dearth of department store lettings in London. However, DTZ value a number of regional shopping centers and town center schemes, where the larger Major Space Users ("MSU's") are of a similar size to the retail element of the Property. Due to the confidential nature of these shopping center valuations, we are unable to disclose exact details of each of the transactions, however, for MSU's in excess of 3,716 sq m (40,000 sq ft) the rents are in the range of £403 to £447 per sq m (£37.50 to £41.50 per sq ft) on an overall basis.

In forming our opinion of estimated rental value, we have had regard to the information set out above and additionally, considered the letting of the unit itself in April 2003 as pertinent evidence. Therefore, we are of the opinion that the retail element is rack rented at a rate of £430 per sq m (£40 per sq ft) overall.



The office element of the Property comprises fourth to eighth floors and is let to Regus. Of the total rental income, approximately 47% relates to the office element, which has an unexpired term of 18 years.

The floor area of the office element is 3,761 sq m (40,484 sq ft) and the rent is £2,021,773 per annum exclusive, equating to £537.56 per sq m (£49.94 per sq ft). Having regard to the comparable rental evidence outlined below and in Appendix D, we in our opinion the estimated rental value of the office element is £452 per sq m (£42 per sq ft) and is therefore over-rented by approximately 16%.

Phoenix House, 18 King William Street, London EC4N 7BQ was let in April 2005 Spiritel Plc took a new lease expiring in December 2007 of 270 sq m (2,910 sq ft) of part third-floor office space at a commencing rent of £109,998 per annum, equating to £406.88 (£37.80 per sq ft).

54 King William Street was assigned in November 2004 to Bell and Clements who took 1,680 sq m (18,081 sq ft) on the fourth and fifth floor. The assignment was from Merrill Lynch Property Fund with the lease expiring in June 2014. The passing rent was £696,110 per annum, equating to £414 per sq m (£38.50 per sq ft). The property occupies a prominent corner location and is close proximity of the Monument Underground Station. The improvements are older than the subject and considered slightly inferior.

Both of the above transactions are for properties within a position considered not as good as the subject. In addition the subject property is a brand new building, which is considered Grade A space. Therefore we have extrapolated the available evidence to arrive at the estimated rental value of £452 per sq m (£42 per sq ft).

The tenant has the benefit of an option to break on 15 May 2020, subject to six months notice. However, for the purposes of our valuation we have assumed the break will not be exercised.

In arriving at our opinion of Market Value, we have used a split yield approach, applying an equivalent yield of 5.00% to the retail element, which we believe reflects the secure nature of the income together with the tenants covenant strength and an initial yield of 5.85% to the office element. This produces a blended nominal equivalent yield is 5.05% and the blended net initial yield is 5.22%. We would refer you to Appendix D for details of investment transactions.

From an investment point of view this property would be attractive to an institutional investor or large property company due to the relatively secure nature of the covenants and the guaranteed rental stream.

In preparing our opinion of Market Value assuming vacant possession throughout, we have adopted the same level of ERV as set out above. We have made an additional the additional assumptions that the retail element of the property would be re-let on a new 35 year lease after a 12 month void and two and a half years rent free, whilst the office element would be re-let on a floor by floor basis with voids of between nine and 21 months and rent free period of 12 months. We have also made an allowance for letting/legal fees of 15% of ERV.

Finally, we are pleased to confirm that the interest valued in this report provides satisfactory for loan purposes.

**Summary table**  
**68 King William Street, London EC4**  
**Details as at 10 October 2005**

Description/ Floor/ Tenant	Terms of lease		Floor/use	Area NIA <sup>(1)</sup>		Rateable value	Current rent £ pa excl	Estimated rental value £ pa excl	Rent review frequency (date of next review)
	From	To		sq m	sq ft				
House of Fraser Department Store	17 April 2003	16 April 2038	Part Basement Lower Ground, Ground, First, Second and Third Floors	5,332	57,394	£1,000,00 0	£2,276,800	£2,277,000	
Regus Offices	15 May 2003	14 May 2023	Fourth, Fifth Sixth, Seventh and Eighth Floors	3,761	40,484	£1,530,00 0	£2,021,773	£1,700,000	Five yearly upwards only.
<b>Totals</b>				<b>9,093 sq m</b>	<b>97,878 sq ft</b>	<b>£2,530,000</b>	<b>£4,298,573</b>	<b>£3,977,000</b>	

**Notes:**

- (1) As instructed, we have utilised the floor areas provided by the Borrower for the purposes of our valuations. We have assumed that these areas have been measured and calculated in accordance with the current Code of Measuring Practice prepared by the Royal Institution of Chartered Surveyors.

## **6 Trinity Bridge House, 2 Dearmans Place, Salford M3 5BN**

### **6.1 Location and situation**

Salford is a city within the Greater Manchester conurbation and has a resident population of 216,119 (2001 Census). The city lies approximately 3 kilometres (two miles) to the west of Manchester city centre.

Greater Manchester's resident population exceeds 2.4 million people (2001 Census data). Manchester lies 58 kilometres (36 miles) east of Liverpool, 71 kilometres (44 miles) west of Leeds and 296 kilometres (184 miles) north of London. The city is at the hub of the region's motorway network, being located to the east of the M6 Birmingham to Scotland motorway. The conurbation is bordered to the north by the M62 Transpennine motorway. The road network has been further enhanced by the completion of Manchester's orbital motorway (M60).

Manchester International Airport is located approximately 16 kilometres (10 miles) to the south of the city centre and provides an increasing range of national, European and intercontinental flights. Manchester has two mainline railway stations, Piccadilly and Victoria, linked by a shuttle bus and Metrolink tram service. Intercity trains connect Manchester to the national rail network, with a service to London - Euston of approximately 2 hours 30 minutes. In addition, there is a direct rail service from Manchester (Piccadilly) to Manchester Airport.

The Greater Manchester conurbation has been further enhanced by the presence of the Metrolink Light Rapid Transport System, which runs through the city centre connecting Bury in the north to Altrincham in the south via Manchester's Victoria and Piccadilly stations. The system has been extended to include Salford Quays, terminating in Eccles, with various further extensions planned, including routes to Manchester Airport and the Trafford Centre, although negotiations continue in this respect for funding from central Government.

Salford is centred on the old port area at the end of the Manchester Ship Canal. The port area has suffered a general decline, but Salford Quays has been the subject of various regeneration initiatives over the last fifteen years. As a consequence, the Salford Quays area has now been substantially redeveloped, primarily for office, leisure and residential uses.

The Property is situated in a mixed use location, close to the west bank of the River Irwell, which effectively divides Salford from Manchester. The Property is bounded to the north by Chapel Street and to the south west by Quay Street, which provides access to the car park within the subject property. Also in close proximity is The Bridge residential development, The Lowry Hotel, and Riverside, an office building owned by Bruntwood.

A pedestrian bridge link has been constructed during the last five years, providing access over the River Irwell to Manchester city centre. The bridge is located within two minutes' walk of the Property.

Photographs, plans, and an Ordnance Survey extract are attached at the end of this report section.

### **6.2 Description and construction**

The Property comprises a substantial, detached office building completed in the late 1990s to an "H" shaped floor plate, providing basement, ground and seven upper floors, with an additional eighth floor plant room. The basement provides car parking with provision for 183 spaces, approximately 20 of which are external to the building, but within its curtilage, and a bike parking bay, with space for 12 bicycles. The upper floors provide office accommodation.

The Property is of steel framed construction clad with imitation stone and flat steel panel clad elevations. The roof is flat and covered with a rubberised finish known as Sarnafil. The windows throughout are double glazed within plastic coated metal frames. The office specification typically provides suspended ceilings with recessed light fittings, plastered and painted walls, raised carpeted floors and heating provided via a gas fired central heating system with wall mounted radiators. The seventh floor is utilised as a call centre, and has been fitted with an air conditioning system. The offices are essentially open plan, with small elements of cellular office accommodation provided through the use of lightweight partitioning.

Each office floor is provided with two small kitchens, one for use by each wing. The ground floor provides the main reception area for the building. In addition there is a staff canteen with seating for approximately 50 people, servery and fully fitted catering kitchen with stainless steel units, a gymnasium for staff use and a conference room which can seat up to 200 people through the use of concertina style folding walls.

The central service core to the building provides six Otis 2000 VF lifts of 21 person capacity, together with the principal staircases, male, female and disabled WC accommodation. There is an additional fire escape staircase provided within the building.

The grounds to the front of the building are landscaped, and raised from the road. Access is provided via a series of steps and a disabled access ramp is also provided.

### **6.3 Floor areas**

See summary table included at the end of this report section.

### **6.4 Site**

The Property occupies an irregular shaped site with a frontage to Quay Street of 112 m (366 ft), a frontage to Dearmans Place of 104 sq m (341 sq ft) and an approximate site area of 0.51 hectares (1.25 acres).

An Ordnance Survey extract showing the boundaries of the property edged in red is attached at the rear of this report. This site plan is for identification purposes only.

### **6.5 Condition**

The Property appears to have been satisfactorily maintained having regard to its age, use and construction. However, we have not undertaken a condition survey and we would draw your attention to Appendix C. During the course of our inspection no major wants of repair were noted.

### **6.6 Deleterious materials**

The age and style of construction of the Property are such that materials such as high alumina cement concrete, woodwool shuttering, calcium chloride or asbestos are unlikely to have been used in its original construction or subsequent alteration. We would draw your attention to item 2 of Appendix C.

### **6.7 Environmental matters**

There is high voltage electrical supply equipment close to the Property. The possible effects of electromagnetic fields have been the subject of media coverage. The National Radiological Protection Board (NRPB), an independent body with responsibility for advising on electromagnetic fields, has advised that, following studies in 2000 and 2001, there may be a risk in specified

circumstances, to the health of certain categories of people. Public perception may, however, affect marketability and future value of the Property.

We have made enquiries of the Environmental Health Officer in order, so far as reasonably possible, to establish the potential existence of contamination arising out of previous or present uses of the site and any adjoining sites. We have been informed that our enquiries will need to be made in writing and the Local Authority will levy a charge for a response. Should you wish us to proceed with these enquiries, we will require your express permission to incur this charge as a disbursement.

The Property is currently utilised for office purposes and has been since its construction. Prior to this, we understand that the site was used for industrial/commercial purposes, although we do not know what specifically these uses were. The adjoining sites have been developed for more sensitive end uses than offices, such as a hotel and residential accommodation during the last five years.

Our enquiries and inspection have provided no evidence that there is a significant risk of contamination in respect of the Property. Accordingly, we have made the Assumption that no contamination or other adverse environmental matters exist in relation to the Property sufficient to affect value. Other than as referred to above, we have not made any investigations to establish whether there is any contamination or potential for contamination to the Property. A purchaser in the market might, in practice, undertake further investigations than those undertaken by us. If it is subsequently established that contamination exists at the Property or on any neighbouring land, or that the premises have been or are being put to any contaminative use then this might reduce the value now reported.

Commensurate with our Assumptions set out above we have not made any allowance in the valuation for any effect in respect of actual or potential contamination of land or buildings.

## **6.8 Planning**

Salford City Council  
Civic Centre  
Chorley Road  
Swinton  
Manchester  
M27 2BW

Telephone: 0161 794 4711

We have made verbal enquiries of the local authority and have been advised that planning permission for the Property's current use was granted in 1997 (Ref No. 96/35831/REM) and that the Property is not subject to any enforcement action. We have been further advised that there are no outstanding planning applications in respect of the Property, which is not listed, or in a conservation area.

We have made enquiries with a view to identifying any highway or development proposals, which are likely to adversely affect the value of the Property. In this regard we have been advised that there are none.

Planning policy for the area is contained within the Salford Unitary Development Plan, which was adopted in 1995. The plan is currently under review and a revised draft replacement unitary development plan has been prepared and released for consultation.

## 6.9 Rateable value

See summary table attached at the end of this report Section.

The general Non-Domestic Rating Multiplier for the fiscal year 2005/6 for England has been set at 42.2 pence.

## 6.10 Tenure

We have been provided with a copy of the head lease, and a draft certificate of title prepared by Herbert Smith in relation to the Property. We understand that the Property is held leasehold in accordance with the following terms and is free from restriction as to use, title or occupation other than as referred to below:-

<b>Demise:</b>	All that land and premises as shown on the plan annexed to the lease, and specified more particularly under Part 1 of the first schedule of the lease.
<b>Lease date:</b>	18 March 1997
<b>Lessor:</b>	Chapel Wharf Limited (Freeholder – not part of the London and Regional Group)
<b>Head Lessee:</b>	London and Regional (Manchester) Limited
<b>Term:</b>	150 years
<b>Current passing rent:</b>	One peppercorn
<b>Repairing obligations:</b>	To keep the external elevations of all buildings and structures on the demised premises, all external areas of the demised premises not built on and the drain in good and substantial repair.
<b>Insurance provisions:</b>	The tenant is to insure all buildings on the demised premises at all times together with plant and machinery to the full cost of reinstatement.
<b>User:</b>	Not to use the premises other than for B1 offices, although the ground and basement level may be utilised for A1 or A3 purposes in accordance with the Town and Country Planning (Use Classes) Order 1987. There is an absolute bar on other uses for the first seven years of the lease, with approval required from the Landlord, which is not to be unreasonably withheld, after seven years.
<b>Alterations:</b>	The tenant may not erect any new building or structure nor may the tenant make any alteration to the building or structure of the demised premises, which affects the external elevations of the (then proposed) building without consent of the Landlord (such consent not to be unreasonably withheld).
<b>Alienation:</b>	Following practical completion of the (then proposed) building, the tenant may not assign, transfer or charge the demised premises other than as a whole.

**Service Charge:** The tenant is to pay 35% of the service charge, which covers the common parts. The common parts are described as the pedestrian boulevards, walkways and roadways and all other areas or parts of the Estate, which in turn is described as the Landlord's estate, known as Chapel Wharf and shown on Land Registry Title Nos. GM645963 and GM677043.

## 6.11 Tenancy

We have been provided with a copy of the underlease made between London and Regional (Manchester) Limited (the Head Lessor) and L R (Manchester) Limited (the Sub Lessee). We have detailed the primary terms in the summary table attached at the end of this report section, and summarise the salient terms below:

**Demise:** Land and premises shown edged red on the site plan annexed to the lease

**Lease date:** 18 March 1997

**Head Lessor:** London and Regional (Manchester) Limited

**Sub Lessee:** L R (Manchester) Limited

**Term:** 23 years from 18 March 1997

**Rent reserved:** 97.50% of the aggregate of the Net Unitary Charge (described as the Unitary Charge received by the tenant pursuant to the Inland Revenue Agreement less the costs to the tenant of providing services and discharging its obligations under the Inland Revenue Agreement) and any other rental income from the property. The rent is paid annually in arrears on 14 August each year.

**General Comments:** The lease is on an external repairing and insuring basis, and the tenant is also to pay the service charge reserved under the head lease. The Landlord has an option to break if the sub- underlease is determined. The tenant may not assign or charge other than as a whole, but there are no other restrictions to alienation.

We have also been provided with a copy of the sub-underlease, together with the Private Finance Initiative agreement made between L R (Manchester) Limited (The Contractor), The Secretary of State for the Environment (The Authority) and London and Regional (Bond Street) Limited (The Contractors Guarantor). We have detailed the primary terms in the summary table attached at the end of this report section, and summarise the salient terms below:

**Demise:** The premises described in the Project Agreement (PFI) and shown on plans annexed to the lease, being premises at Chapel Wharf, Salford, Greater Manchester.

**Lease date:** The Certificate of Title prepared by Herbert Smith advises that this lease is dated 06 May 1999.

**Contractor:** L R (Manchester) Limited

<b>The Authority:</b>	The Secretary of State for the Environment
<b>Term:</b>	means a term commencing on the service availability date and ending at midnight on the expiry of the term as calculated in the Project Agreement. This is 15 years from 14 August 1998.
<b>Current passing rent:</b>	One peppercorn, together with the other payments provided for in the Project Agreement.

## 6.12 Market commentary

The Property is located within Salford, but effectively forms part of the Manchester city centre office market, being well located within easy access of Manchester's retail and leisure offering. The Salford office sub market is restricted, and cannot be considered comparable to the Property, generally offering older style buildings and having no central business district, or office core. As such, we have concentrated on the Manchester city centre market in arriving at our views in relation to market rent and investment potential for the Property. We refer you to Appendix D at the rear of this report.

## 6.13 Specific comments and valuation approach

The subject property represents a modern office building finished to a good specification and let to the Secretary of State for the Environment as part of a Private Finance Initiative (PFI). The property is held long leasehold from Chapel Wharf Limited, who are the management company for the Chapel Wharf development of which the subject property forms part. London and Regional (Manchester) Limited have created a sub lease out of the head lease, to L R (Manchester) Limited who have then sub underlet the building to the occupier, and receiver of the services under the PFI agreement. L R (Manchester) Limited are known under the PFI agreement as The Contractor, whilst the occupier, The Secretary of State for the Environment is known as The Authority. There is provision under the PFI for an increase in the Unitary Charge every five years at a rate of 4% per annum, or 121.66% over each five-year period.

L R (Manchester) Limited have sub contracted the management contract to Haden Facilities Management, a company specialising in the provision of facilities management, in a separate agreement, whereby Haden Facilities Management are responsible for the provision of services to The Authority. Haden Facilities Management are a division of Balfour Beatty plc and have a direct turnover of £260 million and a workforce of 4,500.

We have analysed the PFI agreement made between the Borrower and the Secretary of State for the Environment, and have discussed our understanding of the agreement with the Borrower.

Our discussions and the information we have received have determined that the net income is stable. The only alterations to the net income are derived from the non recoverable expenditure elements, which relate to the head lease service charge, insurance costs and "ad hoc" repair and maintenance costs which are not covered under the lifecycle budget. These costs amount to £172,343 for the current year. Expressed as a percentage, this represents 2.48% of the Unitary Charge. In our opinion, the rise in these costs will be small, when considered against the overall Unitary Charge and the net income derived from it. We have allowed for a rise in the cost of these elements within our valuation. The remaining elements, being the Unitary Charge, the lifecycle expenditure and the



facilities management contract remain static throughout the term, or rise at prescribed rates, as set out in the various agreements, which we have referred to above. Again we have allowed for the increases in these prescribed rate rises within our valuation. We have treated the net income after allowing for these costs as rent receivable in preparing our valuation.

We have been provided with a management report by London and Regional in respect of the property, which indicates the latest position with regards to non-recoverable expenditure and the current Unitary Charge under the PFI agreement. The Unitary Charge in 2005 is £6,948,720 per annum, which is paid in monthly instalments. Deductions are shown allowing for the running of the PFI contract as follows:-

Insurance costs	£71,585
Service charge payable to Chapel Wharf Limited	£32,250
Life cycle expenditure payment	£270,000
Haden facilities management contract	£919,609
Facilities management consumables	£68,508

These costs total £1,361,952 per annum, providing a net income of £5,586,768, which we have adopted within our valuation as the income receivable by the LR (Manchester) Limited.

We have utilised 100% of the net income within our valuation because L R (Manchester) Limited and London and Regional (Manchester) Limited are part of the same group of companies.

In terms of the Chapel Wharf service charge, this is payable to the management company overseeing the common parts of the Chapel Wharf development, being predominantly the roads, street lighting and landscaping surrounding the building and the other buildings within Chapel Wharf. The facilities management contract with Haden facilities management relates specifically to the running of the subject property and the services provided to The Authority under the Project Agreement.

We have been provided with a copy of the Facilities Management Agreement made between L R (Manchester) Limited and Haden Facilities Management Limited dated 12 May 1997. Haden Facilities Management Limited, as sub-contractor have contracted under the agreement to provide the services required of the Contractor under the PFI agreement. The Haden facilities management fee increases in August each year at a fixed rate of 3% per annum, as set out under the Haden Management contract.

We have further been advised that the amount paid for lifecycle expenditure does not fluctuate, and amounts to £270,000 per annum, and has been calculated as the amount required to fund all lifecycle works to the building. As at the valuation date, we understand that the account is in credit to an amount of more than £1 million. As would be expected, lifecycle expenditure to date has been limited, given that the building was newly constructed prior to The Authority's occupation. This has allowed a sinking fund to build up to allow for major expenditure over the remaining duration of the contract. We understand that the level of expenditure required over the life of the building was determined prior to the agreement with The Authority being completed, and reflects a reasonable estimate as to the expenditure required in respect of the building, allowing for inflation. Our discussions with the Borrower indicate that the budgeted lifecycle expenditure is unlikely to exceed payments over the term of the contract. We have been advised that the lifecycle expenditure is paid in monthly instalments of £22,500.

The PFI Agreement allows for review of the Unitary Charge at the review date in August 2008 to 121.66% of the Unitary Charge prior to the review date. This equates to 4% per annum compounded, as noted above.

In arriving at our opinion of market value, we have assumed that the Unitary Charge payment will remain the same, and have allowed for an increase of 3% per annum as specified under the Haden facilities management contract. At the rent review in 2008, we have increased the Unitary Charge by 121.66%, providing a new charge payable by the Authority of £8,453,813, fixed for the remainder of the term. At the rent review date we have allowed for an increase in the facilities management consumables, head lease service charge and insurance costs of 10%. Based on the above assumptions, at the rent review date in August 2008, we have allowed for the following deductions:-

Insurance costs	£78,744
Service charge payable to Chapel Wharf Limited	£35,475
Life cycle expenditure payment	£270,000
Haden facilities management contract	£1,004,881
Facilities management consumables	£75,359

These costs total £1,464,459 per annum, providing a net income of £6,989,354. We have continued to increase the Haden facilities management fee by 3% per annum for the remainder of the Agreement term.

Given that the percentage increase to the Haden facilities management contract is 1% lower than the increase in the Unitary Charge, and that the remainder of the deductions to the income are stable, this is in our view, a prudent approach, and it is likely that the net income will be higher at the review date in August 2008.

Following the expiry of the lease at the end of the PFI Contract in 2013, we have adopted a market rent based on £236.81 per sq m (£22.00 per sq ft) and £1,500 per car parking space per annum. This provides a total market rent of £4,680,000 per annum. We have assumed that the five-year lease extension within the Agreement is not taken up within our valuation.

The rental evidence in Appendix D supports our market rent assumptions. In particular, we have relied on the evidence of the recent letting at One Piccadilly Gardens, which represents one of the largest office lettings in Greater Manchester during 2004. Bank of New York leased 8,494.78 sq m (91,440 sq ft) in the building, which had stood vacant for approximately one year since its completion. A 15-year term was agreed with a rate of £2,750 per car parking space and 242.20 per sq m (£22.50 per sq ft) for the office accommodation. The space represents Grade A accommodation in a slightly off pitch location.

We have also had regard to transactions completed in Spinningfields, Allied London's development to the west of Deansgate. In August 2005, Deloitte and Touche agreed to take 6,047.79 sq m (65,100 sq ft) of new build Grade A offices at 2 Hardman Street at a rental of £285.25 per sq m (£26.50 per sq ft). The lease was agreed for a term of 15 years, and we understand that a substantial rent free period was offered as an incentive.

Haliwells agreed to take 11,148 sq m (120,000 sq ft) at 3 Hardman Square at a rental of £279.87 per sq m (£26.00 per sq ft) in July 2005, also within the Spinningfields development. Again, a lease was agreed for a term of 15 years, and a substantial rent-free period was offered. We have been unable to ascertain the level of rent-free period as this is regarded as confidential by the developer, Allied London.

The subject property is older than the comparable evidence, but is located outside what is regarded as the prime office core, as the comparable evidence is. The evidence outlined above is for Grade A accommodation, whereas the Property does not benefit from air conditioning throughout. Our opinion of market rent is based on smaller floor areas as we have assumed that the accommodation would be let on a floor-by-floor basis if the Secretary of State vacates. The large space lettings

outlined above will have an element of quantum discount built into the rents agreed. In addition, the transactions agreed at Spinningfields are at higher rents than our opinion of rent for the subject property. We would anticipate lettings on a floor-by-floor basis and our opinion of market rent is based on FRI terms of five years.

We have capitalised the resultant income stream at 6.60%, and deducted standard purchaser's costs of 5.76%. The reversionary yield in August 2008 following the fixed uplift is 8.64%, with a reversion at the expiry of the Agreement to 5.78%.

Our choice of yield reflects the high demand for investment opportunities in Manchester city centre and the general strength of the investment market. In arriving at the above equivalent yield we have utilised the available evidence, which is detailed below, and also Appendix D. We have had regard to the evidence, and in arriving at our choice of yield, we have considered the specific nature of the income stream stemming from a PFI agreement, the length of the unexpired term, the age, quality and location of the building, and the fact that the reversionary income following the expiry of the PFI agreement and the lease is less than the income receivable during the term. We have balanced and judged all these factors in arriving at the yield, which we have utilised.

No. 1 Marsden Street, Manchester was sold in December 2004 achieving an initial yield of 5.75%. This property comprises 6,351.92 sq m (68,734 sq ft) on 11 floors with basement car parking. It is multi let to tenants including HBOS, DTZ, Barclays bank and Singer and Friedlander. The property was purchased by Warburg and Henderson KAG. This property is located within the office core.

In terms of Government income, we have also considered an investment, which is currently being marketed at Lingley Mere, Warrington. The property will provide a fire service call centre, and is expected to be completed in 2008. The agreement to lease is for a term of 25 years with five yearly rental increases at 2.5% per annum compound based on a commencing rental of £1,197,500 per annum. The building will extend to 2,926.35 sq m (31,500 sq ft), with the initial rent equating to £409.21 per sq m (£38.02 per sq ft). The market rent of the building when complete is estimated at approximately £215.29 per sq m (£20.00 per sq ft), with much of the additional rent paying for the increased level of fit out required by the occupier. The property is being marketed at an asking price of £19,700,000, which reflects an initial yield of 5.75%. There has been significant interest for the property, which is expected to sell at a much higher price than asking with an initial yield likely to be in the region of 5.00% - 5.25%.

Whilst we consider that the Unitary Charge is stable, under the PFI agreement there is potential for changes to the level of Unitary Charge paid by the Secretary of State under the following circumstances:

1. Unavailability

Where a service is not provided under the contract to the satisfaction of the Secretary of State for the Environment, a penalty is incurred against the Unitary Charge. However, the facilities management contract with the contractor, Haden, effectively mirrors the PFI agreement so that where unavailability occurs, the abatement in the Unitary Charge is passed on to the facilities manager, thereby negating any shortfall to the Borrower. London and Regional have confirmed to us that there has been no abatement in the Unitary Charge due to unavailability during the PFI agreement period to date.

2. Variations

Where the Secretary of State for the Environment requires a variation to the level of services provided, it may request a variation. There is a clause in the agreement, which ensures the level of non-variable services may not decrease. Where a saving is made by the contractor as a result of the

variation in the cost of the provision of services, the Unitary Charge will be reduced to an amount corresponding to 80% of the reduction, thereby improving the net cash flow position. Where the variation results in a higher cost to the Contractor, there is provision for the Unitary Charge to be increased, although there is no corresponding cap for increases in the Unitary Charge, as this would have a negative impact on the net cash flow position. London and Regional have confirmed to us that the only variation to date which has altered the Project Agreement took effect from 1 March 2002, which resulted in a rise in the Unitary Charge of £179,923 per annum, from the “base” Unitary Charge of £6,768,797 per annum. This provides the current Unitary Charge of £6,948,720.

The PFI Agreement further allows the tenant to determine the lease on up to 20% of the net internal area of the accommodation at any time following the expiry of the tenth year of the term with six months written notice. The Secretary of State may exercise an option to determine accommodation up to four times but the amount of accommodation over which breaks are exercised may not exceed 20% of the net internal area in total.

The earliest break date is 2008. We have considered the likelihood of the tenant exercising the break options, and given the lack of office accommodation in the city, the current level of occupancy and increasing demands on Government Departments which in turn increases requirement for staff to oversee new bureaucracy, we are of the opinion that it is unlikely that the tenant will exercise these options. Additional comfort can be taken in our approach from the results of the Lyons review into the relocation of Government and public sector departments from London and the South East. This is likely to see a net increase in the amount of office accommodation required by the Government and other public sector bodies in major cities outside London, including Manchester. Given the current strength of the investment market, we are of the opinion that an investor would take a positive approach in this regard in arriving at a bid for the investment.

There is also provision for a lease extension at expiry of the term for a further term of five years if the tenant requires it.

In arriving at our opinion of market value assuming vacant possession, we have assumed that the property would be purchased by an investor seeking to refurbish the accommodation and let it either as a whole or on a floor by floor or half floor basis. We have adopted a market rent based on £236.81 per sq m (£22.00 per sq ft) for the accommodation with £1,500 per car parking space. We have based our opinion of rent on the rents being achieved on new build accommodation in central Manchester and Spinningfields and have discounted this to allow for the fringe location and lack of air conditioning throughout. In our opinion, some floors may achieve a higher rent than this following refurbishment whilst others will achieve a lower rent.

We have adopted a refurbishment cost for the offices based on £215.29 per sq m (£20.00 per sq ft), which provides a total cost of £4,001,840. We have adopted a void period, inclusive of a rent-free incentive of between 18 and 24 months in respect of the accommodation and have allowed for holding costs of £200,000 to cover insurance and rates, whilst the property is vacant. We have made an allowance of £35,000 for the head lease service charge whilst the property is vacant.

We have allowed a marketing budget of £25,000 and legal and letting fees based on 15% of the rent upon letting the accommodation. We have capitalised the income at 6% and deducted purchasers costs of 5.76%

Finally, we are pleased to confirm that the interest valued in this report provides adequate for loan purposes.

**Summary Table**  
**Trinity Bridge House, 2 Dearmans Place, Salford, M3 5BN**  
**Details as at 10 October 2005**

Description/ Floor/ Tenant	Terms of lease		Floor/use	Area NIA <sup>(1)</sup>		Rateable value	Current Passing Rent £ pa excl	Estimated rental value £ pa excl	Rent review frequency (date of next review)	Comments
	From	To		sq m	sq ft					
Trinity Bridge House/ Basement, Ground – 8 <sup>th</sup> Floors/ Inland Revenue	14.08.1998	13.08.2013	Whole/Offices	18,588.55	200,092	(2)	£5,586,768	£4,680,000	5 yearly (14.08.2008)	Unitary Charge of sub tenant subject to assumed fixed uplift at rent review to £6,989,354 pa. Based on 4.00% pa compounded. Tenant break option on up to 20% of accommodation at 14.08.2008 or after.
<b>Totals</b>				<b>18,588.55</b> Sq M	<b>200,092</b> Sq Ft		<b>£5,586,768</b>	<b>£4,680,000</b>		

**Notes:**

- (1) We have utilised the floor areas provided by London and Regional Properties for the purposes of our valuations. We have assumed that these areas have been measured and calculated in accordance with the current Code of Measuring Practice prepared by the Royal Institution of Chartered Surveyors.
- (2) Unable to identify rateable value. The Property may be subject to assessment in the Crown Rating List due to the nature of the occupying tenant.

**Appendix A**  
**Instruction Letter**

**Appendix B**  
**Definitions of the bases of valuation**  
**Taxation and costs**

## **Appendix B**

### **Definitions of the bases of valuation**

The properties have been valued in accordance with the relevant parts of the current RICS Appraisal and Valuation Standards (the “Red Book”). In particular, the bases of valuation are as follows:

#### **Market Value**

We have assessed Market Value in accordance with Practice Statement 3.2 Under these provisions, the term “Market Value” means “*The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*”

In undertaking our valuation on the basis of Market Value we have applied the conceptual framework which has been settled by the International Valuation Standards Committee (IVSC). The conceptual framework is included in PS 3.2 and is reproduced below:-

- "3.2 The term *property* is used because the focus of these Standards is the valuation of property. Because these Standards encompass financial reporting, the term *Asset* may be substituted for general application of the definition. Each element of the definition has its own conceptual framework.
- 3.2.1 '***The estimated amount ...***' Refers to a price expressed in terms of money (normally in the local currency) payable for the property in an arm's-length market transaction. *Market Value* is measured as the most probable price reasonably obtainable in the market at the date of valuation in keeping with the Market Value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of Special Value.
- 3.2.2 '***... a property should exchange ...***' Refers to the fact that the value of an asset is an estimated amount rather than a predetermined or actual sale price. It is the price at which the market expects a transaction that meets all other elements of the Market Value definition should be completed on the date of valuation.
- 3.2.3 '***... on the date of valuation ...***' Requires that the estimated Market Value is time-specific as of a given date. As markets and market conditions may change, the estimated value may be incorrect or inappropriate at another time. The valuation amount will reflect the actual market state and circumstances as of the effective valuation date, not as of either a past or future date. The definition also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might otherwise be made.
- 3.2.4 '***... between a willing buyer ...***' Refers to one who is motivated, but not compelled to buy. This buyer is neither over-eager nor determined to buy at any price. This buyer is also one who purchases in accordance with the realities of the current market and with current market expectations, rather than on an imaginary or hypothetical market which cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present property owner is included among those who constitute 'the market'. A valuer must not make unrealistic assumptions about market conditions or assume a level of Market Value above that which is reasonably obtainable.



- 3.2.5 '**... a willing seller ...**' Is neither an over-eager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the property at market terms for the best price attainable in the (open) market after proper marketing, whatever that price may be. The factual circumstances of the actual property owner are not a part of this consideration because the 'willing seller' is a hypothetical owner.
- 3.2.6 '**... in an arm's-length transaction ...**' Is one between parties who do not have a particular or special relationship (for example, parent and subsidiary companies or landlord and tenant) which may make the price level uncharacteristic of the market or inflated because of an element of Special Value, (defined in IVSC Standard 2, para. 3.11). The Market Value transaction is presumed to be between unrelated parties each acting independently.
- 3.2.7 '**... after proper marketing ...**' Means that the property would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable in accordance with the Market Value definition. The length of exposure time may vary with market conditions, but must be sufficient to allow the property to be brought to the attention of an adequate number of potential purchasers. The exposure period occurs prior to the valuation date.
- 3.2.8 '**... wherein the parties had each acted knowledgeably, prudently ...**' Presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the property, its actual and potential uses and the state of the market as of the date of valuation. Each is further presumed to act for self-interest with that knowledge and prudently to seek the best price for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the date of valuation, not with benefit of hindsight at some later date. It is not necessarily imprudent for a seller to sell property in a market with falling prices at a price which is lower than previous market levels. In such cases, as is true for other purchase and sale situations in markets with changing prices, the prudent buyer or seller will act in accordance with the best market information available at the time.
- 3.2.9 '**... and without compulsion**' Establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.
- 3.3 *Market Value* is understood as the value of a property estimated without regard to costs of sale or purchase and without offset of any associated taxes."

## **Market Rent**

We have assessed Market Rent in accordance with Practice Statement 3.4. Under these provisions the term "Market Rent" means '*The estimated amount for which a property, or space within a property, should lease (let) on the date of valuation between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion.*'

The commentary is reproduced below.

- "1. The definition of Market Rent is the Market Value (MV) definition modified by the substitution of a willing lessor and willing lessee for a willing buyer and willing seller, and an additional Assumption that the letting will be on 'appropriate lease terms'. This definition must be applied in accordance with the conceptual framework of MV at PS3.2, together with the following supplementary commentary:

### 1.1 ‘...willing lessor and willing lessee...’

The change in the description of the parties simply reflects the nature of the transaction. The willing lessor is possessed with the same characteristics as the willing seller, and the willing lessee with the same characteristics as the willing buyer, save that the word ‘price’ in the conceptual framework to MV should be changed to ‘rent’, the word ‘sell’ changed to ‘let’ and the word ‘buy’ changed to ‘lease’.

### 1.2 ‘...appropriate lease terms...’

MR will vary significantly according to the terms of the assumed lease contract. The appropriate lease terms will normally reflect current practice in the market in which the property is situated, although for certain purposes unusual terms may need to be stipulated. Matters such as the duration of the lease, the frequency of rent reviews, and the responsibilities of the parties for maintenance and outgoings, will all impact on MR. In certain States, statutory factors may either restrict the terms that may be agreed, or influence the impact of terms in the contract. These need to be taken into account where appropriate. Valuers must therefore take care to set out clearly the principal lease terms that are assumed when providing MR.

If it is the market norm for lettings to include a payment or concession by one party to the other as an incentive to enter into a lease, and this is reflected in the general level of rents agreed, the MR should also be expressed on this basis. The nature of the incentive assumed must be stated by the valuer, along with the assumed lease terms.

MR will normally be used to indicate the amount for which a vacant property may be let, or for which a let property may re-let when the existing lease terminates. Market Rent is not a suitable basis for settling the amount of rent payable under a rent review provision in a lease, where the actual definitions and Assumptions have to be used."

### **Taxation and costs**

In no case have we made any adjustment to reflect any liability to taxation that may arise on disposal, nor for any costs associated with disposal incurred by the owner.

No allowance has been made to reflect any liability to repay any government or other grants, taxation allowance or lottery funding that may arise on disposal.

We have made deductions to reflect purchaser’s normal acquisition costs where appropriate.

## **Appendix C**

### **Valuation terms, conditions and Assumptions**

## **Valuation terms of engagement**

These are the terms, conditions and Assumptions upon which our valuations and reports are normally prepared. They apply to the valuation(s) that have been the subject of this instruction unless specifically mentioned otherwise in this Valuation Report. We have made certain Assumptions in relation to facts, conditions or situations affecting the subject of, or approach to, our valuations that we have not verified as part of the valuation process. In the event that any of these Assumptions prove to be incorrect then our valuation(s) should be reviewed.

### **1 Title**

We have not had access to the title deeds of each of the properties. Where a Certificate of Title has been made available, we have reflected its contents in our valuation. Save as disclosed either in any such Certificate of Title or as referred to in our Report, we have made an Assumption that there is good and marketable title and that each of the properties is free from rights of way or easements, restrictive covenants, disputes or onerous or unusual outgoings. We have also made an Assumption that each of the properties is free from mortgages, charges or other encumbrances.

### **2 Condition of structure and services, deleterious materials, plant and machinery and goodwill**

Due regard has been paid to the apparent state of repair and condition of each of the properties, but condition surveys have not been undertaken, nor have woodwork or other parts of the structure which are covered, unexposed or inaccessible, been inspected. Therefore, we are unable to report that the properties are structurally sound or are free from any defects. We have made an Assumption that each of the properties is free from any rot, infestation, adverse toxic chemical treatments, and structural or design defects other than such as may be mentioned in the body of our Report and the appendices.

We have not arranged for investigations to be made to determine whether high alumina cement concrete, calcium chloride additive or any other deleterious material have been used in the construction or any alterations, and therefore we cannot confirm that the properties are free from risk in this regard. For the purposes of this valuation, we have made an Assumption that any such investigation would not reveal the presence of such materials in any adverse condition.

No mining, geological or other investigations have been undertaken to certify that the sites are free from any defect as to foundations. Where relevant, we have made an Assumption that the load bearing qualities of the site of the properties are sufficient to support the buildings constructed, or to be constructed thereon. We have also made an Assumption that there are no abnormal ground conditions, nor archaeological remains present, which might adversely affect the present or future occupation, development or value of each of the properties.

No tests have been carried out as to electrical, electronic, heating, plant and machinery equipment or any other services nor have the drains been tested. However, we have made an Assumption that all services are functioning satisfactorily.

No allowance has been made in this valuation for any items of plant or machinery not forming part of the service installations of the buildings. We have specifically excluded all items of plant, machinery and equipment installed wholly or primarily in connection with any of the occupants' businesses. We have also excluded furniture and furnishings, fixtures, fittings, vehicles, stock and loose tools. Further, no account has been taken in our valuation of any goodwill that may arise from the present occupation of each of the properties.

It is a condition of DTZ Debenham Tie Leung Limited or any related company, or any qualified employee, providing advice and opinions as to value, that the client and/or third parties (whether notified to us or not) accept that the valuation report will in no way relate to, or give warranties as to, the condition of the structure, foundations, soil and services.

### **3 Environmental matters**

We have made specific comments in relation to environmental matters within the Report.

### **4 Statutory requirements and planning**

Verbal or written enquiries have been made of the relevant planning authority in whose area each of the properties lie as to the possibility of highway proposals, comprehensive development schemes and other ancillary planning matters that could affect property values. The results of our enquiries have been included within our Report where relevant.

Save as disclosed in a Certificate of Title or unless otherwise advised, we have made an Assumption that the buildings have been constructed in full compliance with valid town planning and building regulations approvals, that where necessary they have the benefit of current Fire Certificates and that each of the properties is not subject to any outstanding statutory notices as to its construction, use or occupation. Unless our enquiries have revealed to the contrary, we have made a further Assumption that the existing use of each of the properties is duly authorised or established and that no adverse planning conditions or restrictions apply.

No allowance has been made for rights, obligations or liabilities arising under the Defective Premises Act 1972 and we have made an Assumption that each property complies with all relevant statutory requirements.

We would draw your attention to the fact that employees of town planning departments now always give information on the basis that it should not be relied upon and that formal searches should be made if more certain information is required. We assume that, if you should need to rely upon the information given about town planning matters, your solicitors would be instructed to institute such formal searches.

### **5 Leasing**

We have read all the leases and related documents provided to us. We have made an Assumption that copies of all relevant documents have been sent to us and that they are complete and up to date.

We have not undertaken investigations into the financial strength of the tenant(s). Unless we have become aware by general knowledge, or we have been specifically advised to the contrary, we have made an Assumption that the tenant(s) is/are financially in a position to meet its/their obligations. Unless otherwise advised, we have also made an Assumption that there are no material arrears of rent or service charges or breaches of covenants, current or anticipated tenant disputes.

However, our valuation reflects the type of tenant(s) actually in occupation or responsible for meeting lease commitments, or likely to be in occupation, and the market's general perception of their creditworthiness.

We have also made an Assumption that wherever rent reviews or lease renewals are pending or impending, with anticipated reversionary increases, all notices have been served validly within the appropriate time limits.

## **6 Information**

We have made an Assumption that the information that you and the applicant, and your/their respective professional advisers have supplied to us in respect of each property is both full and correct.

It follows that we have made an Assumption that details of all matters likely to affect value within your/their collective knowledge have been made available to us and that the information is up to date.

## **7 Estimated reinstatement cost assessment**

An estimated reinstatement cost assessment is our assessment of the cost of reinstating each of the properties at the date of valuation.

The figures set out in our Report are our assessment of the cost of reconstructing the properties. They include an allowance for demolition, removal of debris, temporary shoring, statutory and professional fees which are likely to be incurred on reconstruction, but exclude any allowance for VAT. If you are unable to recover VAT, or can recover part only, you should advise your insurers and increase the Base Sum Insured appropriately. The figures make no allowance for loss of rent during the rebuilding period, nor for inflation, nor the cost of dealing with any contamination which may be present and have to be dealt with prior to reconstruction. The assessment will not provide advice in respect of terrorist damage cover and you should consult with your insurers in respect of this.

We have assumed that the reinstated buildings and their uses will be similar to that existing, and the replacement buildings will be to the original design, in modern materials, using modern techniques to modern standards.

We have considered the extent and nature of the buildings but our assessment has been undertaken as part of our normal valuation exercise. We have not carried out a formal reinstatement cost assessment through our Building Consultancy Division. Our assessment should be treated as a guide only and should not be relied upon. It should be used for comparative purposes only against the borrower's proposed reinstatement cover. Should any discrepancies arise, a formal reinstatement cost assessment should be commissioned.

## **8 Landlord and Tenant Act 1987**

The Landlord and Tenant Act 1987 (the "Act") gives certain rights to defined residential tenants to acquire the freehold/head leasehold interest in a building where more than 50% of the floor space is in residential use. Where this is applicable, we have made an Assumption that necessary notices have been given to the residential tenants under the provisions of the Act, and that such tenants have elected not to acquire the freehold/head leasehold interest, and therefore disposal into the open market is unrestricted.

## **9 Building Society Act 1986**

We confirm that we are not disqualified under Section 13 of the Building Societies Act 1986 from reporting to you on these properties.

## **10 Legal Issues**

Legal issues, and in particular the interpretation of matters relating to title and leases, may have a significant bearing on the value of an interest in property. Where we have expressed an opinion

upon legal issues affecting the valuation, then such opinion should be subject to verification by the client with a suitable qualified lawyer. In these circumstances, we accept no responsibility or liability for the true interpretation of the legal position of the client or other parties in respect of the valuation of each of the properties.

## **11 Valuation computer print-outs**

Where we have provided copies of computer print outs produced by Circle or KEL Investment Valuer, you should note the following in order to understand the valuations:

### **Valuation summary print out**

**Gross rent** The current gross rent represents the total income receivable from the property at the date of valuation. In the case where a rent review is outstanding at the date of valuation and a reversionary increase is anticipated, the gross rent includes the reversionary increase as if it were payable at the date of valuation.

Similarly if a lease has expired but for the purpose of the valuation it is assumed that the tenant will renew the lease at current rental value, the gross rent includes the rental value of that particular lease.

**Net rent** The current net rent represents the current gross rent less any or all of the following:  
a. Ground rent  
b. Irrecoverable revenue outgoings  
c. Loss of income due to a permanent void allowance.

**Running yields** The running yield at any given point in time represents the return generated by the net rent as a percentage of the gross value before deduction of purchaser's costs. Where we have made capital deductions or additions to reflect matters such as the cost of works or letting fees, or premium receipts, yields are calculated against a sum equal to the net value plus purchaser's costs and any such capital deductions or minus any such capital receipts.

**Rounding** The initial, running and equivalent yields are calculated against capital values prior to rounding. The variation in yields calculated before rounding compared with those calculated after rounding is not material.

### **Tenancy details print out**

**Gross income** The actual contracted gross income received at the date of valuation is shown at the foot of the tenancy schedule. This sum ignores potential increases further to outstanding reviews and lease renewals.

**Rounded rent** The rounded rent for each tenancy is reflected in the valuation calculation.

**Appendix D**  
**Market Commentary**

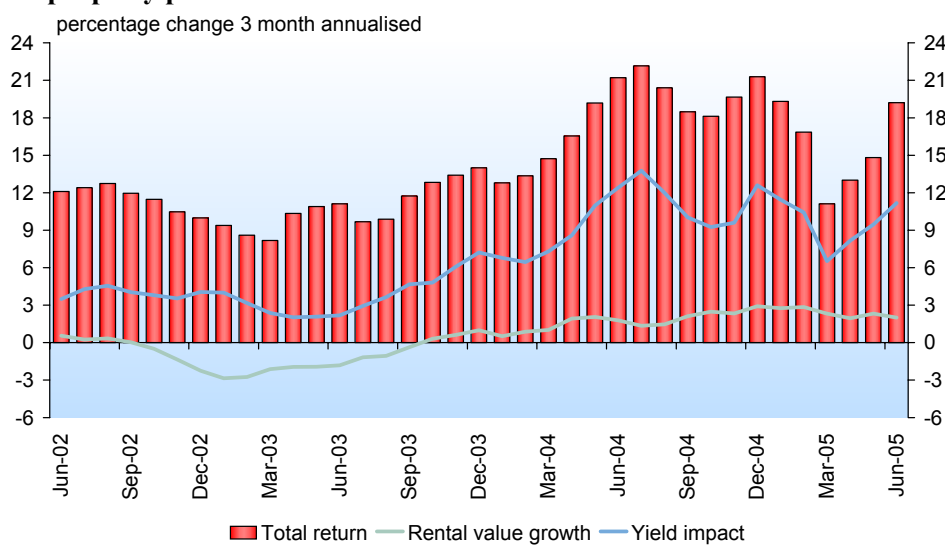


## Market Commentary

According to the IPD Monthly Index, during the three months to the end of June, all property delivered a total return of 19.2% on an annualised basis. This represents a significant improvement on the previous three months when returns on all property delivered 11.1% on the same basis. During the quarter, all property rental growth stood at 2.0% on an annualised basis compared to 2.3% three months earlier.

During the second quarter of 2005, the best performing UK asset class has been equities, delivering a

### All property performance



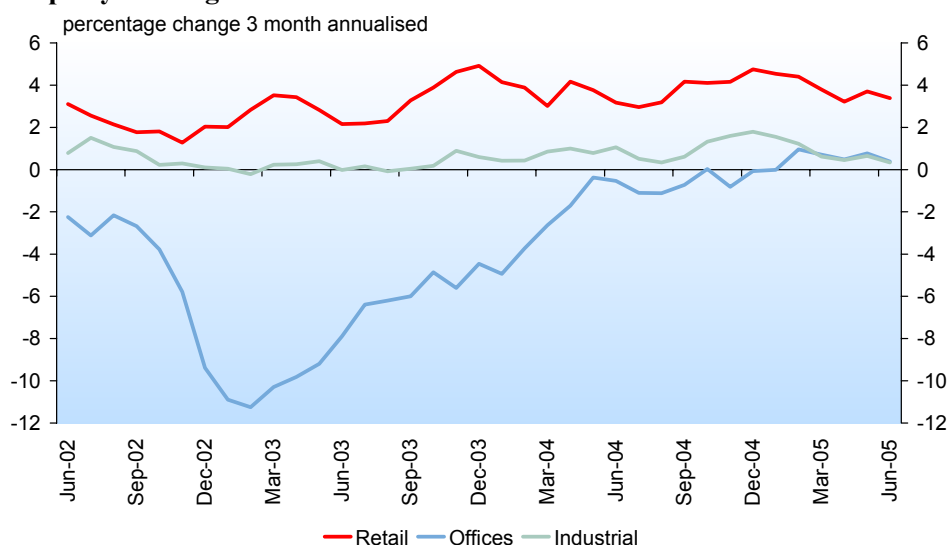
Source: IPD, DTZ Research

quarterly annualised return of 21.6% as measured by the FTSE All-Share Index. This compares to 19.2% and 20.4% for direct property and long-dated gilts respectively. The overall performance of equities over this period has been largely due to the relatively strong returns generated from some sectors including pharmaceuticals, oil and banks. Whilst equities have performed relatively well over the short term, direct property remains the best performing asset class over the last 3, 5 and 10 years according to IPD.

The value of UK property investment transactions monitored by DTZ Research during the second quarter of 2005 totalled £8.6 billion, down from £12.3 billion in the preceding three months. This represents the lowest quarterly volume of purchasing activity since the third quarter of 2004. Investment volumes fell primarily as a result of the reduced activity in the retail sector.

In terms of sectoral trends, industrial proved to be the best performing of the three main commercial property sectors, delivering an annualised return of 21.3% in the three months to June. This was followed closely by retail and offices with three month annualised returns of 18.8% and 19.0% respectively. Rental growth remained the strongest in the retail sector with rental values increasing by 3.4%. In comparison, the office and industrial rental market delivered annualised rental growth of 0.4% and 0.3% respectively.

## Property rental growth



Source: IPD, DTZ Research

Investor appetite for commercial property remains relatively robust as the all property equivalent yield continued to harden, albeit at a slower rate. Indeed over the last three months the all property equivalent yield has fallen by 19 basis points and compares to an average quarterly decline of around 20 basis points since June 2004. The resulting impact (change in capital values due to changes in the equivalent yield) has added 11.2% to total returns in the three months to June on an annualised basis. Similarly, the initial yield has moved in by 17 basis points over the last three months to stand at 5.57% according to IPD. A major risk to property returns over the next twelve months is that there is a reversal in the falling yields recorded over the last few years. However, as UK commercial real estate continues to attract strong demand from both domestic and overseas investors, it is possible that yields have a little further to fall over the coming months.

## Office Sector

The office sector improved in the three months to March 2005, delivering a return of 19.0% on an annualised basis. This was a significant improvement from returns of 10.6% in the three months to March and represents the strongest quarterly return since May 1994. Investor demand during the second quarter remained strong as the equivalent yield moved in by 24 basis points, adding 12.7% to capital values on an annualised basis. Indeed, the office equivalent yield is at its lowest level at any time since the launch of the IPD Monthly Index.

	Office Sector Performance						June 2005		
	Rental Value Growth - %			Total Return - %			Annual	Qtr	Annualised
	Annual	Qtr	Annualised	Annual	Qtr	Annualised			
Central London	0.22	0.06	0.25	14.16	4.19	17.85			
South East	-0.58	0.05	0.21	16.52	4.63	19.86			
Rest of UK	0.10	0.20	0.79	15.96	4.62	19.82			
All Office	0.07	0.10	0.38	15.17	4.44	19.00			
All Property	2.34	0.50	2.01	17.46	4.49	19.21			

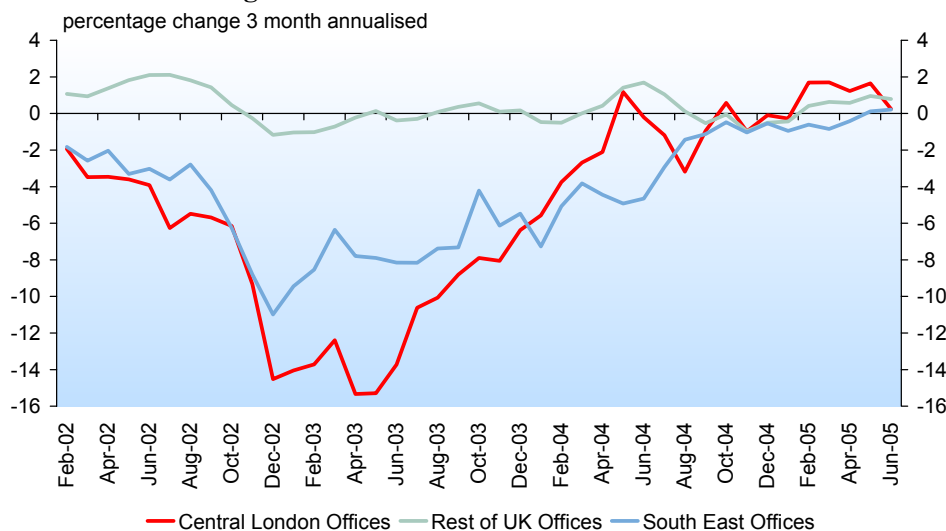
Source: IPD

On a regional level, South East offices recorded the most robust performance during the quarter with a return of 19.9% on an annualised basis. Over the same period, offices in Central London generated an annualised return of 17.9%. Within Central London, West End offices offered the most favourable returns in the three

months to June, delivering an annualised return of 23.0%. This compares to 21.4% and 14.0% for the Mid Town and City office markets respectively.

Whilst the outlook for financial and business services has become more positive over the last six months, the office occupational market has delivered marginal growth. In the three months to the end of June, rental values increased by 0.4% on an annualised basis compared to a rise of 0.7% in the previous three months. This rise represents the second consecutive quarter since December 2001 that the office sector has generated positive rental growth.

### Office rental value growth



Source: IPD, DTZ Research

The improvement in rental value growth was most noticeable in South East where values increased by 0.2% on an annualised basis, up from a fall of 0.8%. This is in contrast to Central London which saw rental values increase by a mere 0.2%, down from a rise of 1.7% in the preceding three months. The decline in the rate of growth was primarily due to the fall in the West End office market, which saw annualised rents decrease by 0.7% in the three months to June. This represents a significant fall on the previous three months, when rental values increased by 5.3%.

During the second quarter of 2005, the services sector expanded by 0.6%, marginally, down from 0.7% recorded in the first quarter according to the preliminary estimates released by National Statistics. The growth in business services and finance increased by 0.8%, down from 1.0% in the preceding three months. Employment in finance and business services in the three months to March increased by 0.48%, compared to 0.27% in the previous three months. This represented an annual rise of over 1.9%. Employment in finance and business services remains at around a fifth of the total workforce jobs.

According to the latest CBI financial services survey, in the three months to June, optimism amongst financial services remained positive for the third consecutive quarter. Whilst there were declines in prices and profitability over the quarter, financial services firms remain optimistic about the overall business situation. Looking ahead, employment levels, business volumes and profitability are expected to improve over the next three months. Moreover, a balance of 31 per cent of firms are more confident about long term investment with spending on land and buildings anticipated to increase significantly over the next year.

During the second quarter of this year there are positive signs that the financial and business services will improve further over the medium term. Office-based take-up in Central London continued to increase and availability ratios, whilst still relatively high, have reduced considerably over the past six months. Moreover, survey based evidence suggests that there will be moderate employment growth in the financial services

sector over the next year. As such, there is likely to be a further rental growth across all sub-regions of Central London in the coming months. Similarly, overall prospects for the regional office market are reasonably positive, particularly in those areas that will benefit from the increased public sector demand as the government undertakes the relocation programme heralded by the Lyons report. Indeed, the Chancellor of the Exchequer announced earlier this year that around 7,800 civil servants would be relocated from London to the regions during this year.

## Retail

In the three months to the end of June retail delivered an annualised return of 18.8%, an increase from 11.1% over the previous three-month period. The sharp rise is mainly attributable to the improvement in capital value growth over the quarter. Whilst consumer spending and retail sales have continued to slow down, the performance of the retail sector remains robust. Investor demand has remained strong as the retail equivalent yield moved in by 17 basis points in the three months to June, adding 8.8% to capital values on an annualised basis. The IPD retail initial yield stood at 5.0% at the end of June, the lowest level since February 1990.

Retail sector performance	June 2005					
	Rental Value Growth - %			Total Return - %		
	Annual	Qtr	Annualised	Annual	Qtr	Annualised
London	3.59	1.08	4.40	19.94	4.93	21.21
South East	4.22	0.84	3.39	19.85	4.82	20.71
Rest of UK	4.25	0.83	3.37	18.19	4.17	17.77
All Retail	4.03	0.84	3.39	18.68	4.39	18.77
All Property	2.34	0.50	2.01	17.46	4.49	19.21

Source: IPD

The improvement in total returns was most pronounced for shopping centres, delivering 18.8% in the three months to June on an annualised basis, compared to 7.8% three months earlier. Retail warehousing and standard shops also delivered a stronger performance in comparison to the preceding three months, generating double-digit returns of 17.7% and 20.3% respectively. On a regional level, London delivered the highest returns over the three months with 21.2% on an annualised basis, followed by the South East and the Rest of UK with 20.7% and 17.8% respectively.

During the second quarter, retail rental values increased by 3.4% on annualised basis, down from 3.8% in the previous three months. Rental value growth remained strongest in retail warehousing over the three months to June, with values rising by 5.3% on an annualised basis. This compares to 2.5% and 1.9% for shopping centres and standard shops respectively. All retail remains significantly stronger than either the office or industrial sectors, where annualised rental growth of 0.4% and 0.3% respectively was recorded in the three months to the end of June.

## Comparable Rental Evidence

### St George's Court, 2-28 New Oxford Street, London WC1

#### Premier House, 150 Southampton Row

In January 2005 EC Harris took 186.82 sq m (2,011 sq ft) of third floor office space at Premier House, 150 Southampton Row on a five-year FRI lease. The rent achieved was £46,253 per annum, equating to £247.57 per sq m (£23.00 per sq ft), subject to a tenant's option to break in June 2007. Five months rent-free was agreed.

#### Chancery Exchange, 10 Furnival Street EC4

In August this year AYH Ltd, a construction firm, undertook 3,172 sq m (34,138 sq ft) of office space for a 15 year lease with a break option in year 10 at nearby Chancery Exchange, 10 Furnival Street EC4. The headline rent was £376.64 per sq m (£35.00 per sq ft). Considering the 26 month rent free period this equated to a net effective rent £322.28 per sq m (£29.95 per sq ft).

### **151 Shaftesbury Avenue, WC2**

At 151 Shaftesbury Avenue, WC2, approximately 800 m west of the subject property 1,655 sq m (17,814 sq ft) spread between the 5<sup>th</sup> –7<sup>th</sup> floors were let in July 2004 on a 10 year lease to the British Race Horseracing Board. The headline rent achieved was £425.17 per sq m (£39.50 per sq ft). Given an 18 month rent free period this equated to a net effective rent of £361.45 per sq m (£33.58 per sq ft).

### **The Eye, High Holborn**

Bee Bee's development of The Eye, on High Holborn, comprised a letting of 639 sq m (6,880 sq ft) to BPP for 10 years was secured at a headline rent of £339 per sq m (£31.50 per sq ft) in June 2004. Once the rent free incentive of 18 months is taken into account, the net effective rent equated to approximately £296 per sq m (£27.50 per sq ft). At the same time, Reed Business Information Ltd, a subsidiary of Reed Elsevier plc has taken 1,287.63 sq m (13,860 sq ft) of fourth-floor office space on a 10 year lease at a rent of £412,145 per annum, equating to a headline rent of £318 per sq m (£29.50 per sq ft), and subject to a rent review in year five.

### **Connection, Stukeley Street**

In May 2004, at the Connection on Stukeley Street, a small suite of 358 sq m (3,854 sq ft) was let on a 10 year lease with a tenant break after year five to RBB Economics at a headline rent of £332.07 per sq m (£30.85 per sq ft). The net effective rent, taking into account the eight months rent free period, equated to £310 per sq m (£28.80 per sq ft).

### **Eagle House, Procter Street, WC1**

In March of this year, another good quality re-furnished building, Eagle House in Procter Street, WC1, Alterra Partners took 491 sq m (5,293 sq ft) again on a 10 year lease with a tenant's break option at year five for a headline rent of £314.31 (£29.20 per sq ft). The net effective rent equated to £290.6 per sq m (£27.00 per sq ft), after allowing for a nine months rent free period.

### **Berkshire House 168 – 173 High Holborn**

We are also aware that there have been a number of lettings in Berkshire House 168 – 173 High Holborn, which is a newly refurbished high specification building including air conditioning. Between February and March of last year, two suites of 478 sq m (5,143 sq ft) and a suite of 687 sq m (7,395 sq ft) were let and rents of £350 per sq m (£32.50 per sq ft) were achieved. Taking into account the nine months rent free period, this equates to a net effective rent of £315 per sq m (£29.25 per sq ft), this was for a ten year lease term with a tenant's break option in year five.

### **Holborn Town Hall**

At Holborn Town Hall, in July 2004 Imano plc has acquired 119 sq m (1,280 sq ft) of ground floor office space from Holborn Hall Connection Ltd on a five year lease at a rent of £36,480 per annum, equating to £307 per sq m (£28.50 per sq ft). In June 2004, CF Global Trading Ltd acquired 123 sq m (1,324 sq ft) of second floor office space from an undisclosed landlord for a term of 10 years at £41,044 per annum, equating to a headline rent of £333.68 per sq m (£31 per sq ft), subject to a tenant's option to break in May 2009.

**Skipton House, 80 London Road, Southwark, London. SE1 6LH**

**4 More London Riverside, London SE1 2AP**

In October 2004, DTZ Debenham Tie Leung acted on behalf of Lawrence Graham who took 11,613 sq m (125,000 sq ft) of office space from More London Development Ltd on a 25-year lease at a rent of £5,000,000 per annum, equating to £431 per sq m (£40 per sq ft), subject to a break option at the 20<sup>th</sup> year. Knight Frank and Jones Lang LaSalle acted on behalf of Moore London Development Ltd.

**185 Park Street, London SE1 9DY**

In April 2005, Iris Nation Ltd took 1,858 sq m (20,000 sq ft) of part first, part second, part third and part fifth-floor of office space within the North Block on a three-year lease at £500,000 per annum, equating to £269.10 per sq m (£25 per sq ft). Rogers Chapman acted on behalf of the landlord.

**Cottons Centre, Hays Lane, London SE1 2QF**

In January 2005, Cushman Wakefield Healey & Baker acted on behalf of Pearson Government Solutions Ltd who took 2,30 sq m (21,830 sq ft) of fourth-floor office space from St Martins Property Investment Ltd on a 10-year and seven months lease at a rent of £600,325 per annum, equating to £296.01 per sq m (£27.50 per sq ft). Morgan Pepper and Lambert Smith Hampton acted on behalf of St Martins Property Investment Ltd.

**1 London Bridge, London SE1 9QL**

In March 2005, Petro-Canada took 5,159.85 sq m (55,542 sq ft) of office space on a six-year lease at a rent of £1,555,000, equating to £301.36 per sq m (£28. per sq ft). A 30-month inducement was granted and therefore the effective rent equates to £175.83 per sq m (£16.33 per sq ft). Atis Real acted on behalf of the landlords.

**Guinness HQ, Block A, First Central Business Park, Coronation Road, Park Royal, London NW10**

**Building 2, Chiswick Office Park**

This property was leased to Discovery Channel on a 15 year lease term from May 2004. The modern building has an area of 9,300 sq m (100,000 sq ft) and is provided with raised floors and air-conditioning. The annual rental is £2,700,000 which reflects a rate of £290 per sq m (£27 per sq ft).

A second letting involved 558 sq m (6,000 sq ft) that was leased to Empower for 5 years from September 2004. The Grade A floor is air-conditioned. The annual rent is £180,000 which reflects a rate of £322.58 per sq m (£30 per sq ft).

*Finally this year 2325 sq m (25,000 sq ft) was leased to Tullow Oil at £750,000 per annum on a 10 year term. The Grade A building is air-conditioned. The rental reflects a rate of £322.58 per sq m (£30 per sq ft).*

**68 King William Street, London EC4**

**Juxon House, 95-97 Churchyard EC4**

In June 2005 Hogan & Hartson took 3,581 sq m (38,000 sq ft) at Juxon House, 95-97 Churchyard EC4. The lease was for 14 years and the annual rent is £1,773,024 which equates to £495 per sq m (£46 per sq ft). The property is a high specification modern office.

**Juxon House, 95-97 St Pauls Churchyard EC4**

We are aware that BMCE bank took 1,929 sq m (20,764 sq ft) of second floor office space in May 2005 within Juxon House, 95-97 St Pauls Churchyard EC4. The rent per annum of £986,290 equates to £511 per sq m (£47.50 per sq ft).

**18 King William Street, London EC4N 7BQ**

In May 2005 Iglobal took 1,409 sq m (15,162 sq ft) of office space at 18 King William street. Royal and Sun Alliance have granted a sub lease which expires in December 2012 and is subject three year rent reviews. The quoting rent was £407.793 per annum and this equates to £285.24 per sq m (£26.50 per sq ft)

**54 King William Street, London EC4R 9AA**

In November 2004 Bell & Clements Ltd took, 1,680 sq m (18,081 sq ft) of fourth and fifth-floor office space from Merrill Lynch Property Fund on an assignment of a lease expiring in June 2014 at a passing rent of £696,110 per annum, equating to £414 per sq m (£38.50 per sq ft)

**Capital House, 85 King William Street, 10-15 Lombard Street, Abchurch Lane London EC4N 7DA**

In April 2005 Trading Technologies UK Ltd took 1,050 sq m (11,302 sq ft) of seventh floor office space at a commencing rent of £559,449, equating to £532.82 per sq m (£49.50 per sq ft). The parties agreed a 10-year FRI lease with a break in May 2010.

**Phoenix House, 18 King William Street, London EC4N 7BQ**

In April 2005 Spiritel Plc took a new lease expiring in December 2007 of 270 sq m (2,910 sq ft) of part third-floor office space at a commencing rent of £109,998 per annum, equating to £406.88 (£37.80 per sq ft).

**10 King William Street, London EC4N 4HS**

In January 2005 Primary Group (UK) Ltd took 605 sq m (6,511 sq ft) of third floor office space at a commencing rental of £276,718 per annum, equating to £457.47 (£42.50 per sq ft).

## Investment Evidence

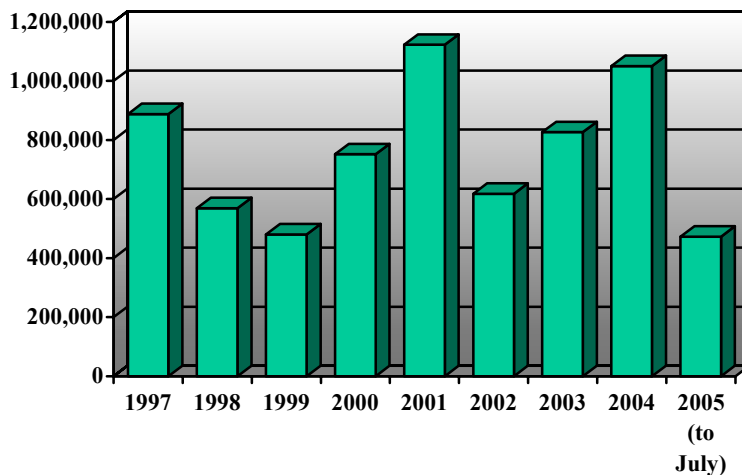
PROPERTY	TENANT	PRICE/INITIAL YIELD	PURCHASER	DATE	COMMENT	
King William Street EC4N	80 Cannon Street London EC4N 6EJ	£33,000,000 4.5%		07/05	£2,125,000 rent 4,645 sq m (50,000 sq ft)	
	10 King William Street London EC4	£10,350,000 4.8%	Multi-let	11/04	multi let on 10 year leases and produces a current rent of £500,000 per annum.	
	Victoria House 1/3 College Hill	8,400,000 6.4%	Multi-let	01/05	Victoria House is multi let on short term leases and produces a current rent of £537,600 per annum.	
St George's Court WC1	Parker Tower 43-49 Parker Street London WC2B 5PS	£30,000,000 6.4%		Schroders Plc	07/05	28 car parking spaces
	210 High Holborn London WC1V 7DL	£9,250,000 5%		Legal & General	08/05	
	Barnards Court 90 Fetter Lane London EC4V 1EQ	£37,300,000 6.25%	Bird & Bird Goodman Derrick Mitchells & Butlers	Blue Capital Europe Ltd	08/05	The headline office rent paid is £479 per sq m (£44.50 per sq ft) on an average unexpired lease of 10 years. The purchasing price represents an 8% premium to the property's book value at 31 March 2005.
	53-54 Doughty Street London WC1N 2LS	3,500,000 6.43%				5-storey property arranged as 5-floor office building (7,089 sq ft).
	Staple Inn Buildings High Holborn London WC1V	£20,500,000 5.8%		Private UK Investor	07/05	3,997 sq m (43,027 sq ft) of office and retail space bought from Marcol Group
	26 Southampton Buildings London WC2A 1BP	£85,483,870 6.2%	Natwest Financial Dynamics Ltd Pinemont Securities Ltd Hogg Robinson Ltd Xansa plc	Land Securities Group plc	07/05	14,859 sq m (160,000 sq ft) Annual rental income £5.3 m
	Fitzroy House 355 Euston Road NW1 3AL	£19,400,000 6.65%		Morley Pooled Pensions Ltd and Morley Fund Management Ltd	07/05	Strutt & Parker acted on behalf of Morley Pooled Pensions Ltd and Morley Fund Management Ltd Completed in 1977, the property provides some 42,195 sq ft of office accommodation on the ground to fourth floors with residential accommodation on the fifth and sixth floors.



## Manchester Office Market Overview

Manchester city centre arguably enjoyed its most successful year ever during 2004. Whilst the level of take-up was the second highest on record (beaten only by 2001) that year saw the exceptional 46,450 sq m (500,000 sq ft) pre-letting to Royal Bank of Scotland.

The year's success was dependent upon a number of large lettings rather than the volume of smaller transactions which takes place when the market is at its most active. There were, for instance, 23 transactions of 929.00 sq m (10,000 sq ft) or more.



Approximately two-thirds of the take-up was in the form of Grade A accommodation of which the majority were from pre-lettings. These pre-lettings include some of the largest transactions of the year: -

1. The Civil Justice Centre at Spinningfields – Department of Constitutional Affairs (283,000 sq ft) - 35 year term at rent of £276.21 per sq m (£25.66 per sq ft)
2. Cobbetts House, Mosley Street – Cobbetts (104,000 sq ft) – 15 year term at a rent of £269.11 per sq m (£25.00 per sq ft)
3. Piccadilly Basin – BDP (30,000 sq ft) – Terms confidential
4. GMPTE, Piccadilly Place (56,000 sq ft) – Freehold purchase

However perhaps the most significant news of the year came with two decisions in the last quarter. The first was by the Bank of New York who agreed to establish an operation within the City. This is likely to have long term benefits for the city as a destination for similar international financial organisations.

The second was the announcement by the BBC to relocate some of its operations from London. This again will have a considerable positive impact and wider employment benefits for the future. In this case however the benefits may not be felt for several years as the BBC are not due to relocate until 2008/2009. The acquisition by the Bank of New York of over 8,361 sq m (90,000 sq ft) at One Piccadilly Gardens was at a rent of £242.20 per sq m (£22.50 per sq ft) for a term of 10 years, with car parking agreed at £2,750 per car parking space. Allianz Cornhill took further space in the same building at a rent of £252.96 per sq m (£23.50 per sq ft) for a term of 15 years in December 2004 for 2,478.57 sq m (26,680 sq ft).

At 3 Hardman Square, within the Spinningfields area of the city, law firm Halliwells agreed to take 11,148 sq m (120,000 sq ft) of accommodation for a term of 15 years in July 2005. The rent agreed equates to £279.87 per sq m (£26.00 per sq ft) for new build accommodation.

No. 1 Marsden Street, the only other new development with a substantial amount of vacant accommodation, also let well during 2004 with a series of lettings totalling 3,284.02 sq m (35,350 sq ft) to a combination of banks and surveying firms at rents of between £269.11 and £290.64 per sq m (£25.00 and £27.00 per sq ft).

Likewise 55 King Street, a major refurbishment, secured lettings totalling 3,325.82 sq m (35,800 sq ft) to several tenants, primarily Cobbetts and Peoples Choice. The high level of activity amongst banks, surveying firms and solicitors was one of the themes of the year.

Given the lettings at One Piccadilly Gardens and 1 Marsden Street the level of existing good quality stock is virtually non-existent. The situation will not be improved during 2005 as there will be no development completed during the year, with modest levels of completion planned for the 2006. However, some refurbishments of existing stock will complete during the next 12 months.

Unless the Manchester city centre market is again driven by a number of pre-lettings, the likelihood for 2005 is that there will be a decline in take-up due simply to the lack of available supply. Take-up may increase in 2006 given the new developments and refurbishments which will be completed over the next two years.

We anticipate that, as occupiers realise that their alternative lies with either agreeing to a pre-letting or waiting, for the most part, three years for occupation, the schemes under construction are likely to achieve a good level of letting success by the time they reach Practical Completion. This will put pressure on the market and drive the need for further development.

After some years with the headline rent for large new buildings in the city remaining at £269.11 per sq m (£25.00 per sq ft) and smaller floors at £285.25 per sq m (£26.50 per sq ft), the second half of 2004 saw a major upward movement in rental values. The asking rent for new buildings is now likely to be a minimum of £296.02 per sq m (£27.50 per sq ft) whilst in the prime areas, the best small suites/single floors are likely to achieve between £296.02 - £322.93 per sq m (£27.50 - £30.00 per sq ft). Indeed, a small suite within The Pinnacle development fronting King Street was recently let to Investec Bank at a rent reported to be £365.98 per sq m (£34.00 per sq ft), although other suites within the same building are achieving lower rents of sub £322.93 per sq m (£30.00 per sq ft). This establishes Manchester as having the highest rental values for any regional centre outside London.

The office core has expanded over recent years, with the traditional core based around Mosley Street, Fountain Street, Spring Gardens and King Street generally offering older style buildings with limited redevelopment progressing. Developers have concentrated instead on fringe locations, with Allied London's Spinningfields creating a critical mass of new offices to the west of Deansgate. Whilst this is unlikely to displace the traditional office core over the long term, it has stretched it and aided new build supply at a time when lack of product has been noticeable.

No 1 Piccadilly was sold in March 2005 and provides approximately 13,934.95 sq m (150,000 sq ft) of new build office accommodation let to tenants including King Sturge, Allianz Cornhill and Bank of New York with unexpired terms of between 10 and 15 years. The property was sold for an initial yield less than 6.00%.

We are aware that No. 1 Marsden Street was sold in December 2004 achieving an initial yield of 5.75%. This property comprises 6,351.92 sq m (68,734 sq ft) on 11 floors with basement car parking. It is multi let to tenants including HBOS, DTZ, Barclays bank and Singer and Friedlander. The property was purchased by Warburg and Henderson KAG. This property is located within the office core.

81 Fountain Street provides 10,126 sq m (109,000 sq ft) let to Bupa with nine years unexpired. The property is sub let to a range of tenants. It was purchased by Warner Estates for £10,200,000 in June 2004 at an initial yield of 6.60%.

In terms of freehold vacant possession sales, the best evidence for the city centre stems from the sale of The Edge at Blackfriars, offering a new build property outside the office core. The building was purchased by Modus in January 2005 for £3,800,000, reflecting a rate of £2,202.95 per sq m (£204.65 per sq ft) for the

1,724.96 sq m (18,568 sq ft) building. Modus intend to owner occupy some of the accommodation and offer the remainder to let. The subject property is better located than this building.

Looking forwards, the Manchester office market is likely to continue to see growth given the relative shortage of prime Grade A office accommodation available now and in the pipeline. Supply of investment stock is also likely to remain relatively restricted, and with strong demand from, institutional, overseas, and debt driven purchasers, capital values are likely to remain at their current levels or improve over the short to medium term.

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