

# Vanwall Finance PLC

(incorporated with limited liability in England and Wales with registration number 5622846)

## £355,838,679 Commercial Mortgage Backed Floating Rate Notes due 2016

Vanwall Finance PLC (the **Issuer**) will issue the £174,300,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class A Notes**), the £87,200,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class B Notes**), the £34,900,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class C Notes**), the £17,400,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class D Notes**), the £31,800,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class E Notes**) and the £10,238,679 Class F Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class F Notes** and, together with the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, the **Notes**) on or about 9 February 2006 (or such later date as the Issuer may agree with the Joint Arrangers and the Managers (each 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 **Irish 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**) in connection with the application for the Notes to be admitted to the Official List of the Irish Stock Exchange. Reference throughout the document to "Offering Circular" shall be taken to read "Prospectus". This document constitutes a Prospectus for the purposes of the Prospectus Directive.

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

<b>Class</b>	<b>Initial Principal Amount</b>	<b>Ratings (S&amp;P/ Fitch/Moody's)<sup>(1)</sup></b>	<b>Margin over LIBOR</b>	<b>Expected Maturity Date<sup>(2)</sup></b>	<b>Final Maturity Date</b>	<b>Issue Price</b>
A	£174,300,000	AAA/AAA/Aaa	0.28 per cent.	12 April 2013	12 April 2016	100 per cent.
B	£87,200,000	AAA/AAA/—	0.34 per cent.	12 April 2013	12 April 2016	100 per cent.
C	£34,900,000	AA/AA/—	0.60 per cent.	12 April 2013	12 April 2016	100 per cent.
D	£17,400,000	A/A/—	0.80 per cent.	12 April 2013	12 April 2016	100 per cent.
E	£31,800,000	BBB/BBB/—	1.10 per cent.	12 April 2013	12 April 2016	99.42 per cent.
F	£10,238,679	BBB-/BBB-/—	1.50 per cent.	12 April 2013	12 April 2016	100 per cent.

<sup>(1)</sup> Moody's is rating the Class A Notes only.

<sup>(2)</sup> Based on the assumptions set out in "Estimated Weighted Average Lives of the Notes and Assumptions".

Interest on the Notes will be payable quarterly in arrear in pounds sterling on 12 January, 12 April, 12 July and 12 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 12 April 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 the case of the first Interest Period, the linear interpolation of 2 month and 3 month sterling deposits) (**LIBOR**, as further defined in **Condition 5.3** (Rates of Interest)) plus the relevant Margin. Each Margin will be as set out in the table above.

**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 12 April 2016 (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 "Transaction Summary – Principal features of the Notes".

The securities offered hereby have not been approved or disapproved by the United States Securities and Exchange Commission (the **SEC**), any state securities commission or any other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering Circular. Any representation to the contrary is unlawful. The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**), or any state securities laws, 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. Subject to certain exceptions, the Notes may not be offered, sold or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, any U.S. Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities 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 depository 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 in bearer form (each, a **Permanent Global Note**) representing the same Class of Notes, without interest coupons attached, not earlier than 40 days after the Closing Date (provided that certification as to 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 therein.

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.

*Joint Arrangers, Joint Lead Managers and Joint Bookrunners*

**BARCLAYS CAPITAL**

**DEUTSCHE BANK**

*Co-Managers*

**BANC OF AMERICA SECURITIES LIMITED**

**THE ROYAL BANK OF SCOTLAND**

The date of this Offering Circular is 8 February 2006

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 THE FINANCE PARTIES (OTHER THAN THE ISSUER), THE JOINT ARRANGERS, THE MANAGERS, THE JOINT BOOKRUNNERS, THE NOTE TRUSTEE, THE ISSUER SECURITY TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE SHARE TRUSTEE, THE PAYING AGENTS, THE AGENT BANK, THE PAYING AGENTS, THE OPTIONS HOLDER, THE LIQUIDITY BANK, THE CASH MANAGER, THE CALCULATION AND REPORTING AGENT, THE SERVICER, THE SPECIAL SERVICER, THE OPERATING ADVISER, OPCO, THE BORROWER, THE INTEREST RATE SWAP PROVIDER, THE PROPERTY MANAGER OR THE ACCOUNT BANK (AS EACH TERM IS DEFINED IN THIS OFFERING CIRCULAR) OR ANY OF THEIR RESPECTIVE ASSOCIATED BODIES, AFFILIATES OR SHAREHOLDERS.

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 having taken all reasonable care to ensure that such is the case the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

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, the Borrower or OpCo (or any companies in the same group of companies as, or affiliated to, the Issuer, the Borrower or OpCo, as applicable), the Joint Arrangers, the Managers, the Joint Bookrunners, the Note Trustee, the Issuer Security Trustee, the Security Agent, the Finance Parties, the Interest Rate Swap Provider, the Servicer, the Special Servicer, the Operating Adviser, the Paying Agents, the Agent Bank, the Options Holder, the Liquidity Bank, the Cash Manager, the Calculation and Reporting Agent, the Account Bank, the Corporate Services Provider, the Share Trustee or any of their respective affiliates or advisers. 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, the Borrower or OpCo (or any companies in the same group of companies as, or affiliated to, the Issuer, the Borrower or OpCo, as applicable), 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.

This Offering Circular and any other information supplied in connection with the Notes are not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Joint Arrangers, the Managers or any person that any recipient of this Offering Circular should purchase any of the Notes. Each investor contemplating purchasing Notes should make its own independent investigation of the financial condition and affairs, and its own 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 of it) comes are required by the Issuer, the Joint Arrangers and the Managers 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 Joint Arrangers or the Managers or any of them to subscribe for or purchase any of the Notes.

All references in this document to **sterling, pounds, pounds sterling** or **£** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

**In connection with this issue of Notes, Deutsche Bank AG, London Branch (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 Irish Stock Exchange, the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level 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.**

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## PRINCIPAL CHARACTERISTICS OF THE NOTES

The following is a brief overview of the principal characteristics of the Notes referred to in this Offering Circular. This information is subject to, and is more fully explained in, the other sections of this Offering Circular.

Notes	Class A Notes	Class B Notes	Class C Notes	Class D Notes	Class E Notes	Class F Notes
Initial Principal Amount	£174,300,000	£87,200,000	£34,900,000	£17,400,000	£31,800,000	£10,238,679
Expected rating - Fitch	AAA	AAA	AA	A	BBB	BBB-
Expected rating - S&P	AAA	AAA	AA	A	BBB	BBB-
Expected rating – Moody's in respect of the Class A Notes only	Aaa	—	—	—	—	—
Issue price	100 per cent.	100 per cent.	100 per cent.	100 per cent.	99.42 per cent.	100 per cent.
Interest rate	LIBOR + 0.28 per cent. per annum	LIBOR + 0.34 per cent. per annum	LIBOR + 0.60 per cent. per annum	LIBOR + 0.80 per cent. per annum	LIBOR + 1.10 per cent. per annum	LIBOR + 1.50 per cent. per annum
Expected Maturity Date	12 April 2013	12 April 2013	12 April 2013	12 April 2013	12 April 2013	12 April 2013
Final Maturity Date	12 April 2016	12 April 2016	12 April 2016	12 April 2016	12 April 2016	12 April 2016
Estimated average life <sup>1</sup>	7.02 years	7.18 years	7.18 years	7.18 years	7.18 years	7.18 years
LTV	34.5 per cent.	51.7 per cent.	58.6 per cent.	62.0 per cent.	68.3 per cent.	70.4 per cent.
LTVPV <sup>2</sup>	36.0 per cent.	54.0 per cent.	61.3 per cent.	64.9 per cent.	71.4 per cent.	73.5 per cent.

<sup>1</sup> Based on assumptions set out in "*Estimated Average Lives of the Notes and Assumptions*", to which investors should refer.  
<sup>2</sup> LTVPV: Loan to vacant possession value

## TRANSACTION SUMMARY

*The following information is a summary of the principal features of the issue of the Notes. This summary 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 purchasers of the Notes 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 Loans and the Loan Security*

The Issuer (as **Senior Lender**, such term including any other Senior Lender under the Credit Agreement from time to time) will enter into a credit agreement (the **Credit Agreement**) on or about 9 February, 2006 (the **Loan Closing Date**) with Toys "R" Us Properties (UK) Limited (the **Borrower**), a limited company incorporated under the laws of England and Wales with limited liability (with registered number 5410177). On the Loan Closing Date or at a date thereafter, a junior lender (defined as the "B Lender" in the Credit Agreement) will enter into the Credit Agreement (the **Junior Lender**, such term including any other Junior Lender under the Credit Agreement from time to time and together with the Senior Lender, the **Lenders**). The rights of the Lenders are further described below under "*The Senior Loan and the Loan Security*".

Pursuant to the terms of the Credit Agreement, the Issuer will make available to the Borrower a secured term loan facility comprising an initial principal amount of £347,038,679 (the **Initial Senior Loan**) and the Issuer will commit to provide to the Borrower a pre-funded principal amount of £8,800,000 available to be drawn in respect of the Cardiff Property subject to the terms and conditions described below under "*The Senior Loan and the Loan Security*" (when drawn, the **Pre-Funded Senior Loan**, and together with the Initial Senior Loan, the **Senior Loan**). Pursuant to the terms of the Credit Agreement, the Junior Lender will on the date specified in the Credit Agreement make available to the Borrower a separate secured term loan facility comprising an initial principal amount of up to £62,400,000 (the **Initial Junior Loan**) and the Junior Lender will commit to provide to the Borrower a further principal amount of up to £1,961,321 available to be drawn in respect of the Cardiff Property subject to the terms and conditions described below under "*The Senior Loan and the Loan Security*" (when drawn, the **Pre-Funded Junior Loan**, and together with the Initial Junior Loan, the **Junior Loan** and together with the Senior Loan, the **Loans**).

The Borrower will draw down the Initial Senior Loan in its entirety on or about 9 February 2006 (the **Drawdown Date**). The Borrower will draw down the Initial Junior Loan on or after the Drawdown Date. The Issuer will fund the Senior Loan facility by utilising the proceeds of the issue of the Notes. £8,800,000 of the proceeds of the issuance of the Notes, representing the Pre-Funded Senior Loan commitment, will, on the Closing Date, be placed on deposit in an account in the name of the Issuer (the **Pre-Funding Account**) with the Account Bank and will be applied by the Issuer to fund the Pre-Funded Senior Loan upon the satisfaction of the terms and conditions described below under "*The Senior Loan and the Loan Security*". On the Interest Payment Date falling in April 2007, any balance remaining in the Pre-Funding Account will be used to make a mandatory redemption of the Notes in accordance with **Condition 6.3(d)** (Mandatory redemption in whole or in part). The Pre-Funding Account will be subject to the Issuer Security as described below under "*Transaction Documents—Issuer Deed of Charge*".

The Borrower will use the proceeds of the Initial Senior Loan (together with the proceeds of the Initial Junior Loan, when drawn) to fund in part the purchase price for the acquisition of a portfolio of 29 stores and one distribution centre from Toys "R" Us Limited (**OpCo**) and Toys "R" Us Properties Limited by way of inter-company transfer on or before the Loan Closing Date as well as the transaction costs related to the acquisition of the Portfolio. The remainder of the funding of the purchase price for the acquisition will be by way of inter-company debt (which will be subordinated

to the debt under the Loans). 28 properties are located throughout England and Wales, one store is located in Scotland and one store is located in Northern Ireland (each a **Property** and the Cardiff Property if and when acquired by the Borrower, also a **Property**, and, the Properties together, the **Portfolio**). In the event that the Pre-Funded Senior Loan and/or the Pre-Funded Junior Loan are made available to the Borrower, the Borrower will use the proceeds thereof to fund in part the purchase price for the acquisition of the Cardiff Property from OpCo which will be by way of inter-company transfer. The remainder of the funding of the purchase price for the acquisition of the Cardiff Property may be by way of inter-company debt. See further "*The Properties*", below.

Upon the acquisition of the Portfolio and the Cardiff Property, if applicable, the Borrower will lease the Properties to OpCo pursuant to the Lease Agreements in respect of each Property each dated on or about the Loan Closing Date (other than in the case of the Cardiff Property which will be subject to a Lease Agreement substantially on the same terms as the other Lease Agreements and dated on or after the date of acquisition of the Cardiff Property by the Borrower), as described below under "*The Leases*". The Borrower will apply rental payments received pursuant to the Lease Agreements to make payments of principal and interest due to the Issuer and the Junior Lender in respect of the Loans. Amounts received from the Borrower under the Loans will be applied in accordance with the terms of the Credit Agreement and the Intercreditor Deed and prior to a Waterfall Trigger Event (as defined below under the heading "*Considerations relating to the Notes - Yield and prepayment considerations*") payments to the Senior Lender and the Junior Lender will be made on a *pro rata* basis. See further "*The Senior Loan and the Loan Security – Intercreditor Deed*" below.

In order to secure its obligations under the Credit Agreement and the other Finance Documents, the Borrower will, pursuant to a debenture to be dated the Closing Date (the **Borrower Security Agreement**) and any other security document as may be required (together with the Borrower Security Agreement and the Scottish Security Documents (as defined below), the **Borrower Security Documents**), grant a floating charge over all of the Borrower's assets and first fixed security over all of its legal and beneficial interest in the Properties (including the Cardiff Property, when acquired). Furthermore, the Borrower, as security for its obligations under the Credit Agreement and the other Finance Documents will, pursuant to the Borrower Security Agreement, grant security over its rights under the Lease Agreements and the Transaction Documents to which it is party. In order to secure the obligations of the Borrower under the Credit Agreement and the other Finance Documents, among other things, Toys "R" Us Holdings Limited will, pursuant to a mortgage of shares to be dated the Closing Date (the **Mortgage of Shares**) grant a mortgage over all the shares it holds in the Borrower. All of the security interests granted by the Borrower and the Mortgage of Shares granted by Toys "R" Us Holdings Limited in connection with the Loans are, together, referred to as the **Loan Security** and will be held on trust by Deutsche Bank AG, London Branch as **Security Agent** on behalf of the Finance Parties (which, after the Closing Date, will include the Issuer as set out below).

#### *The Notes and the Issuer Security*

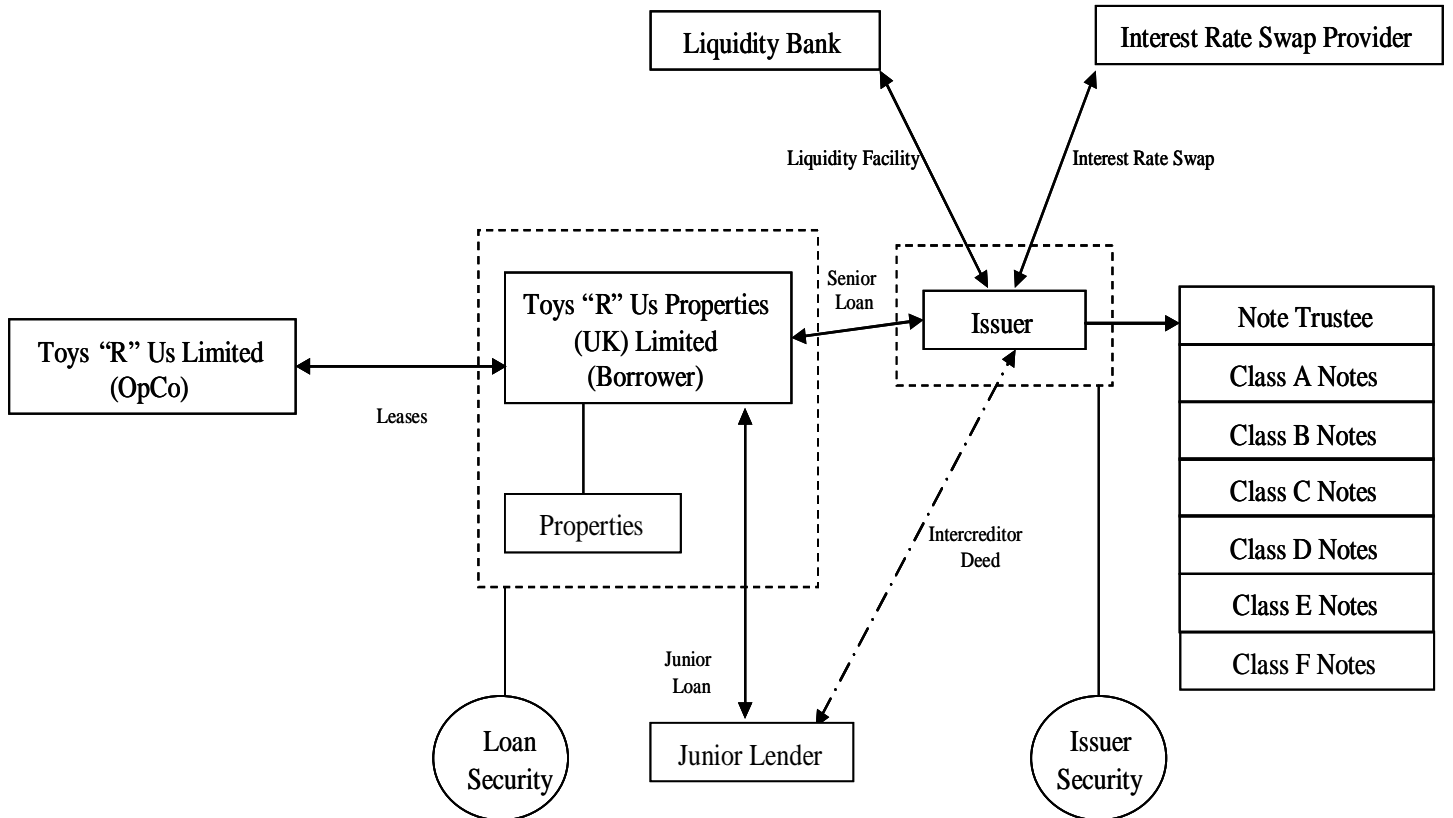
On the Closing Date, the Issuer will issue the Notes and use the proceeds to (i) fund the Initial Senior Loan to the Borrower pursuant to the terms of the Credit Agreement and (ii) deposit an amount equal to the Pre-Funded Senior Loan commitment amount in the Pre-Funding Account. The Issuer will use receipts of principal and interest in respect of the Senior Loan, together with certain other funds available to it (as described elsewhere in this Offering Circular) to make payments of, among other things, principal and interest due in respect of the Notes.

With a view to protecting the Issuer against interest rate mismatches arising as a result of the Borrower paying a fixed rate of interest on the Senior Loan whilst the Issuer is required to pay floating rates of interest on the Notes and different interest periods applicable under the Senior Loan and the Notes, the Issuer will enter into interest rate swap transactions in respect of the Senior Loan with the Interest Rate Swap Provider. As security for its obligations under (amongst other things) the Notes, the Issuer will grant fixed and floating security interests over all its assets and undertaking (which comprises, primarily, its rights in respect of the Senior Loan, the Loan Security and the Pre-Funding Account) in favour of the Issuer Security Trustee under the Issuer Deed of Charge. The

Issuer Security Trustee will hold the benefit of this security on trust for itself, the Noteholders and the other Issuer Secured Creditors. Upon enforcement of the Issuer Security, the Issuer Deed of Charge will determine the priority of the claims of the Issuer Secured Creditors.



# Structure Diagram



## Key Transaction Parties

- Issuer:** Vanwall Finance PLC (the **Issuer**) is a public company incorporated in England and Wales with limited liability. The Issuer's company registration number is 5622846. The entire issued share capital of the Issuer is held by or on behalf of the Share Trustee on trust for charitable purposes.
- The Issuer will act as initial Senior Lender pursuant to the terms of the Credit Agreement.
- Junior Lender:** The Junior Lender from time to time pursuant to the terms of the Credit Agreement.
- Borrower:** Toys "R" Us Properties (UK) Limited (the **Borrower**) is a private company incorporated in England and Wales with limited liability under registered number 5410177.
- OpCo:** Toys "R" Us Limited (**OpCo**) was incorporated in England and Wales on 16 April 1984 (registered number 1809223) as a private limited company with limited liability under the Companies Act 1985. OpCo will be the sole tenant under the Leases. See "*The Leases*" below.
- Note Trustee:** HSBC Trustee (C.I.) Limited, acting through its office at 1 Grenville Street, St. Helier, Jersey, JE4 9PF, will act under the Note Trust Deed as trustee for the holders of the Notes (in this capacity, the **Note Trustee**).
- Issuer Security Trustee:** HSBC Trustee (C.I.) Limited, acting through its office at PO Box 88, 1 Grenville Street, St. Helier, Jersey, JE4 9PF, will act as trustee for the Issuer Secured Creditors (including the Noteholders) under the Issuer Deed of Charge (in this capacity, the **Issuer Security Trustee**).
- Facility Agent:** Deutsche Bank AG, London Branch, acting through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, will be appointed under the terms of the Credit Agreement to act as agent of the Issuer (in this capacity, the **Facility Agent**).
- Security Agent:** Deutsche Bank AG, London Branch, acting through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, will be appointed under the terms of the Credit Agreement to act as trustee under the terms of the Borrower Security Agreement (in this capacity, the **Security Agent**).
- Servicer:** Deutsche Bank AG, London Branch, acting through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, will be appointed under the terms of the Servicing Agreement to carry out certain servicing functions on behalf of the Issuer, the Junior Lender (when party to the Credit Agreement), the Facility Agent and the Security Agent in connection the Credit Agreement (the **Servicer**).

<b>Special Servicer:</b>	Hatfield Philips International Limited, acting through its office at 34 <sup>th</sup> Floor, 25 Canada Square, Canary Wharf, London E14 5LB, will be appointed under the terms of the Servicing Agreement to carry out certain special servicing functions if required on behalf of the Issuer, the Junior Lender (when party to the Credit Agreement), the Facility Agent and the Security Agent in connection with the Credit Agreement (the <b>Special Servicer</b> ). In due course, the Operating Adviser appointed by the Controlling Party (if the Controlling Party is the Junior Lender) may direct that the person then acting as Special Servicer be replaced by a person nominated by the Operating Adviser. See " <i>Servicing</i> " below.
<b>Controlling Party and Operating Adviser:</b>	<p>So long as the Junior Loan is outstanding, the Junior Lender will be the <b>Controlling Party</b> for the purposes of the Loans provided a Control Valuation Event (as defined below) has not occurred. Following the occurrence of a Control Valuation Event, the Controlling Party will be the "<b>Controlling Class</b>", being the holders of the most junior ranking Class of Notes outstanding at any time which has a total Principal Amount Outstanding that is not less than 25 per cent. of the Principal Amount Outstanding of that Class as at the Closing Date. If no Class of Notes has a Principal Amount Outstanding that satisfies this requirement, then the Controlling Class will be the most junior Class of Notes then outstanding. As at the Closing Date, the holders of the Class F Notes will be the Controlling Class. For further details of the circumstances in which a Control Valuation Event will occur, see "<i>Servicing</i>" below.</p> <p>The Controlling Party will be entitled to elect a representative (the <b>Operating Adviser</b>) who will have the right to appoint the Special Servicer and to be consulted on certain matters relating to the servicing and enforcement of the Loans. For further information about the role and rights of the Operating Adviser, please see "<i>Servicing</i>" below.</p>
<b>Property Manager:</b>	Toys "R" Us Properties Limited will act as property manager (the <b>Property Manager</b> ) on behalf of the Borrower in respect of the Portfolio pursuant to the terms of a Property Management Agreement dated on or about the Loan Closing Date. See " <i>The Senior Loan and Loan Security – Property Management Agreement</i> " below.
<b>Cash Manager:</b>	HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, will act as cash manager for the Issuer under the Cash Management Agreement (in this capacity, the <b>Cash Manager</b> ).
<b>Calculation and Reporting Agent</b>	Wells Fargo Securitisation Services Limited (the <b>Calculation and Reporting Agent</b> ) acting through its office at Level 32, 25 Canada Square, London E14 5LQ, will, pursuant to the Cash Management Agreement, provide certain calculation and reporting services to the Issuer.

- Account Bank:** HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, will act as account bank for the Issuer under the Bank Account Agreement (in this capacity, the **Account Bank**).
- Liquidity Bank:** Barclays Bank PLC, acting through its office at 1 Churchill Place, London E14 5HP, will provide the Liquidity Facility to the Issuer under the Liquidity Facility Agreement (in this capacity, the **Liquidity Bank**).
- Interest Rate Swap Provider:** Deutsche Bank AG acting through its London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB (the **Interest Rate Swap Provider**,) will enter into an interest rate swap agreement in the form of an International Swaps and Derivatives Association, Inc. (ISDA) 1992 Master Agreement (Multicurrency-Cross Border) to be dated on or prior to the Closing Date (together with the schedule thereto, the **Interest Rate Swap Agreement**) with the Issuer. The Issuer and the Interest Rate Swap Provider will enter into one or more interest rate swap transactions in respect of the Senior Loan (the **Interest Rate Swap Transactions**) pursuant to the Interest Rate Swap Agreement.
- Principal Paying Agent and Agent Bank:** HSBC Bank plc, acting through its office at 8 Canada Square, London E14 5HQ, will be appointed to act as principal paying agent and agent bank under the Agency Agreement (in these capacities, the **Principal Paying Agent** and the **Agent Bank**).
- Irish Paying Agent:** HSBC Institutional Trust Services (Ireland) Limited, acting through its office at HSBC House, Harcourt Centre, Harcourt Street, Dublin 2, will be appointed to 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**.
- Corporate Services Provider:** Structured Finance Management Limited will provide certain corporate administration and secretarial services to the Issuer under the Corporate Services Agreement (the **Corporate Services Provider**). The Corporate Services Provider will also provide certain corporate administration and secretarial services to the Options Holder under the Corporate Services Agreement.
- Options Holder:** Vanwall Options Limited (the **Options Holder**) is a private company with limited liability incorporated in England and Wales. The Options Holder's company registration number is 5648776 and its registered office is 35 Great St. Helen's, London EC3A 6AP. The Options Holder will agree to act as Post-Enforcement Call Option holder in respect of the Notes under the Post-Enforcement Call Option Agreement. The entire issued share capital of the Options Holder is held by SFM Corporate Services Limited on trust for charitable purposes.

**Share Trustee:**

SFM Corporate Services Limited (the **Share Trustee**) holds the shares of the Issuer on trust for charitable purposes under the terms of a trust deed dated 21 December 2005 (the **Share Trust Deed**). The Share Trustee holds its interest in the shares of the Options Holder on trust for charitable purposes under the terms of a separate trust deed dated 21 December 2005 (the **Options Holder Share Trust Deed**).

**Finance Parties:**

The **Finance Parties** under the Credit Agreement will be the Issuer, the Junior Lender, the Security Agent, the hedging counterparty in relation to the Junior Loan and the Facility Agent.

## Key Characteristics of the Senior Loan

- Senior Loan:** The Senior Loan constitutes a full recourse obligation of the Borrower and is secured by the Loan Security described below under "*Key Characteristics of the Senior Loan—Loan Security*".
- Purpose of Senior Loan:** The Borrower will use the proceeds of the Initial Senior Loan (together with the proceeds of the Initial Junior Loan, when drawn) to fund in part the acquisition of the Portfolio (other than the Cardiff Property) from Toys "R" Us Limited (**OpCo**) and Toys "R" Us Properties Limited by way of inter-company transfer and to fund the transaction costs related to that acquisition.
- In the event that the Pre-Funded Senior Loan and/or the Pre-Funded Junior Loan are made available to the Borrower, the Borrower will use the proceeds thereof to fund in part the acquisition of the Cardiff Property from OpCo by way of inter-company transfer. The remainder of the funding of the acquisition of the Cardiff Property may be by way of inter-company debt.
- See further "*The Portfolio*" below.
- Interest rate:** The Senior Loan will bear interest calculated at the sum of a fixed rate plus a specified margin.
- The Junior Loan will bear interest calculated at the sum of LIBOR plus a specified margin.
- Interest payments:** From the Closing Date, interest under the Senior Loan will be paid quarterly in arrear on 7 January, 7 April, 7 July and 7 October in each year (unless such date is not a Business Day, in which case the following Business Day in the same calendar month (if there is one) or brought forward to the previous Business Day (if there is not) (each a **Loan Interest Payment Date**) in respect of successive interest periods (each referred to herein as a **Loan Interest Period**).
- Repayment:** Unless previously repaid, principal is repayable under the Senior Loan in accordance with the amortisation schedule set out in the section "*The Senior Loan and the Loan Security*" and the Senior Loan is repayable in full on 7 April 2013 (the **Loan Maturity Date**).
- Voluntary prepayment:** The Borrower is entitled to prepay the Loans or any part thereof (subject to a minimum prepayment of £1,000,000 or, if less, the outstanding amount of the Loans), upon giving not less than 12 Business Days' prior written notice to the Facility Agent. Amounts prepaid may not be redrawn.
- Optional prepayment by the Borrower on a day other than the last day of a Loan Interest Period shall be subject to the additional payment by the Borrower of any amount payable by way of indemnity to the Issuer to compensate the Issuer for costs incurred by it as a result of such prepayment.

Amounts received from the Borrower in respect of the prepayment of the Loans will be applied in accordance with the Credit Agreement and the Intercreditor Deed (see further "*The Senior Loan and the Loan Security – Credit Agreement*" and "*The Senior Loan and the Loan Security – Intercreditor Deed*" below).

**Mandatory Prepayment:**

Prepayment of the Loans of the Issuer and/or the Junior Lender (whichever is relevant) must be made if:

- (a) (no later than the latest date permissible under the relevant law) it becomes unlawful for the Issuer or the Junior Lender to perform its obligations under the Credit Agreement or to fund or maintain the Loans (in this case only the affected Lender will be prepaid and such amount will be prepaid outside of the priorities of payments in the Intercreditor Deed described below);
- (b) a Property or any part of a Property is disposed of or subject to a compulsory purchase order where the compensation received is in excess of £100,000, in which event the proceeds of such disposal (up to a maximum amount equal to what the Applicable Release Pricing Amount would be for such Property as discussed below in "*The Senior Loan and the Loan Security—Credit Agreement*") shall be applied in repayment of the Loans in accordance with the Credit Agreement; or
- (c) insurance proceeds are received in relation to all or any part of a Property such proceeds to be applied in repayment of the Loans in accordance with the Credit Agreement as described below under "*The Senior Loan and the Loan Security—Credit Agreement*".

Amounts received from the Borrower in respect of the prepayment of the Loans arising in connection with the disposal or compulsory purchase of a Property or insurance proceeds received in respect of a Property will be applied in accordance with the Credit Agreement and the Intercreditor Deed. See further "*The Senior Loan and the Loan Security – Intercreditor Deed*" below.

**Intercreditor Deed:**

Amounts received by the Facility Agent from the Borrower under the Loans will be applied in accordance with the terms of the Intercreditor Deed and prior to a Waterfall Trigger Event payments to the Senior Lender and the Junior Lender will be made *pari passu* on a *pro rata* basis. See further "*The Senior Loan and the Loan Security – Intercreditor Deed*" below.

**Waterfall Trigger Event** means either or both of the following:

- (a) a failure by the Borrower to pay any amount of principal or interest due under the Credit Agreement on the Loan Interest Payment Date on which it is due (unless the Junior Lender has made a Cure Payment which is sufficient to ensure that all amounts which are then due and payable on the relevant Senior Loan have been, or will on that Loan Interest Payment Date be, paid in full or any Cure Period has not yet expired); and
- (b) the Borrower stopping payment or threatening to stop payment of its debts or being or becoming unable to pay its debts as they fall due or otherwise becoming insolvent, insolvency proceedings being commenced or threatened against the Borrower or any attachment, sequestration, distress, diligence or execution being effected against any assets of the Borrower.

**Representations and warranties:**

The representations and warranties given by the Borrower under the Credit Agreement, as of the date of the Credit Agreement, include (and, in respect of certain of the representations and warranties, as at each Loan Interest Payment Date, will include) among other things, representations as follows:

- (a) due incorporation, capacity and authorisation;
- (b) no event of default under the Credit Agreement (each, a **Loan Event of Default**) is outstanding;
- (c) legality, validity and enforceability of the Finance Documents;
- (d) ownership and good and marketable title to each of the Properties, in each case free from any security interests (other than those set out in the Borrower Security Documents) subject to due registration;
- (e) first priority of the relevant Loan Security;
- (f) the absence of litigation, arbitration or administrative proceedings which could reasonably be expected to have a Material Adverse Effect or which restricts the Borrower's obligations under the Finance Documents or a Lease Document;
- (g) the truthfulness and accuracy of all written, factual information supplied by the Borrower or on its behalf in connection with the Finance Documents and the Lease Documents;
- (h) accuracy of most recently delivered accounts (when prepared);



- (i) no undisclosed liabilities at the date as of which its accounts were last prepared which would be reasonably likely to have a Material Adverse Effect;
- (j) no other business of the Borrower;
- (k) the absence of any tax claim which would have a Material Adverse Effect if adversely determined (and which is reasonably likely to be so determined); and
- (l) ownership of the Borrower.

**Finance Documents** includes the Credit Agreement, any Borrower Security Document, any subordination agreement, any fee letter, any hedging agreement in relation to the Junior Loan and any document designated as such by the Borrower and the Facility Agent or otherwise identified as such in the Credit Agreement.

**Lease Documents** includes the Leases and any other document designated as such by the Borrower and the Facility Agent or otherwise defined as such in the Credit Agreement.

**Material Adverse Effect** means an event or circumstance which (after taking account of any warranty, indemnity or other right of recourse against any third party with respect to the relevant event or circumstance (including, without limitation, coverage by insurances and any commitment by any person to provide any additional contribution of equity), where "taking account of" will include a consideration of all relevant facts and circumstances including the timing and likelihood of successful recovery and potential counterclaims and other claims against the Borrower with respect to the relevant event or circumstance and the creditworthiness of relevant third parties) has or would reasonably be expected to have a material adverse effect on:

- (a) the ability of the Borrower to meet:
  - (i) its payment obligations under the Finance Documents; or
  - (ii) the Interest Cover financial covenant contained in the Credit Agreement and described below under "*The Senior Loan and the Loan Security*"; or
- (b) the validity or enforceability of the rights and remedies (taken as a whole) of the Lenders under the Finance Documents.

**Interest Cover Covenant:**

Interest Cover (as defined below) must be at least 110% on, amongst other dates, each date on which a Loan is drawn and each Loan Interest Payment Date. See further "*The Senior Loan and the Loan Security*" below.

## Loan Security:

In order to secure its obligations under the Credit Agreement and the other Finance Documents, the Borrower will, pursuant to a debenture in favour of the Security Agent to be dated the Closing Date (the **Borrower Security Agreement**) (together with the Scottish Security Documents described below and any other security document as may be required including without limitation any supplemental security agreement provided in relation to any Property (including the Cardiff Property) as described below under "*Key characteristics of the Portfolio*"), the **Borrower Security Documents**, grant a floating charge over all of the Borrower's assets and security over each of the Properties located in England, Wales and Northern Ireland and related interests and assets including (among other things):

- (a) a first legal mortgage (in the case of Property located in Northern Ireland, by way of granting and demising the Property to the Security Agent subject to a proviso for redemption) or standard security over its rights to the Properties;
- (b) a first fixed charge over the Borrower's interest in the Properties (to the extent not subject to security under paragraph (a) above);
- (c) first fixed security over or assignment of the rental income under the Leases;
- (d) first fixed security or floating security over the Borrower Accounts;
- (e) first assignment by way of security of the Borrower's rights in respect of insurances relating to the Properties;
- (f) first assignment by way of security of each Lease Document, the Property Management Agreement, the hedging agreements in relation to the Junior Loan and any other agreement to which the Borrower is a party which is not otherwise charged by the Borrower Security Agreement; and
- (g) a floating charge over all of the Borrower's assets.

The Borrower will, pursuant to a Scottish standard security and a Scottish assignation of rent to be dated the Closing Date (together the **Scottish Security Documents**) grant a standard security in favour of the Security Agent over its rights in the Property located in Scotland, and will assign the rental income receivable by the Borrower in relation to that Property to the Security Agent.

Toys "R" Us Holdings Limited will also grant a mortgage over all its shares in the Borrower.

All of the security interests granted by the Borrower and Toys "R" Us Holdings Limited in connection with the Loans are, together, referred to as the **Loan Security** and are held on trust by the Security Agent on behalf of the Finance Parties (which, after the Closing Date, will include the Issuer).

For a more detailed description of the provisions of each of the Borrower Security Documents to be entered into on the Loan Closing Date please see "*The Loan and the Loan Security*" below.

**Insurance:**

The Borrower has undertaken, pursuant to the Credit Agreement, to maintain or procure the maintenance of insurance of each Property (except in relation to the Property located in Plymouth and the storage area at the Working Property to the extent already insured under the relevant headlease) on a full replacement cost basis, including not less than three years' loss of rent on all Leases together with third party liability insurance and insurance against acts of terrorism (to the extent available) and to procure that the Security Agent is named as mortgagee and loss payee on all relevant insurance policies.

All insurances required under the Credit Agreement must be with an insurance company or underwriter that has a long term credit rating of the following: A (or better) by Fitch and A (or better) by S&P.

## Key characteristics of the Portfolio

### Properties:

The Borrower will acquire from OpCo and Toys "R" Us Properties Limited on the Loan Closing Date a portfolio of 29 retail stores and a distribution centre spread throughout England and Wales with the exception of one store located in Scotland and one store located in Northern Ireland (each a **Property** and the Cardiff Property when acquired by the Borrower, also a **Property**, and, the Properties together, the **Portfolio**). The Portfolio (excluding the Cardiff Property) has a total gross internal floor area of 1,861,382 square feet. The 29 retail stores represent approximately 1,192,882 square feet of the total gross internal floor area of the Portfolio (excluding the Cardiff Property), with the remainder represented by the distribution centre.

19 of the Properties in the Portfolio (excluding the Cardiff Property) are freehold properties constituting absolute ownership of the property. The remaining 11 Properties in the Portfolio (excluding the Cardiff Property) are long leasehold properties constituting ownership of the Property (normally for a fixed period) subject to an annual payment of a ground rent to the owner of the freehold title. No leasehold Property ground leases expire during the term of the Loan.

A further retail store, near Cardiff (the **Cardiff Property**), may be added to the Portfolio after the Loan Closing Date, subject to the satisfaction of certain conditions precedent as described below under "*The Senior Loan and the Loan Security*". Construction of the store on the Cardiff Property has not commenced yet although general groundwork improvements have been carried out on behalf of Cardiff City Council, as owner. It is expected that OpCo will be granted a 250-year lease (less 3 days) over the Cardiff Property and that OpCo will gain access to the site in summer/early autumn 2006, with retail operations of a Toys "R" Us store expected to commence later in the year. On acquisition of the headlease, it is expected that OpCo will sell the Cardiff Property to the Borrower (subject to the satisfaction of certain conditions as described below under "*The Senior Loan and the Loan Security*"), which will in turn grant a sub-lease of the property to OpCo.

### Leases:

Each of the Properties is (and in respect of the Cardiff Property if acquired by the Borrower, will be) subject to an occupational lease (each a **Lease** and, together, the **Leases**), as further discussed below under "*The Leases*". Each Lease in respect of the Properties is in the same terms (other than specific matters relating to the description of or title to the Property, the level of rent and, in the case of leases deriving from a superior lease, changes required to reflect the terms of the superior lease). The Lease relating to the Cardiff Property if acquired by the Borrower will be on substantially the same terms as the other Leases.

All of the Leases relating to the Properties are (and in respect of the Cardiff Property if acquired by the Borrower, will be) FRI leases being "fully repairing and insuring leases" (**FRI Leases**) under which substantially all of the economic liabilities arising in

relation to the upkeep and operation of the relevant Property are borne by OpCo as tenant, including the costs of repairing, maintaining and insuring the relevant Property (provided that if the Borrower insures the relevant Property, damage by insured risks is excluded from the tenant's repairing obligation).

Set out below are certain summaries of the Portfolio (other than the Cardiff Property). See also "*Description of the Portfolio*" below.

**Portfolio Summary:**

CB Richard Ellis Ltd. on 30 June 2005 valued (the **Initial Valuation**) the Portfolio's market value at £493,220,000 on a net rent per annum of £27,531,900 and an estimated rental value (**ERV**) of £29,124,400 per annum (such figures excluding the Cardiff Property). The 29 retail stores represent approximately 87.9% of the net rent per annum and 88.9% of the market value of the Portfolio, with the remainder represented by the distribution centre (such figures excluding the Cardiff Property).

On the basis of the Initial Valuation of the Portfolio (other than the Cardiff Property), the loan to value ratio of the Loans on the date of this Offering Circular (expressed as a percentage) is 70.4 per cent.

## Principal features of the Notes

### Notes:

The Notes will comprise:

- (a) £174,300,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2016;
- (b) £87,200,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2016;
- (c) £34,900,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2016;
- (d) £17,400,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2016;
- (e) £31,800,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2016; and
- (f) £10,238,679 Class F Commercial Mortgage Backed Floating Rate Notes due 2016.

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

### Status and priority:

Payments of interest and repayments of principal on the Notes will rank behind the payment of certain other amounts by the Issuer (including payments of fees, costs and expenses of and payment of indemnity claims (as applicable) to the Note Trustee, the Issuer Security Trustee, the Cash Manager, the Calculation and Reporting Agent, the Account Bank, the Principal Paying Agent and the Agent Bank). See "*Cashflows*" below.

Payments of interest in respect of the Class A Notes will rank ahead of payments of interest in respect of the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes. Payments of interest in respect of the Class B Notes will rank ahead of payments of interest in respect of the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes. Payments of interest in respect of the Class C Notes will rank ahead of payments of interest in respect of the Class D Notes, the Class E Notes and the Class F Notes. Payments of interest in respect of the Class D Notes will rank ahead of payments of interest in respect of the Class E Notes and the Class F Notes. Payments of interest in respect of the Class E Notes will rank ahead of payments of interest in respect of the Class F Notes.

Other than in respect of certain prepayments (which will be dealt with as set out in **Condition 6** (Redemption)):

- (a) repayments of principal in respect of the Class A Notes will rank ahead of repayments of principal in respect of the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes;
- (b) repayments of principal in respect of the Class B Notes will rank ahead of repayments of principal in respect of the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes;
- (c) repayments of principal in respect of the Class C Notes will rank ahead of repayments of principal in respect of the Class D Notes, the Class E Notes and the Class F Notes;
- (d) repayments of principal in respect of the Class D Notes will rank ahead of repayments of principal in respect of the Class E Notes and the Class F Notes; and
- (e) repayments of principal in respect of the Class E Notes will rank ahead of repayments of principal in respect of the Class F Notes.

See further "*Cashflows*" 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 depository for Euroclear and Clearstream, Luxembourg. The Notes will be issued in denominations of £50,000 (or an integral multiple of £1,000 in excess thereof, and in the case of the Class F Notes only, in an integral multiple of £1 in excess thereof).

For so long as the Notes are represented by Global Notes 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, there will be certain restrictions in respect of holdings above a multiple of £50,000 in nominal amount. See further **Condition 2.3** (Trading in differing nominal amounts).

**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>	<b>Moody's</b> (in respect of the Class A Notes only)
Class A Notes	AAA	AAA	Aaa
Class B Notes	AAA	AAA	—
Class C Notes	AA	AA	—
Class D Notes	A	A	—
Class E Notes	BBB	BBB	—
Class F Notes	BBB-	BBB-	—

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 Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on its regulated market.

**Liquidity Facility:** On or before the Closing Date, the Issuer and the Liquidity Bank, among others, will enter into an agreement (the **Liquidity Facility Agreement**) pursuant to which the Liquidity Bank will make available to the Issuer a facility which the Issuer can draw on to fund certain shortfalls in available income (including amounts available to pay interest on the Notes) from time to time (as described further under "*Transaction Documents – Liquidity Facility Agreement*" below).

**Interest Rate Swap Agreement:** The Interest Rate Swap Provider will enter into the Interest Rate Swap Agreement with the Issuer. The Issuer and the Interest Rate Swap Provider will, on the Closing Date, enter into one or more swap confirmations with respect to the Senior Loan (each an **Interest Rate Swap Confirmation**) evidencing the terms of the Interest Rate Swap Transactions entered into pursuant thereto. See further "*Transaction Documents – Interest Rate Swap Agreement*".

**Amortisation:** Principal on the Notes will be repaid in quarterly instalments on the Interest Payment Dates and in the amounts (each, an **Amortisation Amount**) set out in **Condition 6.3** (Mandatory Redemption).

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



**Redemption in whole for tax and other reasons:**

In accordance with **Condition 6.2**, and only after reasonable endeavours have been made to mitigate in accordance with **Condition 6.2**, if the Issuer satisfies the Note Trustee that (i) on or before the occasion of the next Interest Payment Date the Issuer would become subject to tax on its income in more than one jurisdiction or by reason of a change of law which change becomes effective on or after the Closing Date the Issuer or the Paying Agents 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 Borrower would be required to make any withholding or deduction from any payment to the Issuer under the Credit Agreement in each case for or on account of any present or future tax, duty, assessment or governmental 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 Credit Agreement or (iii) an Interest Rate Swap Tax Event occurs, then the Issuer may (in accordance with **Condition 6.2**), upon giving not more than 60 and not less than 30 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 but unpaid interest thereon up to but excluding the date of redemption.

**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 due to voluntary prepayment by Borrower:**

If the Issuer receives a notice from the Borrower pursuant to the Credit Agreement that the Borrower intends to prepay all or part of the Senior Loan on or before the next Interest Payment Date (using funds other than the proceeds of a disposal, a compulsory purchase order or insurance proceeds in respect of a Property or the prepayment of the Senior Loan in connection with the replacement of the Issuer as Senior Lender), the Issuer will, subject as provided in **Condition 6.3(b)**, upon giving not less than 10 business days' notice to the Noteholders and provided that no Acceleration Notice has been served and that it has satisfied the Note Trustee that it has or will have sufficient funds available to it to pay all principal and interest due in respect of the relevant Class or Classes of Notes on the immediately following Interest Payment Date and to discharge all other amounts required to be paid by it on the immediately following Interest Payment Date ranking senior to all amounts due in respect of the relevant Class or Classes of Notes subject to redemption, apply such prepayment received to redeem some or all of a specified Principal Amount Outstanding of the Notes in accordance with the priorities of payments set out in **Condition 6.3(b)** such that, subject to the availability of funds, first the Class F Notes will be redeemed, next the Class E Notes will be redeemed, next the Class D Notes will be redeemed, next the Class C Notes will be redeemed, next the Class B Notes will be redeemed and finally the Class A Notes will be redeemed.

**Mandatory redemption in whole or in part due to disposal, compulsory purchase or insurance proceeds received in respect of a Property or the replacement of the Issuer as Senior Lender:**

If the Issuer receives a prepayment in whole or in part of the Senior Loan arising in connection with a mandatory prepayment under the Senior Loan, including in connection with a Property disposal or compulsory purchase in whole or in part or insurance proceeds in respect of a Property (each as described below under "*The Senior Loan and the Loan Security*") or in respect of the replacement of the Issuer as Senior Lender, the Issuer will subject as provided in **Condition 6.3(c)**, on giving not less than 10 business days' notice to the Noteholders and provided that no Acceleration Notice has been served and that it has satisfied the Note Trustee that it has or will have sufficient funds available to it to pay all principal and interest due in respect of the relevant Class or Classes of Notes on the immediately following Interest Payment Date and to discharge all other amounts required to be paid by it on the immediately following Interest Payment Date ranking senior to all amounts due in respect of the relevant Class or Classes of Notes subject to redemption, apply such prepayment received to redeem some or all of a specified Principal Amount Outstanding of the Notes in accordance with the priorities of payments set out in **Condition 6.3(c)** such that, subject to the availability of funds, first the Class A Notes will be redeemed, next the Class B Notes will be redeemed, next the Class C Notes will be redeemed, next the Class D Notes will be redeemed, next the Class E Notes will be redeemed and finally the Class F Notes will be redeemed.

**Mandatory redemption in whole or in part with amounts standing to the credit of the Pre-Funding Account:**

If, on the Interest Payment Date falling in April 2007, there remains any amount standing to the credit of the Pre-Funding Account (less any interest amounts or the yield element of the proceeds of any Eligible Investments in respect of such balance made by or on behalf of the Issuer out of amounts standing to the credit of the Pre-Funding Account), the Issuer will, subject as provided in **Condition 6.3(d)** and provided that no Acceleration Notice has been served and that it has satisfied the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant Class or Classes of Notes on such Interest Payment Date and to discharge all other amounts required to be paid by it on such Interest Payment Date ranking senior to all amounts due in respect of the relevant Class or Classes of Notes subject to redemption, apply such amount to redeem some or all of the Notes in accordance with **Condition 6.3(d)** such that, subject to the availability of funds, the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes will be redeemed on a pro rata basis.

**Optional redemption in whole or in part:**

The Issuer has the option to redeem all or part of the Notes on any Interest Payment Date as provided in **Condition 6.4** (Optional redemption in whole or in part) provided that it gives not more than 60 nor less than 30 days notice to the Noteholders and provided that no Acceleration Notice has been served and that it has satisfied the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant Class or Classes of Notes on such Interest Payment Date and to discharge all other amounts required to be paid by it on such Interest Payment Date ranking senior to all amounts due in respect of the relevant Class or Classes of Notes subject to redemption, subject to the availability of funds, to redeem the Notes in the following order of priority: first the Class A Notes will be redeemed, next the Class B Notes will be redeemed, next the Class C Notes will be redeemed, next the Class D Notes will be redeemed, next the Class E Notes will be redeemed and finally the Class F Notes will be redeemed.

**Post-Enforcement Call Option in favour of the Options Holder:**

Pursuant to an agreement dated on or about the Closing Date (the **Post-Enforcement Call Option Agreement**) between the Note Trustee, the Issuer and the Options Holder, the Note Trustee will, on the Closing Date, grant to the Options Holder an option (the **Post-Enforcement Call Option**) to acquire all (but not some only) of the Notes (plus accrued interest thereon) for a consideration of 0.01 pence per Note, outstanding following any enforcement of the Issuer Security, after the date on which the Issuer Security Trustee determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the Notes and after the application of any such proceeds to the Notes in accordance with the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments, as applicable (see "*Cashflows*" below), to pay any further amounts due in respect of the Notes.

The Noteholders will be bound by the terms of the Post-Enforcement Call Option granted to the Options Holder pursuant to the terms and conditions of the Note Trust Deed and by **Condition 6.6** (Post-Enforcement Call Option) and the Note Trustee will be irrevocably authorised to enter into the Post-Enforcement Call Option Agreement with the Options Holder for the benefit of the Noteholders.

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

The Issuer will not be permitted to purchase, directly or indirectly, any Notes.

**Interest rates:**

Each Class of Notes will initially bear interest calculated as the sum of LIBOR (as defined in **Condition 5.3** (Rates of Interest)) 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>
Class A Notes	0.28
Class B Notes	0.34
Class C Notes	0.60
Class D Notes	0.80
Class E Notes	1.10
Class F Notes	1.50

**Interest payments:**

Interest will be payable on the Notes quarterly in arrear on 12 January, 12 April, 12 July and 12 October in each year, unless the same is not a Business Day, in which case it shall be postponed to the following Business Day in the same calendar month (if there is one) or brought forward to the previous Business Day (if there is not) (each, an **Interest Payment Date**). For these purposes, **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 and Dublin.

**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.

**Deferral of Interest:**

Failure by the Issuer to pay interest on the Class A Notes or the Class B Notes (or in the event no Class A Notes or Class B Notes are outstanding, the Most Senior Class of Notes which is still outstanding (as defined in the Conditions)) when due and payable (after a grace period has passed) will result in a Note Event of Default which may result in the Note Trustee serving an Acceleration Notice and/or notice that the Issuer Security is being enforced.

To the extent that funds available to the Issuer on any Interest Payment Date, after paying any interest then accrued due and payable on the Class A Notes and the Class B Notes (or in the event no Class A Notes or Class B Notes are outstanding, the Most Senior Class of Notes then outstanding), are insufficient to pay in full interest otherwise due on any one or more classes of more junior-ranking Notes then outstanding, the shortfall in the amount then due will not be paid on such Interest Payment Date but will be deferred and will only be paid, in accordance with the relevant Priority of Payments on subsequent Interest Payment Dates if and when permitted by subsequent cash flows which are available after the Issuer's higher priority liabilities have been discharged. Any interest not paid on the Notes when due 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 relevant Priority of Payments (as described in "Cashflows" below) or, at the latest, on the Final Maturity Date.

**Issue price:**

- (a) The Class A Notes will be issued at 100 per cent. of their aggregate initial Principal Amount Outstanding.
- (b) The Class B Notes will be issued at 100 per cent. of their aggregate initial Principal Amount Outstanding.
- (c) The Class C Notes will be issued at 100 per cent. of their aggregate initial Principal Amount Outstanding.
- (d) The Class D Notes will be issued at 100 per cent. of their aggregate initial Principal Amount Outstanding.
- (e) The Class E Notes will be issued at 99.42 per cent. of their aggregate initial Principal Amount Outstanding.
- (f) The Class F 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 made between the Issuer, the Issuer Security Trustee and certain of the other Issuer Secured Creditors and dated on or before the Closing Date (the **Issuer Deed of Charge**).

The Issuer Security Trustee will hold the security granted under the Issuer Deed of Charge on trust for itself and the Noteholders, the Note Trustee, any receiver appointed by the Issuer Security Trustee, any person appointed by the Issuer Security Trustee or the Note Trustee, the Paying Agents, the Agent Bank, the Corporate Services Provider, the Liquidity Bank, the Interest Rate Swap Provider, the Cash Manager, the Calculation and Reporting Agent, the Account Bank, the Servicer and the Special Servicer (together, the **Issuer Secured Creditors**). Under the terms of the Issuer Deed of Charge, in the exercise of any of its powers, duties and discretions, the Issuer Security Trustee will, so long as any Notes remain outstanding, only act on the instructions of the Note Trustee and will not be obliged to act on or consider the interests of any of the Issuer Secured Creditors.

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

- (a) an assignment by way of first security over all of its right, title, interest and benefit, present and future, under the Finance Documents (including the Senior Loan and in respect of the Loan Security) and the Intercreditor Deed;
- (b) an assignment by way of first security of its right, title, interest and benefit, present and future, in, to and under the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Liquidity Facility Agreement, the Interest Rate Swap Agreement, the Agency Agreement and the Servicing Agreement to which it is a party;
- (c) a first fixed charge over all of its right, title, interest and benefit, present and future, in and to the amounts from time to time standing to the credit of the Issuer Accounts;
- (d) a first fixed charge of its interest in any Eligible Investments made by it or on its behalf; and
- (e) a first floating charge (ranking behind the claims of certain preferential creditors and the fixed security created pursuant to the Issuer Security Deed) over the whole of its undertaking and of its property and assets not already subject to fixed security.

**Transaction Documents** means the Note Trust Deed, the Issuer Deed of Charge, the Bank Account Agreement, the Cash Management Agreement, the Corporate Services Agreement, the Liquidity Facility Agreement, the Interest Rate Swap Agreement, the Agency Agreement, the Post-Enforcement Call Option Agreement, the Servicing Agreement, the Subscription Agreement, the Master Definitions and Construction Schedule, the Finance Documents and any other document designated as such by the Issuer and the Issuer Security Trustee.

Prior to the occurrence of a Note Event of Default and enforcement of the Issuer Security, payments of interest in respect of each Class of Notes will rank in accordance with the Pre-Enforcement Revenue Priority of Payments and payments of principal will rank in accordance with the Pre-Acceleration Principal Priority of Payments (as described in "*Cashflows*" below). Upon the occurrence of a Note Event of Default and enforcement of the Issuer Security, payments of interest in respect of each Class of Notes will rank in accordance with the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments and payments of principal will rank in accordance with the Pre-Acceleration Principal Priority of Payments (as described in "*Cashflows*" below). Following delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, payments in respect of each Class of Notes will rank in accordance with the Post-Acceleration Priority of Payments (as described in "*Cashflows*" below).

**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, except that certain aspects of the Loan Security will be governed by Northern Irish law to the extent such aspects relate to Northern Irish Properties and by Scots law to the extent such aspects relate to Scottish Properties.

## **RISK FACTORS**

*Set out in this section is a summary of certain issues of which prospective Noteholders should be aware before making a decision whether or not to invest in Notes of any Class. This summary is not intended to be exhaustive. Therefore, prospective holders of the Notes should also read the detailed information set out elsewhere in this Offering Circular and form their own views before making any investment decision.*

### **A. Considerations relating to the Notes**

#### **Liability under the Notes**

The Issuer is the only entity which has obligations to pay any amount due in respect of the Notes. The Notes will not be obligations or responsibilities of, or guaranteed by, any other entity, including (but not limited to) the Borrower, OpCo, the Finance Parties (other than the Issuer), the Interest Rate Swap Provider, the Joint Arrangers, the Managers, the Note Trustee, the Issuer Security Trustee, the Share Trustee, the Options Holder, the Liquidity Bank, the Paying Agents, the Agent Bank, the Corporate Services Provider, the Cash Manager, the Calculation and Reporting Agent, the Account Bank, the Servicer, the Special Servicer, the Operating Adviser or by any entity affiliated to any of the foregoing.

#### **Limited resources of the Issuer**

The Notes will be full recourse obligations of the Issuer. However, the Issuer is a special purpose entity with no business operations other than the issue of the Notes, the entering into of the Credit Agreement, the Liquidity Facility Agreement, the Interest Rate Swap Agreement, the other Transaction Documents and the transactions ancillary thereto. The assets of the Issuer will themselves be limited. The ability of the Issuer to meet its obligations under the Notes will be dependent primarily upon the receipt by it of principal and interest from the Borrower under the Senior Loan (see further "*Considerations relating to the Loan and the Properties*" below), the receipt of funds (if available to be drawn) under the Liquidity Facility Agreement, the receipt of funds from the Interest Rate Swap Provider and the receipt of funds (if any) in respect of any enforcement of the Loan Security. Other than the foregoing, any amount standing to the credit of the Pre-Funding Account and any interest earned by the Issuer in respect of its bank accounts, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes.

Pursuant to the terms of the Post-Enforcement Call Option Agreement, the Options Holder will have the right to purchase from Noteholders and Noteholders will be obliged to sell to the Options Holder, for the consideration of 0.01 pence per Note all of the Notes left outstanding (plus accrued interest thereon), in the event that the Issuer Security has been enforced by the Issuer Security Trustee and professional advisers selected by the Issuer Security Trustee determine that the proceeds of enforcement are insufficient after payment of all other claims ranking in priority to the Notes and after the application of any such proceeds to the Notes under the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments, as applicable, to pay any further principal, interest or any other amounts due in respect of the Notes.

Upon enforcement of the Issuer Security, the Issuer Security Trustee or any receiver will, in practice, have recourse only to the Senior Loan and the Issuer's interest in the Loan Security, and to any other assets of the Issuer then in existence as described in this document. It should be noted that following service of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Issuer will not be able to make any further drawings under the Liquidity Facility Agreement.



## **Ratings of the Notes**

The ratings assigned to each Class of the Notes by the Rating Agencies are based on the Senior Loan, the Loan Security, the Portfolio and other relevant structural features of the transaction, including, among other things, the short term unsecured, unguaranteed and unsubordinated debt ratings of the Liquidity Bank and the Interest Rate Swap Provider. These ratings reflect only the views of the Rating Agencies. Moody's is only rating the Class A Notes.

The ratings address the likelihood of full and timely receipt by any of the Noteholders of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Final Maturity Date. There can be no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgement of the Rating Agencies, circumstances so warrant. 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. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the market value and/or liquidity of the Notes of any Class.

Credit rating agencies other than Fitch, Moody's and S&P could seek to rate the Notes (or any Class of them) without having been requested to do so by the Issuer, and if such unsolicited ratings are lower than the comparable ratings assigned to the Notes by Fitch, Moody's and S&P, as applicable, those unsolicited ratings could have an adverse effect on the market value and/or liquidity of the Notes of any Class. In this Offering Circular, all references to ratings in this Offering Circular are to ratings assigned by the Rating Agencies (namely Fitch, Moody's and S&P, as applicable).

## **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, the Noteholders and the other Issuer Secured Creditors. In making such a determination, the Note Trustee will be entitled to take into account, among other things, any confirmation by any of the Rating Agencies (if available) that the then current rating by it of the Notes of the relevant Class would, or, as the case may be, would not, be downgraded, withdrawn or qualified by any event, matter, or thing.

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

## **Absence of secondary market; limited liquidity**

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on its regulated market. There is not, at present, a secondary market for the Notes. There can be no assurance that a secondary market in the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment, or that it will continue for the life of the Notes. In addition, the market value of certain of the Notes may fluctuate with changes in prevailing rates of interest. Consequently, any purchaser of the Notes must be prepared to hold such Notes for an indefinite period of time until final redemption or maturity of such Notes. Lack of liquidity could result in a significant reduction in the market value of the Notes and any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of those Notes.

## **Denominations and trading**

The Notes of each class will be issued in the denomination of £50,000 (or an integral multiple of £1,000 in excess thereof, and in the case of the Class F Notes only, in an integral multiple of £1 in excess thereof). 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 £1,000 in nominal amount.

## **Availability of Liquidity Facility**

Under the Liquidity Facility Agreement, the Liquidity Bank will (prior to the service of an Acceleration Notice or the Notes otherwise becoming due and repayable in full and subject as stated below) make available to the Issuer the Liquidity Facility which will decrease as the Principal Amount Outstanding of the Notes decreases in accordance with the terms of the Liquidity Facility Agreement. The Liquidity Facility will be available to the Issuer if there is a shortfall in amounts available to make payments, *inter alia*, of interest in respect of the Notes. The Liquidity Facility will not be available to the Issuer to enable it to make any payment of principal or premium (if any) payable in respect of the Notes of any Class.

In the event that one or more of certain events of default by the Issuer is outstanding under the Liquidity Facility Agreement, including non-payment of amounts payable by the Issuer to the Liquidity Bank, the Liquidity Bank may cancel the Liquidity Facility and/or declare that all or part of any amounts outstanding under the Liquidity Facility are (i) immediately due and payable and/or (ii) payable on demand by the Liquidity Bank.

The initial Liquidity Facility Agreement will expire 364 days after the Closing Date, although it is extendable. The Liquidity Bank is not obliged to extend or renew the Liquidity Facility at its expiry, but if it does not renew or extend the Liquidity Facility on request then the Issuer will, subject to certain terms, be required to make a Liquidity Stand-by Drawing and place the proceeds of that drawing on deposit in the Liquidity Stand-by Account. See further "*Credit Structure – Liquidity Facility Agreement*" below.

The Liquidity Bank will be entitled to receive interest and repayments of principal on drawings made under the Liquidity Facility Agreement in priority to payments to be made to Noteholders (which may ultimately reduce the amount available for distribution to Noteholders).

## **Subordination of Class B Notes, Class C Notes, Class D Notes, Class E Notes and Class F Notes**

After enforcement of the Issuer Security under the Issuer Deed of Charge, payments of principal and interest in respect of the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes will be subordinated to payments of principal and interest in respect of the Class A Notes. Payments of principal and interest in respect of the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes will be subordinated to payments of principal and interest in respect of the Class B Notes. Payments of principal and interest in respect of the Class D Notes, the Class E Notes and the Class F Notes will be subordinated to payments of principal and interest in respect of the Class C Notes. Payments of principal and interest in respect of the Class E Notes and the Class F Notes will be subordinated to payments of principal and interest in respect of the Class D Notes. Payments of principal and interest in respect of the Class F Notes will be subordinated to payments of principal and interest in respect of the Class E Notes. There is no assurance that the

subordination arrangements will protect the Class A Noteholders or the holders of the Most Senior Class of Notes from all risk of loss.

If, on any Interest Payment Date when there are Class A Notes or Class B Notes outstanding, the Issuer has insufficient funds (including any funds available to be drawn for that purpose under the Liquidity Facility Agreement) to make payment in full of interest due on the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes, then the Issuer will be entitled (under **Condition 5.8** (Deferral of payment) of the terms and conditions of the Notes) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date. This will not constitute a Note Event of Default. If there are no Class A Notes or Class B Notes then outstanding, the Issuer will be entitled to defer payments of interest in respect of the Class D Notes, the Class E Notes and the Class F Notes only. If there are no Class C Notes outstanding the Issuer will be entitled to defer payments of interest in respect of the Class E Notes and the Class F Notes only. If there are no Class D Notes outstanding the Issuer will be entitled to defer payments of interest in respect of the Class F Notes only. The terms on which the Issuer Security will be held will provide that, upon enforcement, certain payments (including all amounts payable to any receiver, the Note Trustee and the Issuer Security Trustee, all amounts due to the Corporate Services Provider, the Account Bank, the Cash Manager, the Calculation and Reporting Agent, the Paying Agents, the Agent Bank, the Interest Rate Swap Provider (other than Subordinated Interest Rate Swap Amounts) and all payments due to the Liquidity Bank under the Liquidity Facility (other than in respect of Liquidity Subordinated Amounts)) will be made in priority to payments in respect of interest and principal on the Class A Notes. Upon enforcement of the Issuer Security, all amounts owing to the Class A Noteholders will rank higher in priority to all amounts owing to the Class B Noteholders, all amounts owing to the Class B Noteholders will rank higher in priority to all amounts owing to the Class C Noteholders, all amounts owing to the Class C Noteholders will rank higher in priority to all amounts owing to the Class D Noteholders, all amounts owing to the Class D Noteholders will rank higher in priority to all amounts owing to the Class E Noteholders and all amounts owing to the Class E Noteholders will rank higher in priority to all amounts owing to the Class F Noteholders.

### **Conflict of interests between Classes of Noteholders**

The Note Trustee will be required, in performing its duties as trustee under the Note Trust Deed, to have regard to the interests of all the Noteholders together. However, if (in the sole opinion of the Note Trustee) there is conflict between the interests of the holders of one or more Classes of Notes and the interests of the holders of one or more other Classes of Notes, then the Note Trustee will be required in certain circumstances to have regard only to the interests of the holders of the Most Senior Class of Notes then outstanding and is not required to consider the interests of the holders of any other class of Notes then outstanding. For these purposes, the interests of individual Noteholders will be disregarded and the Note Trustee will determine interests viewing the holders of any particular Class of Notes as a whole.

### **Withholding or deduction under the Notes**

In the event that a withholding or deduction for or on account of any tax is imposed by law, or is otherwise applicable, in respect of amounts payable under the Notes, none of the Issuer, the Paying Agent, the Note Trustee or any other entity is obliged to gross up or otherwise compensate Noteholders for the lesser amounts which the Noteholders will receive as a result of the imposition of such withholding or deduction. The imposition of such withholding or deduction would entitle (but not oblige) the Issuer to redeem the Notes at their then Principal Amount Outstanding (plus accrued interest but excluding any premium), thereby shortening the average lives of the Notes.

## **Yield and prepayment considerations**

The yield to maturity of the Notes of each Class will depend on, among other things, the amount and timing of receipt by the Issuer of amounts of principal in respect of the Senior Loan, the purchase price paid by the holders of the Notes and whether amounts deposited in the Pre-Funding Account on the Closing Date are applied to make a Pre-Funded Senior Loan. Such yield may be adversely affected by one or more prepayments in respect of the Senior Loan.

Pursuant to the terms of the Intercreditor Deed amounts received under the Credit Agreement in respect of the Senior Loan and the Junior Loan will, prior to a Waterfall Trigger Event, be paid to the Senior Lender and the Junior Lender on a *pro rata* basis (other than in respect of voluntary prepayments by the Borrower, in which case the Junior Loan will be repaid in advance of the Senior Loan, see further "*The Senior Loan and the Loan Security*" below). Following a Waterfall Trigger Event, payments to the Senior Lender in respect of the Senior Loan will rank in priority to payments to the Junior Lender in respect of the Junior Loan.

The Borrower has the option to prepay the Senior Loan at any time and may in certain circumstances, including in respect of Property disposals or compulsory purchase orders or insurance proceeds received in respect of a Property, be required to prepay all or part of the Senior Loan as described below under "*The Senior Loan and the Loan Security*". As well, all of the Senior Loan will be prepaid by the Borrower in the event that the Issuer as Senior Lender is replaced under the Credit Agreement in connection with the Borrower becoming obliged to pay additional amounts in respect of the Senior Loan due to taxes, illegality, increased costs or a change in market conditions. Subject as stated below, if the Borrower prepays the Senior Loan in whole or in part, the Issuer will effect a redemption of the Notes in accordance with **Condition 6.3**. In the event of a mandatory redemption of the Notes in accordance with **Condition 6.3(b)** (arising in connection with a voluntary prepayment of the Senior Loan by the Borrower), the Notes will be redeemed in the following order: first, the Class F Notes, then the Class E Notes, then the Class D Notes, then the Class C Notes, then the Class B Notes and finally, the Class A Notes. In the event of a mandatory redemption in accordance with **Condition 6.3(c)** (arising in connection with a Property disposal, compulsory purchase order, receipt of insurance proceeds in respect of a Property or replacement of the Issuer as Senior Lender), the Notes will be redeemed in the following order: first, the Class A Notes, then the Class B Notes, then the Class C Notes, then the Class D Notes, then the Class E Notes and finally, the Class F Notes.

The Notes will also be redeemed on the Interest Payment Date falling in April 2007 to the extent of any balance remaining in the Pre-Funding Account in accordance with **Condition 6.3**. The Issuer has the option to redeem the Notes in whole or in part on any Interest Payment Date in accordance with **Condition 6.4**.

## **General legal investment considerations**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) it may legally invest in the Notes, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## **RISK FACTORS RELATING TO THE SENIOR LOAN AND THE LOAN SECURITY**

### **Ability of Borrower to meet its obligations**

The Borrower's only material asset is the Portfolio of Properties and it will therefore have access to no funds other than those generated through its ownership of the Properties and its letting of the Properties to OpCo under the Leases. Other than the foregoing, and any interest earned by the Borrower in respect of its bank accounts, the Borrower is not expected to have any other funds

available to it to meet its obligations under the Senior Loan. If the Borrower were to be unable to make payment in full of the amounts due under the Senior Loan, this would adversely affect the ability of the Issuer to make payments due in respect of the Notes in full. Upon enforcement of the security for the Senior Loan, the Security Agent or any receiver will, in practice, have recourse only to the Leases and the Loan Security, and to any other assets of the Borrower then in existence as described in this document.

### **Late payment or non-payment of rent**

There is a risk that rental payments due under a Lease on or before the relevant Loan Interest Payment Date will not be paid by OpCo on the due date or not paid at all. If any payment of rent is not received from OpCo on or prior to the immediately following Loan Interest Payment Date and any resultant shortfall is not otherwise compensated for from other resources, there may be insufficient cash available to the Borrower to make payments to the Issuer under the Senior Loan. Such a default by the Borrower may not itself result in a Note Event of Default since the Issuer will have access to other resources as mentioned above (specifically, funds made available under the Liquidity Facility to make certain payments under the Notes). However, no assurance can be given that such resources will, in all cases and in all circumstances, be sufficient to cover any such shortfall and that a Note Event of Default will not occur as a result of any late payment of rent. See also "*Borrower's dependence on OpCo rental payments below*".

### **Prepayment of the Loans**

The Borrower is obliged, in certain circumstances, to prepay the Loans in whole or in part prior to the Loan Maturity Date. These circumstances include on disposal of all or part of a Property (where such Property has not been substituted in accordance with the terms of the Credit Agreement), where a Property has been destroyed or damaged and the requirements of the settlement under such insurance policy does not require reinstatement of the affected property, where any Property has been compulsorily acquired and where the Issuer as Senior Lender is replaced under the Credit Agreement in connection with the Borrower becoming obliged to pay additional amounts in respect of the Senior Loan due to taxes, illegality, increased costs or a change in market conditions. These events are beyond the control of the Borrower and the Issuer. In addition, the Borrower is permitted under the Credit Agreement (at its option but subject to certain conditions) to prepay all or a minimum amount of £1,000,000 of the Loans on a Loan Interest Payment Date on 12 Business Days' prior notice. Any such prepayment may result in the Notes being prepaid earlier than anticipated. See "*The Loan and the Loan Security*" for more detail on permitted disposals of Properties comprising the Portfolio.

In the event that it becomes unlawful for a Lender to perform its obligations under the Credit Agreement or to fund or maintain the relevant Loan, the Borrower will, subject to the terms of the Credit Agreement, be required to prepay that Loan. Any such prepayment in respect of the Senior Loan may result in the Notes being redeemed earlier than anticipated. Any such prepayment in respect of the Junior Loan may result in the Junior Loan being repaid in full in advance of the Senior Loan and such prepayment may impact the ability of the Borrower to repay the Senior Loan in full. This in turn may result in the Issuer receiving insufficient funds under the Credit Agreement to enable it to meet its payment obligations under the Notes.

An early redemption in full of the Notes may also result from a purchase of the Senior Loan by the Junior Lender in accordance with the terms of the Intercreditor Deed. See further "*Senior Loan and Loan Security – Intercreditor Deed*" and "*Servicing*" below.

### **Withholding Tax in respect of the Senior Loan**

The Issuer has been advised that, under current law, all payments made to it on the Senior Loan by the Borrower can be made without withholding or deduction for or on account of United Kingdom tax. In the event that any withholding or deduction for or on account of tax is required to be made, the amount of the payment will be increased to the extent necessary to ensure that, after that withholding

or deduction has been made, the Issuer receives a cash amount equal to that which it would have received had no such withholding or deduction been required to be made (subject to certain limited exceptions).

If the Borrower is obliged to make such an increased payment to the Issuer, the Borrower will have the option (but not the obligation) to repay the outstanding Senior Loan in full. If the Borrower chooses to repay the Senior Loan, the Issuer will then be obliged to redeem the Notes in accordance with the Conditions. If the Borrower does not have sufficient funds to enable it to make such increased payments to the Issuer, the Issuer may not have sufficient funds to enable it to meet its payment obligations under the Notes and/or any other payment obligations ranking in priority to, or *pari passu* with, the Notes.

### **Rights of Operating Adviser**

The Operating Adviser, on behalf of the Junior Lender so long as a Control Valuation Event has not occurred, will have the right to direct that the person then acting as the Special Servicer be replaced by a person nominated by the Operating Adviser and the Operating Adviser, on behalf of the applicable Controlling Party, will have the right to be consulted in relation to certain actions with respect to the Loans including, *inter alia*, making an amendment to the Credit Agreement which would result in the extension of the final maturity date, reducing the Margin or the amount of any payment of principal payable under the Credit Agreement, making any further advance on a Loan (other than the Pre-Funded Senior Loan or the Pre-Funded Junior Loan) or agreeing to the release of any Loan Security (other than, in the circumstances which are contemplated by the Finance Documents). Neither the Servicer nor the Special Servicer will be required to act upon any advice given by the Operating Adviser, or to refrain from taking any action because of the consultation or consent rights of the Operating Adviser, if so acting or refraining from acting would cause it to violate the Servicing Standard. There can be no assurance that any advice provided by the Operating Adviser will ultimately maximise the recoveries on the Loans. Because the Operating Adviser will represent the Junior Lender or, in certain circumstances, a junior class of Notes, the Operating Adviser will have interests that may conflict with those of the Noteholders or the other classes of Noteholders. For further details of the Operating Adviser's consent and consultation rights, see "*Servicing – Operating Adviser*" below.

The Operating Adviser may act solely in the interests of the Controlling Party. The Operating Adviser does not have any duties to any person other than the Junior Lender or if the Controlling Party is not the Junior Lender, to any Noteholders other than the Controlling Class. The Operating Adviser may take actions that favour the interests of the Controlling Party over the interests of the Noteholders or, if appropriate, the Noteholders who do not constitute the Controlling Class. Pursuant to **Condition 17.4**, each Noteholder acknowledges and agrees, by its purchase of the Notes, that the Operating Adviser will not be deemed to have been negligent or reckless, or to have acted in bad faith or engaged in wilful misconduct, by reason of its having acted solely in the interests of the Controlling Class and the Operating Adviser will have no liability whatsoever for having acted solely in the interests of the Controlling Class, and no holder of any class of Notes (other than the Controlling Class) may take any action whatsoever against the Operating Adviser for having so acted.

### **Conflicts between the Issuer and the Junior Lender**

The Servicer and the Special Servicer will be appointed to service the Loans in accordance with the requirements of the Intercreditor Deed and the Servicing Agreement. Among other things, this means that following the occurrence of a Loan Event of Default, the Servicer or Special Servicer, as applicable, will be required to maximise recoveries on the Senior Loan and the Junior Loan as a collective whole. Consequently, the Servicer and Special Servicer may be prevented from pursuing a course of action, even if that course of action may lead to a full recovery on the Senior Loan, if it would not maximise recoveries on the Senior Loan and the Junior Loan as a collective whole. However, the Junior Lender will acknowledge in the Servicing Agreement that, due to the subordinate

nature of the Junior Lender's interest as Lender and the terms of the Intercreditor Deed, even if the Servicer or, as the case may be, the Special Servicer complies with its obligation to maximise recoveries on the Loans as a collective whole, that may result in the Junior Lender suffering a loss in circumstances where no loss, or a smaller loss, is suffered by the Issuer.

The consent of the Junior Lender must be obtained prior to the Servicer or the Special Servicer agreeing to certain modifications or waivers of the Finance Documents, as described in "*Servicing*" below. The view of the Junior Lender in relation to any amendment, waiver or approval in respect of which its consent must be obtained may differ to those of the Issuer (or of the Servicer or Special Servicer on behalf of the Issuer) and may prevent the Servicer or Special Servicer from taking action in relation to the Finance Documents which it would otherwise consider appropriate to take in accordance with the Servicing Agreement.

Deutsche Bank AG, London Branch will be appointed to act as the Servicer of the Loans. As mentioned above, in performing its duties as Servicer, Deutsche Bank AG, London Branch (or any other person acting as Servicer) must disregard its ownership or the ownership of any of its affiliates of any interest in the Junior Loan. Deutsche Bank AG, London Branch may at any time (including on the Closing Date, if applicable) be the Junior Lender.

### **Enforcement by Servicer and Special Servicer**

If the Borrower defaults in its obligations in relation to the Loans or the Loan Security, the Servicer, or, if at the relevant time the Loans are Specially Serviced Loans, the Special Servicer will be required to determine the best strategy for exercising the rights of the Issuer, the Junior Lender, the Facility Agent and the Security Agent in accordance with the Servicing Standard. These determinations may, in certain circumstances, involve the Servicer or the Special Servicer declining or deferring the commencement of formal enforcement proceedings. Instead, the Servicer or the Special Servicer may agree to waive or modify certain provisions of the Finance Documents, provided that to do so would be in accordance with the Servicing Standard.

As with all their duties under the Servicing Agreement, on the occurrence of a Loan Event of Default, the Servicer and the Special Servicer must act in accordance with the Servicing Standard. The Servicing Standard requires the Servicer and the Special Servicer to service the Loans for the benefit of the Senior Lender and the Junior Lender as a collective whole, with a view to the maximisation of recoveries on the Senior Loan and the Junior Loan as a collective whole. The Junior Lender has acknowledged that, due to its subordinated position, decisions made in accordance with the Servicing Standard could nonetheless result in it suffering a loss in circumstances where the Issuer suffers no loss, or a less significant loss. However, the Servicing Standard may require the commencement of formal enforcement proceedings to be delayed or a course of action which would lead to a full recovery on the Senior Loan, but not on the Senior Loan and the Junior Loan to be avoided if a greater recovery on the Senior Loan and the Junior Loan, as a collective whole, could be achieved by such delay or avoidance. This in turn, may result in the Issuer receiving insufficient funds under the Credit Agreement to enable it to meet its payment obligations under the Notes.

### **Refinancing risk**

Unless previously repaid, the Borrower will be required to repay the Senior Loan on the Loan Maturity Date. The ability of the Borrower to repay the outstanding amount of the Senior Loan on the Loan Maturity Date will depend, among other things, upon its ability to find a lender willing to lend to the Borrower (secured against some or all of the Properties) sufficient funds to enable repayment of the Senior Loan. If the Borrower cannot find such a lender, then the Borrower may be forced in circumstances which may not be advantageous into selling some or all of the Properties in order to repay the Senior Loan. Failure by the Borrower to refinance the Senior Loan or to sell the Properties on or prior to the Loan Maturity Date may result in the Borrower defaulting on the Senior Loan. In the event of such a default, the Noteholders, or the holders of certain Classes of Notes, may receive by

way of principal repayment an amount less than the then Principal Amount Outstanding on their Notes and the Issuer may be unable to pay in full interest due on the Notes.

### **Security over bank accounts and certain underlying assets**

The Borrower will, in accordance with the terms of the Credit Agreement, establish bank accounts into which, among other things, rental income and disposal proceeds in respect of the Properties must be paid (see further *"The Loan and the Loan Security – Borrower Accounts"* below). The Borrower will, pursuant to the terms of the Borrower Security Agreement, grant security over all of its interests in the Borrower Accounts, which, in each case, is expressed to be fixed security. Furthermore, under the Issuer Deed of Charge, the Issuer will grant security over all of its bank accounts, which security will also be expressed to be fixed security.

Although the various bank accounts are stated to be subject to various degrees of control (for example, the Credit Agreement provides that the Facility Agent (as agent of the Lenders) is to have sole signing rights over the Rent Account), there is a risk that, if the Security Agent or the Issuer Security Trustee (as appropriate) do not exercise the requisite degree of control over the relevant accounts in practice, a court could determine that the security interests granted in respect of those accounts take effect as floating security interests only and that the security interests granted over the assets from which the monies paid into the accounts are derived also take effect as floating security interests only, notwithstanding that the security interests are expressed to be fixed. In such circumstances, monies paid into accounts or derived from those assets could be diverted to pay preferential creditors were a receiver, liquidator or administrator to be appointed in respect of the relevant entity in whose name the account is held.

### **Hedging risks**

The Senior Loan bears interest at a fixed rate while each Class of the Notes bears interest at a rate based on three-month LIBOR plus a margin. In addition, the Loan Interest Periods under the Senior Loan will not match the Interest Periods under the Notes. In order to hedge interest rate risk, the Issuer will enter into the Interest Rate Swap Transactions pursuant to the Interest Rate Swap Agreement. There can be no assurance, however, that the Interest Rate Swap Transactions will adequately address unforeseen interest rate hedging risks. In certain circumstances, the Interest Rate Swap Agreement may be terminated and as a result the Issuer may be unhedged if replacement interest rate swap transactions cannot be entered into. In particular, Noteholders may suffer a loss if, as a result of a default by the Borrower under the Credit Agreement, the Interest Rate Swap Transactions are terminated and the Issuer is, as a result of such termination, required to pay amounts to the Interest Rate Swap Provider. Certain of such amounts payable on an early termination rank senior to any payments to be made to the Noteholders both before enforcement of the Issuer Security and after enforcement of the Issuer Security. The Interest Rate Swap Provider is currently assigned an AA- rating by S&P, an AA- rating by Fitch and an Aa3 rating by Moody's on its long term unsecured and unsubordinated debt obligations and an A-1+ rating by S&P, a F1+ rating by Fitch and a P-1 rating by Moody's on its short term unsecured and unsubordinated debt obligations. There is no obligation on the part of the Issuer, the Note Trustee, the Interest Rate Swap Provider or any other person to maintain any rating for the Interest Rate Swap Provider. In the event of a downgrade of the Interest Rate Swap Provider which would adversely affect the rating of the Notes, the Interest Rate Swap Provider is required under the Interest Rate Swap Agreement to take certain steps designed to maintain the rating of the Notes. If the Issuer were to default in its obligation to maintain suitable hedging arrangements, or if an Interest Rate Swap Provider were to default in its obligations to the Issuer or if the Interest Rate Swap Transactions were to be terminated or not to be fully performed for any reason, then the Issuer may have insufficient funds to make payments due at that time in respect of the Notes and Noteholders could, accordingly, suffer a loss.



## **Withholding Tax in Respect of the Interest Rate Swap Transactions**

In the event that any withholding or deduction for or on account of tax is required to be made from any payment due from the Interest Rate Swap Provider under the Interest Rate Swap Agreement, then the Interest Rate Swap Provider will be obliged to pay additional amounts to the Issuer in respect of the amounts so required to be withheld or deducted.

In the event that (as a result of a change in law (or the application or official interpretation thereof)) the Interest Rate Swap Provider is or there is a substantial likelihood that it will be required to make any such deduction or withholding, the Interest Rate Swap Provider is required to use its reasonable efforts (provided that such efforts shall not cause such party to incur a loss, excluding immaterial, incidental expenses) to transfer its rights and obligations under the Interest Rate Swap Agreement to a branch or affiliate or suitably rated third party located in a jurisdiction such that payments made by or to such entity under the Interest Rate Swap Agreement may be made without such withholding or deduction. If no such transfer can be effected, the affected Interest Rate Swap Transactions may be terminated.

## **United Kingdom Taxation Position of the Borrower**

Under current UK taxation law and published practice, the Issuer has been advised that rental income received by the Borrower will constitute taxable income for United Kingdom corporation tax purposes. However, repayments of principal amounts advanced to the Borrower under the Senior Loan are not deductible for UK tax purposes, and therefore (save where the Borrower disposes of a capital asset without a material tax charge and applies the proceeds to make repayment of the principal amount borrowed, or repays principal by raising new finance) part of the rental income received by the Borrower will generally be required to be applied to discharge its corporation tax liability and so will not be available to it to make payments under the Senior Loan. It is envisaged that the Borrower's rental income will fund the repayment of part of the principal under the Senior Loan and so effectively part of the repayment of principal will be funded out of the post-tax income of the Borrower. To the extent that the Borrower's post-tax income is not sufficient to fund such repayments of principal, the shortfall will have to be met from a refinancing of the Senior Loan. There can be no assurance that taxation law and practice will not change in a manner (including, for example, a rise in the rate of corporation tax), which would adversely affect the amount of post-tax income of the Borrower and therefore affect the Borrower's ability to make repayments under the Senior Loan. If the Issuer does not receive all amounts due from the Borrower under the Senior Loan, the Issuer may, in prescribed circumstances, make a drawing under the Liquidity Facility, but may not ultimately have sufficient funds to enable it to meet its payment obligations under the Notes and/or any other payment obligations ranking in priority to, or *pari passu* with, the Notes.

## **Secondary Taxation Liabilities of the Borrower and OpCo**

Where a company fails to discharge certain taxes due and payable by it within a specified period of time, UK tax law imposes in certain circumstances a secondary liability for those overdue taxes on other companies which are or have been members of the same group of companies for tax purposes or are or have been under common control with the company that has not discharged its primary liability to pay that tax.

Further, membership of a group for VAT purposes imposes on each group member joint and several liability for any VAT liabilities of the group due during its period of membership. OpCo has been, and will continue to be, a member of a VAT group which includes companies other than the Borrower and the Issuer.

Toys "R" Us (UK) Limited has covenanted in the Tax Deed of Covenant not to do anything which would result in such a secondary liability for tax arising in relation to the Borrower or OpCo or in joint and several liability for VAT in relation to OpCo. The aim of such covenants is to minimise the

likelihood of such secondary liabilities to tax affecting the Borrower or OpCo, but the possibility of such liabilities arising cannot be entirely eliminated. In addition, Toys "R" Us (UK) Limited has undertaken in the Tax Deed of Covenant to indemnify the Borrower and OpCo against certain specified secondary liabilities for corporation tax on chargeable gains and OpCo against liability for VAT incurred by OpCo by virtue of its membership of the Toys VAT group. There is a possibility that Toys "R" Us (UK) Limited may not have sufficient funds to meet its obligations under such indemnities.

### **Contingent Taxation Liabilities of the Borrower**

The Borrower has acquired the Properties from other companies, which were, at the time of that acquisition, members of the same capital gains tax and stamp duty land tax group. As a consequence, the Borrower may have a contingent liability to pay United Kingdom corporation tax on chargeable gains or stamp duty land tax, which liability will become an actual liability to pay such tax if (broadly) the Borrower ceases to be a member of the relevant tax group within a period specified by statute. In those circumstances, the discharge of that tax liability could reduce the amount of post-tax income available to the Borrower, and this could in turn adversely affect the ability of the Borrower to make full and timely payments of interest and principal on the Senior Loan. Toys "R" Us (UK) Limited has covenanted in the Tax Deed of Covenant not to do anything which would result in such contingent liability to pay United Kingdom corporation tax on chargeable gains or stamp duty land tax becoming an actual tax liability, except in the case of a liability to corporation tax on chargeable gains, where the Borrower has first been paid an amount equal to such liability or the Borrower and another member of the Toys capital gains tax group have elected for that liability to be borne by that other Toys Group company.

Pursuant to the Mortgage of Shares, Toys "R" Us Holdings Limited will grant security to the Security Agent over the shares which it owns in the Borrower as security in respect of the covenants it will give under the Tax Deed of Covenant in relation to the Borrower's contingent liability to pay United Kingdom corporation tax on chargeable gains and stamp duty land tax and in order to secure the obligations of the Borrower under the Credit Agreement and the other Finance Documents.

### **Special purpose entity**

Special purpose entity (SPE) covenants are generally designed to limit the activities and purposes of the borrowing entity to owning the related properties, making payments on the related loan and taking such other actions as may be necessary to carry out the foregoing in order to reduce the risk that circumstances unrelated to the loan and related properties result in a borrower bankruptcy. SPEs are generally used in commercial loan transactions to satisfy requirements of institutional lenders and recognised statistical rating organisations. In order to minimise the possibility that SPEs will be the subject of bankruptcy proceedings, provisions are generally contained in the borrower's organisational documents and/or documentation relating to a mortgage loan that, among other things, limit the indebtedness that can be incurred by such entities and restrict such entities from conducting business as an operating company (thus limiting exposure to outside creditors). Additional debt increases the possibility that a Borrower would lack the resources to pay the Senior Loan.

The Credit Agreement contains provisions that require the Borrower to conduct itself in accordance with certain SPE covenants, which may include some or all of the foregoing. However, there can be no assurance that the Borrower will comply with the SPE covenants. In addition, there can be no assurance that all or most of the restrictions customarily imposed on SPEs by institutional lenders and recognised statistical ratings organisations will be complied with by the Borrower, and even if all or most of such restrictions have been complied with by the Borrower, there can be no assurance that such Borrower will not nonetheless become insolvent. However, failure by the Borrower to comply with such covenants would (after the expiry of any applicable grace period) lead to a Loan Event of Default.

An insolvency of the Borrower (or any breach of any SPE covenant, after the expiry of any applicable grace period) would result in a Loan Event of Default giving rise to an acceleration of the Senior Loan and an enforcement of the Loan Security. This could result in significant delays in the receipt by the Issuer of payments under the Senior Loan which could adversely affect its ability to make all payments due on the Notes.

### **Other indebtedness of the Borrower**

The Borrower, which has been formed specifically for the purposes of this transaction will covenant, pursuant to the Credit Agreement, not to incur any other indebtedness other than that permitted under the Credit Agreement. However, the Borrower may incur additional indebtedness in connection with owning the Properties after the Closing Date. The existence of such indebtedness may adversely affect the financial viability of the Borrower. Additional debt increases the possibility that the Borrower would lack the resources to repay the Senior Loan and its other debt. In addition, the Borrower may have actual or contingent liabilities linked to its activities which may result in the insolvency or administration of the Borrower.

In order to address these risks, the Credit Agreement restricts the right of the Borrower to incur additional indebtedness except in certain circumstances (payment for goods and services in the ordinary course of business, subordinated debt and debt with the consent of the Issuer). There can be no assurance, however, that no such actual or contingent liabilities will exist in the future or that the activities of the Borrower outside of the transaction will not lead to its being the subject of an insolvency or administration order.

## **RISK FACTORS RELATING TO THE PORTFOLIO**

### **Commercial lending generally**

The Senior Loan is secured by, among other things, security over the Properties. Commercial mortgage lending is generally viewed as exposing a lender to greater risk than residential mortgage lending since the repayment of loans secured by income-producing properties is typically dependent upon the successful operation of the related property. The only funds which will be available to make payments under the Senior Loan will be amounts received under the Leases, amounts standing to the credit of the Borrower Accounts from time to time, certain insurance proceeds and funds generated by disposals of the Properties and any amounts generated by enforcement of the security granted by the Borrower. There will be no other resources available to make payments under the Senior Loan.

Real property investments are subject to varying degrees of risk. Rental revenues and property values are affected by changes in the general economic climate and local conditions such as an oversupply of space, a reduction in demand for retail real estate in an area, competition from other available space or increased operating costs. Rental revenues and property values are also affected by such factors as political developments, government regulations and changes in planning laws or policies and changes in tax laws, interest rate levels, inflation, the availability of financing and yields of alternative investments. Retail rentals and values are sensitive to such factors, which can sometimes result in rapid, substantial increases and decreases in rental and valuation levels.

The value of the Properties may be adversely affected by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by business closures or slowdowns and other factors), local property market conditions (such as an oversupply of commercial space, including market demand), perceptions by prospective tenants, retailers and shoppers of the safety, convenience, condition, services and attractiveness of the Properties, the proximity, attractiveness and availability of competing alternatives to the Properties, the willingness and ability of the owners of the Properties to provide capable management and adequate maintenance, an increase in the capital expenditure needed to maintain a Property or make improvements to it, demographic factors, consumer confidence, unemployment rates, consumer tastes and preferences, retroactive changes to building or similar regulations, and increases in operating

expenses (such as energy costs). In addition, other factors may adversely affect the Properties' value without affecting their current net operating income, including: changes in governmental regulations, fiscal policy and planning/zoning or tax laws, potential environmental legislation or liabilities or other legal liabilities, the availability of refinancing, and change in interest rate levels or yields required by investors in income-producing commercial properties. The age, construction quality and design of a particular Property may affect its occupancy level. The adverse effects of poor construction quality will increase over time in the form of increased maintenance and capital improvements needed to maintain the Property. Even good construction will deteriorate over time if the property managers do not schedule and perform adequate maintenance in a timely fashion. If, during the term of the Senior Loan, competing properties of a similar type are built in the areas where the Properties are located or similar properties in the vicinity of the Properties are substantially updated and refurbished, the value and net operating income of such Properties could be reduced.

In addition, some of the Properties may not readily be convertible to alternative uses if such Properties were to become unprofitable due to competition, age of the improvements, decreased demand, regulatory restrictions or changes or other factors or if conversion was restricted by the terms of the headlease in respect of leasehold properties. The conversion of commercial properties to alternate uses generally requires substantial capital expenditure. Thus, if the Borrower becomes unable to meet its obligations on the Senior Loan, the liquidation value of any such Property may be substantially less, relative to the amount owing on the Senior Loan than would be the case if such Property were readily adaptable to other uses.

Any one or more of the above described factors or other factors not specifically mentioned could operate to have an adverse effect on the income generated or able to be derived from a single Property or the amount for which a Property could be sold, which could in turn impact the ability of OpCo to make payments under the Leases or cause the Borrower to default on payments in respect of the Loans.

#### **Borrower's dependence on OpCo rental payments and ability of OpCo to meet its obligations under the Leases**

The ability of the Borrower to make payments of interest and principal under the Senior Loan is dependent on rental payments being made by OpCo under the Leases. Since OpCo is the sole tenant of the Properties (all but one of which are retail stores), the payments under the Senior Loan, and ultimately in respect of the Notes, will be dependent on the retail business of OpCo as sole tenant. OpCo is the main operating company of the Toys "R" Us business in the United Kingdom and operates 68 family leisure products stores throughout the United Kingdom. The market in which OpCo operates is subject to seasonal fluctuations, with the sale of toys, in particular, tending to be concentrated in the fourth quarter of the calendar year.

The ability of OpCo to pay rent at the levels prescribed in the Leases will depend on the performance of its business which will, in addition to the seasonal nature of OpCo's business, be influenced by, among other things, the success of the Toys "R" Us chain, the retail economy in the geographical areas in which OpCo operates, competition from similar retail and on-line toy/leisure products stores, the cyclical nature of products sold by Toys "R" Us which may be popular for a short period and then replaced with a newer product, the convenience, quality of building and location of the Properties, rent reviews on OpCo's retail locations that are not in the Portfolio which may impact the profitability of a particular location and the local transport infrastructure. Continued global instability (resulting from economic and/or political factors, including the threat of global terrorism) may adversely affect the United Kingdom economy and thus influence the business of OpCo in the retail toys/leisure products market. There is no guarantee that changes to the infrastructure, demographics, planning regulations and economic circumstances relating to the areas surrounding the Properties will not adversely affect either the demand for products offered for sale by OpCo or indeed the ability for OpCo to sub-let retail space within the Properties (subject to the terms of the relevant Lease and the Credit Agreement).

Additionally, OpCo, as the main operating company of the Toys "R" Us business in the United Kingdom, was not formed specifically for the purposes of this transaction and therefore has incurred and will after the Closing Date be able to continue to incur indebtedness, both short and long-term, in connection with its business. There are no restrictions on the ability of OpCo to incur indebtedness under the Transaction Documents or the Lease Documents. OpCo is currently both a borrower and a guarantor under a Senior Facilities Agreement dated 21 July 2005 (the **Facility**), under which Barclays Bank PLC and Deutsche Bank AG, London Branch, among others, were the initial lenders. The Facility includes a bridge facility commitment of U.S.\$1,000,000,000 (the **Bridge Facility**) and revolving commitments of 145,000,000 euros and 95,000,000 GBP respectively. The maturity date of the bridge facility is 21 July 2006 and the revolving facilities are each scheduled to mature on 21 July 2010. OpCo is permitted to borrow up to the total available commitment under each facility. On maturity of the bridge facility, there is the option for any borrowers with drawings then outstanding to use, subject to certain limits, drawings under the revolving facilities and a term-out loan in order to repay up to an aggregate of U.S.\$300,000,000 of the bridge facility. The maturity date for any such term-out loan is 21 July 2010. As at 15 December 2005, OpCo had drawings outstanding under the bridge facility in the amount of approximately £112,000,000.

The financial covenants in the Senior Facilities Agreement are tested quarterly on a rolling twelve month aggregate basis (with the first testing period being the end of the accounting quarter ending on or about 28th January 2006). The covenants are calculated on consolidated basis for the group (which is defined in the Senior Facilities Agreement as Toys "R" Us Europe LLC and its subsidiaries) and are set as follows:

(a) Cash Interest Cover

Whilst any part of the Bridge Facility is outstanding, the ratio of consolidated EBITDA to net interest payable must not exceed 2:1. After the Bridge Facility has been repaid in full, subject to certain conditions, the ratio must not exceed 4:1.

(b) Total Leverage

The ratio of consolidated total net debt to consolidated EBITDA must not exceed:

- (i) whilst any part of the Bridge Facility is outstanding, 6.5:1;
- (ii) after the Bridge Facility has been repaid where no amount of the Bridge Facility has been termed out, 4.0:1 for the second quarter in each financial year and 2.75:1 for each other financial quarter
- (iii) after the Bridge Facility has been repaid but where part of the Bridge Facility has been termed out, 4.0:1.

However, the Facility is scheduled to mature in July 2010. Furthermore, it can be amended or refinanced at any time prior to that date. There is therefore no guarantee that OpCo will be subject to the above covenants, or similar covenants, throughout the lifetime of the Notes.

OpCo's obligations under the Leases are unsecured and any indebtedness of OpCo incurred in the course of its business, including under the Facility (to the extent that it is not repaid and terminated as at the Closing Date), may adversely affect the ability of OpCo to make payments of rent to the Borrower under the Leases, which in turn may adversely affect the ability of the Borrower to make payments of interest and repayments of principal under the Credit Agreement. In addition, the Borrower may have actual or contingent liabilities linked to its activities which may result in the insolvency or administration of the Borrower.

None of the Rating Agencies has conferred a rating on OpCo. Please see the section "*OpCo*" for further information in relation to OpCo.

## **Risks relating to retail properties**

The value of retail properties is significantly affected by the quality of the tenants as well as fundamental aspects of commercial property, such as location and market demographics. In addition to location, competition from other retail spaces or the construction of other retail space, retail properties in particular face competition from other forms of retailing outside a given property market (such as mail order and catalogue selling, discount shopping centres and selling through the Internet), which may reduce retailers' need for space at a given shopping centre. The continued growth of these alternative forms of retailing could adversely affect the demand for space and, therefore, the rents collectable from retail properties.

Other key factors affecting the value of retail properties include the quality of management of the properties, the attractiveness of the properties and the surrounding neighbourhood to tenants and their customers, the public perception of the level of safety in the neighbourhood, access to public transportation and major roads and the need to make major repairs or improvements to satisfy major tenants.

Each of the foregoing circumstances and events may, individually or in the aggregate, adversely affect the income from and market value of the Properties and thereby increase the possibility that OpCo as tenant will be unable to meet its obligations under the Leases and/or upon the enforcement of the Loan Security the realisable value of the Properties may be adversely affected by such circumstances and events and that either such consequence may ultimately affect the Issuer's ability to make payments under the Notes.

## **Restrictions on use of the Properties**

The user of the Properties may be restricted by the planning regime, title restrictions and the terms of the Headleases. This could affect the marketability of the Properties on sale, re-letting or under-letting, which could reduce the rental income receivable from the Portfolio. Such reduction could adversely affect the Borrower's ability to repay the Senior Loan and in turn the Issuer's ability to pay principal and interest due on the Notes.

### ***Planning restrictions***

Many of the Properties are subject to planning restrictions resulting from conditions imposed by planning permissions or statutory agreements entered into with the relevant local authority to secure the grant of a planning permission to which a Property is subject. The planning permissions relating to the Properties in Brent Cross, Coventry and Nottingham restrict the user to the retail of toys or ancillary products. It is also likely that the consent of Croydon Council will be required for any change in user of the Croydon Property. Many of the Properties are subject to planning permissions limiting use to non-food retail. Planning permissions containing such conditions cannot be appealed more than six months after they have been issued. Depending on the actual change desired, the applicant would need to apply for a planning permission for change of use or for the condition restricting use to be removed or varied.

As regards restrictions imposed by statutory agreements, the party bound by a statutory agreement (which will usually be the freeholder) can agree with the local planning authority to vary or remove the relevant restriction. If the local authority will not agree to this, the landowner can make a formal application seeking the required variation or removal.

A 1991 statutory planning agreement relating to the Poole Property prohibits use for any retail purposes other than the sale by OpCo of all or any of the normal range of goods from time to time sold by OpCo without the prior written consent of the planning authority (such consent not to be unreasonably withheld or delayed) and further provides that in the event of OpCo ceasing to occupy the Property it may not be used without the prior written consent of the planning authority for any

purposes other than industrial use and/or warehousing and/or distribution and shall specifically not be used (without such consent) for retail purposes.

### ***Title restrictions***

Some of the Properties are subject to user title restrictions, which generally result from restrictive covenants on the freehold title to the relevant Property which, in the case of a Property subject to a Headlease, will also bind the tenants in respect of such Property. Most significantly, the Swindon Property is subject to a restrictive covenant that part of the Property must not be used for any purpose other than as a hotel, a lorry park or as a retail warehouse specifically for the sale by OpCo (or any of its affiliates) of toys and ancillary products. The Warrington Property's user is restricted to the retail sale of toys, games and incidental goods, warehousing or storage or any use falling within classes B1 or B8 of the Use Classes Order 1987. To secure the release of a restrictive covenant would require the agreement of the beneficiary of such covenant, which would be a matter for negotiation between the parties or, failing an acceptable outcome of such negotiations, an application to the Lands Tribunal. The Lands Tribunal may discharge or modify a restrictive covenant that impedes the use of land if either (a) it does not secure any practical benefits of substantial value or advantage to the persons entitled to the benefit of it, or (b) it is contrary to the public interest.

In either case, money will be adequate compensation for the loss or disadvantage, if any, which any person shall suffer from the discharge or modification. It should be noted that in many cases it may not be possible to identify all the parties who are entitled to the benefit of covenants.

### ***Headlease restrictions***

Most of the Headleases contain restrictions on the use of the Properties. While many of these user restrictions are in terms that are normal for premises similar to the Properties, some are onerous, including, for example, restrictions in some Headleases on food sales, on the area that can be used for food retail or limiting food sales to sales ancillary to the permitted use and restrictions against use as licensed premises or for the sale of alcohol. The Liverpool Property is subject to a restriction that it must not be used other than as a retail warehouse for the sale of toys as long as a specified company (or a successor to or affiliate of that company) occupies buildings on the estate where the Liverpool Property is located as a warehouse, club or cash and carry operation, as is currently the case. In some cases, the restriction is absolute (in the sense that it does not envisage a change of authorised use). This means that the tenant has no right to change the use of the Property from that authorised by such Headlease. If the tenant seeks consent to change of use notwithstanding an absolute prohibition on change of use in the Headlease, the landlord will be able to refuse consent arbitrarily or to grant consent subject to onerous conditions.

### **Geographic concentration**

All but two of the 30 Properties in the Portfolio as at the Closing Date (excluding for the avoidance of doubt, the Cardiff Property) are located in England. Please see "*Description of the Portfolio*" below in relation to the geographic concentration of the Properties. Rental payments under the Leases and the market value of the Properties could be adversely affected by conditions in the property markets where the Properties are located, acts of nature, including floods (which may result in uninsured losses), and other factors which are beyond the control of the Borrower and/or OpCo. In addition, the performance of the Properties will be dependent upon the strength of the economies of the local areas where such properties are located.

### **Legal title**

All of the Properties (other than the Cardiff Property) comprise registered land except for a small part of the Croydon Property which is unregistered and which is part of a car park and to which the Borrower will not have paper title and the Belfast Property which will become registerable upon

transfer of the Belfast Property to the Borrower and will be registered on completion of registration of transfer of title to the Belfast Property. It is expected that the Cardiff Property when acquired by the Borrower will comprise registered land. The Borrower in relation to each Property will not as at the Closing Date (or in the case of the Cardiff Property, when transferred) be registered immediately as legal proprietor of the Property (following the acquisition of that Property on or about the Closing Date or transfer date in the case of the Cardiff Property) and consequently the Security Agent will not be registered immediately as the proprietor of the legal mortgage granted to it by the Borrower over that Property. The Borrower has confirmed, following consultation with its external legal advisers, that it is not aware of any reason why it should not in due course be registered as legal proprietor of the relevant Property to which it is acquiring legal title or why the Security Agent should not in due course be registered as proprietor of the mortgage over any Property, save in relation to the small part of the Croydon Property mentioned above to which the Borrower will have no paper title.

In the case of each Property which has been transferred, a land transaction certificate will be obtained in relation to stamp duty land tax and appropriate application will be made in each case within the appropriate priority period following execution of a transfer to H.M. Land Registry for registration of transfer of the title and the relevant mortgage.

### **Terms of the Leases**

Leases granted by the Borrower may be terminated by the Borrower earlier than anticipated if OpCo defaults in the performance of its obligations or if OpCo becomes insolvent. In such circumstances, the Borrower would have to seek to find new tenants for the vacated premises. Neither the Note Trustee nor the Issuer Security Trustee will be responsible for seeking new tenants for any vacated premises.

Under the terms of the Credit Agreement, the Borrower may not grant or agree to grant a new Lease and no existing Lease may be amended, waived, surrendered, sub-leased or assigned in each case except in accordance with the terms of the Credit Agreement and no downward rent review may be agreed in relation to any Lease without the consent of the Facility Agent.

However, there can be no assurance that leases on terms (including rent payable and covenants of the tenant) equivalent to those applicable to the Leases in place on the Closing Date will be obtainable in the market at such time, that market practice will not have changed or that the circumstances of prospective tenants will not make some or all of such provisions inappropriate. Any of these factors may result in a decline in the income produced by the Properties or the incurrence by the Borrower of unforeseen liabilities, which may in turn adversely affect the ability of the Borrower to meet its obligations in respect of the Senior Loan and hence the ability of the Issuer to make payments on the Notes.

### **Privity of contract**

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



Pursuant to the terms of the Leases, OpCo may not assign part of a Property. Assignment of the whole of a Property is permitted under the Leases with the Borrower's consent (not to be unreasonably withheld or delayed), but the Borrower may not consent to such assignment without the consent of the Facility Agent (not to be unreasonably withheld or delayed) pursuant to the terms of the Credit Agreement. There can, however, be no assurance that any assignee of a Lease will be of a similar credit quality to the original tenant, or that any subsequent assignees (who in the context of a new tenancy will not be covered by the original tenant's authorised guarantee) will be of a similar credit quality. Moreover, although the interpretation of the Covenants Act on this point is unclear, it is arguable that the guarantor of a tenant under a new tenancy cannot be required, at the time when it enters into that guarantee, to guarantee or to commit to guarantee the obligations of that tenant under an authorised guarantee when that tenant itself assigns. Therefore, there can be no assurance, in the absence of clarifying court decisions, that any guarantor of an existing tenant can be required to guarantee an authorised guarantee given by the existing tenant on assignment.

### **Property management and development of Properties**

Toys "R" Us Properties Limited has agreed to act as Property Manager in respect of the Portfolio. The net cash flow realised from and/or the residual value of the Properties may be affected by decisions taken by Toys "R" Us Properties Limited or any replacement Property Manager. In addition, the Borrower will have certain discretions as to matters including the design and configuration of the Properties and developments within and outside the Properties. The Borrower is required under the terms of the Credit Agreement to provide the Facility Agent with information in relation to any proposed material capital expenditure incurred or to be incurred by it with respect to each Property and any permitted development works in relation to each Property. Furthermore, the Borrower, pursuant to the terms of the Credit Agreement, is not permitted to carry out any developments in relation to any Property which would reduce net rental income from that Property. Any development of a Property must be for the account of Toys "R" Us Properties Limited, and all contractual arrangements and liabilities in relation to the building or development works are carried out or undertaken by Toys "R" Us Properties Limited.

Although Toys "R" Us Properties Limited is experienced in the management of large space retail units and in the toys/leisure products sector of the UK retail economy, there can be no assurance that decisions taken by it in the future will not adversely affect the value of or cashflows from the Properties.

### **Conflicts between the Property Manager, the Borrower, the Issuer and the Noteholders**

Conflicts of interest between the Property Manager or affiliates of the Property Manager and the Borrower, the Issuer or the Noteholders may arise because the Property Manager or its affiliates may engage in the acquisition, development, operation, financing and disposition of commercial property, other than the Properties, including competing properties. The Property Manager and its affiliates will not be prohibited in any way from engaging in business activities similar to or in competition with those of the Borrower or OpCo (as described in this Offering Circular). During the course of their business activities, the Property Manager or its affiliates may acquire, own or sell properties or finance mortgage loans secured by properties which are in the same market as the Properties. In such a case, the interests of the Property Manager or such affiliates may differ from and compete with the interests of the Issuer, the Noteholders and the Note Trustee, and decisions made with respect to such assets may adversely affect the amount and timing of distributions with respect to the Notes. However, the Property Manager will covenant in the Property Management Agreement to act in the interests of the Noteholders irrespective of whether or not it is manager, owner or lessee of any properties other than the Properties.

### **Administration risk in respect of certain tenants**

If OpCo, as the principal tenant under the Leases, were to go into administration, the Borrower would be prohibited under the Insolvency Act 1986 (as amended the **Insolvency Act**) from taking any action whatsoever against the occupational tenant for recovery of sums due by means of distress or any other legal process. In addition, the Borrower would not be permitted to exercise a right of forfeiture by peaceable re-entry in respect of the Leases except with the consent of the administrator or the leave of the court.

The statutory moratorium on the enforcement of all legal proceedings against a tenant company in administration, as described above, is effective from the time an administration application is filed at court or, where an administrator is to be appointed to a tenant company out of court, from the time a notice of intention to appoint an administrator is filed at court in accordance with the Insolvency Act 1986.

If the corporate tenant in administration is still trading at the premises or has plans to recommence trading with a view to the survival of the company as a going concern, the court might refuse to grant a landlord the right to re-enter the premises occupied by that tenant or to forfeit the lease, on the grounds that to do so would frustrate the purpose of the administration and, furthermore, the court would do so notwithstanding that the administrator was only paying a reduced or even zero rent under the terms of the relevant lease.

### **Reliance on Valuation Report**

The aggregate market value of the Properties (other than the Cardiff Property) as at the Initial Valuation was £493,220,000. There will be a separate valuation of the Cardiff Property prior to its acquisition by the Borrower. In general, valuations represent the analysis and opinion of qualified valuers and are not guarantees of present or future value. One valuer may reach a different conclusion than the conclusion that would be reached if a different valuer were appraising the same property. Furthermore, valuations seek to establish the amount which a typically motivated buyer would pay a typically motivated seller and, in certain cases, may have taken into consideration the purchase price paid by the Borrower. However, there can be no assurance that the market value of the Properties will continue to equal or exceed such valuations. As the market value of the Properties fluctuates, there can be no assurance that the market value of the Properties will be equal to or greater than the unpaid principal and accrued interest and any other amounts due under the Credit Agreement. If any Property is sold following an event of default under the Credit Agreement, there can be no assurance that the net proceeds of such sale will be sufficient to pay in full all amounts due under the Credit Agreement and therefore such amounts due under the Notes.

### **Insurance**

The Borrower has undertaken in the Credit Agreement to procure that the Security Agent is named as mortgagee and loss payee under the insurance policies maintained by the Borrower in respect of the Properties (the **Insurance Policies**).

If a claim under an Insurance Policy is made, but the relevant insurer fails to make payment in respect of that claim, this could prejudice the ability of the Borrower to make payments in respect of the Senior Loan, which would in turn prejudice the ability of the Issuer to make payments in respect of the Notes. Under the terms of the Credit Agreement, the Borrower is required to maintain the Insurance Policies with an insurance company or underwriter having a long term credit rating of at least A (or better) by Fitch and A (or better) by S&P.

Under the terms of the Credit Agreement, the Borrower must apply all monies in excess of £250,000 received under any Insurance Policy (other than loss of rent or third party liability insurance) towards repayment of the Loans, or, if the terms of the settlement so require, towards replacing, restoring or reinstating the relevant Property to which the claim relates.

## **Uninsured losses**

The Credit Agreement also contains provisions requiring the Borrower to carry or procure the carrying of insurance with respect to the Properties in accordance with specified terms (as to which, see further "*The Loan and the Loan Security – Undertakings*" below). There are, however, certain types of losses (such as losses resulting from war, terrorism (other than in respect of insurance for acts of terrorism within certain limits available in the relevant insurance market), nuclear radiation, radioactive contamination and heave or settling of structures) which may be or become either uninsurable or not insurable at economically viable rates or which for other reasons are not covered, or required to be covered, by the required Insurance Policies. In addition there can be no assurance that any loss incurred will be of a type covered by such insurance or will not exceed the limits of such insurance. The Borrower's ability to repay the Senior Loan (and, consequently, the Issuer's ability to make payments on the Notes) might be affected adversely if such an uninsured or uninsurable loss were to occur or the loss is in excess of the insured limit, to the extent that such loss is not the responsibility of the occupational tenants pursuant to the terms of their occupational leases or to the extent that the tenant's income from the Property is disrupted.

## **Planning matters**

If the Properties have not been constructed in accordance with all relevant planning legislation or if there are any material breaches of planning control existing on the Properties, this could give rise to planning enforcement or other compliance action by the local planning authority. No enforcement action can be taken in respect of building operations four years after they have been substantially completed or, in respect of a change of use, ten years after the change occurred. A number of planning permissions will have associated agreements under section 106 of the Town and Country Planning Act 1990 which impose planning obligations on the owners and occupiers and there are no statutory time limits on such planning obligations. Any breach of the planning obligations could result in the obligations being enforced by an injunction or by the local authority entering upon the land to carry out the works and recovering the costs from the owner or occupier. Breaches of highways agreements could result in enforcement action by the Highways Authority including in respect of agreements relating to works on existing highways and the stopping up of access to the Properties.

## **Environmental matters**

Certain existing environmental legislation imposes liability for remediation costs on the owner or occupier of land where the person who caused or knowingly permitted the pollution cannot be found. The term "owner" means a person (other than a mortgagee not in possession) who, whether in his own right or as a trustee for any other person, is entitled to receive the rack rent from the land or, where the land is not let at a rack rent, would be so entitled if it were so let. Even if more than one person may have been responsible for the contamination, each person covered by the relevant environmental laws may be held responsible for all or part of the remediation costs incurred.

Other environmental legislation concerning statutory nuisances also places liability on the owner or occupier in some circumstances instead of the person responsible for the nuisance. In the relevant legislation, the concept of "owner" has not been defined and could include any person with a proprietary interest in the property. The owner or occupier would be responsible where the nuisance arises from any defect of a structural character and where the person responsible for the nuisance cannot be found.

If any environmental liability were to exist in respect of any of the Properties, neither the Issuer nor the Security Agent should incur responsibility for such liability prior to enforcement of the Loan Security, unless it could be established that the relevant party had entered into possession of the relevant Property or could be said to be in control of the relevant Property. After enforcement, the Security Agent, if deemed to be a mortgagee in possession, or a receiver appointed on behalf of the Security Agent, could become responsible for environmental liabilities in respect of a relevant

Property. If the Issuer or the Security Agent unduly directed or interfered with the receiver's actions or a receiver's indemnity has been given and that indemnity covered environmental liabilities, this could also result in liability for the Issuer or the Security Agent.

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

### **Compulsory purchase**

Any Property in England and Wales may at any time be compulsorily acquired by, among others, a local or public authority or a government department, generally in connection with proposed redevelopment or infrastructure projects.

If, however, a compulsory purchase order is made in respect of a Property (or part of a Property), compensation would be payable on the basis of the open market value of all of the Borrower's and OpCo's proprietary interests in that Property (or part thereof). Where a general vesting declaration is made, compensation is assessed as at or from the vesting date. In other cases, where a notice to treat is served the valuation date is either the date on which the acquiring authority takes possession or, if earlier, the date on which compensation is agreed between the parties. Following such a purchase a tenant would cease to be obliged to make any further rental payments under the relevant Lease (or rental payments would be reduced to reflect the compulsory purchase of a part of that Property, if applicable). The Borrower may subject to the terms of the Credit Agreement be required to prepay an equivalent amount under the Credit Agreement, which prepayment will be used by the Issuer to redeem the Notes (in whole or in part). The risk to Noteholders is that the amount received from the proceeds of purchase of the freehold or leasehold estate of a Property which is to be used to prepay an amount of the Senior Loan under the Credit Agreement (and thus to be applied by the Issuer to redeem some of the Notes) may be less than the original value ascribed to such Property.

It should be noted that there is often a delay between the compulsory purchase of a property and the payment of compensation (although interest is payable from the date upon which the acquiring authority takes possession of the property until any outstanding compensation is paid), 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 Borrower has other funds available to it, give rise to a Loan Event of Default.

### **Brent Cross Compulsory Purchase**

The Brent Cross Property is within a regeneration area which is the subject of the Cricklewood, Brent Cross and West Hendon Regeneration Area Development Framework Supplementary Planning Guidance (SPG) of the London Borough of Barnet (LBB) which states the broad development framework and principles for its long-term comprehensive development. The proposals for the Eastern Lands (where the Brent Cross Property is located) which were adopted as part of SPG in December 2005 imply that the buildings in the Eastern Lands, including the Brent Cross Property will be demolished to provide for comprehensive regeneration and it appears likely that LBB will use its compulsory purchase (CPO) powers provided by the SPG when necessary to assemble the site. The SPG does not contain proposals for relocating the Brent Cross Toys "R" Us (TRU) store and it seems that the Brent Cross Property is likely to be compulsorily purchased unless a deal can be done for its relocation within the wider Brent Cross site or some other compromise is reached.

At a meeting of 16 November 2005, LBB advised TRU that the use of CPO powers was not inevitable and that there should be negotiation to try to incorporate TRU into the scheme. TRU is contesting the planning proposals and has instructed CMS Cameron McKenna to act for it in this regard.

LBB have advised that the outline planning application for the contemplated development is due to be submitted in autumn 2006. Beyond this indicative date, the timescale for that development of the wider SPG area, the use of any CPO powers and the phasing of the commencement of development right across the wider SPG area and its effect on the Brent Cross store site is not certain. TRU and its advisers intend to negotiate with LBB and its development partners with a view to seeking the construction of a suitable replacement store before the Brent Cross store is due to be acquired by CPO, if that event is to occur at all.

If the development scheme requires the compulsory purchase of the Brent Cross Property, a not insignificant cost of the scheme would be the amount of compensation payable to the long leaseholder and the tenant under the lease of the Brent Cross Property for the value of their respective interests. In addition compensation for disturbance costs, cost of removal, relocation of stock and similar heads of loss may be payable.

As noted above, in the event of a compulsory purchase, the Borrower may, subject to the terms of the Credit Agreement, be required to prepay an amount equivalent to that received as a result of a compulsory purchase, which prepayment will be used by the Issuer to redeem the Notes (in whole or in part). The risk to Noteholders is that the amount received from the proceeds of purchase of the freehold or leasehold estate of a Property may be less than the original value ascribed to such Property.

### **Frustration**

In exceptional circumstances, a tenancy could be frustrated under English law, with the result that the parties need not perform any obligation arising under the relevant agreement after the frustration has taken place. Frustration may occur where superseding events radically alter the continuance of the arrangement under the agreement for a party to the agreement, so that it would be inequitable for such an agreement or agreements to continue. If a tenancy granted in respect of any part of a Property were to be frustrated then this could operate to have an adverse effect on the income derived from, or able to be generated by, that Property. This in turn could cause the Borrower to have insufficient funds to make payments in full in respect of the Credit Agreement, which could lead to a default thereunder.

### **Mortgagee in possession liability**

The Issuer, the Security Agent or the Issuer Security Trustee (if it has taken enforcement action against the Issuer) may be deemed to be a mortgagee in possession if there is physical possession of a Property or an act of control or influence which may amount to possession, such as submitting a demand or notice direct to OpCo requiring it to pay rents to the Security Agent, the Issuer or the Issuer Security Trustee (as the case may be). In a case where it is necessary to initiate enforcement procedures against the Borrower, the Security Agent or the Issuer Security Trustee (if it has taken enforcement action against the Issuer) is likely to appoint a receiver to collect the rental income on its behalf or that of the Issuer, which should have the effect of reducing the risk that they would be deemed to be mortgagees in possession.

A mortgagee in possession has an obligation to account for the income obtained from the relevant property and, in the case of tenanted property, will be liable to a tenant for any mismanagement of the relevant property. A mortgagee in possession may also incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner.

The Issuer Security Trustee has the absolute discretion, at any time, to refrain from taking any action under the Issuer Deed of Charge, including becoming a mortgagee in possession in respect of any Property, unless it is satisfied at that time that it is adequately indemnified and/or secured to its satisfaction against any liability which it may incur by so acting.

## **Risks relating to conflicts of interest**

There will be no restrictions on either the Servicer or the Special Servicer preventing them from acquiring Notes or servicing loans for third parties, including loans similar to the Senior Loan. The properties securing any such loans may be in the same market as the Properties. Consequently, personnel of the Servicer or the Special Servicer, as the case may be, may perform services on behalf of the Issuer with respect to the Senior Loan at the same time as they are performing services on behalf of other persons with respect to similar loans. Despite the requirement on each of the Servicer and the Special Servicer to perform their respective servicing obligations in accordance with the terms of the Servicing Agreement (including the Servicing Standard), such other servicing obligations may pose inherent conflicts for the Servicer or the Special Servicer.

The Servicing Agreement will require the Servicer and the Special Servicer to service the Senior Loan in accordance with the Servicing Standard. Certain discretions are given to the Servicer and the Special Servicer in determining how and in what manner to proceed in relation to the Senior Loan. Furthermore, as the Servicer and the Special Servicer may each acquire Notes, either of them could, at any time, hold any or all of the most junior Class of Notes outstanding from time to time. As holder of that Class of Notes, the Servicer or the Special Servicer (as applicable) may have interests which conflict with the interests of the holders of the more senior Classes of Notes from time to time.

For so long as Deutsche Bank AG, London Branch is the Servicer or, as applicable, Hatfield Philips International, Limited is the Special Servicer, however, it will be required to act in accordance with the terms of the Servicing Agreement and to comply with the Servicing Standard notwithstanding any other such roles.

Deutsche Bank AG, London Branch will also be the Facility Agent and the Security Agent under the Credit Agreement and may at any time (including on the Closing Date, if applicable) be the Junior Lender.

## **Appointment of substitute Servicer**

Prior to or contemporaneously with any termination of the appointment of the Servicer, it would first be necessary for the Issuer to appoint a substitute Servicer approved by the Security Agent. The ability of any substitute Servicer to administer the Senior Loan successfully would depend on the information and records then available to it. There is no guarantee that a substitute Servicer could be found who would be willing to administer the Senior Loan at a commercially reasonable fee, or at all, on the terms of the Servicing Agreement (even though the Servicing Agreement will provide for the fees payable to a substitute Servicer to be consistent with those payable generally at that time for the provision of loan servicing services in relation to commercial properties). The fees and expenses of a substitute Servicer would be payable in priority to payments due under the Notes.

## **Collection and Enforcement Procedures**

If the Servicer or the Special Servicer considers that formal enforcement proceedings should be commenced, this is likely to be done by requiring the Security Agent under the Credit Agreement and/or the Borrower Security Agreement to appoint a non-administrative receiver or an administrator. With respect to the Properties situated in England, the Security Agent may appoint a receiver (an **LPA Receiver**). An LPA Receiver's powers derive not only from the mortgage under which he has been appointed but also from the Law of Property Act 1925 and such LPA Receiver is deemed by law to be the agent of the entity providing security until the commencement of liquidation proceedings against such entity. For as long as the LPA Receiver acts within their powers, the LPA Receiver will only incur liability on behalf of the entity providing security but if the Security Agent improperly directs or interferes with and influences the LPA Receiver's actions, a court may decide that the LPA Receiver would be the security holder's agent rather than the agent of the entity providing security, and that the security holder should, under such circumstances, be responsible for the LPA Receiver's acts. Any

costs of the receiver will be paid in advance of any amounts paid to the Issuer and thus may reduce amounts available to make payments to Noteholders.

## **Litigation**

There may be pending or threatened legal proceedings against the Borrower. The Borrower will represent in the Credit Agreement that on the Drawdown Date, no litigation is current, pending or, to its knowledge, threatened in respect of itself which has, or if determined adversely to it could reasonably be expected to materially adversely affect the market value of the Properties. The Credit Agreement includes an obligation on the Borrower to notify the Facility Agent of any litigation which, if resolved against it, would have or be reasonably likely to have a Material Adverse Effect.

## **Risks relating to occupational pension schemes**

OpCo is an employer which participates in the Toys "R" Us Limited Staff Pension and Life Assurance Scheme (the **Scheme**) which is a defined benefits occupational pension scheme. The other participating employer in the Scheme is Toys "R" Us, Inc.

According to the actuarial valuation for the Scheme as at 1 April 2004, the Scheme was at that time 63% funded (with assets of £10.078m and liabilities of £16.075m) on the ongoing basis adopted by the Scheme. At that time the Scheme was estimated to be 23% funded (with assets of £10.078m and liabilities of £43.204m) on a buy-out basis (*i.e.* if benefits were secured in full through the purchase of annuities and deferred annuities from an insurance company), making no allowance for wind-up expenses.

There is no assurance that employers' regular contributions, together with members' regular contributions, will eliminate the ongoing deficit in the Scheme. The calculated ongoing deficit will vary, *inter alia*, with changes in expected rates of return on the Scheme's investments, the market value of the Scheme's investments and in the expected longevity of members. This means that the funding level in the Scheme is potentially volatile.

Under the rules of the Scheme, it is the trustees acting on actuarial advice who set the employer contribution rate although OpCo, the principal employer, has power under the rules to reduce the rate set by the trustees. However, changes in pensions law over the last few years have increased the extent of the obligation on employers with defined benefit pension schemes to support those schemes.

With regard to ongoing contributions, currently there is no legal obligation for the Scheme to be funded at a level which exceeds full funding on the minimum funding requirement (**MFR**) basis. According to the actuarial valuation for the Scheme as at 1 April 2004, the Scheme was at that time 116% funded on a MFR basis. However new statutory scheme-specific funding obligations will apply following the next valuation and they may result in higher ongoing employer contributions being payable. This new scheme specific approach will require the contribution rate to be agreed between the trustees and the employer and, in the absence of agreement, the Pensions Regulator will be able to set the rate (subject to certain guidelines). The Pensions Regulator has indicated that its approach will be to get more closely involved in schemes which do not at least target full funding on a FRS17 basis over a maximum of 10 years. In practice this may mean that FRS17 funding over no more than 10 years is treated as the new minimum funding requirement. OpCo's accounts for the year ended 1 February 2005 indicate that the Scheme had a deficit of £10.438m on a FRS17 basis (with assets of £12.102m and liabilities of £22.540m). Changes in investment strategy may also affect the employer contribution rate.

In addition, pension protection fund levies will be payable by the Scheme. A flat rate levy of £8687.40 was applied for the 2004-2005 tax year. A risk based levy will be payable next year which will take into account the funding position of the Scheme and the insolvency risk of OpCo (and also possibly Toys "R" Us, Inc). Mercer Human Resource Consulting have estimated that the levy for the

Scheme next year could be approximately £110,000 although full details of the calculation terms are not yet finalised and such estimate does assume that the insolvency risk band applying to the sponsoring employers will be the 65th risk band. The levy payable could increase significantly in the event of, inter alia, risk band changes. Mercer Human Resource Consulting have estimated that a movement to the 60th of the one hundred risk bandings would increase the levy to approximately £120,000.

If the Scheme is wound up, legislative changes mean that the estimated buy-out basis deficit (together with estimated wind-up expenses) will be payable by the participating employers as an unsecured statutory debt. The trustees may at some point wish to pursue a wind-up strategy, given the buy-out liability arising on wind-up. Under the rules of the Scheme, wind-up will commence if the principal employer gives one month's written notice to the trustees terminating the Scheme or the trustees are of the opinion that the objects for which the Scheme was established no longer exist or that the Scheme's administration cannot be conveniently carried on. The Pensions Regulator can also trigger wind-up if satisfied that it is necessary to protect members' interests.

Buy-out based liabilities may also be payable in the event that OpCo or Toys "R" Us, Inc. ceases to employ active Scheme members at a time when the other company continues to employ active Scheme members. In such circumstances, the company which has ceased to employ active Scheme members will be liable to pay its "share" of the Scheme's deficit, calculated (following a recent change in legislation), on a buy-out basis unless a "withdrawal arrangement" is put in place. Its "share" will be calculated as the proportion that Scheme liabilities attributable to employment with that company bear to the total Scheme liabilities attributable to employment with both companies (and any former participating companies which count as "employers"). The buy-out liability may be reduced where a bulk transfer takes place to another pension scheme. In the event that OpCo was required to pay higher ongoing contributions to the Scheme or a debt in connection with the winding-up of the Scheme or in connection with OpCo ceasing to have any employees who are active members of the Scheme, this could impact OpCo's ability to make payments under the Leases.

Certain provisions of the Pensions Act 2004 (the **Pensions Act**) can result in pensions-related liabilities (contribution notices and financial support directions) being imposed on OpCo, Toys "R" Us, Inc. or an entity "connected with or an associate of" either company. The definitions of "associate" and "connected" are sufficiently wide that all group companies (with a one third or greater common shareholding) could be liable. Funds which hold the group as an investment are also expected to have exposure under this new legislation although the regulations relating to partnerships have not yet been published. Liability can extend to group company directors in the case of contribution notices but individuals are generally excluded under the financial support direction legislation.

Section 38 of the Pensions Act permits the Pensions Regulator to impose a contribution notice requiring the recipient to make a contribution to a pension scheme, where the Pensions Regulator is of the opinion that the recipient has been party to an act or a deliberate failure to act which had as its main purpose (or one of its main purposes) preventing recovery of a statutory pensions debt or, otherwise than in good faith, preventing such a debt becoming due, settling such debt or reducing the amount of the debt which would otherwise become due. A contribution notice can be imposed up to six years after the act (or failure to act) in question. The amount to be paid under a contribution notice will be such amount as the Pensions Regulator regards as reasonable (and could in theory be the whole buy-out deficit). As the net assets of OpCo are expected to increase and exceed the Scheme's estimated buy-out deficit following the transactions described herein, OpCo does not consider (having obtained legal advice from Clifford Chance LLP) that an act or failure to act could reasonably be considered to have taken place for contribution notice purposes in respect of these transactions. Pensions Regulator clearance is therefore not being sought.



Section 43 of the Pensions Act permits the Pensions Regulator to impose a financial support direction on entities which have been, in the last twelve months, associated or connected with the employers participating in the Scheme if the employers are either service companies or "insufficiently resourced". A service company is one which broadly receives the majority of its income from other group companies. A company is "insufficiently resourced" where the value of its assets is less than 50% of the Scheme's estimated buy-out deficit and there is at the same time an associated or connected person whose assets would be sufficient to make up the shortfall. Both OpCo and Toys "R" Us, Inc. are expected to have net assets exceeding 50% of the Scheme's estimated buy-out debt both currently and following the transactions described herein and neither is a service company. Therefore OpCo does not consider (having obtained legal advice from Clifford Chance LLP) that financial support directions in respect of the Scheme can be imposed on any entity. A financial support direction where imposed will require the recipient to enter into a formal arrangement to support the pension scheme in question, either by group companies accepting joint and several responsibility for the pension scheme, by the holding company of a group accepting responsibility, by providing additional financial resources to the Scheme or in some other way prescribed by regulations made under the Pensions Act. Pensions Regulator clearance is not being sought.

## **GENERAL RISK FACTORS**

### **Reliance on third parties**

Both the Issuer and the Borrower have entered into agreements with a number of third parties which have agreed to provide certain services. In particular, but without limitation, the Property Manager will provide certain services in respect of the Properties to the Borrower, the Servicer and the Special Servicer have been appointed to service the Senior Loan on behalf of the Issuer, the Cash Manager has been appointed to provide cash management services on behalf of the Issuer, the Calculation and Reporting Agent has been appointed to provide certain calculation and reporting services on behalf of the Issuer and the Account Bank has been appointed to provide bank accounts to the Issuer and the Borrower. In the event any of those parties fail to perform its obligations under the relevant agreement to which it is a party, the ability of the Borrower to make payments under the Senior Loan and/or the ability of the Issuer to make payments to the Noteholders may be affected.

### **Reliance on warranties**

Neither the Issuer nor the Issuer Security Trustee has undertaken or will undertake any investigations, searches or other actions in relation to the Senior Loan and each will, instead, rely solely on the representations, warranties and undertakings to be given by the Borrower in respect of such matters in the Credit Agreement (see further "*The Senior Loan and the Loan Security*" below).

In the event of a breach of representation, warranty or undertaking by the Borrower relating to its property undertakings under the Credit Agreement which has not been remedied or is not capable of remedy, the sole remedy of each of the Issuer and the Security Agent against the Borrower is a right to declare an Event of Default under the Credit Agreement and to, amongst other things, declare the Senior Loan immediately due and payable.

### **Consents to variations of the Transaction Documents, the Finance Documents and other matters**

In relation to certain matters, including variation of the terms of the Transaction Documents, the consent of the Issuer Security Trustee or the Note Trustee (as appropriate) is required. The Issuer Security Trustee will exercise and carry out its powers, trusts, authorities, duties and discretions only in accordance with the directions of the Note Trustee. The Note Trustee may in giving such consent or such directions, take into account, among other things, confirmation from the Rating Agencies that the Notes will not be downgraded below their then current ratings. Where a particular matter (including the determination of material prejudice to the Noteholders) involves the Rating Agencies being requested to confirm the then current ratings of the Notes, such confirmation may or may not be given, at the sole discretion of the Rating Agencies. Any such confirmation, if given, will be given on

the basis of the facts and circumstances prevailing at the relevant time. A confirmation of ratings represents only a restatement of the ratings given at the Closing Date and should not be construed as advice for the benefit of any parties to the transaction. No assurance can be given that a requirement to seek a ratings confirmation will not have a subsequent impact upon the business of the Borrower or the Issuer.

Additionally, the Note Trustee will be entitled to take into account, among other things, for the purposes of exercising or performing any power, right, trust, authority, duty or discretion, or giving directions to the Issuer Security Trustee, under or in relation to the Transaction Documents in respect of a particular Class of Notes any confirmation by any of the Rating Agencies that the then current rating by it of such Class of Notes would not be downgraded, withdrawn or qualified by such exercise or performance.

### ***Insolvency Act 2000***

Under Schedule A1 to the Insolvency Act 1986 which was inserted by 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 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, pursuant to paragraph 4 of Schedule A1 to the Insolvency Act 1986, certain companies are excluded from the optional moratorium provisions. Such exceptions include (i) a company which is a party to an agreement which is or forms part of a capital market arrangement (as defined in paragraph 4D of Schedule A1) 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 (ii) a company which has incurred a liability (including a present, future or contingent liability) of at least £10 million.

The Issuer is of the view that it should fall within the exceptions. There is no guidance, however, as to how the legislation will be interpreted and the Secretary of State for Trade and Industry may by regulation modify the exceptions. Accordingly, no assurance may be given that any modification of the eligibility requirements for these exceptions will not be detrimental to the interests of Noteholders.

If the Issuer were 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 may, for a period, be prohibited by the imposition of a moratorium.

## *Enterprise Act 2002*

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

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 Security created by the Issuer and the Loan Security created by the Borrower) which form part of a capital market arrangement (as defined in the Insolvency Act) and which involve 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 Borrower Security Agreement) was entered into, a party to the relevant transaction (such as the Issuer and the Borrower) was expected to incur a debt of at least £50,000,000) and the issue of a capital market investment (also defined but generally a rated, listed or traded bond). The Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception will cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge-holder, the directors or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge-holder 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 parties 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 or the Borrower 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 chargor'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 those expenses of the liquidation or administration (as the case may be) which are permitted by law to be paid out of floating charge realisations. 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, provided that such amount may not exceed £600,000.

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 parties 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 Security created by the Issuer or the Loan Security created by the Borrower may be reduced by the operation of these "ring fencing" provisions.

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

The UK corporation tax position of the Issuer and the Borrower depends to a significant extent on the accounting treatment applicable to it. From 1 January 2005 the accounts of the Issuer and the Borrower will 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 that companies such as the Issuer and the Borrower, might, under either IFRS or new UK GAAP, be forced 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.

As part of the Chancellor's Pre-Budget Report dated 2 December 2004, draft legislation (the **draft legislation**) was published to be included in the Finance Act 2005, creating a special interim corporation tax regime for "securitisation companies". H.M. Revenue and Customs stated in Budget Note REV 13 of 16 March 2005 that the draft legislation was introduced to avoid disruption to the markets as a result of the transition to IFRS or new UK GAAP and consequently they are working with participants in the securitisation industry to identify appropriate permanent means of preventing any such disruption. The draft legislation was amended and incorporated in the Finance Act 2005. The Finance Act 2005 contains legislation which allows "securitisation companies" to prepare tax computations for accounting periods ending on or before 31 December 2007 on the basis of UK GAAP as applicable up to 31 December 2004 (the moratorium period), notwithstanding any requirement to prepare statutory accounts under IFRS or new UK GAAP.

Each of the Issuer and the Borrower is likely to be a "securitisation company" for these purposes. It should be noted however that as the Borrower will not enter into any hedging arrangements, the concern that its accounting and tax position may not match its actual cash position should not be present.

The Finance Act 2005 also provides for the power on the part of the Treasury to introduce regulations to establish a permanent tax regime under IFRS or new UK GAAP.

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 31 December 2007, then profits or losses (which are not ignored for tax purposes under the Loan Relationships and Derivative Contracts (Disregard and Bringing into Account of Profits and Losses) Regulations 2004) 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 therefore adversely affect payments to Noteholders.

## **European Monetary Union**

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

If the euro becomes the lawful currency of the United Kingdom and the Notes are outstanding at the time, the Issuer intends to make payments on the Notes in accordance with the then market practice of payments on such debts. It cannot be said with certainty what effect, if any, the adoption of the euro by the United Kingdom would have on investors in the Notes. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect the Borrower's ability to repay the Senior Loan, although the Borrower is required to maintain certain hedging cover in respect of its obligations under the Credit Agreement.

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

Under EC Council Directive 2003/48/EC on taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, 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 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.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither the Issuer, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

## **Implementation of Basel II risk-weighted asset framework**

The Basel Committee on Banking Supervision has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline and sensitivity to risk. The text of the new framework was published on 26 June 2004 under the title "*Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework*", a revised version of which was published on 15 November 2005 (the **Framework**). The Committee has suggested that the various approaches under the Framework should be implemented in stages (some from year-end 2006 and the most advanced from year-end 2007), although national implementation dates may differ depending on the relevant implementation process. If implemented in accordance with its current form, the Framework could affect risk-weighting of the Notes in respect of certain investors if those investors are subject to the new Framework following its implementation. Consequently, prospective investors in the Notes should consult their own advisers as to the consequences for and effect on them of the application of the Framework and any relevant implementing measures. The Issuer cannot predict the precise effects of potential changes which might result if the Framework were adopted in its current form or otherwise.

## **Change of law**

The structure of the issue of the Notes and the ratings which are to be assigned to them are based on English law and European laws and administrative practice and, in relation to the Scottish Property and the Northern Irish Property, Scots law and Northern Irish law, respectively, 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 law, European law, Scots law or Northern Irish law or administrative practice after the date of this Offering Circular, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

*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.*

## THE ISSUER

Vanwall Finance PLC (the **Issuer**) was incorporated in England and Wales on 15 November 2005 (registered number 5622846) as a public company with limited liability under the Companies Act 1985 (as amended). The registered office of the Issuer is at 35, Great St. Helen's, London EC3A 6AP and its contact telephone number is +44 (0)20 7398 6300. 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 or on behalf of the Share Trustee on trust for charitable purposes under the terms of the Share Trust Deed and neither the Borrower nor OpCo or any of their affiliates owns, directly or indirectly, any of the share capital of the Issuer.

### 1. Principal Activities

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and are, *inter alia*, to 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 issuing the Notes, entering into the Credit Agreement and certain related transactions described elsewhere in this Offering Circular.

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 acquisition of the Loan, the exercise of related rights and powers and the other activities described in this document. See further **Condition 4** (Covenants).

### 2. Directors and Secretary

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

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies

The company secretary of the Issuer is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is 35 Great St. Helen's, London EC3A 6AP. The directors of SFM Directors Limited (registered number 3920254), SFM Directors (No. 2) Limited (registered number 4017430) and SFM Corporate Services Limited are Jonathan Keighley, James Macdonald and Robert Berry (together with their alternate directors Annika Goodwille, Helena Whitaker, Claudia Wallace and J-P Nowacki), whose business addresses are 35 Great St. Helen's, London EC3A 6AP and who perform no other principal activities outside the Issuer which are significant with respect to the Issuer.

### 3. Capitalisation and Indebtedness

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

#### Share Capital

<b>Authorised Share Capital £</b>	<b>Issued Share Capital £</b>	<b>Value of each Share £</b>	<b>Shares Fully Paid-up</b>	<b>Shares Quarter Paid-up</b>	<b>Paid-up Share Capital £</b>
50,000	50,000	1	0	50,000	12,500.00

49,999 of the issued shares (being 49,999 shares of £1 each, each of which is paid-up as to 25p) in the Issuer are held by the Share Trustee under the terms of a trust for the benefit of charitable institutions. The one remaining share in the Issuer, which is also paid-up as to 25p, is held by SFM Nominees Limited (registered number 4115230) under the terms of a trust as nominee for the Share Trustee.

#### Loan Capital

Class A Commercial Mortgage Backed Floating Rate Notes due 2016	£174,300,000
Class B Commercial Mortgage Backed Floating Rate Notes due 2016	£87,200,000
Class C Commercial Mortgage Backed Floating Rate Notes due 2016	£34,900,000
Class D Commercial Mortgage Backed Floating Rate Notes due 2016	£17,400,000
Class E Commercial Mortgage Backed Floating Rate Notes due 2016	£31,800,000
Class F Commercial Mortgage Backed Floating Rate Notes due 2016	£10,328,679
<b>Total Loan Capital</b>	<b>£355,838,679</b>

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.



## OPTIONS HOLDER

The Options Holder was incorporated in England and Wales on 8 December 2005 under registered number 5648776 as a private company with limited liability under the Companies Act 1985. The registered office of the Options Holder is at 35 Great St. Helen's, London EC3A 6AP. Options Holder has no subsidiaries.

The authorised share capital of the Options Holder comprises 1,000 ordinary shares of £1 each. The issued share capital of the Options Holder comprises one ordinary share of £1 which is owned by the Share Trustee on trust for charitable purposes under the terms of the Options Holder Share Trust Deed.

### 1. Principal Activities

The principal objects of the Options Holder are set out in Clause 3 of its Memorandum of Association and are, among other things to act as a general commercial company and to acquire any estate or interest in any real or personal property and rights of any kind.

The Options Holder has not engaged, since its incorporation, in any activity incidental to the Options Holder's incorporation, the authorisation of the documents and matters referred to or contemplated in this Offering Circular to which it is or will be a party and matters which are incidental or ancillary to the foregoing.

### 2. Directors and Secretary

The directors of the Options Holder and their respective business addresses are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies
SFM Directors (No. 2) Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies

The company secretary of the Options Holder is SFM Corporate Services Limited, a company incorporated in England and Wales (registered number 3920255), whose business address is 35 Great St. Helen's, London EC3A 6AP. The directors of SFM Directors Limited (registered number 3920254), SFM Directors (No. 2) Limited (registered number 4017430) and SFM Corporate Services Limited are Jonathan Keighley, James Macdonald and Robert Berry (together with their alternate directors Annika Goodwille, Helena Whitaker, Claudia Wallace, and J-P Nowacki), whose business addresses are 35 Great St. Helen's, London EC3A 6AP and who perform no other principal activities outside the Options Holder which are significant to the Options Holder.

## THE BORROWER

Toys "R" Us Properties (UK) Limited (the **Borrower**) was incorporated in England and Wales on 1 April 2005 (registered number 5410177) as a private company with limited liability under the Companies Act 1985. The registered office of the Borrower is at Mitre House, 160 Aldersgate Street, London EC1A 4DD and its contact telephone number is +44 (0)20 7367 3000. The Borrower is organised as a special purpose vehicle and its activities are limited accordingly. The Borrower has no subsidiaries. The Borrower is a wholly owned subsidiary of Toys "R" Us Holdings Limited. The Borrower's ultimate parent company is Toys "R" Us Holding Inc., the parent of Toys "R" Us, Inc. On 21 July 2005, Toys "R" Us, Inc. was sold to an investment group consisting of affiliates of Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co, and Vornado Realty Trust. The acquisition included all of the worldwide operations of Toys "R" Us, Inc. including the Toys "R" Us and Babies "R" Us businesses. 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 Toys "R" Us Holdings Limited.

### 1. Principal activities

The principal objects of the Borrower are set out in its Memorandum of Association and are, *inter alia*, to: (a) act as representative, agent, factor, distributor, importer, exporter, manufacturer and wholesale and retail dealer in respect of every marketable product, process, material and service of whatever description, (b) to carry on the business of an investment and holding company, (c) to carry on the business of land and property developers of any description and to acquire such lands, buildings and other such property as the Borrower may see fit, and (d) to borrow and raise money and to secure any obligation of the Borrower and in particular to charge all or any part of the undertaking, property and assets of the Borrower.

The Borrower has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration, the acquisition of the Properties and the authorisation of the entry into the Credit Agreement, the Leases and the related transactions described elsewhere in this Offering Circular and matters which are incidental or ancillary to the foregoing.

The Borrower will covenant to observe certain restrictions on its activities which are set out in the Credit Agreement. See further "*The Loan and the Loan Security*" below.

### 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>
David Rurka	Geoffrey House Vanwall Business Park Vanwall Road Maidenhead Berkshire SL6 4UB	Director
Phillip J. Shayer	Geoffrey House Vanwall Business Park Vanwall Road Maidenhead Berkshire SL6 4UB	Director

Francis Charles Muzika	Geoffrey House Vanwall Business Park Vanwall Road Maidenhead Berkshire SL6 4UB	Director
Robert Zarra	1 Geoffrey Way Wayne New Jersey 07470 USA	Director

The company secretary of the Borrower is Mitre Secretaries Limited.

### 3. Capitalisation and Indebtedness

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
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#### Loan Capital

Initial Senior Loan (to be advanced on or about the Closing Date)	£347,038,679
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Initial Junior Loan (to be advanced on or after the Closing Date)	£62,400,000
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<b>Total capitalisation and indebtedness:</b>	<b>£409,438,680</b>
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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. The loan capital of the Borrower is not guaranteed.

### 4. Financial Information

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

## OPCO AND THE TOYS "R" US BUSINESS

### Introduction

Toys "R" Us Limited (**OpCo**) was incorporated in England and Wales on 16 April 1984 (registered number 1809223) as a private limited company with limited liability under the Companies Act 1985. The registered office of OpCo is at Mitre House, 160 Aldersgate Street, London EC1A 4DD. OpCo will enter into occupational leases in respect of the Properties held by the Borrower pursuant to the terms of the Leases, as described below under "*The Leases*".

OpCo is a wholly owned subsidiary of Toys "R" Us Holdings Limited, itself a wholly owned subsidiary of Toys "R" Us Holdings (UK) Limited. OpCo's ultimate parent company is Toys "R" Us Holding Inc, the parent of Toys "R" Us, Inc. On 21 July 2005, Toys "R" Us, Inc. was sold to an investment group consisting of affiliates of Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co, and Vornado Realty Trust. The acquisition included all of the worldwide operations of Toys "R" Us, Inc. including the Toys "R" Us and Babies "R" Us businesses.

### UK Overview

OpCo is the main operating company of the Toys "R" Us business in the United Kingdom (**Toys "R" Us UK**). Toys "R" Us UK operates 68 family leisure products 'mega-stores' throughout the United Kingdom, with retail locations in England, Wales, Scotland and Northern Ireland. Over the past ten years, Toys "R" Us UK has maintained its No 1 market share position in the US\$3 billion toy category in the United Kingdom.<sup>3</sup> Toys "R" Us UK also maintains the No 2 market share position in both the United Kingdom bicycle market and the durables segment of the infant care market and holds the No 4 market position in the video game hardware market.<sup>4</sup> In all four of these sectors, in the calendar year 2004, Toys "R" Us UK's average sales per store (measured as the aggregate value of all items sold per store) exceeded that of any other retailer in the United Kingdom.

### Store portfolio

Toys "R" Us UK has a diverse and well-represented store base, with stores located in downtown locations, retail parks locations, pure standalone locations and standalone locations alongside or near a retail park or supermarket.

### Store layout

68.21 per cent. of the stores in the Portfolio (other than the Cardiff Property) by market value have an area of 40,000-45,000 square feet. All of the United Kingdom stores have been remodelled since 2000 and are continuously being updated with the latest fixtures and décor. Toys "R" Us UK stores are uniformly designed and merchandised. All store layouts are characterised by a supermarket store configuration, but are differentiated by low gondolas and aisle cut-throughs which create an open, customer-friendly and easy-to-navigate environment.

### Product offering

Toys "R" Us UK stores showcase unique departments that cater to all ages, from its traditional toy offerings to its computers-made-simple departments, focusing on four principal product categories: (i) toys, (ii) infant care, (iii) bicycles and wheeled goods and (iv) multimedia/"teentronics"/consumer electronics. In an effort to increase its appeal to teenagers and adults, supporting its family-oriented

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<sup>3</sup> Market share information correct as at 31 December 2004.

<sup>4</sup> Market share information correct as at 31 December 2004.

shopping environment, Toys "R" Us UK has increasingly focused on offering new consumer electronics and entertainment products. Increasing sales volume of non-toy products, lessening the dependence on multinational toy companies and increasing private label/exclusive products are all part of Toys "R" Us UK's successful merchandising strategy.

### **Private label**

As part of the key strategy of differentiation, Toys "R" Us UK's focus on its private label and exclusively licensed product programmes has been a key component of its merchandise strategy. Toys "R" Us UK's private label offering spans most product categories offered within the store, from its Bruin Baby products and Fast Lane line of die cast cars, to its You and Me dolls and Animal Alley plush brands. Many of Toys "R" Us UK's private label products have achieved significant market share in the United Kingdom toy market.

### **Pricing strategy**

Toys "R" Us UK positions itself as a value-oriented, promotional retailer of a wide range of family leisure and baby care products. Toys "R" Us UK benchmarks its pricing strategy against its key competitors in order to compete effectively on price. Toys "R" Us UK focuses on offering competitive pricing on 'core' products and 'scoop deals' on 'non-core' products to drive customer traffic. Toys "R" Us UK relies on its in-store merchandising and marketing strategies to generate incremental sales once the customer is in the store.

### **Store employees**

As of 31 July 2004, Toys "R" Us UK had a total of 7,263 employees. The UK labour force of Toys "R" Us UK is not represented by unions and Toys "R" Us UK enjoys good labour relations.

### **Independence of UK Business**

The debt owed by Toys "R" Us entities in the United Kingdom is independent of the debt owed by Toys "R" Us entities in the U.S. There are no cross-default, cross-acceleration or cross-collateralisation provisions between the United Kingdom and U.S. entities. This means that a default by any of the U.S. entities under any of its debt will cause neither a default in any of the United Kingdom entities nor any of the collateral for any of the European debt being taken by any creditor of any of the U.S. entities.

Toys "R" Us in the United Kingdom is operationally independent from Toys "R" Us in the U.S. With the exception of IT systems and an element of Treasury and International Tax, all Toys "R" Us United Kingdom operations are controlled locally. All supply arrangements with all merchandise vendors are independent of the U.S. The same applies to major contracts for goods and services for the UK business such as for credit and debit card acquiring, data communications, IT equipment maintenance, internet website and fulfillment operations and promotional credit arrangements.

### **Directors and Secretary**

The directors of OpCo and their respective business addresses and principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
David Rurka	Geoffrey House Vanwall Business Park Vanwall Road Maidenhead Berkshire SL6 4UB	Managing Director

Phillip J. Shayer	Geoffrey House Vanwall Business Park Vanwall Road Maidenhead Berkshire SL6 4UB	Deputy Managing Director and Merchandise Director
Francis Charles Muzika	Geoffrey House Vanwall Business Park Vanwall Road Maidenhead Berkshire SL6 4UB	Deputy Managing Director and Finance, Administration and Logistics Director
Robert Zarra	1 Geoffrey Way Wayne New Jersey 07470 USA	Director

The company secretary of OpCo is Mitre Secretaries Limited.

## Financial Information

The historical financial information contained in the table "*Financial overview of the Toys "R" Us UK business*" below is derived from the consolidated audited statutory accounts and underlying financial records of Toys "R" Us Holdings Limited (formerly Toys "R" Us Holdings PLC) and its subsidiaries (including OpCo) for the relevant financial years. The historical financial information differs from audited statutory accounts as it (i) is prepared under US GAAP; (ii) excludes from EBITDA for each of the relevant financial years certain one-off transactions; and (iii) excludes from EBITDA all corporate overhead charges that are not directly allocated to individual regions.

The audited statutory accounts of OpCo for each of the relevant financial years is appended to this Offering Circular at Appendix 1.

The financial information for 2005 represents projected results for the financial year ending 29 January 2006.

### Financial overview of the Toys "R" Us UK business <sup>(1)</sup>

Financial Year <sup>(2)</sup>	2001	2002	2003	2004	Projected 2005 <sup>(3)</sup>
<b>Store count</b>					
Ending of year	63	64	64	67	68
<b>Income statement data</b>					
Net sales (GBP millions)	475.3	517.4	501.0	511.8	517.8
% growth		8.9	(3.2)	2.2	1.2
Merchandise margin (GBP millions)	168.9	186.5	187.2	198.7	197.6
% margin	35.5	36.0	37.4	38.8	38.2
EBITDA (GBP millions)	62.8	70.5	63.8	68.9 <sup>(4)</sup>	60.9
% EBITDA	13.2	13.6	12.7	13.5	11.8

(1) Information for the combined securitised and non-securitised portfolio.

(2) Each year refers to the end of the financial year ended on the Saturday nearest to 31 January in the year following the year indicated (eg. "2001" refers to financial year ended on the Saturday nearest to 31 January 2002).

(3) The 2005 Christmas sales figures showed positive growth despite a difficult time for retailing in the United Kingdom. OpCo's net sales growth against the previous year was 2.6 per cent. for the 9 weeks ended 31 December 2005 and 6.6 per cent. for the 5 weeks ended 31 December 2005.

(4) This figure excludes the one-off real estate gain of £4.7 million.

## OpCo Balance sheet as at 29 January 2005

The balance sheet information is derived from the audited financial statements of OpCo.

	29 Jan 2005	31 Jan 2004
	£000	£000
<b>Fixed assets</b>		
Tangible assets	<u>200,752</u> <sup>(1)</sup>	<u>201,571</u> <sup>(1)</sup>
 <b>Current assets</b>		
Stocks	46,384	41,416
Debtors	30,107	36,110
Cash at bank	<u>1,294</u>	<u>87,648</u>
	77,785	165,174
<b>Creditors: amounts falling due within one year</b>	<u>174,662</u>	<u>270,579</u>
<b>Net current liabilities</b>	<u>(96,877)</u>	<u>(105,405)</u>
<b>Total assets less current liabilities</b>	103,875	96,166
<b>Creditors: amounts falling due after more than one year</b>	55,000 <sup>(2)</sup>	55,000 <sup>(2)</sup>
<b>Provisions for liabilities and charges</b>	<u>16,184</u>	<u>14,736</u>
	<u>32,691</u>	<u>26,430</u>
 <b>Capital and Reserves</b>		
Called up share capital	100	100
Profit and loss account	<u>32,591</u>	<u>26,330</u>
<b>Equity shareholders' funds</b>	<u>32,691</u>	<u>26,430</u>

(1) Includes £42,028,573 of unrealised real estate gains from prior years.

(2) This is an inter-company loan from Toys "R" Us Holdings Limited payable in 2012. In 2005 OpCo drew down approximately £112,000,000 under the Facility (as defined in the section *Risk Factors - Borrower's dependence on OpCo rental payments and ability of OpCo to meet its obligations under the Leases*). This amount is expected to be repaid on the Closing Date, but may not be repaid in full.



## DESCRIPTION OF THE PORTFOLIO

The Borrower will acquire from OpCo and Toys "R" Us Properties Limited on the Loan Closing Date a portfolio of 29 retail stores and a distribution centre located throughout England and Wales with the exception of one store located in Scotland and one store located in Northern Ireland (each a **Property** and the Cardiff Property if and when acquired by the Borrower, also a Property, and, the Properties together, the **Portfolio**). The Portfolio (excluding the Cardiff Property) has a total gross internal floor area of 1,861,382 square feet. The 29 retail stores in the Portfolio (other than the Cardiff Property) represent approximately 1,192,882 square feet of the total gross internal floor area of the Portfolio (excluding the Cardiff Property), with the remainder represented by the distribution centre.

19 of the Properties in the Portfolio (other than the Cardiff Property) are freehold properties constituting absolute ownership of the property. The remaining 11 Properties in the Portfolio (other than the Cardiff Property) are long leasehold properties constituting ownership of the Property (normally for a fixed period and save in certain cases subject to statutory rights of renewal in specific circumstances specified in the relevant statute) subject to an annual payment of a ground rent to the owner of the freehold title. No leasehold Property ground leases expire during the term of the Loan.

Set out below is a summary of certain aspects of the Portfolio, as well as a description of the 30 Properties that will be in the Portfolio on the Loan Closing Date. The Borrower may, subject to the satisfaction of certain conditions precedent as described below under "*The Senior Loan and the Loan Security*", acquire the Cardiff Property from OpCo after the Loan Closing Date. The Cardiff Property is also described below.

### **Portfolio Summary**

There are 30 Properties in total that will be in the Portfolio on the Loan Closing Date. All figures in the description of these Properties have been extracted from earlier valuations prepared by CB Richard Ellis Ltd. dated 30 June 2005 (the **Initial Valuation**).

## Property Characteristics

No.	Unit/Location	Unit Location	Type of Site	Tenure	Market Value (£)	% of Total Value	Area (Sq. ft)	VPV (£)	ERV (£)	Net Rent (£)	Rent per Sq. ft	Yield
1	Leeds	Yorkshire & Humberside	Solus Retail Unit	Freehold	30,020,000	6.09%	44,097	38,960,000	1,984,400	1,587,500	36.00	5.29%
2	Enfield	South East	Retail Park	Long Leasehold	28,520,000	5.78%	44,361	26,480,000	1,508,300	1,508,300	34.00	5.29%
3	Croydon	London	Solus Retail Unit	Freehold	26,450,000	5.36%	43,717	27,560,000	1,530,100	1,398,900	32.00	5.29%
4	Solihull	West Midlands	Retail Park	Freehold	25,290,000	5.13%	44,584	27,400,000	1,449,000	1,337,500	30.00	5.29%
5	Bristol	South West	Solus Retail Unit	Freehold	21,990,000	4.46%	43,058	27,970,000	1,507,000	1,162,600	27.00	5.29%
6	London Brent Cross	London	Solus Retail Unit	Long Leasehold	21,950,000	4.45%	47,299	19,860,000	1,277,100	1,277,100	27.00	5.82%
7	Oxford	South East	Solus Retail Unit	Freehold	21,080,000	4.27%	44,584	24,740,000	1,337,500	1,114,600	25.00	5.29%
8	Nottingham	East Midlands	Retail Park	Long Leasehold	20,910,000	4.24%	43,000	20,330,000	1,161,000	1,161,000	27.00	5.55%
9	Southampton	South East	Retail Park	Long Leasehold	19,390,000	3.93%	41,847	16,690,000	1,025,300	1,025,300	24.50	5.29%
10	Stockton-on-Tees	North East	Solus Retail Unit	Freehold	18,800,000	3.81%	42,600	18,800,000	1,043,700	1,043,700	24.50	5.55%
11	London Old Kent Road	London	Solus Retail Unit	Freehold	17,700,000	3.59%	26,000	17,380,000	936,000	936,000	36.00	5.29%
12	Peterborough	East Anglia	Solus Retail Unit	Freehold	15,490,000	3.14%	45,048	14,410,000	901,000	901,000	20.00	5.82%
13	Coventry	West Midlands	Solus Retail Unit	Freehold	13,870,000	2.81%	46,664	10,960,000	770,000	770,000	16.50	5.55%
14	Swindon	South West	Solus Retail Unit	Freehold	13,290,000	2.69%	44,736	11,640,000	738,100	738,100	16.50	5.55%
15	Sheffield	Yorkshire & Humberside	Solus Retail Unit	Long Leasehold	13,240,000	2.68%	44,537	14,250,000	913,000	734,900	16.50	5.55%
16	York	Yorkshire & Humberside	Retail Park	Long Leasehold	13,080,000	2.65%	34,580	15,160,000	899,100	691,600	20.00	5.29%
17	Ipswich	East Anglia	Solus Retail Unit	Long Leasehold	12,560,000	2.55%	45,000	10,800,000	697,500	697,500	15.50	5.55%
18	Derby	East Midlands	Retail Park	Freehold	12,540,000	2.54%	42,918	11,460,000	729,600	729,600	17.00	5.82%
19	Shrewsbury	West Midlands	Retail Park	Freehold	12,260,000	2.49%	34,023	11,390,000	680,500	680,500	20.00	5.55%
20	Warrington	North West	Solus Retail Unit	Freehold	11,260,000	2.28%	43,680	8,950,000	655,200	655,200	15.00	5.82%
21	Belfast	Northern Ireland	Solus Retail Unit	Freehold	10,530,000	2.13%	31,823	9,320,000	556,900	556,900	17.50	5.29%
22	Oldbury	West Midlands	Solus Retail Unit	Freehold	10,350,000	2.10%	42,579	8,670,000	574,800	574,800	13.50	5.55%
23	Glasgow Helen St	Scotland	Solus Retail Unit	Long Leasehold	9,190,000	1.86%	34,977	8,620,000	524,700	524,700	15.00	5.71%
24	Plymouth	South West	Suburban Retail	Long Leasehold	8,050,000	1.63%	50,761	7,700,000	469,500	469,500	9.25	5.83%
25	Poole	South West	Solus Retail Unit	Freehold	6,770,000	1.37%	44,736	6,410,000	536,800	536,800	12.00	7.93%
26	Woking	South East	Shopping Center	Freehold	6,490,000	1.32%	40,050	5,130,000	360,500	360,500	9.00	5.55%
27	Liverpool	North West	Solus Retail Unit	Long Leasehold	6,310,000	1.28%	26,236	5,380,000	367,300	367,300	14.00	5.82%
28	Basildon	South East	Suburban Retail	Long Leasehold	5,760,000	1.17%	48,321	5,520,000	350,300	350,300	7.25	6.08%
29	Doncaster	Yorkshire & Humberside	Solus Retail Unit	Freehold	5,120,000	1.04%	27,066	4,560,000	297,700	297,700	11.00	5.81%
<b>Total</b>					<b>£438,260,000</b>	<b>88.86%</b>	<b>1,192,882</b>	<b>£436,500,000</b>	<b>£25,781,900</b>	<b>£24,189,400</b>	<b>£20.28</b>	<b>5.52%</b>
30	Coventry - Distribution Unit	West Midlands	Prime Industrial Estate	Freehold	54,960,000	11.14%	668,500	35,340,000	£3,342,500	£3,342,500	£5.00	6.08%
<b>Grand Total</b>					<b>£493,220,000</b>	<b>100.00%</b>	<b>1,861,382</b>	<b>£471,840,000</b>	<b>£29,124,400</b>	<b>£27,531,900</b>	<b>£14.79</b>	<b>5.58%</b>

## Properties by Market Value

### *Coventry Distribution Centre*

Key Features	
Market Value	£54,960,000
% of Total Portfolio Value	11.14%
Vacant Possession Value	£35,340,000
% of Total Portfolio VPV	7.49%
ERV	£3,342,500
Net Rent	£3,342,500
% of Total Portfolio Rent	12.14%
Location	West Midlands
Property Type	Distribution Centre
Age	13 years
Tenure	Freehold
Area	668,500 Sq. ft

#### *Description of Coventry Distribution Centre*

The Coventry distribution centre is a large distribution warehouse located in Coventry that services all UK Toys "R" Us stores. This highly functional property is situated on Cross Point Business Park just off Junction 2 of the M6/M69 motorways.

Coventry has emerged as a key national distribution centre due to its central position within the country; it is within the centre of the distribution 'golden triangle' with motorways surrounding the city. Many dedicated owner operated and third party operated warehouses are located within the area. Occupiers, to name but a few, include Parcelforce, P&O Distribution, Royal Mail, Exel Logistics, Christian Salvesen, Federal Express, Securicor Omega and UPS.

The warehouse was constructed in 1992 with additional vehicle parking space added in recent years. The total site extends to approx 41.5 acres. The building, which is of steel portal frame construction, has both high bay and low bay sections providing eaves heights of around 20 metres and 10 metres respectively and 113 loading doors complete with dock levellers. The current occupiers have installed a full racking system to suit their requirements together with automated sortation equipment. A sprinkler system is installed throughout.

### *Leeds Retail Unit*

Key Features	
Market Value	£30,020,000
% of Total Portfolio Value	6.09%
Vacant Possession Value	£38,960,000
% of Total Portfolio VPV	8.26%
ERV	£1,984,400
Net Rent	£1,587,500
% of Total Portfolio Rent	5.77%
Location	Yorkshire & Humberside
Property Type	Retail
Age	4 years
Tenure	Freehold
Area	44,097 Sq. ft

#### *Description of Leeds Retail Unit*

The Leeds retail unit is a detached retail warehouse situated on Leeds' premier out of town retail and leisure park. The unit adjoins Birstall Shopping Park, a modern development, which is occupied by a number of 'high street' retailers including Next, HMV, Gap, Boots, Burton/Dorothy Perkins and WH Smith. West Yorkshire Retail Park and Junction 27 Retail Parks adjoin the site and include occupiers such as Comet, Currys, DFS, MFI, Habitat, Borders, Harveys, Carpetright. IKEA is adjacent to the Leeds retail unit. A cinema and a number of restaurants are also located on site.

The property enjoys an excellent location on the outskirts of Leeds, by Junction 27 of the M62 and M621 motorways. The park draws on a large catchment, including Yorkshire and the Midlands due to the location, accessibility and critical mass.

The Company traded from a similar size store in the original retail park from 1991 until 2001 when the new retail unit was constructed as part of a redevelopment of the whole park. The property shares parking facilities and rear loading access.

### ***Enfield Retail Unit***

<b>Key Features</b>	
Market Value	£28,520,000
% of Total Portfolio Value	5.78%
Vacant Possession Value	£26,480,000
% of Total Portfolio VPV	5.61%
ERV	£1,508,300
Net Rent	£1,508,300
% of Total Portfolio Rent	5.48%
Location	South East
Property Type	Retail
Age	12 years
Tenure	Long Leasehold
Area	44,361 Sq. ft

#### *Description of Enfield Retail Unit*

The Enfield retail unit is a detached unit integrated into Enfield Retail Park, a popular out of town retail location. Other occupiers on the scheme include Currys, Sainsbury's, Homebase, JJB Sports, Sports Soccer and Halfords.

Enfield has developed as one of the key retailing locations within the M25 and within the immediate vicinity there is De Mandville Gate Retail Park, 2 major supermarkets, a number of stand alone retail warehouse units, car showrooms, fast food outlets, a multiplex cinema, bingo hall and nightclub. IKEA is situated a short drive away at nearby Edmonton.

Enfield Retail Park enjoys a prominent location on the A10 Great Cambridge Road (one of London's main arterial routes), which connects to Junction 25 of the M25 Motorway and the A406 North Circular making it readily accessible to a large catchment population by car.

The unit was built in 1993 and benefits from good, shared, parking provision and a very large service yard to the rear, which is shared with Currys.

### ***Croydon Retail Unit***

<b>Key Features</b>	
Market Value	£26,450,000
% of Total Portfolio Value	5.36%
Vacant Possession Value	£27,560,000
% of Total Portfolio VPV	5.84%
ERV	£1,530,100
Net Rent	£1,398,900
% of Total Portfolio Rent	5.08%
Location	South East
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	43,717 Sq. ft

#### *Description of Croydon Retail Unit*

The Croydon retail unit is a detached unit, forming part of a cluster of retail warehouse units, located on the A23 Purley Way, which is one of the best retail warehouse locations within the M25. Retail warehousing on Purley Way has evolved over a number of years and so developments tend to be in clusters or stand alone with no one dominant scheme.

The unit is adjacent to PC World and Currys. Other stores in the immediate area include IKEA, Allied Carpets, Carpetright, Harveys, Furnitureland, Wickes, Homebase and Mothercare World amongst others.

The A23 Purley Way provides direct access to Junction 7 of the M25 Motorway some 7 miles to the south, and the A205 South Circular. The unit benefits from a good catchment area including Croydon, South London and surrounding areas.

The unit, which was built in 1990, has its own access and has a large dedicated car park and dedicated service yard.

### *Solihull Retail Unit*

<b>Key Features</b>	
Market Value	£25,290,000
% of Total Portfolio Value	5.13%
Vacant Possession Value	£27,400,000
% of Total Portfolio VPV	5.81%
ERV	£1,449,000
Net Rent	£1,337,500
% of Total Portfolio Rent	4.86%
Location	West Midlands
Property Type	Retail
Age	12 years
Tenure	Freehold
Area	44,584 Sq. ft

#### *Description of Solihull Retail Unit*

The Solihull retail unit is a modern purpose built retail warehouse located on Solihull's main out of town retail destination which comprises 2 adjoining retail parks, Sears Retail Park and Solihull Retail Park. Neighbouring occupiers include Homebase which is the second largest occupier on the site, and Sainsbury's, Habitat, Comet, Argos, Boots, JJB Sports, Allied Carpets, Land of Leather, Carpetright and MFI.

The scheme benefits from good access from the A34, a short drive from Junction 4 of the M42.

The unit was built in 1993 and benefits from very generous parking facilities and a large dedicated rear service yard.

### *Bristol Retail Unit*

<b>Key Features</b>	
Market Value	£21,990,000
% of Total Portfolio Value	4.46%
Vacant Possession Value	£27,970,000
% of Total Portfolio VPV	5.93%
ERV	£1,507,000
Net Rent	£1,162,600
% of Total Portfolio Rent	4.22%
Location	South West
Property Type	Retail
Age	20 years
Tenure	Freehold
Area	43,058 Sq. ft

#### *Description of Bristol Retail Unit*

The Bristol retail unit is a solus unit on the outskirts of Cribbs Causeway Shopping Centre, a major regional shopping centre. The unit benefits from its location within Bristol's prime retail warehouse area and has capacity of wide draw due to the regional shopping centre. Neighbouring occupiers include Asda Walmart, Wickes, Carpetright, Halfords, TK Maxx and Hobbycraft. John Lewis and Marks & Spencer also operate large stores nearby.

The unit benefits from good access just off junction 17 of the M5 and the A4018 Cribbs Causeway.

The unit was built in 1985 and benefits from 247 car parking spaces to the front and side.

### *London, Brent Cross Retail Unit*

Key Features	
Market Value	£21,950,000
% of Total Portfolio Value	4.45%
Vacant Possession Value	£19,860,000
% of Total Portfolio VPV	4.21%
ERV	£1,277,100
Net Rent	£1,277,100
% of Total Portfolio Rent	4.64%
Location	Brent Cross, South East
Property Type	Retail Store
Age	15 Years
Tenure	Leasehold (Peppercorn)
Area	47,299 Sq. ft

#### *Description of London, Brent Cross Retail Unit*

A detached unit adjacent to a Tesco superstore. The unit is located just off the main A406 North Circular / A41 roundabout. It therefore benefits from good communication links to Central London and surrounding areas.

The unit is in a good location, prominent to a number of main roads and a vast catchment area.

In addition to the newly developed Brent Cross Shopping Park, also accessed off Tilling Road, Staples corner is only some 1 mile distant down the North Circular. Brent Cross Shopping Centre is situated on the other side of the North Circular immediately opposite the subject.

The unit was built in 1986 and benefits from very good parking provisions.

### *Oxford Retail Unit*

Key Features	
Market Value	£21,080,000
% of Total Portfolio Value	4.27%
Vacant Possession Value	£24,740,000
% of Total Portfolio VPV	5.24%
ERV	£1,337,500
Net Rent	£1,114,600
% of Total Portfolio Rent	4.05%
Location	South East
Property Type	Retail
Age	12 years
Tenure	Freehold
Area	44,584 Sq. ft

#### *Description of Oxford Retail Unit*

A detached unit located at the far end of a retail cluster. The unit is situated just off the A420 Botley Road, the major road leading into the west of central Oxford, connected to both the Southern and Western By-pass.

Botley Road is the prime retail warehouse location within Oxford. The unit is highly prominent with a vast catchment area within Oxford and surrounding areas.

The unit was built in 1993 and benefits from good parking provisions. Approximately 515 spaces are shared with Wickes of which 340 are included in the Toys "R" Us ownership.

Other occupiers on the Botley Road scheme include Comet, Argos, Currys and Harveys. The Templars Shopping Park and the Oxford Retail Parks are also nearby.

### *Nottingham Retail Unit*

Key Features	
Market Value	£20,910,000
% of Total Portfolio Value	4.24%
Vacant Possession Value	£20,330,000
% of Total Portfolio VPV	4.31%
ERV	£1,161,000
Net Rent	£1,161,000
% of Total Portfolio Rent	4.22%
Location	East Midlands
Property Type	Retail
Age	15 years
Tenure	Long Leasehold
Area	43,000 Sq. ft

#### *Description of Nottingham Retail Unit*

A detached retail warehouse situated in one of the two best schemes in Nottingham. The property is situated near to the A52 and A453.

The unit is highly prominent on the scheme and benefits from a vast catchment area within Nottingham and surrounding conurbations.

The unit was built in 1992 and has good, shared parking provisions of approximately 1,000 spaces with neighbouring occupiers on the scheme, of which approximately 370 are included in the Toys "R" Us demise. The unit benefits from a good separate service area with dock loading facilities.

Other occupiers on the scheme include Argos, JJB Sports, B&Q and Boots. Castle Meadow Retail Park is also nearby.

### *Southampton Retail Unit*

Key Features	
Market Value	£19,390,000
% of Total Portfolio Value	3.93%
Vacant Possession Value	£16,690,000
% of Total Portfolio VPV	3.54%
ERV	£1,025,300
Net Rent	£1,025,300
% of Total Portfolio Rent	3.72%
Location	South East
Property Type	Retail
Age	15 years
Tenure	Long Leasehold
Area	41,847 Sq. ft

#### *Description of Southampton Retail Unit*

A solus unit on the edge of a retail scheme with good prominence to the A3024 Western Esplanade. The A3024 is one of the main roads into the Southampton City Centre from the West. The A3024 is easily accessed off the A33, which provides good access to the M271 / M27 to the west and the M27 / M3 to the north.

The unit was built in 1986 and has good parking provisions. It also benefits from a good catchment area.

In addition to the town centre shopping centres, the closest scheme to the property is the West Quay Retail Park, occupied by Furniture village, Mothercare, Comet, Halfords and others. The Mountbatten Retail Park which is located some 100 yards west down the A3024 Western Esplanade is occupied by Carpetright, MFU and Office World. Other nearby occupiers include the John Lewis Partnership, Marks & Spencer and Asda.

### *Stockton on Tees Retail Unit*

Market Value	£18,800,000
% of Total Portfolio Value	3.81%
Vacant Possession Value	£18,800,000
% of Total Portfolio VPV	3.98%
ERV	£1,043,700
Net Rent	£1,043,700
% of Total Portfolio Rent	3.79%
Location	North East
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	42,600 Sq. ft

#### *Description of Stockton on Tees Retail Unit*

A solus unit with an excellent strategic location at the junction of the A19 and A66.

Built in 1990 the unit is the most prominent unit (at the entrance) within the retail park and benefits from a large catchment area including Stockton, Middlesborough, and Teesside. The unit also benefits from good dedicated parking facilities and a rear loading bay.

The unit is located adjacent to the Teesside Leisure Park. Other stores in the immediate area include Morrisons, Homebase, and Comet.

### *London, Old Kent Road Retail Unit*

<b>Key Features</b>	
Market Value	£17,700,000
% of Total Portfolio Value	3.59%
Vacant Possession Value	£17,380,000
% of Total Portfolio VPV	3.68%
ERV	£936,000
Net Rent	£936,000
% of Total Portfolio Rent	3.40%
Location	London
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	26,000 Sq. ft

#### *Description of London, Old Kent Road Retail Unit*

The solus unit is located directly on the A2 Old Kent Road. The A2 leads to central London to the north west and to the A205 south circular to the south east.

The unit is very prominent to vehicles travelling in both directions on the A2 Old Kent Road.

Its central London location and close proximity to a number of major roads means that the unit benefits from a large catchment area.

Built in 1997 the unit benefits from very good dedicated parking facilities and a separate loading dock to the rear of the building.

Other occupiers in the immediate area include Land of Leather, which is on the opposite side of the A2, Carpetright and Office World are also nearby.



### ***Peterborough Retail Unit***

<b>Key Features</b>	
Market Value	£15,490,000
% of Total Portfolio Value	3.14%
Vacant Possession Value	£14,410,000
% of Total Portfolio VPV	3.05%
ERV	£901,000
Net Rent	£901,000
% of Total Portfolio Rent	3.27%
Location	East Anglia
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	45,048 Sq. ft

#### ***Description of Peterborough Retail Unit***

A solus retail unit located close to the town centre and situated in prominent location on the inner ring road (A15).

The unit benefits from a drive through McDonalds located on the Toys "R" Us car park and a good catchment area which includes Peterborough and surrounding towns such as Huntingdon.

Built in 1988 the property has adequate parking facilities and benefits from a good separately accessed dock loading facility

Other retail units located nearby include Asda, Furnitureland, Pets at Home, PC World, Office World, Currys, MFI, Carpetright, and Comet, Boongate, Boulevard and Brotherhood retail parks are also close by.

### ***Coventry Retail Unit***

<b>Key Features</b>	
Market Value	£13,870,000
% of Total Portfolio Value	2.81%
Vacant Possession Value	£10,960,000
% of Total Portfolio VPV	2.32%
ERV	£770,000
Net Rent	£770,000
% of Total Portfolio Rent	2.80%
Location	West Midlands
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	46,664 Sq. ft

#### ***Description of Coventry Retail Unit***

A solus, purpose built retail unit close to the M6, and the M69 (Leicester) via the A4600.

The unit is reasonably prominent and benefits from a catchment area consisting of Coventry and the surrounding conurbation.

Built in 1993 the property has good parking provisions and benefits from a good dedicated service area including a dock loading facility.

Other occupiers located nearby include Tesco Extra, Asda, Homebase and B&Q.

### *Swindon Retail Unit*

Key Features	
Market Value	£13,290,000
% of Total Portfolio Value	2.69%
Vacant Possession Value	£11,640,000
% of Total Portfolio VPV	2.47%
ERV	£738,100
Net Rent	£738,100
% of Total Portfolio Rent	2.68%
Location	South West
Property Type	Retail
Age	14 years
Tenure	Freehold
Area	44,736 Sq. ft

#### *Description of Swindon Retail Unit*

A solus unit on the edge of town scheme. Access to the park is from the southbound carriageway of the A419 with egress onto the A420 Oxford Road. The unit is highly prominent to the A419.

The location is an established retail area with St. Margaret Retail Park opposite and a Sainsbury Foodstore adjacent to the subject premises.

Built in 1991, the unit is highly prominent and benefits from excellent car parking facilities.

Other schemes in the immediate area include the Greenbridge Retail and Leisure Park, which are approximately one mile west of the unit.

### *Sheffield Retail Unit*

Key Features	
Market Value	£13,240,000
% of Total Portfolio Value	2.68%
Vacant Possession Value	£14,250,000
% of Total Portfolio VPV	3.02%
ERV	£913,000
Net Rent	£734,900
% of Total Portfolio Rent	2.67%
Location	Yorkshire & Humberside
Property Type	Retail
Age	13 years
Tenure	Long Leasehold
Area	44,537 sq. ft

#### *Description of Sheffield Retail Unit*

A detached retail warehouse located on Meadowhall Retail Park, in close proximity of the M1 and Meadowhall Shopping Centre, on the main arterial road leading to the city centre.

The unit is highly prominent and the catchment area includes the whole of Sheffield.

The unit was built in 1992 and has good, shared parking provisions with neighbouring occupiers.

Other stores in the scheme include Carpetright, Co-op Travel, Currys, Hobbycraft, Homebase, Kingdom of Leather, Bensons Bed, and PC World. Meadowhall Shopping Centre is also nearby.

### ***York Retail Unit***

<b>Key Features</b>	
Market Value	£13,080,000
% of Total Portfolio Value	2.65%
Vacant Possession Value	£15,160,000
% of Total Portfolio VPV	3.21%
ERV	£899,100
Net Rent	£691,600
% of Total Portfolio Rent	2.51%
Location	Yorkshire & Humberside
Property Type	Retail
Age	12 years
Tenure	Long Leasehold
Area	34,580 Sq. ft

#### ***Description of York Retail Unit***

A detached retail warehouse integrated into the Clifton Moor Retail Park scheme and located in a prominent position on the outer ring road and benefiting from a catchment area of York and the surrounding area.

Built in 1993 the unit has good shared parking provisions with neighbouring occupiers on the scheme.

Other occupiers include Tesco, Wickes, Comet, JJB Sports, Currys, Powerhouse, B&Q, and Argos. Monks Cross Shopping Park and Foss Island retail warehousing cluster is nearby.

### ***Ipswich Retail Unit***

<b>Key Features</b>	
Market Value	£12,560,000
% of Total Portfolio Value	2.55%
Vacant Possession Value	£10,800,000
% of Total Portfolio VPV	2.29%
ERV	£697,500
Net Rent	£697,500
% of Total Portfolio Rent	2.53%
Location	East Anglia
Property Type	Retail
Age	15 years
Tenure	Long Leasehold
Area	45,000 Sq. ft

#### ***Description of Ipswich Retail Unit***

A modern solus retail unit situated in a prominent location close to the A14 and A12 interchange. The unit benefits from a good retailing location shared with Tesco, Mothercare, PC World and Currys.

The unit benefits from a catchment area that includes Ipswich and the surrounding conurbation.

Built in 1991 the unit has plentiful dedicated parking. Furthermore, the unit benefits from a dedicated loading area with a dock loading facility.

Other shopping areas nearby include the Euro and the Anglia retail parks.

### ***Derby Retail Unit***

<b>Key Features</b>	
Market Value	£12,540,000
% of Total Portfolio Value	2.54%
Vacant Possession Value	£11,460,000
% of Total Portfolio VPV	2.43%
ERV	£729,600
Net Rent	£729,600
% of Total Portfolio Rent	2.65%
Location	East Midlands
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	42,918 Sq. ft

#### ***Description of Derby Retail Unit***

A detached purpose built retail unit located on the edge of Wyvern Retail Park. Wyvern Retail Park is considered to be one of the best locations in Derby and is situated close to the town centre and Derby County football ground.

Access to the Retail Park is provided by the A52 and the A5111 and the unit is reasonably prominent to the A52. The catchment area includes the eastern side of Derby.

Built in 1990, the unit has good dedicated parking provisions and benefits from a spacious loading area consisting of a dock loading facility

Other occupiers on the scheme include Halfords, Boots, Currys, Miller Brothers, Homebase and Sainsburys. The Meteor centre and the Kingsway Retail Park are also nearby.

### ***Shrewsbury Retail Unit***

<b>Key Features</b>	
Market Value	£12,260,000
% of Total Portfolio Value	2.49%
Vacant Possession Value	£11,390,000
% of Total Portfolio VPV	2.41%
ERV	£680,500
Net Rent	£680,500
% of Total Portfolio Rent	2.47%
Location	West Midlands
Property Type	Retail
Age	10 years
Tenure	Freehold
Area	34,023 Sq.ft

#### ***Description of Shrewsbury Retail Unit***

A detached, purpose built retail unit located near the entrance (but separated by a service road) of the best scheme in Shrewsbury.

The scheme is located at the junction of the A5112 and the A5 (T). The catchment area includes Shrewsbury and the surrounding area.

The unit was built in 1994 and has good dedicated parking facilities. It also benefits from a spacious dedicated service area including a dock loading facility.

Other occupiers on the scheme include Focus, Halfords, Argos, Sports Soccer, Carpetright, Currys, Boots, Comet, Sainsburys, Blockbuster Video, and Carphone Warehouse. The Shrewsbury Retail Park is also nearby.

### ***Warrington Retail Unit***

<b>Key Features</b>	
Market Value	£11,260,000
% of Total Portfolio Value	2.28%
Vacant Possession Value	£8,950,000
% of Total Portfolio VPV	1.90%
ERV	£655,200
Net Rent	£655,200
% of Total Portfolio Rent	2.38%
Location	North West
Property Type	Retail
Age	17 years
Tenure	Freehold
Area	43,680 Sq. ft

#### ***Description of Warrington Retail Unit***

A purpose built standalone retail warehouse located in close proximity of the M62.

The unit benefits from an excellent location with a large number of quality retailers in close proximity.

Built in 1988 the unit is provided with substantial dedicated parking facilities and benefits from a catchment area which includes Warrington.

Other occupiers on the scheme include Ikea, M&S, Next, and Boots. The Alban Retail Park, the Riverside Retail Park and the Cockhedge Centre are also nearby.

### ***Belfast Retail Unit***

<b>Key Features</b>	
Market Value	£10,530,000
% of Total Portfolio Value	2.13%
Vacant Possession Value	£9,320,000
% of Total Portfolio VPV	1.98%
ERV	£556,900
Net Rent	£556,900
% of Total Portfolio Rent	2.02%
Location	Northern Ireland
Property Type	Retail
Age	15 years
Tenure	Freehold
Area	31,823 Sq. ft

#### ***Description of Belfast Retail Unit***

A solus retail warehouse located in a good retail location in close proximity of the M1 and the M2 motorway. The scheme is also well provided with public transport.

As the dominant shopping area in this part of Belfast the unit benefits from a strong catchment population being located adjacent to the major retail destination for the north of the city.

The unit was built in 1997 and is provided with good dedicated parking facilities and benefits from a rear service yard.

Other retailers in close proximity are Tesco Extra, B&Q, Currys and Carpetright. The Abbey Retail Centre is also very nearby and features stores like Bhs, Primark, Dunnes and Argos along with 70 other units.

### *Oldbury Retail Unit*

Key Features	
Market Value	£10,350,000
% of Total Portfolio Value	2.10%
Vacant Possession Value	£8,670,000
% of Total Portfolio VPV	1.84%
ERV	£574,800
Net Rent	£574,800
% of Total Portfolio Rent	2.09%
Location	West Midlands
Property Type	Retail
Age	18 years
Tenure	Freehold
Area	42,579 Sq. ft

#### *Description of Oldbury Retail Unit*

A solus purpose built retail warehouse unit with a McDonalds drive through restaurant in the car park.

The unit is located close to Junction 2 of the M5 and fronts a roundabout which links the A4034 and A4123.

Built in 1988, the unit has good dedicated parking provisions and benefits from a dedicated loading area with a dock loading facility.

Other stores nearby include Dunhelm and Halfords. Oldbury Green Retail Park is also close by.

### *Glasgow Helen Street Retail Unit*

Key Features	
Market Value	£9,190,000
% of Total Portfolio Value	1.86%
Vacant Possession Value	£8,620,000
% of Total Portfolio VPV	1.83%
ERV	£524,700
Net Rent	£524,700
% of Total Portfolio Rent	1.91%
Location	Scotland
Property Type	Retail
Age	8 years
Tenure	Long Leasehold
Area	34,977 Sq. ft

#### *Description of Glasgow Helen Street Retail Unit*

A modern retail warehouse situated next to an Asda superstore in the Govan area of Glasgow. The scheme is located approximately 2 miles west of Glasgow city centre at junction 24 of the M8.

Situated immediately adjacent to the M8 motorway, the unit benefits from an excellent visibility and caters to a catchment area which includes south Glasgow and the surrounding conurbation.

The unit was built in 1997 and shares parking facilities with the Asda superstore.

Apart from the Asda superstore there are no other retail outlets in the immediate area. The Braehead regional shopping centre and adjoining retail Warehouse Park is nearby.

### *Plymouth Retail Unit*

Key Features	
Market Value	£8,050,000
% of Total Portfolio Value	1.63%
Vacant Possession Value	£7,700,000
% of Total Portfolio VPV	1.63%
ERV	£469,500
Net Rent	£469,500
% of Total Portfolio Rent	1.71%
Location	South West
Property Type	Retail
Age	17 years
Tenure	Long Leasehold
Area	50,761 Sq. ft

#### *Description of Plymouth Retail Unit*

This is a stand alone retail store purpose built at the lower level of a multi storey car park on the edge of the city centre on the Western Approach A374. The Western Approach A374 forms part of the inner ring-road and provides easy access to the west and north of the city.

The unit enjoys a prominent position on the inner ring road.

Furthermore, due to the lack of competing retail centres the unit benefits from a wide catchment area in the southwest. Marsh Mills Retail Park, the only other significant concentration of retail warehousing within Plymouth is located on the A38.

The property also comprises a unit capable of subletting (but not sublet at present), Toys "R" Us being in occupation of approximately 35,000 square feet of the property.

### *Poole Retail Unit*

Key Features	
Market Value	£6,770,000
% of Total Portfolio Value	1.37%
Vacant Possession Value	£6,410,000
% of Total Portfolio VPV	1.36%
ERV	£536,800
Net Rent	£536,800
% of Total Portfolio Rent	1.95%
Location	South West
Property Type	Retail
Age	20 years
Tenure	Freehold
Area	44,736 Sq. ft

#### *Description of Poole Retail Unit*

A solus unit with good prominence to the A35 Dorset Way. The unit is located on Nuffield Road which runs parallel to the A35 which in turn connects to the A31 to the east – the main arterial road to Southampton and the M27 motorway.

The unit was built in 1990 and enjoys good dedicated parking facilities. The catchment area includes Poole and the surrounding conurbation.

The unit is located on the fringes of an industrial area with no other retail warehousing in the close vicinity. However, Fleets Lane Retail Park, occupied by Staples, Comet, Klaussner, Dreams, and B&Q is nearby.

**Woking Retail Unit**

Key Features	
Market Value	£6,490,000
% of Total Portfolio Value	1.32%
Vacant Possession Value	£5,130,000
% of Total Portfolio VPV	1.09%
ERV	£360,500
Net Rent	£360,500
% of Total Portfolio Rent	1.31%
Location	South East
Property Type	Retail
Age	30 years
Tenure	Freehold (other than the loading bay which is Long Leasehold)
Area	40,050 Sq. ft

*Description of Woking Retail Unit*

A retail store located on the western most point of Woking’s main shopping area. The store is located on the periphery of a prime retail pitch with an entrance from the Bandstand Mall which is part of the Peacock Shopping Centre.

The unit benefits from good prominence and caters to the catchment area of Woking and surrounding towns. The Woking population is one of the most affluent in the UK, ranking fifth, according to the PMA Affluence Indicator.

Other stores in the scheme include Alders, Sainsbury’s Central, Woolworths and a number of other popular high street retailers. The Lion Retail Park and the Wey Retail Park in Byfleet are also nearby.

**Liverpool Retail Unit**

Key Features	
Market Value	£6,310,000
% of Total Portfolio Value	1.28%
Vacant Possession Value	£5,380,000
% of Total Portfolio VPV	1.14%
ERV	£367,300
Net Rent	£367,300
% of Total Portfolio Rent	1.33%
Location	North West
Property Type	Retail
Age	8 years
Tenure	Long Leasehold
Area	26,236 Sq. ft

*Description of Liverpool Retail Unit*

A purpose built standalone retail warehouse unit.

The unit is prominent on the A565 to the west of the city leading to the north and it is immediately adjacent to Costco, and sharing the same car park access/egress points.

Built in 1997 the unit enjoys very good parking facilities and caters for a catchment area which includes Liverpool and The Wirral.

The only other store in the immediate area is a Costco but Speke Retail Park, Racecourse Retail Park, and Edge Lane are nearby.



### ***Basildon Retail Unit***

<b>Key Features</b>	
Market Value	£5,760,000
% of Total Portfolio Value	1.17%
Vacant Possession Value	£5,520,000
% of Total Portfolio VPV	1.17%
ERV	£350,300
Net Rent	£350,300
% of Total Portfolio Rent	1.27%
Location	South East
Property Type	Retail
Age	20 years
Tenure	Long Leasehold
Area	48,321 Sq. ft

#### ***Description of Basildon Retail Unit***

A retail store and multi storey car park. The retail store is one of which is currently arranged as two independent trading units (occupied by JJB Sports). The scheme is close to the A1321 which provides direct access to the Southend Arterial Road A127 connecting Southend-on-Sea to the M25 and London.

The site is located in a town centre fringe location dominated by local independent traders and vacant units.

The unit benefits from a prominent corner plot with visibility from Town Square and East Walk. The catchment area consists of Basildon and surrounding towns.

Other stores nearby include Asda Walmart and a range of high street and local independent retailers. Westgate Park built in 2000 and located close to the train station is also nearby.

### ***Doncaster Retail Unit***

<b>Key Features</b>	
Market Value	£5,120,000
% of Total Portfolio Value	1.04%
Vacant Possession Value	£4,560,000
% of Total Portfolio VPV	0.97%
ERV	£297,700
Net Rent	£297,700
% of Total Portfolio Rent	1.08%
Location	Yorkshire & Humberside
Property Type	Retail
Age	9 years
Tenure	Freehold
Area	27,066 Sq. ft

#### ***Description of Doncaster Retail Unit***

A solus retail warehouse unit adjacent to the Outlet Village and located near junction 3 of the M18.

The unit enjoys reasonable prominence and caters to a catchment area which includes Doncaster and surrounding conurbation.

Built in 1996 the unit benefits from good parking facilities which are shared with the neighbouring Outlet Village.

Other stores on the scheme include Marks & Spencer Clearance, and a B&Q Warehouse is located nearby. A number of shopping areas are also nearby namely Wheatley Centre, Danum Retail Park, Thorne Road Retail Park, and Centurian Retail Park.

## **The Cardiff Property**

A further retail store, near Cardiff (the **Cardiff Property**), may be acquired by the Borrower after the Closing Date subject to the satisfaction of certain conditions precedent as described below under "*The Senior Loan and the Loan Security*".

Construction of the store on the Cardiff Property has not commenced yet although general groundwork improvements have been carried out on behalf of Cardiff City Council, as owner. OpCo is in the process of negotiating with Cardiff City Council and its development partners for the grant of a long lease (expected to be a 250-year lease less 3 days) of a plot of land owned by Cardiff City Council, on which Cardiff City Council's development partners intend to build a new retail store. Planning permission has been obtained by OpCo from Cardiff City Council for the retail store to be built as a stand-alone unit, but it is proposed that it will, as a long-term project, form part of a larger development to be located on a site adjacent to the A4160/A4055 junction (otherwise known as the Cardiff Bay junction), approximately 2 miles to the south-west of the city of Cardiff. The site is currently known as Cardiff International Sports Village. The area is a key retailing location for the city and stores currently in the immediate vicinity include IKEA and Asda. The proposed retail store will have the benefit of a large car park which will have approximately 700 spaces, 250 of which will be included in the lease to OpCo, with the remainder to be common to the development as a whole.

It is expected that OpCo will gain access to the site in the summer or early autumn of 2006, with retail operations of a Toys "R" Us store expected to commence later in the year. The planning permission granted by Cardiff City Council to OpCo covers the sale of bulky goods, including the sale of products of the type sold by the Toys "R" Us business. On acquisition of the headlease and completion of the building of the new store, OpCo will sell the Cardiff Property to the Borrower, which will in turn lease the property to OpCo.

## THE LEASES

The Borrower has granted an occupational lease (each a **Lease** and together, the **Leases**) of the whole of each Property (other than the Cardiff Property) to Toys "R" Us Limited (**OpCo**) save in the case of the Property at Southampton where a small area of the car park is excluded from the Lease to avoid triggering an obligation on the Borrower as the tenant under the superior lease to offer the superior landlord a surrender of the superior lease which must be made if the Borrower wishes to underlet the whole Property. Each Lease is in the same terms (other than specific matters relating to the description of or title to the Property, the level of rent and, in the case of leases deriving from a superior lease, changes required to reflect the terms of the superior lease). In summary, each Lease is in an "**FRI**" (fully repairing and insuring) form. Further details of the principal provisions of the Lease are set out below.

The Borrower may, subject to the satisfaction of certain conditions precedent as described below under "*The Senior Loan and the Loan Security*", acquire the Cardiff Property from OpCo after the Loan Closing Date. Upon acquisition of the Cardiff Property from OpCo, the Borrower will lease the Cardiff Property to OpCo. The Lease relating to the Cardiff Property, if acquired by the Borrower, will be on substantially the same terms as the Leases for the other Properties.

### *Duration*

The duration of each Lease is 30 years from the date of the Lease with no break options, except where reinstatement is frustrated (see further "*Insurance and reinstatement*" below).

### *Rent*

The aggregate initial annual rent payable under the Leases as at 30 June 2005 (other than in respect of the Cardiff Property) is £27,531,900. Rent is payable in advance on 3 January, 3 April, 3 July and 3 October in each year. The rent increases on the anniversary of the date of the Lease in every year by reference to increases in the Retail Prices Index (all items) published by the Central Office for National Statistics. There is provision for the rent to be increased (but not decreased) to an open market rent every five years, in which case the passing rent will be the higher of the open market rent and the index-linked rent (which will continue to increase annually). There is no provision for the rent to reduce during the term of the Lease. If the Borrower's interest in a Property derives from a superior lease, an additional rent is payable by the tenant in an amount equal to the rent and service charge payable by the Borrower to its landlord under the terms of the superior lease.

### *Permitted Use*

OpCo may only use the Property for the retail sale, storage and display of toys, bicycles, wheeled goods and cycle accessories, outdoor play equipment, computers and accessories, sports goods, electrical goods and accessories (including, multimedia, video games and consumer electronics), children's books, musical instruments, children's clothes and footwear and infant care and maternity products including nursery equipment and furnishings, the sale of baby food, confectionery and ice cream within Class A1 of the Use Classes Order with ancillary facilities or such other use as approved by the Borrower (such approval not to be unreasonably withheld or delayed).

### *Assignment*

OpCo may not assign part of the Property. Assignment of whole is permitted with the Borrower's consent (not to be unreasonably withheld or delayed). On assignment, the outgoing tenant is required to give an authorised guarantee agreement and, where reasonably required by the Borrower, the assignee can be asked to provide a guarantor.

### *Underletting*

OpCo may underlet part or whole of the Property with the Borrower's consent (not to be unreasonably withheld or delayed) and subject to providing, where reasonably required by the Borrower, a guarantor for the undertenant. The number of occupiers at any one time is limited to four. For Properties in England, Wales and Northern Ireland, underlettings of part must be excluded the statutory

security of tenure provisions. (No statutory security of tenure applies to the Property in Scotland). All underlettings must be at open market rent and without premium.

#### *Concessions and group sharing*

OpCo and its subtenants may share occupation of any part of the Property with concessionaires or franchisees as long as no security of tenure is created and such concessions/franchises take up no more than 30% of the retail sales area of the Property or when the concessions/franchises are on an unbuilt part of the Property, they are only a burger/ice cream van or a short term promotional or similar activity and do not exceed 2 per Property. Sharing occupation by OpCo with group companies is permitted.

#### *Alterations*

Whilst the Lease is vested in a member of the Toys "R" Us Inc. group, non-structural alterations or minor structural alterations may be carried out without the Borrower's consent and other structural alterations may be carried out with the Borrower's consent (not to be unreasonably withheld or delayed). In no circumstances may OpCo carry out works which are not a permitted development. A permitted development means:

- (i) works for which all consents have been obtained;
- (ii) no cost in respect of the works will be the responsibility of the Borrower;
- (iii) OpCo has undertaken all contractual liabilities for the works;
- (iv) the works are undertaken for OpCo or on a pre-let (not speculative) basis;
- (v) the rents under the Lease will not be reduced as a result of the works; and
- (vi) the Borrower's security on the Property will not need to be released as a result of the works.

Where the Lease is not vested in a member of the Toys "R" Us Inc. group, no structural alterations are permitted and non-structural alterations require the Borrower's consent (not to be unreasonably withheld or delayed).

#### *Repair*

OpCo is obliged at OpCo's cost to keep the Property in good and substantial repair which includes obligations to rebuild, reinstate or renew as often as may be necessary, to keep unbuilt upon part of the Properties in good and clean condition. (If the Borrower insures, damage by insured risks is excluded from the tenant's repairing obligation (see further "*Insurance and Reinstatement*" below)).

#### *Insurance and reinstatement*

There are two separate insurance regimes depending on whether the Lease is vested within the Toys "R" Us Inc. group or not. In either case, the definition of Insured Risks is in standard terms for an FRI lease and includes terrorism.

Whilst the Lease is vested in a member of the Toys "R" Us Inc. group, OpCo is required to insure the Property with insurers having the Insurance Requisite Ratings (as defined below) or to be approved by the Borrower, such approval not to be unreasonably withheld or delayed. Insurances must be maintained against the Insured Risks, three years loss of rent (payable to the Borrower in the event OpCo does not pay the rent) and public liability cover. OpCo is required to reinstate if the Property is damaged by an insured risk. There is no provision for rent suspension during the reinstatement period. The Borrower or OpCo may terminate a Lease if the Property has not been reinstated within three years. The Security Agent is to be named as co-insured with the Borrower and, if required, as loss payee with the Borrower. These arrangements do not apply to the Plymouth Property and the storage area at the Woking Property for which the headlease provides the superior landlord shall

insure. The Leases of the Plymouth Property and the storeroom at the Woking Property require OpCo to pay the insurance rent payable under the headlease of the relevant Property. The headlease of the Plymouth Property provides that the Borrower or OpCo may terminate the Lease if the Plymouth Property has not been reinstated within three years. The Lease of the Woking Property makes the same provision in the case of damage and destruction of the whole of the Woking Property but not for damage of only the storage area at the Woking Property insured by the superior landlord. This does not affect the Borrower's obligation under the Credit Agreement to maintain insurance on the Plymouth Property and the storage area at the Woking Property.

**Insurance Requisite Ratings** means:

- (a) in the case of an insurance company or underwriter, long term instruments with a rating of, or a financial strength rating of; or
- (b) in the case of a group of insurance companies or underwriters, weighted average long term instruments with a rating of, or a financial strength rating of,

in each case A (or better) by Fitch and A (or better) by S&P.

If the Lease ceases to be vested in a member of the Toys "R" Us Inc. group, the Borrower insures against the same Insured Risks. The Borrower is required to expend insurance monies it receives (other than for loss of rent) in reinstating if the Property is destroyed by an insured risk subject to receiving all necessary consents. If the Property is damaged by an insured risk and as a result is unfit for occupation, the rent is suspended until the earlier of expiry of the loss of rent period and the date when the Property is reinstated. The Borrower or OpCo may terminate a Lease if the Property is not reinstated by the expiry of the loss of rent period.

*Forfeiture*

The Borrower has a right to forfeit (or irritate for the Property in Scotland) if the rents are unpaid for ten working days, or in the event of a breach of covenant or an insolvency event in respect of the tenant.

## THE SENIOR LOAN AND THE LOAN SECURITY

### *Registration of Security*

Following drawdown of the Senior Loan, the solicitors acting for the Borrower will ensure that all necessary registrations in connection with taking security are attended to within all applicable time periods and appropriate notices served (where required by the terms of the Credit Agreement). The title deeds in relation to each of the Properties are held by the Borrower's solicitors to the order of the Security Agent and it is expected that this will continue to be the case after the Loan Closing Date. OpCo's solicitors will also retain certain commercial leases for management purposes (copies of which will be held by the Borrower's solicitors) but will do so on the basis that they are held to the order of the Security Agent.

### *Environmental Reports and Building Condition*

Environmental reports were prepared for all of the Properties (other than the Cardiff Property) by Environ UK Limited and are dated between July 2005 and November 2005. All of these reports expressly confirm that the environmental position is considered satisfactory for current uses. No material events have been reported since the date of these reports.

All the Properties (other than the Cardiff Property) have been completed to a high specification. 20 per cent. of the Properties were completed in the last 10 years and the remaining 80 per cent. of the Properties were completed 10 to 30 years ago. CB Richard Ellis Ltd. inspected the Properties for valuation purposes and noted no material items of disrepair. Repair of the buildings fall on OpCo the occupational tenant, who occupies under FRI leases.

### **Credit Agreement**

The principal documentation which will be entered into by the Borrower in relation to the Loans comprises the Credit Agreement to be entered into on or before the Loan Closing Date between, *inter alios*, the Borrower, the Issuer (as Senior Lender), the Junior Lender and the Facility Agent, the Intercreditor Deed (described below) and the Borrower Security Documents (described below).

The Credit Agreement is governed by English law. The Credit Agreement contains the types of representations and warranties and undertakings on the part of the Borrower that a reasonably prudent lender making loans secured on commercial properties of this type would customarily require. A summary of the principal terms of the Credit Agreement is set out below.

### ***Senior Loan amount, Junior Loan amount, drawdown and further advances***

The Senior Loan will be drawn down in its entirety (other than in relation to the Pre-Funded Senior Loan) on the Loan Closing Date. Other than the Pre-Funded Senior Loan (which forms part of the Senior Loan once drawn) and the Pre-Funded Junior Loan (which forms part of the Junior Loan once drawn) described below there is no provision for any further advances to be made to the Borrower.

The Loans available under the Credit Agreement are divided into facilities as follows:

A1 Loans in a maximum amount of £174,300,000;

A2 Loans in a maximum amount of £87,200,000;

A3 Loans in a maximum amount of £34,900,000;

A4 Loans in a maximum amount of £17,400,000;

A5 Loans in a maximum amount of £31,800,000;

A6 Loans in a maximum amount of £10,238,679; and

B Loans in a maximum amount of £64,361,321.

The A1 Loans, A2 Loans, A3 Loans, A4 Loans, A5 Loans and A6 Loans together (including the Pre-Funded Senior Loan in respect of the Cardiff Property, if drawn) are the **Senior Loan**, and the A1 Loans, A2 Loans, A3 Loans, A4 Loans, A5 Loans and A6 Loans are the **A Loans**.

The Pre-Funded Senior Loan and the Pre-Funded Junior Loan are available to the Borrower (subject to certain conditions set out below) in a maximum aggregate amount of £10,800,000 solely for the purpose of acquiring the Cardiff Property (as described under "*Description of the Portfolio*" below).

### ***Conditions precedent***

The Issuer's obligation as lender to make the Initial Senior Loan under the Credit Agreement is subject to the Facility Agent first having received, in the usual manner, certain documents as conditions precedent to funding in form and substance satisfactory to it, no Loan Event of Default (or any event or circumstance which with the giving of notice, the lapse of time, the making of any determination or fulfilment of any condition would constitute a Loan Event of Default), and the representations deemed to be repeated under the Credit Agreement are true and accurate (in all material respects, where appropriate). The documentation required includes, among other things: constitutional documents and board minutes for the Borrower, a valuation in respect of each Property, evidence of appropriate insurance cover in respect of each Property, all title documents relating to the Borrower's interest in each Property, copies of all Leases and title searches related to each Property, security documents, the Intercreditor Deed, all appropriate UK and other tax clearances and all relevant legal and tax opinions and notices in connection with the assignment of rental income and charging of bank accounts.

The Issuer's obligation as lender to make the Pre-Funded Senior Loan and the Junior Lender's obligation to make the Pre-funded Junior Loan under the Credit Agreement is subject to the Facility Agent first having received certain documents as conditions precedent to funding of the Pre-Funded Senior Loan in form and substance satisfactory to it, no Loan Event of Default (or any event or circumstance which with the giving of notice, the lapse of time, the making of any determination or fulfilment of any condition would constitute a Loan Event of Default), and the representations deemed to be repeated under the Credit Agreement are true and accurate (in all material respects, where appropriate), the Loan to Value (as defined below) immediately following the Pre-Funded Senior Loan and the Pre-Funded Junior Loan not exceeding 83% and the Interest Cover (as defined below) under the same circumstances is not less than 110%. The documentation required includes, among other things: constitutional documents and board minutes for the Borrower, a valuation in respect of the Cardiff Property, evidence of appropriate insurance cover in respect of the Cardiff Property, all title documents relating to the Borrower's interest in the Cardiff Property, copies of the Lease in relation to the Cardiff Property and title searches related to the Cardiff Property and appropriate security documents. The aggregate of the Pre-funded Senior Loan and the Pre-funded Junior Loan cannot be drawn in an amount greater than the Maximum Pre-funded Amount.

**Maximum Pre-funded Amount** means an amount not exceeding the lower of:

- (a) £10,800,000;
- (b) 83.00 per cent. of the market value of the Cardiff Property; and
- (c) 89.88 per cent. of the vacant possession value of the Cardiff Property.

### ***Initial Expenses***

The Borrower will, on the Loan Closing Date, pay and reimburse to the Arrangers, the Facility Agent and the Security Agent all reasonable costs and expenses (including if applicable VAT thereon) properly incurred by the Facility Agent, Security Agent or the Arrangers in connection with:

- (a) the negotiation, preparation, execution and perfection of each of the Finance Documents (subject to caps agreed in certain separate letters); and
- (b) any variation, amendment, restatement, waiver, consent or suspension of rights (or any proposal for any of the same) relating to any of the Finance Documents which is requested by or on behalf of the Borrower or which becomes necessary as a result of circumstances affecting the Borrower.

The Facility Agent and the Security Agent must notify the Borrower of the amount of the initial expenses set out above prior to the Loan Closing Date.

***Interest and amortisation payments/repayments***

Interest under the Senior Loan will be paid quarterly in arrear on 7 January, 7 April, 7 July and 7 October in each year in respect of successive Interest Periods (each a **Loan Interest Payment Date**).

From the first Anniversary Date, the Borrower must repay the A Loans by quarterly instalments so that each instalment is equal to one quarter of the amount equal to the percentage of the outstanding principal amount of the A Loans (as at the first date after the availability period for the Cardiff Loan has ended) as set out in Column B of the table below.

Unless previously repaid, principal is repayable under the Senior Loan in accordance with the amortisation schedule below and in full on 7 April 2013 (the **Loan Maturity Date**). In addition, unless previously repaid, principal is repayable under the Junior Loan at an additional amortisation amount of up to 1% per annum on the initial principal balance of the Junior Loan.

<b>Column A</b> <b>Loan Interest Payment Date</b>	<b>Column B</b> <b>Percentage of Loan to be repaid in the relevant year</b>
From (but excluding) the first Anniversary Date to (and including) the second Anniversary Date	0.30%
From (but excluding) the second Anniversary Date to (and including) the third Anniversary Date	0.35%
From (but excluding) the third Anniversary Date to (and including) the fourth Anniversary Date	0.50%
From (but excluding) the fourth Anniversary Date to (and including) the fifth Anniversary Date	0.50%
From (but excluding) the fifth Anniversary Date to (and including) the sixth Anniversary Date	0.55%
From (but excluding) the sixth Anniversary Date to (and including) the seventh Anniversary Date	0.55%

For these purposes, **Anniversary Date** means an anniversary of the date on which the Senior Loan facility (other than the Pre-Funded Senior Loan) or the Junior Loan facility, as the case may be, was utilised.



The Credit Agreement also permits the Borrower to prepay any Loan at any time, on not less than 12 Business Days written notice to the Facility Agent, in whole or in part (subject to a minimum prepayment of £1,000,000 (subject to the outstanding amount of the relevant Loans being greater than such amount, and if less, then equal to the outstanding amount of the relevant Loans). Voluntary prepayment of the Loan on any day other than the last day of an Interest Period is subject to the Borrower indemnifying the Senior Lender and the Junior Lender of costs, loss or expenses incurred by it due to such voluntary prepayment. Amounts prepaid may not be redrawn.

Amounts received from the Borrower in respect of the prepayment of the Loans will be applied in accordance with the Credit Agreement and the Intercreditor Deed as described below. As between the Senior Loan and the Junior Loan amounts received in prepayment pursuant to a voluntary prepayment (not resulting from a disposal, compulsory purchase order or insurance claim) will be applied first, towards the Junior Loan, and secondly towards the Senior Loan. Such amounts received in relation to the A Loans will be applied in the following order:

- (a) first, the A6 Loans;
- (b) secondly, the A5 Loans;
- (c) thirdly, the A4 Loans;
- (d) fourthly, the A3 Loans;
- (e) fifthly, the A2 Loans; and
- (d) sixthly, the A1 Loans.

Amounts received in scheduled repayment or prepayment resulting from a mandatory prepayment (including following disposal, compulsory purchase order or insurance claim) will be applied in accordance with the Credit Agreement and the Intercreditor Deed as described below. As between the Senior Loan and the Junior Loan, amounts so received will be applied pro rata and, in relation to the A Loans, will be applied in the following order:

- (a) first, the A1 Loans;
- (b) secondly, the A2 Loans;
- (c) thirdly, the A3 Loans;
- (d) fourthly, the A4 Loans;
- (e) fifthly, the A5 Loans; and
- (d) sixthly, the A6 Loans.

On each Loan Interest Payment Date, monies will be debited from the Rent Account as described in "Rent Accounts" below to discharge any interest, principal payments and/or other sums due under the Finance Documents (including the Credit Agreement). Any surplus monies standing to the credit of the Rent Account on the relevant Loan Interest Payment Date (after payment of certain other prescribed costs, fees and expenses) will be paid to the General Account as described in "*General Account*" below and, subject to there being no Loan Event of Default (as defined below) outstanding, may be withdrawn by the Borrower and applied at its discretion (including by way of payment in relation to any inter-company loans).

### ***Borrower Accounts***

Pursuant to the terms of the Credit Agreement, the Borrower has established (or in the case of the CSA Account will establish) a General Account, a Rent Account, an Insurance Account, a CSA Account (if any amount is payable under the credit support annex of the relevant hedging agreement in relation to the Junior Loan) and a Disposal Account, as described below (collectively, the **Borrower Accounts**) into which rental income, insurance proceeds, proceeds from Property disposals, any payments (other than those made by way of credit support) by a hedge counterparty and other monies received in connection with the Properties are required to be paid. Following a Loan Event of Default (as defined below), the Security Agent will be able to assume sole signing rights and control over those Borrower Accounts in respect of which it does not already have sole signing rights.

Under the Credit Agreement, all accounts established and maintained pursuant to the Credit Agreement must be maintained with a bank that has a rating of at least "F1" (or better) by Fitch, "P-1" (or better) by Moody's and "A-1+" (or better) by S&P for its short term debt obligations and "A" (or better) by Fitch, A1 (or better) by Moody's and "A+" (or better) by S&P for its long-term debt obligations. As at the date of this Offering Circular, all of the Borrower Accounts other than the General Account are held with HSBC Bank plc acting through its office at Commercial Banking Centre, 59 Old Christchurch Road, Bournemouth, Dorset, BH1 1EH. The General Account is held at The Royal Bank of Scotland plc. acting through its address at NatWest Bank PLC, PO Box 12258, 1 Princes Street, London, EC2R 8PA.

#### (a) *General Account*

The Borrower will maintain a current account (the **General Account**) to which the Borrower will have sole signing right unless a Loan Event of Default is outstanding. Prior to any Loan Event of Default, the Borrower is permitted to make withdrawals from the General Account as described above. Following any Loan Event of Default, the Facility Agent will assume control of the General Account and will be permitted to apply amounts standing to the credit of the General Account towards payment of the Borrower's obligations under the Finance Documents. The interest earned on the General Account will be for the account of the Borrower and, if no Loan Event of Default is outstanding, shall be applied to the General Account.

#### (b) *Rent Account*

The Borrower is required to ensure that all rental income (other than amounts in respect of VAT which are payable by a tenant in connection with a Lease and paid into the General Account) and any amounts payable to it under any hedging agreements in relation to the Junior Loan (other than amounts which are required to be paid into a CSA Account) are paid into a deposit account (the **Rent Account**) in the name of the Borrower. Prior to an acceleration, the Facility Agent has sole signing rights in relation to the Rent Account and is irrevocably authorised by the Borrower on each Loan Interest Payment Date (provided no Loan Event of Default is then outstanding) to apply amounts standing to the credit of the Rent Account as follows:

- (a) first, payment *pro rata* and *pari passu* of any unpaid costs, fees and expenses of the Facility Agent, the Security Agent, any Property Manager and of any other due but unpaid Facility Fee to the Issuer Transaction Account;
- (b) secondly, payment *pro rata* and *pari passu*:
  - (i) to the hedge counterparties in relation to the Junior Loan of any net amount (not being an amount due as a result of termination or closing out and not being payments referred to in subparagraph (d) below) under the hedging agreements in relation to the Junior Loan; and

- (ii) to the Facility Agent for the relevant Finance Parties of any accrued interest due but unpaid under the Finance Documents;
- (c) thirdly, payment *pro rata* and *pari passu*:
  - (i) to the hedge counterparty in relation to the Junior Loan of any net amount (not being payments referred to in subparagraph (d) below) as a result of termination or closing out due but unpaid under the hedging agreement in respect of the Junior Loan; and
  - (ii) to the Facility Agent for the relevant Finance Parties of any amount of principal due but unpaid under the Finance Documents and any other amounts due but unpaid to the Finance Parties under the Finance Documents (other than those referred to in subparagraph (d) below);
- (d) fourthly, payment to the hedge counterparty in relation to the Junior Loan of any payments due but unpaid as a result of termination or closing out under the Junior Loan hedging agreement to which that hedge counterparty is a party as a result of:
  - (i) the occurrence of an Event of Default (as defined in the relevant hedge agreement) where the hedge counterparty is the defaulting party; and
  - (ii) the occurrence of a hedge additional termination event (as defined in the relevant hedging agreement) following a failure by the hedge counterparty to comply with the requirements of the ratings downgrade provisions set out in the relevant hedging agreement; and
- (e) fifthly, payment of any surplus into the General Account.

**Facility Fee** means in respect of each Loan Payment Date an amount payable to the Facility Agent on behalf of the Senior Lender equal to the aggregate of:

- (a) all the costs and expenses payable by the Issuer in respect of the Interest Payment Date immediately following the relevant Loan Interest Payment Date, as set out in paragraphs (a), (b), (c), (d), (e), (f), (m), (n) and (o) below under the heading "*Cashflows - Pre-Enforcement Revenue Priority of Payments*" and as such items are included or disregarded as appropriate in the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments and the Post-Acceleration Priority of Payments (in each case as set out below under the paragraphs with those headings); and
- (b) the Pre-Funding Commitment Fee,

in each case notified to the Borrower prior to each Loan Interest Payment Date.

**Pre-Funding Commitment Fee** means in respect of each Interest Payment Date immediately following each relevant Loan Interest Payment Date, a fee amount calculated by the Cash Manager to be equal to the difference between the weighted average cost of the interest payable on the Notes (weighted by reference to the Principal Amount Outstanding on each Class of Notes on such Interest Payment Date) (ignoring, for these purposes, any deferral pursuant to **Condition 5.8** (Deferral of Payment)) with a Principal Amount Outstanding equal to the amount on deposit in the Pre-Funding Account on the first day of the related Note Interest Period and the interest or yield amount earned on such amounts deposited in the Pre-Funding Account during the immediately preceding Loan Interest Period.

Amounts distributed under paragraph (b) of the above priorities of payments in respect of the Rent Account will be subject to intercreditor arrangements in respect of the Senior Loan and the Junior Loan as described below under "*Intercreditor Deed*".

The Facility Agent must allow withdrawals at any time from the Rent Account to pay any amount due but unpaid under the Finance Documents.

(c) *Insurance Account*

The Borrower is required to ensure that any proceeds of any insurance policy must, to the extent described below, be credited to a account designated as the insurance account (the **Insurance Account**) in the name of the Borrower and applied as described below. Prior to an enforcement of the Borrower Security, the Facility Agent has sole signing rights in relation to the Insurance Account. The interest earned on the Insurance Account will be for the account of the Borrower and, if no Loan Event of Default is outstanding, shall be paid into the General Account.

Except as provided below, the Relevant Amount of proceeds of any insurance policy must, if the Facility Agent so requires, be used to prepay the Loans (and pending such prepayment, the Borrower must pay those proceeds to the Insurance Account). For these purposes the **Relevant Amount** in relation to any one claim is the amount of proceeds (net of any taxes or costs or expenses incurred in making the claims) in excess of £250,000 up to a maximum of the Allocated Loan Amount (as defined below) for the Property in respect of which the proceeds are received. Amounts received from the Borrower in respect of the prepayment of the Loans will be applied in accordance with the Intercreditor Deed as described below.

To the extent required by the basis of settlement under any insurance policy or Lease, the Borrower must apply moneys received under any insurance policy in respect of a Property towards replacing, restoring or reinstating that Property (and pending such application, if they are in excess of £250,000 for any individual claim, the Borrower must pay those proceeds to the Insurance Account).

The proceeds of any loss of rent insurance will be treated as rental income and applied in such manner as the Facility Agent (acting reasonably) requires to have effect as if it were rental income received over the period of the loss of rent and such amounts will be deposited in the Rent Account and applied as described above under "*Rent Account*".

Moneys received under liability policies which are required by the Borrower to satisfy established liabilities of the Borrower to third parties, must be used to satisfy these liabilities. The Facility Agent must also allow withdrawals from the Insurance Account to meet the costs of replacing, restoring or reinstating the Property in respect of which the relevant insurance proceeds were received against receiving appropriate evidence from the Borrower that such costs have been incurred or fallen due for payment.

(d) *Disposal Account*

Prior to an enforcement of the Borrower Security, the Facility Agent has sole signing rights in relation to the **Disposal Account** which is an account maintained in the name of the Borrower into which the proceeds of any disposal of a Property or Properties (including pursuant to a compulsory purchase order) made in accordance with the Credit Agreement (less any reasonable costs of that disposal and the amount of any taxes payable as a result of that disposal) (the **Disposal Amount**) must be paid. The interest earned on the Disposal Account will be for the account of the Borrower and, if no Loan Event of Default is outstanding, shall be paid into the General Account. If no Loan Event of Default is outstanding, the Facility Agent must, on the next Interest Payment Date:

- (a) apply an amount of the Disposal Amount equal to the Required Amount (as defined below) in respect of the relevant disposal towards:

- (i) prepayment of the Loans, in an amount equal to the Applicable Release Pricing Amount (as defined below) in respect of the relevant disposal; and
  - (ii) payment of all other amounts then due to the Finance Parties under the Finance Documents as a result of such prepayment; and
- (b) thereafter, apply any remaining portion of that Disposal Amount still standing to the credit of the Disposal Account, if no Event of Default is outstanding, to the General Account.

Amounts received from the Borrower in respect of the prepayment of the Loans will be applied in accordance with the Credit Agreement and the Intercreditor Deed as described below.

If a Disposal Amount is received into the Disposal Account from the proceeds of the disposal of a Disposed Property (or the whole or part of a Property in relation to which compensation has been received pursuant to a compulsory purchase order) in respect of which the Borrower has notified the Facility Agent it wishes to substitute another Property (a **Substitute Additional Property**) in accordance with terms of the Credit Agreement, the above shall not apply and that Disposal Amount (up to a maximum amount not exceeding the amount which would be required to be applied in prepayment if a Substitute Additional Property were not being purchased, and subject to the further restrictions set out in the next paragraph) may be utilised in or towards the acquisition by the Borrower of such Substitute Additional Property within 6 months of the deposit of the Disposal Amount into the Disposal Account. The Borrower may apply the Disposal Amount towards the acquisition of a Substitute Additional Property by requesting that such amount, subject to the restrictions described in the next following paragraph, is withdrawn from the Disposal Account on the relevant completion date. If no Event of Default is then outstanding, the Facility Agent shall comply with that request. If no such request has been made within 6 months of the deposit of such Disposal Amount into the Disposal Account, that amount shall cease to be available for acquisition of a Substitute Additional Property and will be applied in accordance with paragraphs (a)(i) and (ii) above on the Interest Payment Date after the expiry of that 6 month period.

If a Disposal Amount is utilised towards the purchase of a Substitute Additional Property, and the market value of that Substitute Additional Property (as determined from the valuation of that Substitute Additional Property delivered under the Credit Agreement) is lower than the market value of the relevant Disposed Property (as determined from the valuation of that Disposed Property), the amount of the Disposal Amount which is available for utilisation towards the completion of the acquisition of the Substitute Additional Property will be reduced to the amount equal to the Allocated Loan Amount (as defined below) in respect of that Substitute Additional Property and the balance of the Disposal Amount will, on the next Interest Payment Date, be applied in prepayment of the Loans and all other amounts then due to the Finance Parties under the Finance Documents in respect of such prepayment.

For more detailed information on the disposal and substitution of a Property or Properties and prepayment of amounts paid into the Disposal Proceeds Account, see "*Disposals and substitutions*" below.

(e) *CSA Account*

Prior to an enforcement of the Borrower Security, the Facility Agent has sole signing rights in relation to any CSA Account. The Company must ensure that any amount paid to it pursuant to the credit support annex under any hedging agreement in relation to the Junior Loan is paid into the CSA Account. The Facility Agent is authorised by the Company to pay amounts out of the CSA Account to the hedge counterparty in relation to the Junior Loan or to the Company (by paying into the Rent Account) as appropriate in accordance with the terms of the relevant hedging agreement.

### ***Representations and warranties***

The representations and warranties given (or to be given) by the Borrower under the Credit Agreement, as of the date of the Credit Agreement (and, in respect of certain of the representations and warranties, as at the date of the drawdown request, on the drawdown date, on each Loan Interest Payment Date, on the date upon which an additional Borrower Security Document is entered into) include, among other things, the following statements:

- (a) the Borrower is duly incorporated with limited liability and is validly existing under the laws of England and Wales and has the power to own its assets and carry on its business as it is now being conducted;
- (b) the Borrower has the power to enter into, exercise its rights under, and perform and comply with its obligations under, each of the Finance Documents to which it is party and to carry out the transactions contemplated by such Finance Documents;
- (c) the Borrower has (subject to certain conditions in the Borrower Security Documents) taken, fulfilled and done (or will take, fulfil or do) all actions, conditions and things required to be taken, fulfilled and done by the Borrower in order:
  - (i) to enable it to enter into, exercise its rights under, and perform and comply with its obligations under, the Finance Documents to which it is party and to carry out the transactions contemplated by such Finance Documents;
  - (ii) to ensure that those obligations are, subject to certain reservations contained in legal opinions, valid, legally binding and enforceable in accordance with their terms;
  - (iii) to make each of the Finance Documents to which it is party admissible in evidence in the courts of the jurisdiction to which it has submitted in such Finance Document; and
  - (iv) to create the security constituted by the Security Documents to which it is party and, subject to the reservations, to ensure that such security has the ranking specified therein;
- (d) the Borrower's obligations under the Finance Documents to which it is a party are, subject to certain reservations, valid, legally binding and enforceable in accordance with their terms and each of the Borrower Security Documents to which it is party constitutes valid security ranking, subject to such reservations and subject as provided in paragraph (f) below in relation to the security constituted by such Borrower Security Document, in accordance with the terms of such document;
- (e) no Loan Event of Default has occurred or is continuing;
- (f) the Borrower will, subject to due registration, from the drawdown date (in the case of each Original Property) or from the date of the relevant Borrower Security Document (in the case of each Additional Property):
  - (i) be the legal and beneficial owner of that Property; and
  - (ii) have good and marketable title to that Property,

in each case free from Security Interests (other than those set out in the Borrower Security Documents) and restrictions and onerous covenants (other than those set out in the certificate of title in relation to that Property);

- (g) from the first drawdown date (in the case of an Original Property) or from the date of the relevant Borrower Security Document (in the case of each Additional Property) and except as disclosed in the certificate of title relating to a Property, so far as the Borrower is aware after due and careful enquiry:
  - (i) no material breach of any law or regulation is outstanding which adversely affects or might adversely affect the value of that Property;
  - (ii) there is no covenant, agreement, stipulation, reservation, condition, interest, right or other matter materially adversely affecting that Property;
  - (iii) nothing has arisen or has been created or is outstanding which would be a material overriding interest, or a material unregistered interest which overrides first registration or registered dispositions, over that Property;
  - (iv) no facility necessary for the enjoyment and use of any Property is enjoyed by that Property on terms entitling any person to terminate or curtail its use;
  - (v) no adverse claim has been made by any person in respect of the ownership of that Property or any interest in it; and
  - (vi) each Property is held by the Borrower free from any lease or licence other than those permitted to exist under the Credit Agreement;
- (h) all deeds and documents necessary to show good and marketable title to its interests in a Property will (except as disclosed in the certificate of title for a Property) from the first drawdown date (in the case of each Original Property) or from the date of the relevant Borrower Security Document (in the case of each Additional Property) be:
  - (i) in possession of the Facility Agent; or
  - (ii) held to the order of the Facility Agent or at the appropriate land registry;
- (i) no litigation (including any environmental claim), arbitration, administrative, regulatory or similar proceeding is current, pending or, to the Borrower's knowledge, threatened in respect of itself:
  - (i) to restrict its entry into, the exercise of its rights under and performance and compliance with its obligations under, or the enforcement by it of, any of the Finance Documents or the carrying out of the transactions contemplated by the Finance Documents; or
  - (ii) which has, or if determined adversely to it could reasonably be expected to have a Material Adverse Effect or to materially adversely affect the market value of the Properties as a whole;
- (j) all written, factual information supplied by the Borrower or on its behalf to any Finance Party in connection with the Finance Documents (or for the purposes of this Offering Circular or any investor presentations) was true and accurate in all material respects as at its date or (if appropriate) as at the date (if any) at which it is stated to be given and is not misleading in any material respect;

- (k) any financial projections contained in the information referred to in paragraph (j) above have been prepared as at their date, on the basis of recent historical information and assumptions reasonably believed by the Borrower to be fair and reasonable;
- (l) no information has been omitted to be supplied which, if disclosed, would reasonably be expected to make any other information referred to in paragraph (j) above untrue or misleading in any material respect;
- (m) at the drawdown date (and, except for any matter disclosed to the Issuer as lender, as at the date of this Offering Circular), nothing has occurred since the date the information referred to in paragraph (j) above was supplied which, if disclosed, would make that information untrue or misleading in any material respect;
- (n) as far as the Borrower is aware, and subject to the matters disclosed in the environmental report delivered pursuant to the conditions precedent contained in the Credit Agreement, it is in compliance with all environmental laws, and all environmental consents necessary in connection with the ownership and operation of its business are in full force and effect, in each case where failure to do so could reasonably be expected to have a Material Adverse Effect;
- (o) since the date of its incorporation, the Borrower has not carried on any business except for the ownership and management of and, where relevant the development by OpCo of, its interests in the Properties;
- (p) as at the date of the Credit Agreement, the Borrower is not party to any agreement other than the Finance Documents and the Lease Documents;
- (q) the Borrower does not have, nor has it had, any employees (excluding its directors);
- (r) as at the date of the Credit Agreement, the Borrower has no subsidiaries;
- (s) no claims are being asserted against the Borrower with respect to taxes which are reasonably likely to be determined adversely to it and which, if so adversely determined and after taking into account any indemnity or claim against any third party with respect to such claim, would have a Material Adverse Effect and all reports and returns on which such taxes are required to be shown have been filed within any applicable time limits and all taxes required to be paid have been paid within any applicable time limits save, in each case, to the extent that failure to do so would not have a Material Adverse Effect;
- (t) the Borrower is not a member of any VAT group;
- (u) all factual information furnished by or on behalf of the Borrower to any of the firms which prepared any of the reports delivered as conditions precedent to the Credit Agreement (the **Reports**) and contained or referred to therein was, so far as the Borrower is aware, accurate in all material respects at the time supplied;
- (v) so far as the Borrower is aware after due and careful enquiry, the Reports do not omit to take account of any factual information where failure to take account of such factual information would result in the Reports, or the forecasts or projections in the Reports, taken as a whole being misleading in any material respect (provided that nothing in this paragraph (v) requires the Borrower to review or make any enquiry in relation to matters within the technical or professional expertise of the adviser preparing the relevant Report);
- (w) the payment obligations of the Borrower under each of the Finance Documents rank and will at all times rank at least *pari passu* in right and priority of payment with all its other present



and future unsecured and unsubordinated indebtedness (actual or contingent) except indebtedness preferred by laws of general application;

- (x) the Borrower did not have, at the date as of which its accounts were last prepared (to the extent such accounts have been prepared), any material liabilities (contingent or otherwise) which were not disclosed by those accounts (or by the notes thereto) or reserved against in those accounts nor were there at that date any material unrealised anticipated losses arising from commitments entered into by it which were not so reserved or disclosed against which non-disclosure, failure to reserve or unrealised anticipated losses would be reasonably likely to have a Material Adverse Effect;
- (y) as at the date of the Credit Agreement, the Borrower's entire issued share capital was ultimately beneficially owned and controlled by Toys "R" Us Holdings Limited; and
- (z) the shares in the capital of the Borrower are fully paid.

**Additional Property** means a Property added to the Portfolio after the Closing Date.

**Original Property** means a Property in the Portfolio on the Closing Date.

### ***Undertakings***

The Borrower has given various undertakings under the Credit Agreement which will remain in force from the date of the Credit Agreement for so long as any amount is outstanding under the Finance Documents. These undertakings include, among other things, the following:

- (a) to deliver various items of information promptly to the Facility Agent for distribution to, among others, the Lenders including:
  - (i) details of any litigation, arbitration, administrative or regulatory proceedings or warranty claims which, if resolved against it, would have or be reasonably likely to have a Material Adverse Effect; and
  - (ii) a copy of the annual and quarterly financial statements in respect of OpCo delivered by or on behalf of OpCo;
- (b) to notify the Facility Agent promptly of any Loan Default (as defined below) (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence;
- (c) to apply for, obtain and promptly renew from time to time and maintain in full force and effect all relevant consents and comply with the terms of all such consents, and promptly make and renew from time to time all relevant filings, as may be required under any applicable law or directive in accordance with its terms, save (other than with respect to the Finance Documents) to the extent that failure to do so would not have a Material Adverse Effect;
- (d) to pay within any applicable time limit all relevant Taxes, save in the event of a bona fide dispute with regard to any Tax in respect of which proper provision has, if appropriate, been made in the accounts of the Borrower, in each case where failure to do so would have a Material Adverse Effect;
- (e) to:

- (i) do all such things as are necessary to maintain the Borrower's corporate existence;
  - (ii) ensure that it has the right to conduct its business, obtain and maintain all material consents and make all filings necessary for the carrying on of its business, and take all reasonable steps necessary to ensure that the same are in full force and effect in each case where failure to do so would have a Material Adverse Effect; and
  - (iii) comply in all material respects with all laws and directives binding upon it and applicable to its business, in each case where failure to do so would have a Material Adverse Effect;
- (f) to ensure that the Borrower's payment obligations under each of the Finance Documents rank and will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated indebtedness (actual or contingent) (other than certain customary exceptions);
- (g) to comply with the terms and conditions of all environmental consents and all environmental laws applicable to it, in each case where failure so to do would have a Material Adverse Effect;
- (h) not to enter into any amalgamation, demerger, merger or reconstruction;
- (i) subject to certain exceptions, not to:
  - (i) incur any financial indebtedness other than financial indebtedness permitted under the Finance Documents;
  - (ii) make any loan or permit to be outstanding any loans it has made or grant or agree to grant any credit; or
  - (iii) create or permit to subsist any security on or over the whole or any part of its undertaking or assets (present or future).
- (j) not to make any acquisition or investment, other than of the Original Properties, goods and services in the ordinary course of business and/or:
  - (i) of an Additional Property on the terms set out in the Credit Agreement to remedy a breach of Interest Cover;
  - (ii) of the Cardiff Property; or
  - (iii) of a Substitute Additional Property from disposal proceeds, where particular restrictions apply including that it must be subject to a Lease with OpCo, that there is no detrimental effect on Interest Cover, and that the term of its leasehold (if the property is not freehold) is at least 75 years;
- (k) not to carry on any business other than the ownership and management of (and, where relevant, the development by OpCo of) its interest in the Properties nor to have any subsidiaries;
- (l) not to declare or pay any dividend or make any distribution in respect of its shares (other than out of amounts standing to the credit of the General Account which it is, pursuant to the terms of the Credit Agreement, permitted to withdraw), to issue any further shares or alter any rights attaching to its issued shares as at the date of the Credit Agreement (unless, in the case of an

issue of shares, the shares issued are subject to security in favour of the Security Agent) or to repay or redeem any of its share capital (other than out of the General Account referred to in this paragraph (l));

- (m) not to enter into any contracts other than the Finance Documents and certain contracts specified in the Credit Agreement or enter into any transaction except on arm's length terms and for full market value (subject to certain specified exceptions);
- (n) not to be a member of a value added tax group;
- (o) not, without the consent of the Facility Agent (unless such consent is not required under the terms of the Credit Agreement):
  - (i) enter into or permit any Agreement for Lease other than an agreement for lease in respect of a Lease with OpCo;
  - (ii) other than pursuant to an Agreement for lease, grant, permit or agree to grant any new lease in respect of a Property other than a Lease with OpCo or another Lease granted in respect of an Additional Property in accordance with the provisions of the Credit Agreement;
  - (iii) agree to any amendment, waiver or surrender in respect of any agreement for lease, lease, or other designated document (together, **Lease Documents**) other than a specifically permitted amendment or an amendment, waiver or surrender which relates to a disposal of part of a Property permitted pursuant to the Credit Agreement;
  - (iv) commence any forfeiture proceedings in respect of any Lease Document;
  - (v) grant or agree to the granting of any sublease, contractual licence or right to occupy any part of a Property other than a specifically permitted subleasing arrangement (as defined in the Credit Agreement);
  - (vi) consent to any assignment of any tenant's interest under any Lease Document;
  - (vii) agree to any downward rent review in respect of any Lease Document; or
  - (viii) (in relation to any Property in England or Wales) serve any notice on any former tenant under any Lease under section 17(2) of the Landlord and Tenant (Covenants) Act 1995 or on any guarantor of any such former tenant under section 17(3) of that Act;
- (p) on or before the date five Business Days before each Loan Interest Payment Date, to supply to the Facility Agent the following information in respect of the quarterly period ending ten Business Days before that Loan Interest Payment Date:
  - (i) details of any arrears of rent or service charges under any Lease and any steps being taken to recover them;
  - (ii) details of any rent reviews with respect to any Lease in progress or agreed;
  - (iii) details of any Lease Document which has expired or been determined or surrendered and any new letting proposed;

- (iv) details of any proposed material capital expenditure incurred or to be incurred by the Borrower with respect to each Property and any permitted development works;
  - (v) copies of any valuation of any Property prepared by an external adviser;
  - (vi) details of any material repairs required to each Property to be carried out by the Borrower;
  - (vii) details of any proposed sub-letting;
  - (viii) details of any permitted amendments or waivers in respect of a Lease Document;
  - (ix) details of budgets for permitted developments, and progress against those budgets;
  - (x) such further information relating to the Properties as the Facility Agent may reasonably request (upon reasonable notice); and
  - (xi) any further information provided by OpCo pursuant to the Tax Deed of Covenant;
- (q) not to carry out or allow to be carried out on any part of any Property any development (within the meaning of the Planning Acts (as defined in the Credit Agreement) and being development for which the permission of the local planning authority is required), in each case, other than in connection with any Permitted Development where the total budgeted (and unspent) costs of that Permitted Development do not and would not, when aggregated with the total budgeted (and unspent) costs of each other Permitted Development ongoing at the same time exceed £10,000,000;
- (r) subject to certain provisions and requirements specified in the Credit Agreement, the Borrower must ensure that at all times from the drawdown date:
- (i) each Property (except in relation to the Property located in Plymouth and the storage area of the Property located in Woking to the extent already insured under the relevant headlease) and the plant and machinery on each Property (including fixtures and improvements) are insured on a full replacement cost basis, such insurance to include:
    - (A) cover for site clearance, professional fees and value added tax together with adequate allowance for inflation;
    - (B) loss of rent insurance for a duration of at least three years, and including provision for increases in rent during the period of insurance;
    - (C) cover against acts of terrorism (if the same is available in the relevant insurance market); and
  - (ii) such other insurances (including third party insurance) are in force as a prudent company in the same business as the Borrower would effect;
- (s) to implement duly and diligently the material terms and provisions of each Lease;

- (t) in relation to any Headlease, to:
- (i) observe and perform all covenants, stipulations and obligations on the lessee and enforce all covenants on the part of the lessor;
  - (ii) not, without the prior written consent of the Facility Agent:
    - (A) waive, release or vary any obligation under, or the terms of; or
    - (B) exercise any option or power to break, determine or extend,
 any such Headlease;
  - (iii) not do or permit anything which may allow that Headlease to be forfeited;
  - (iv) not agree any change in the rent payable without the prior written consent of the Facility Agent (such consent not to be unreasonably withheld or delayed); and
  - (v) promptly notify the Facility Agent of any matter or event under or by reason of which any such Headlease has or may become subject to determination or to the exercise of any right of re-entry or forfeiture and, if so requested by the Facility Agent apply for relief against forfeiture; and
- (u) to ensure that Interest Cover is, as at each testing date, at least 110 per cent.; provided that a breach of this provision can be remedied by prepayment, payment into a blocked account, or acquisition of a remedial additional property which meets certain conditions.

**Headlease** means a lease under which the Company holds title to a Property.

**Interest Cover** means, on any testing date, projected annual rental income as a percentage of projected annual finance costs at that time. For the purposes of this definition:

- (a) **projected annual finance costs** means an estimate by the Borrower, acting reasonably and based on prudent and appropriate grounds, of the aggregate amount payable to the Finance Parties by way of interest on the Loans during any period of 12 consecutive months in respect of which the Borrower has estimated projected annual rental income;
- (b) **projected annual rental income** means an estimate by the Borrower, acting reasonably and based on prudent and appropriate grounds, as at any testing date, of the passing net rental income that will be received during the period of 12 consecutive months commencing on that testing date; and
- (c) **testing date** means each date on which a Loan is drawn, each Loan Interest Payment Date and any other date on which the terms of the Credit Agreement refer to Interest Cover being tested.

In determining the passing net rental income the Borrower will make certain standard assumptions, which are set out in the Credit Agreement, and will provide the Facility Agent with details of each determination.

**Loan Default** means a Loan Event of Default or an event or circumstance which with the giving of notice, the lapse of time, the making of any determination or fulfilment of any condition would constitute a Loan Event of Default.

**Permitted Development** means a building or development which satisfies certain conditions including that all consents have been received, no cost falls on the Borrower, and the rental income of the relevant Property is not reduced.

*Disposals and substitutions*

- (a) Except as set out below, the Borrower may not dispose of all or any part of its assets, subject to certain customary exceptions including a disposal of redundant or obsolete equipment, and a disposal made pursuant to a compulsory purchase order (in relation to which prepayment provisions will apply).
- (b) The Borrower may dispose of a Property, in whole or in part, where the disposal is a minor sale (defined, amongst other criteria, as a sale of a Property where the aggregate proceeds of sales in any year do not exceed £100,000) or where the disposal is otherwise made in accordance with paragraph (c) below.
- (c) A Property may be disposed of, in whole or in part, if:
  - (i) no Loan Event of Default is outstanding or would arise as a result of the disposal;
  - (ii) the Borrower has confirmed in writing to the Facility Agent that:
    - (A) Interest Cover would not be reduced; and
    - (B) the Loan to Value will not be increased (taking into account the amount by which the Loan will be prepaid following that disposal);
  - (iii) in the case of a disposal of part of a Property (other than a minor sale or a disposal made pursuant to a compulsory purchase order) a valuation of that Property is delivered to the Facility Agent prior to that disposal, indicating the market value of that Property (the **Post-Disposal Valuation**);
  - (iv) where the market value of the relevant Property is reduced as a result of the sale, the Net Proceeds (when aggregated with other available cash amounts) are at least equal to a specified amount (the **Required Amount**), which is calculated as the aggregate of:
    - (A) an amount (the **Applicable Release Pricing Amount**) equal to 110 per cent. of the Allocated Loan Amount for that Property or, in the case of the disposal of part of a Property, equal to an amount calculated in accordance with the following formula:

$$A = \frac{110}{100} \times B \times \left( \frac{C}{D} \right)$$

Where

A = Applicable Release Pricing Amount for relevant part of a Property;

B = the Allocated Loan Amount for the whole Property prior to the relevant disposal;

C = the difference between the original valuation of the Property and the Post-Disposal Valuation; and

D = the original valuation of the Property; and

- (B) the Break Costs and any other amounts payable in respect of the prepayment of the Loan on the next Interest Payment Date in an amount equal to the Applicable Release Pricing Amount; and
- (v) on completion of the disposal, an amount of the net proceeds (plus any such available cash amounts) in aggregate at least equal to the Required Amount is applied towards the repayment of the Loan or is otherwise utilised for the specified purposes set forth in the Credit Agreement (including the acquisition of a substitute Property) and any Net Proceeds not required to be so applied will be paid into the General Account.

**Allocated Loan Amount** means with respect to an Original Property, the amount allocated to it prior to signing (and set out in the Credit Agreement) and with respect to an Additional Property, the amount agreed by the Borrower and the Facility Agent (which shall be 83 per cent. of the market value of that Additional Property contained in the relevant Property valuation report) prior to the Property becoming part of the Portfolio.

**Break Costs** means:

- (a) in relation to the Senior Loan the amount (if any) determined by the Senior Lender which would indemnify that Lender against any loss or liability that it incurs as a consequence of any part of a Loan or overdue amount being repaid or prepaid, and includes any costs incurred as a result of the Lender terminating all or any part of its fixed rate, swap or other hedging arrangements; or
- (b) in relation to the Junior Loan the amount (if any) by which:
  - (i) the interest which a Junior Lender should have received for the period from the date of receipt of all or any part of its participation in any Junior Loan or an unpaid sum due to that Junior Lender to the last day of the current Loan Interest Period in respect of that Junior Loan or unpaid sum, had the principal amount or unpaid sum received been paid on the last day of that Loan Interest Period;  
  
exceeds:
  - (ii) the amount which that Junior Lender would be able to obtain by placing an amount equal to the principal amount or unpaid sum received by it on deposit with a leading bank in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Loan Interest Period.

**Loan to Value** means the aggregate Loans as a percentage of the aggregate value of the Properties.

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

The Credit Agreement contains the usual events of default entitling the Facility Agent, acting alone or under the direction of the Majority Lenders if required and subject, in certain cases, to customary grace periods and materiality thresholds, to terminate all or any part of the facility, accelerate all or any part of the Loans or any other sums payable under the Credit Agreement or the Finance

Documents and/or declare all or part of the Loans to become payable on demand. These events of default (each a **Loan Event of Default**) include, among other things:

- (a) failure to pay on the due date any amount due under the Finance Documents (unless remedied within three business days in the case of payments of principal or interest, or otherwise, within seven business days);
- (b) breach of other specified obligations under the Finance Documents;
- (c) any representation, warranty or written statement was incorrect in any material respect at the date it was given or repeated;
- (d) any financial indebtedness of the Borrower is not paid when due or within any applicable grace period or becomes prematurely due and payable or is placed on demand by reason of a default or event of default;
- (e) the Borrower is unable to pay its debts or is deemed to be insolvent or other insolvency or winding up acts or events occur (including, among other things, the commencement of insolvency proceedings, the appointment of any liquidator or administrative receiver, the attachment or sequestration of any asset, the making of any arrangement or composition with its creditors);
- (f) the Borrower ceases or proposes to cease, to carry on all of its business;
- (g) any provision of any Finance Document is or becomes invalid or unenforceable (subject, in each case, to certain customary reservations) for any reason or shall be repudiated or the validity or enforceability of any provision of any Finance Document shall at any time be contested by any party thereto (other than a Finance Party);
- (h) it is or becomes unlawful for the Borrower to perform any of its obligations under any Finance Document in circumstances or to an extent which the Majority Lenders reasonably consider to be materially prejudicial to the interests of any Finance Party under the Finance Documents;
- (i) at any time any act, condition or thing required to be done, fulfilled or performed in order (i) to enable the Borrower lawfully to enter into, exercise its rights under or perform the obligations expressed to be assumed by it under any of the Finance Documents to which it is party, (ii) to ensure that the obligations expressed to be assumed by the Borrower under any Finance Document to which it is party are legal, valid and binding (subject, in each case, to reservations) (iii) to make each Finance Document admissible in evidence in the English or other relevant courts and (iv) to create the security constituted by the Borrower Security Documents to which the Borrower is party, is not done, fulfilled or performed within any applicable prescribed time periods and the Majority Lenders reasonably consider such failure is materially prejudicial to the interests of any Finance Party under the Finance Documents;
- (j) any part of any Property is destroyed or damaged and, taking into account the amount and timing of receipt of the proceeds of insurance effected in accordance with the terms of the Credit Agreement, the destruction or damage could reasonably be expected to have a Material Adverse Effect or to materially adversely affect the market value of the Properties as a whole;
- (k) any proceedings are commenced relating to the forfeiture of any Headlease (other than in circumstances where the Facility Agent and the Borrower agree that relief from forfeiture will be obtained) or any Headlease is forfeited;



- (l) any litigation (including an environmental claim), arbitration, or administrative or regulatory proceeding is commenced by or against the Borrower which is reasonably likely to be adversely determined against the Borrower and, if so determined, (whether by itself or together with any related claims) could reasonably be expected to have a Material Adverse Effect or to materially adversely affect the market value of the Properties as a whole;
- (m) any final non-appealable monetary judgment which is not being contested and which exceeds £50,000 or its equivalent is made against the Borrower or any other judgement which could have a Material Adverse Affect; or
- (n) any other event or circumstance not otherwise referred to in the Credit Agreement which has a Material Adverse Effect.

At any time when a Loan Event of Default is outstanding, the Facility Agent may, and will if directed by the Majority Lenders, terminate all or part of the available facilities under the Credit Agreement, declare all or part of any outstanding Loan or other amount under the Finance Documents to be immediately due and payable and/or declare all or part of any loan payable on demand.

**Majority Lenders** means the Lenders under the Credit Agreement whose Commitments together aggregate more than 66 2/3 per cent. of the aggregate amount of all Commitments under the Credit Agreement, or if such aggregate commitments have been reduced to zero, those Lenders whose Commitments aggregated more than 66 2/3 per cent. of the aggregate amount of all Commitments under the Credit Agreement immediately prior to that reduction.

**Commitments** means the amounts available to be lent by each Lender under the Credit Agreement in respect of each Loan including any amount of each Loan transferred to each Lender in accordance with the terms of the Credit Agreement.

### **Loan Security**

In order to secure its obligations under the Credit Agreement and the other Finance Documents, the Borrower will, pursuant to a debenture to be dated the Closing Date (the **Borrower Security Agreement**), and any other security document as may be required (together with the Borrower Security Agreement, the Scottish Security Documents and the Mortgage of Shares, the **Borrower Security Documents**)), grant a floating charge over all of the Borrower's assets and security over each of the Properties and related interests and assets including:

- (a) a first legal mortgage over its rights to the Properties located in England, Wales and Northern Ireland (in the case of Property located in Northern Ireland, by way of granting and demising the Property to the Security Agent subject to a proviso for redemption);
- (b) a first fixed charge over the Borrower's interest in the Properties located in England, Wales and Northern Ireland (to the extent not subject to security under paragraph (a) above);
- (c) first fixed security over or assignment of the rental income under the Leases in relation to the Properties described in (a) and (b) above;
- (d) first fixed security or floating security over the Borrower Accounts;
- (e) first assignment of the Borrower's rights in respect of the insurances relating to the Properties; and

- (f) assignment by way of security over each Lease Document, the hedging agreements in relation to the Junior Loan, the Property Management Agreement and any other agreement to which the Borrower is party which is not otherwise charged by the Borrower Security Agreement.

At any time when a Loan Event of Default is outstanding, the Security Agent may, and will if so directed by the Majority Lenders, enforce the Loan Security. To the extent that the Senior Lender is the sole Majority Lender, the Senior Lender acting alone would be able to direct the Security Agent to enforce the Loan Security. The Senior Lender (as Issuer) will, pursuant to the Issuer Deed of Charge, assign its rights under the Finance Documents (including its rights to give directions to the Security Agent) in favour of the Issuer Security Trustee on behalf of the Issuer Secured Creditors. As assignee of the Issuer's rights to give directions to the Security Agent, the Issuer Security Trustee will have the right to exercise those rights. Prior to redemption or cancellation of the Notes in full, the Issuer Security Trustee will not, and will not be bound to, give any direction to the Security Agent with respect to enforcement of the Loan Security unless it has been directed to do so by the Note Trustee and has been secured and/or indemnified to its satisfaction.

### **Mortgage of Shares**

In order to secure the Borrower's obligations under the Credit Agreement and the other Finance Documents, Toys "R" Us Holdings Limited will, pursuant to a mortgage of shares to be dated the Closing Date (the **Mortgage of Shares**), grant a mortgage over all of the shares it owns in the Borrower, and a first fixed charge over all related rights.

### **Scottish Security**

In order to secure its obligations under the Credit Agreement and the other Finance Documents, the Borrower will, pursuant to a Scottish standard security and a Scottish assignation of rent to be dated the Closing Date (together the **Scottish Security Documents**) grant a standard security over its rights in the Property located in Scotland, and will assign the rental income receivable by the Borrower in relation to that Property.

### **Subordination Agreement**

The Borrower and, amongst others, OpCo and Toys "R" Us Properties Limited will, on or before the Loan Closing Date, enter into a subordination agreement (the **Subordination Agreement**). The Subordination Agreement subordinates all intercompany debts owed by the Borrower to OpCo and Toys "R" Us Properties Limited, including, in particular, the balance of the consideration for the acquisition of the Properties which was not funded by the Loans. The intercompany loan in relation to that balance of the consideration payable by the Borrower to OpCo may remain outstanding (but will be subordinated). The Subordination Agreement prevents OpCo and Toys "R" Us Properties Limited from making any claim in relation to the subordinated debt, receiving any payment, security or discharge in relation to the subordinated debt (including by way of set-off) and restricts any amendment to the terms of the subordinated debt other than where such amendment is administrative or procedural, or where it does not prejudice the position of the Lenders. Payments are only permitted to be made in relation to subordinated debt in accordance with the terms of the Credit Agreement. The Credit Agreement provides that payment of subordinated debt can only be made out of amounts standing to the credit of the General Account when no Loan Event of Default is outstanding.

### **Intercreditor Deed**

The Issuer as Senior Lender, the Junior Lender, the Security Agent, the Facility Agent, the Servicer and the Special Servicer will enter into an intercreditor deed (the **Intercreditor Deed**) dated on or about the Loan Closing Date. The Intercreditor Deed will govern the basis on which amounts

received from the Borrower by the Facility Agent under the Credit Agreement applicable to the Senior Loan and the Junior Loan are to be distributed.

***Exercise of rights and powers***

The Senior Lender and the Junior Lender shall, subject to and in accordance with the terms of the Servicing Agreement, delegate to the Servicer and the Special Servicer the exercise of all their respective rights and powers as Lenders under the Credit Agreement and as beneficiaries of the trust under which the Security Agent holds the Loan Security.

The Facility Agent will appoint each of the Servicer and the Special Servicer to exercise all of the rights, powers and discretions given to the Facility Agent (expressly or impliedly) by the Credit Agreement and Borrower Security Documents on the terms and subject to the conditions specified in the Servicing Agreement.

The Security Agent will appoint each of the Servicer and the Special Servicer to exercise all of the rights, powers and discretions given to the Security Agent (expressly or impliedly) by the Credit Agreement and the Borrower Security Documents on the terms and subject to the conditions set forth in the Servicing Agreement. Notwithstanding the foregoing, the Security Agent shall remain as the legal owner of the security assets and shall continue to exercise any rights, powers and discretions which may only be exercised by the legal owner of the security assets provided that the Security Agent shall only exercise such rights, powers and discretions in accordance with the instructions of the Servicer or the Special Servicer (which shall be given in accordance with the Servicing Agreement).

Neither the Senior Lender nor the Junior Lender shall do any of the following during the Subordination Period (as defined below):

- (a) demand or receive payment of, or any distribution in respect or on account of, any Senior Loan or the Junior Loan (as the case may be) in cash or in kind from the Borrower or any other source;
- (b) apply any money or assets in discharge of any Senior Loan or the Junior Loan (as the case may be);
- (c) discharge any Senior Loan or the Junior Loan (as the case may be) by set-off;
- (d) allow to exist or receive any Security Interest (other than pursuant to the Borrower Security Documents) for any Senior Loan or the Junior Loan (as the case may be);
- (e) allow to exist or receive any guarantee or other assurance against loss in respect of any Senior Loan or the Junior Loan (as the case may be);
- (f) allow any Senior Loan or the Junior Loan (as the case may be) to be evidenced by a negotiable instrument;
- (g) take or omit to take any action which might impair the subordination achieved or intended to be achieved by the Intercreditor Deed;
- (h) accelerate any Senior Loan or the Junior Loan or otherwise declare any of the Senior Loans or the Junior Loan prematurely payable;
- (i) enforce any Senior Loan or the Junior Loan by execution or otherwise;
- (j) initiate or support or take any steps in relation to the insolvency of the Borrower;

- (k) otherwise exercise any remedy for the recovery of any Senior Loan or the Junior Loan.

**Subordination Period** means the period beginning on the date of the Intercreditor Deed and ending on the first to occur of:

- (a) the date on which all amounts due to the Senior Lender and the Administrative Parties (as defined below under the heading "*Operating Advisor*"), the Borrower Security Documents and all other deeds and other documents executed pursuant thereto or in connection therewith have been paid irrevocably and in full; and
- (b) the date on which a Final Recovery Determination (as defined below) has been made; and
- (c) the purchase by the Junior Lender of the Senior Loan pursuant to the terms of the Intercreditor Deed.

### ***Appointment of Servicer and Special Servicer***

The Senior Lender and the Junior Lender will appoint as the Servicer or as a replacement Servicer of each Senior Loan and the Junior Loan the person nominated by the Senior Lender provided that such person is acceptable to the Junior Lender and provided further that the Junior Lender shall not unreasonably withhold or delay its consent to the appointment of the person nominated by the Senior Lender. The Junior Lender's consent to the appointment of the person nominated by the Senior Lender shall be deemed to have been granted if the Junior Lender does not object to the appointment of such person within 5 Business Days of having been notified by the Senior Lender of the identity of the nominee.

Prior to the occurrence of a Control Valuation Event (as defined below under the heading Roles of the Servicer and the Special Servicer), the Senior Lender and the Junior Lender will appoint as the Special Servicer the person nominated by the Operating Adviser appointed by the Junior Lender pursuant to the Intercreditor Deed provided that the Rating Agencies have confirmed that the appointment of such person as the Special Servicer will not adversely affect the ratings of the Notes. Following the occurrence of a Control Valuation Event, the Senior Lender may terminate the appointment of the person then acting as the Special Servicer and replace such person with a person nominated by the Senior Lender, whereupon the Junior Lender shall have no further rights as regards the appointment, or termination of the appointment, of the Special Servicer.

### ***Cure, Purchase and Transfer Rights of Junior Lender***

Upon becoming aware that, on the next Loan Interest Payment Date, there are unlikely to be sufficient funds standing to the credit of the Rent Account to discharge the Borrower's obligations to make all payments of principal and interest (other than default interest) then due to the Issuer as Senior Lender (after the payment of all amounts payable in priority thereto in accordance with the Credit Agreement and the Intercreditor Deed), the Servicer will notify the Junior Lender, or, if one has been appointed by the Junior Lender, the Operating Adviser. If, on a Loan Interest Payment Date, a Borrower makes a payment which is insufficient to make all payments of principal and interest (other than default interest) then due to the Issuer (after payment of all amounts payable in priority thereto in accordance with the Credit Agreement and the Intercreditor Deed,) there will be a **Senior Loan Payment Deficiency**. In the event of a Senior Loan Payment Deficiency, the Servicer will notify the Junior Lender by no later than 10.00 am on the business day following the Loan Interest Payment Date. Within 5 days after receiving such notification (such 5 day period being the **Cure Period**), the Junior Lender will be entitled to pay an amount equal to the Senior Loan Payment Deficiency (a **Cure Payment**). If the Junior Lender makes such a Cure Payment, the amount of the Cure Payment will, for the purposes of the Finance Documents, be treated as having been received from the Borrower. Among other things, this means that if the Junior Lender makes a Cure Payment which ensures that

the Issuer receives no less principal and interest (other than default interest) than it would have received had the Borrower made all payments when they fell due, the Loans will not become Specially Serviced by virtue of the Borrower's default and distributions will be made in accordance with the Pre-Default Intercreditor Priority of Payments below. However,

- (a) the rights of the Junior Lender arising as a result of the making of a Cure Payment will not result in the Junior Lender becoming subrogated to the rights of the Issuer;
- (b) Cure Payments will not be taken into consideration for the purposes of determining the Junior Lender's entitlement to *pro rata* payments under the Intercreditor Deed;
- (c) the reimbursement of Cure Payments made by the Junior Lender will be subordinate to the rights of the Issuer, any trustee, Servicer and Special Servicer; and
- (d) the making of Cure Payments will not affect the Borrower's obligations under the Credit Agreement (including, without limitation, the Borrower's obligation to pay default interest or late payment charges) and will not limit the right of the Servicer or the Special Servicer to send default notices to and seek payment from the Borrower nor will such payments limit the right of the Servicer or Special Servicer as necessary to preserve the right of the Servicer or Special Servicer to preserve the rights of the Issuer in accordance with the provisions of the Finance Documents.

If, prior to the Junior Lender making a Cure Payment, the Issuer has made a liquidity drawing in relation to the Senior Loans to which such Cure Payment relates, the Junior Lender shall also pay to the Senior Lender an amount equal to the interest that is, or will be, payable by the Senior Lender on such liquidity drawing (assuming that it is repaid as soon as permitted by the terms of the Liquidity Facility Agreement). The Junior Lender may not make a Cure Payment more than twice in any one 12 month period and no more than four times during the term of the Senior Loans.

In addition to making Cure Payments, within 5 days of being notified thereof in writing by the Servicer, the Junior Lender will also have the right to make any deposits into the Borrower's Accounts necessary to remedy breaches of any financial covenants by the Borrower. Any funds so deposited to cure a breach of financial covenants will be released to the Junior Lender upon such breach ceasing to exist.

The Servicer or, if at the relevant time the Loans are Specially Serviced Loans, the Special Servicer, will also notify the Operating Adviser (appointed by the Junior Lender or any other Controlling Class, as the case may be) in writing (simultaneously with notice to the Borrower) of and to cure any other (non-monetary and non-insolvency) event of default within the same time period for cure provided to the Borrower under the Credit Agreement, provided that:

- (a) if such event of default is capable of cure by the Junior Lender, but not within the Borrower's cure period;
- (b) the Junior Lender is proceeding diligently and continuously to remedy the relevant breach;
- (c) the Junior Lender has cured all monetary defaults; and
- (d) the Servicer or Special Servicer, as applicable, acting in accordance with the Servicing Standard, considers that:
  - (i) the extended cure period will not have a material adverse effect on the value, use or operation of the properties or on the recoverability of sums due under the loans; and

- (ii) permitting the Junior Lender to exercise a cure right would not contravene the Servicing Standard,

then the Junior Lender will have such additional time as is reasonably necessary, with diligence, to complete the cure and during such time the Servicer, or Special Servicer, as applicable (subject always to the requirement that the Service, or Special Servicer, as applicable shall at all times act in accordance with the Servicing Standard) shall not take any action against the Borrower unless it is advised to do so by the Operating Adviser.

While the Loans are Specially Serviced Loans, but prior to a Final Recovery Determination having been made in respect thereof, the Junior Lender may elect to acquire the Senior Loan at the then aggregate principal amount outstanding plus all out-of-pocket costs and expenses incurred by the Senior Lender, plus any other amounts due and payable to the Senior Lender under the Finance Documents, together with any costs, fees and expenses of the other Finance Parties which are due and payable to any other Finance Party in priority to payments due and payable to the Senior Lender, but excluding default interest payable under the Credit Agreement.

The Junior Lender may not transfer more than 49% of the Junior Loans without the consent of the Senior Lenders unless the provisions of the Intercreditor Deed regulating such transfer are complied with.

***Final Recovery Determination*** means a determination by the Special Servicer that there has been a recovery of all amounts that, in the Special Servicer's judgment, will ultimately be recoverable with respect to the Senior Loan, such judgment to be exercised in accordance with the Servicing Standard.

***Priorities of Payments between the Issuer as Senior Lender and the Junior Lender***

On each Loan Interest Payment Date, the Servicer on behalf of the Facility Agent will make all payments and provisions required in accordance with the priorities of payments set forth in the following paragraphs.

Pursuant to the terms of the Intercreditor Deed, if on a Loan Interest Payment Date, no Waterfall Trigger Event exists, all relevant amounts standing to the credit of the Rent Account (including any Cure Payments made) will be distributed by the Servicer in the order of priority set out in the Rent Account clause of the Credit Agreement as described above under the heading "*Credit Agreement – Rent Account*" (the **Pre-Default Intercreditor Priority of Payments**).

If, on a Loan Interest Payment Date, a Waterfall Trigger Event exists, all amounts paid by the Borrower to the Facility Agent for the relevant Finance Parties as described in paragraphs (b) to (d) of the Rent Account waterfall will be applied in the following order of priority:

- (a) to pay accrued interest due but unpaid (excluding default interest) to the Senior Lender in respect of the Senior Loans;
- (b) to pay *pari passu* and *pro rata*:
  - (i) principal to the Senior Lender until the Senior Loans are repaid in full; and
  - (ii) Break Costs payable by the Borrower to the Senior Lender; and
  - (iii) all other amounts payable by the Borrower to the Senior Lender;
- (c) to pay all amounts payable by the Borrower to the hedge counterparty in relation to the Junior Loan (other than those payable under paragraph (h) below);

- (d) to repay all outstanding Cure Payments made by the Junior Lender (where, if there is more than one Junior Lender, each Junior Lender has contributed their pro rata share of the relevant Cure Payment);
- (e) to pay accrued interest due but unpaid (excluding default interest) to the Junior Lender;
- (f) to repay all principal to the Junior Lender until the Junior Loan is repaid in full;
- (g) to repay all outstanding Cure Payments made by the Junior Lender which have not been paid pursuant to paragraph (d) above;
- (h) to pay, *pari passu* and *pro rata*, to the Senior Lender and the Junior Lender, any default interest on overdue amounts;
- (i) to pay to the hedge counterparty in relation to the Junior Loan any amounts due but unpaid as a result of termination or closing out under the Junior Loan hedging agreement to which that hedge counterparty is a party as a result of:
  - (i) the occurrence of an Event of Default (as defined in the relevant hedge agreement) where the hedge counterparty is the defaulting party; and
  - (ii) the occurrence of a hedge additional termination event (as defined in the relevant hedging agreement) following a failure by the hedge counterparty to comply with the requirements of the ratings downgrade provisions set out in the relevant hedging agreement; and
- (j) to pay to the Junior Lender interest on Cure Payments at a rate which is equal to the default rate of interest charged to the Borrower.

### ***Operating Adviser***

Prior to the occurrence of a Control Valuation Event, the Junior Lender will be entitled to appoint a person to act as the Operating Adviser in relation to the Loans for the purposes of the Servicing Agreement for further details regarding the role of the Operating Advisor (see below under the heading "*Servicing*"). Any such appointment will take effect upon the Junior Lender notifying the Senior Lender, the Servicer and the Special Servicer thereof and will terminate and cease to have effect following the occurrence of a Control Valuation Event in relation to the Loans. For the avoidance of doubt, for so long as the Junior Lender is entitled to appoint an Operating Advisor, no other person (and, in particular, no class of Noteholders) will be entitled to appoint an Operating Advisor in relation to any part of the Loans and no class of Noteholders will have rights which are equivalent or analogous to those given to the Operating Adviser under the Intercreditor Deed.

Following the occurrence of a Control Valuation Event, the Junior Lender will have no right to appoint an Operating Adviser.

If, at any time, there is more than one Junior Lender, the Junior Lenders shall only be entitled, collectively, to appoint a single Operating Adviser.

The Operating Adviser may act solely in the interests of the Junior Lender, does not have any duties to the Senior Lender and may take actions that favour the interests of the Junior Lender over the interests of the Senior Lender. The Operating Adviser shall have no liability whatsoever for having so

acted. The Senior Lender may not take any action whatsoever against the Operating Adviser or any director, officer, employee, agent or principal thereof for having so acted.

The Servicer will determine whether a Control Valuation Event has occurred, provided that the Operating Adviser will be entitled to review and approve all calculations made by the Servicer in connection with such determination prior to such determination being finalised.

**Administrative Parties** means the Facility Agent and/or the Security Agent.

### **Property Management Agreement**

Toys "R" Us Properties Limited (the **Property Manager**) will be appointed by the Borrower to manage the Properties on behalf of the Borrower pursuant to a property management agreement to be entered into on or about the Closing Date between the Borrower, the Security Agent and the Property Manager (the **Property Management Agreement**). The Property Manager will be entitled to be paid a fee and to be reimbursed its properly incurred out-of-pocket expenses (inclusive of VAT) by the Borrower for so acting.

The Property Manager will be obliged to manage the Properties in accordance with the standards that would be reasonably be expected of a competent and reasonably prudent manager of properties similar to those in the Portfolio. The Property Manager will be responsible for, *inter alia*, receiving rental income and other monies due in respect of the Leases, monitoring the state of repair and condition of the Properties, liaising with the tenants under the Leases to ensure the proper running of the Properties and receiving and considering queries and complaints from such tenants. Subject to certain conditions, the Property Manager will be entitled to subcontract or delegate the performance of its obligations under the Property Management Agreement.

Either the Borrower or the Security Agent will be entitled to terminate the appointment of the Property Manager (a) upon 30 days' written notice in the event that the Property Manager fails in any material respect to perform or observe any of its duties, obligations or covenants under the Property Management Agreement (subject to a 30 day cure period) and (b) immediately on the occurrence of certain insolvency events in respect of the Property Manager. The Property Manager will be entitled to resign its appointment upon three months' notice. No such termination or resignation will be effective until a successor Property Manager is appointed by the Borrower.

The Property Management Agreement will be governed by English law.

### **Tax Deed of Covenant**

The ability of the Borrower to make payments under the Credit Agreement and the ability of OpCo to make payments under the Leases will be affected by the manner in which each is taxed and the potential UK tax liabilities each is required to discharge. Pursuant to a tax deed of covenant (the **Tax Deed of Covenant**) to be entered into on or about the Closing Date, Toys "R" Us (UK) Limited will, amongst other things, covenant not to do anything which would result in certain primary and certain secondary liabilities for tax arising in relation to the Borrower and certain secondary liabilities arising in relation to OpCo or in joint and several liability for VAT in relation to OpCo. In addition, Toys "R" Us (UK) Limited has undertaken in the Tax Deed of Covenant to indemnify the Borrower and OpCo against certain specified secondary liabilities for corporation tax on chargeable gains and OpCo against liability for VAT incurred by OpCo by virtue of its membership of the Toys VAT group. See further "*Risk Factors-- Secondary Taxation Liabilities of the Borrower and OpCo and Contingent Taxation Liabilities of the Borrower*" above.

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



## SERVICING

### *The Servicer and the Special Servicer*

Pursuant to the terms of a servicing agreement dated on or before the Closing Date (the **Servicing Agreement**) between, among others, Deutsche Bank AG, London Branch as servicer (the **Servicer**), Hatfield Philips International, Limited as special servicer (the **Special Servicer**), the Issuer, the Facility Agent and the Security Agent, each of the Issuer and the Facility Agent will appoint the Servicer and the Special Servicer to act as their agents and to exercise all their rights, powers and discretions as Lender and Facility Agent, respectively, in relation to the Loans and the Loan Security. When the Junior Lender becomes party to the Credit Agreement, on or after the Closing Date, the Junior Lender will become party to the Servicing Agreement and will pursuant to the Servicing Agreement also appoint the Servicer and the Special Servicer to act as its agent and to exercise all of the rights, powers and discretions as Lender in relation to the Loans and the Loan Security. The Security Agent will delegate to the Servicer and the Special Servicer the exercise of all its rights, powers and discretions in relation to the Loans and the Loan Security, other than those which may only be exercised by the legal owner of the Loan Security (which the Security Agent will agree only to exercise in accordance with the instructions of the Servicer or, in certain circumstances, the Special Servicer). In the case of the Senior Loan and the Junior Loan, when exercising the rights, powers and discretions of the Issuer as Senior Lender, of the Junior Lender, of the Facility Agent and of the Security Agent, the Servicer or, as the case may be, the Special Servicer, must (subject as specified below) act in accordance with the terms of the Intercreditor Deed and the Servicing Agreement.

### *Servicing Standard*

Each of the Servicer and the Special Servicer are required to perform its duties in accordance with the **Servicing Standard** which comprises the following requirements: (i) applicable law, (ii) the Finance Documents, (iii) the Intercreditor Deed, (iv) the Servicing Agreement and (v) the higher of:

- (a) the standard it applies in servicing similar commercial mortgage loans for other third parties; and
- (b) the standard of care, skill and diligence which it applies in servicing commercial mortgage loans in its own portfolio which are similar to the Loans,

in each case giving due consideration to customary and usual standards of practice of reasonably prudent commercial mortgage loan servicers servicing commercial mortgage loans which are similar to the Loans with a view to the timely collection of all scheduled payments of principal, interest and other amounts due under the Loans as a collective whole and, if there is a Loan Event of Default, the maximization of the recoveries on the Loans as a collective whole. If there is a conflict between the requirements which together comprise the Servicing Standard, they will be applied in the order in which they appear above.

The Servicer and the Special Servicer are required to adhere to the Servicing Standard without regard to any fees or other compensation to which they are entitled, any relationship they or any of their affiliates may have with any party to the transaction or the ownership of any Note or any interest in the Junior Loan by the Servicer or the Special Servicer or any affiliate thereof (if applicable). In performing their duties in relation to the Loans, the Servicer and Special Servicer must do so on behalf of the Issuer (as the Senior Lender) and the Junior Lender as a collective whole. However, the Junior Lender will acknowledge in the Servicing Agreement that, due to the subordinated nature of the Junior Lender's interest as a Lender and the terms of the Intercreditor Deed, notwithstanding compliance by the Servicer or, as the case may be, the Special Servicer with the Servicing Standard, the Junior Lender may suffer a loss in circumstances where no loss, or a smaller loss, is suffered by the Issuer.

The Servicer and the Special Servicer may, in certain circumstances, without the consent of any other person (including the Issuer and the Issuer Security Trustee), sub-contract or delegate their respective obligations under the Servicing Agreement. Notwithstanding any sub-contracting or delegation of the performance of any of its obligations under the Servicing Agreement, the Servicer or the Special Servicer, as the case may be, shall not be released or discharged from any liability thereunder and shall remain responsible for the performance of its obligations under the Servicing Agreement by any sub-contractor or delegate.

The Senior Loan will be serviced in the same manner as the Junior Loan, subject to and in accordance with the terms of the Intercreditor Deed and the Servicing Agreement. All decisions made, and discretions exercised, in relation to the Senior Loan will apply equally to the Junior Loan. The Operating Adviser acting on behalf of the Junior Lender, has certain rights in relation to the making of such decisions and the exercise of such discretions and the Servicer and the Special Servicer will, subject to the terms of the Intercreditor Deed and the Servicing Agreement and as required by the Servicing Standard, be required to take the interests of the Junior Lender into account when exercising their powers and performing their duties in relation to the Senior Loan.

### ***Roles of the Servicer and the Special Servicer***

The Servicer will service and administer the Loans. The following events are **Servicing Transfer Events**:

- (a) a payment default on a Loan on its final maturity date;
- (b) any payment by the Borrower under the Credit Agreement being more than 45 days overdue;
- (c) the Borrower becoming the subject of insolvency proceedings; or
- (d) any other material default occurring which is not cured within the applicable cure period which or, in the opinion of the Servicer or the Special Servicer, is not likely to be cured within 45 days that would, in the opinion of the Servicer or the Special Servicer, be likely to have a material adverse effect upon the Issuer or the Junior Lender.

The Special Servicer will formally assume special servicing duties in respect of the Loans and the Loans will become "**Specially Serviced Loans**" on the occurrence of a Servicing Transfer Event, provided that if the Servicing Transfer Event arises as a result of the non-payment of principal or interest by the Borrower and the Junior Lender has made a Cure Payment which makes good the shortfall that would otherwise be caused by such non-payment or if the applicable Cure Period has not expired, the Loans shall not become Specially Serviced Loans. Full servicing of the Specially Serviced Loans will be retransferred to the Servicer and the Loans will become "**Corrected Loans**" when no monetary Servicing Transfer Event has occurred for two interest periods and the facts giving rise to any other Servicing Transfer Event have ceased to exist.

Notwithstanding the appointment of the Special Servicer, the Servicer will be required to continue to collect information and prepare all reports required to be collected or prepared by it under the Servicing Agreement (subject to receipt by it of the required information from the Special Servicer) and to perform certain other day-to-day administrative functions. Neither the Servicer nor the Special Servicer will have responsibility for the performance by the other of its obligations and duties under the Servicing Agreement.

### ***Operating Adviser***

The Junior Lender will be the **Controlling Party** for the purposes of the Loans provided a Control Valuation Event (as defined below) has not occurred in relation thereto. Following the occurrence of a Control Valuation Event, the Controlling Party will be the **Controlling Class**, being the holders of the most junior ranking Class of Notes outstanding at any time which has a total Principal Amount Outstanding that is not less than 25 per cent. of the Principal Amount Outstanding of that Class as at the Closing Date. If no Class of Notes has a Principal Amount Outstanding that satisfies this requirement, then the Controlling Class will be the most junior Class of Notes then outstanding. As at the Closing Date, the holders of the Class F Notes will be the Controlling Class.

The Controlling Party may appoint a representative (an **Operating Adviser**) to represent its interests when the Servicer or the Special Servicer are making decisions regarding the Loans. The Servicer or, if at the relevant time the Loans are Specially Serviced Loans, the Special Servicer will be required to give at least 5 business days' notice to the Operating Adviser of its intention to take certain action in relation to the Loans, including making an amendment to the Credit Agreement which would result in the extension of the final maturity date, reducing the Margin or the amount of any payment of principal payable under the Credit Agreement, making any further advance on a Loan (other than the Pre-Funded Senior Loan or the Pre-Funded Junior Loan) or agreeing to the release of any Loan Security (other than, in the circumstances which are contemplated by the Finance Documents). If, within 5 business days of having been notified of any action proposed to be taken by the Servicer or the Special Servicer in relation to any matter referred to above, the Operating Adviser has not confirmed in writing whether its consent is granted or withheld, its consent will be deemed to have been granted. If, within such 5 business day period, the Operating Adviser confirms that it does not grant its consent to the matter in question, neither the Servicer nor the Special Servicer shall take the relevant action unless failing to take the relevant action would constitute a breach of the Servicing Standard.

Upon so notifying the Servicer or Special Servicer that it disapproves of the proposed course of action the Operating Adviser shall also suggest to the Servicer or Special Servicer alternative courses of action. As soon as reasonably practicable thereafter, the Servicer or Special Servicer shall submit to the Operating Adviser a revised proposal which shall, to the extent that the same are not inconsistent with the Servicing Standard, incorporate the alternatives suggested by the Operating Adviser.

The Servicer and the Special Servicer shall continue to revise their proposals in the manner described in the preceding paragraph until the earliest of:

- (a) the delivery by the Operating Adviser of an approval in writing of such revised proposal;
- (b) failure of the Operating Adviser to disapprove such revised proposal in writing within 5 Business Days after its delivery to the Operating Adviser; and
- (c) passage of 30 days from the date of preparation of the first version of the proposal submitted by the Servicer or the Special Servicer.

Notwithstanding any of the foregoing, no right of an Operating Adviser to issue any consent or to be consulted in connection with the Loans shall permit the Servicer or the Special Servicer to take any action or to refrain from taking any action which, in the good faith and reasonable judgement of the Special Servicer, would cause the Servicer or Special Servicer to violate the Servicing Standard. Nor will the Servicer or the Special Servicer refrain from taking any action pending receipt of consent or any proposals of the Operating Adviser if the Servicer or Special Servicer, in its good faith and reasonable judgement, determines that immediate action is necessary to comply with the Servicing Standard. The taking of any action prior to the receipt of the Operating Adviser's approval thereof or in a manner which is contrary to the directions of, or disapproved by, the Operating Adviser shall not

constitute a breach by the Servicer or the Special Servicer of the Servicing Agreement so long as, in the Servicer's or the Special Servicer's good faith and reasonable judgement, such action was required by the Servicing Standard.

A **Control Valuation Event** will exist in relation to the Loans on any date if the difference between (1) the then outstanding principal balance of the Junior Loan, minus (2) the applicable Valuation Reduction Amount, is less than 25% of the then outstanding principal balance of the Junior Loan.

**Valuation Reduction Amount** means the excess of:

- (a) the aggregate outstanding principal balance of the Loans over
- (b) the excess of:
  - (i) 90 per cent. of the sum of the values set forth in the respective valuations for each Property over
  - (ii) the sum of:
    - (A) all unpaid interest on the Loans;
    - (B) any other unpaid fees, expenses and other amounts of any party that are payable prior to the Senior Loan; and
    - (C) all currently due and unpaid ground rents and insurance premia (net of any amounts held in the Rent Account for such purpose) and all other amounts due and unpaid with respect to the Loans.

### ***Review Procedure***

The Servicer is required to undertake an annual review of the Loans. The Servicer may conduct more frequent reviews if it has cause for concern as to the ability of the Borrower to meet its obligations under the Credit Agreement. Such a review (annual or otherwise) may, but need not necessarily, include an inspection of the Properties and will include analysis of the cash flow arising from the Properties. The Special Servicer has agreed to provide any information in its possession which may reasonably be needed by the Servicer to carry out any such review.

### ***Insurance***

The Servicer will administer the arrangements for insurance in connection with the Loans and the Loan Security. The Servicer will establish and maintain procedures and monitor compliance by the Borrower with the requirements of the Credit Agreement relating to insurance.

### ***Quarterly Reporting***

The Servicer has agreed to deliver to the Calculation and Reporting Agent on or prior to each Calculation Date, in respect of such Calculation Date, a report setting forth, among other things, quarterly payments on the Loans as well as the tracking of both scheduled and unscheduled payments on the Loans. In addition, the Servicer has agreed to prepare a report (the **Investor Report**) including the details of any changes that may affect credit quality in respect of the Credit Agreement and containing information on the performance of the Portfolio. The Investor Report will be made available, on or prior to each Interest Payment Date, to Noteholders, the Issuer, the Note Trustee, the Cash Manager, the Issuer Security Trustee and the Rating Agencies on the website of the Calculation and Reporting Agent currently located at [www.ctslink.com](http://www.ctslink.com) and on the Bloomberg page "CN".

### ***Modifications, Waiver, Amendments and Consents***

The Servicer or, if the Loans are Specially Serviced Loans, the Special Servicer will be responsible for responding to requests for consent to waivers or modifications relating to the Credit Agreement and the other Finance Documents, or for granting any consent requested by the Borrower under the Finance Documents. However, neither the Servicer nor the Special Servicer may do so without the consent of the Junior Lender if the effect of the consent, modification or waiver would be to, among other things, reduce any principal payable under the Credit Agreement, require the Issuer or the Junior Lender to advance any further monies to the Borrower (other than the Pre-Funded Senior Loan or the Pre-Funded Junior Loan), reduce the margin, change the basis upon which interest, fees or other payments are calculated under the Finance Documents, extend the maturity date of the Loans or release or materially amend or waive the Loan Security other than as permitted under the Finance Documents. The views of the Junior Lender in relation to any amendment, waiver or approval in respect of which its consent must be obtained may differ to those of the Issuer (or the Servicer or the Special Servicer on behalf of the Issuer) and may prevent the Servicer or Special Servicer from taking action on behalf of the Issuer which it would otherwise consider appropriate to take in accordance with the Servicing Agreement. The Operating Adviser also has certain rights in relation to waivers, modifications and consents as described above under "*Operating Adviser*".

### ***Fees***

On each Interest Payment Date, the Servicer will be entitled to be paid by the Issuer, subject to the relevant Priority of Payments, a fee (the **Servicing Fee**) equal to 0.02 per cent. per annum of the outstanding principal balance of the Loans at the beginning of the Loan Interest Period ending immediately prior to such Interest Payment Date (plus irrecoverable VAT). Following any termination of the Servicer's appointment as servicer, the Servicing Fee will be paid to any substitute servicer appointed; provided that the Servicing Fee may be payable to any substitute servicer at a higher rate agreed in writing by the Issuer, with the prior written consent of the Issuer Security Trustee (but which does not exceed the rate then commonly charged by providers of loan servicing services in relation to commercial properties).

On each Interest Payment Date, the Special Servicer will be entitled to be paid, in each case subject to the relevant Priority of Payments:

- (a) a fee (a **Special Servicing Fee**) equal to 0.25 per cent. per annum (in addition to VAT) of the outstanding principal amount of the Loans, for each day that the Loans are designated Specially Serviced Loans. The Special Servicing Fee will be paid in addition to the Servicing Fee. The Special Servicing Fee will accrue on a daily basis over such period and will be payable on each Interest Payment Date commencing with the Interest Payment Date following the date on which such period begins and ending on the Interest Payment Date following the end of such period;
- (b) a liquidation fee (the **Liquidation Fee**) equal to 1 per cent. of the net proceeds of the sale of Loans or Properties (or any part thereof) following enforcement of any Loan Security (plus VAT if applicable); and
- (c) a workout fee (the **Workout Fee**) payable to the Special Servicer, if the Loans which were Specially Serviced Loans subsequently become Corrected Loans. The Workout Fee will be an amount equal to 1 per cent. of each collection of interest and principal received on the Loans (plus VAT if applicable) for so long as they remain Corrected Loans. However, no Workout Fee will be payable if the Servicing Transfer Event which gave rise to the Loans becoming Specially Serviced Loans, ceased to exist within two weeks of them becoming Specially Serviced Loans and no other Servicing Transfer Event occurred while the Loans remained Specially Serviced Loans.

The Servicing Fee and the Special Servicing Fee will cease to be payable in relation to the Loans if any of the following events (each, a **Liquidation Event**) occurs in relation to the Loans:

- (a) the Loans are repaid in full; or
- (b) a Final Recovery Determination is made with respect to the Loans.

**Final Recovery Determination** means a determination by the Special Servicer, acting reasonably, that there has been a recovery of all Principal Recovery Funds and other payments or recoveries that, in the Special Servicer's judgment, will ultimately be recoverable with respect to the Loans, such judgment to be exercised in accordance with the Servicing Standard.

**Principal Recovery Funds** means principal payments received or recovered by or on behalf of the Issuer as a result of actions taken in accordance with the enforcement procedures in respect of the Loans and/or the Loan Security.

On each Interest Payment Date, the Servicer and the Special Servicer will be entitled to be reimbursed (with interest thereon), in each case subject to the relevant Priority of Payments, in respect of out-of-pocket costs, expenses and charges properly incurred by them in the performance of their servicing obligations (plus VAT if applicable). Such costs and expenses are payable on the Interest Payment Date following the Loan Interest Period during which they are incurred by the Servicer or Special Servicer.

The Credit Agreement provides that on each Loan Interest Payment Date the fees and expenses payable to the Servicer and the Special Servicer in relation to the Loans will be paid or provided for before any payments or principal and interest are paid to the Issuer (as Senior Lender) or the Junior Lender.

#### ***Termination of Appointment of Servicer or Special Servicer***

The Security Agent may terminate the appointment of the Servicer or the Special Servicer under the Servicing Agreement upon the occurrence of a termination event, including, *inter alia*, a default in procuring the payment on any Loan Interest Payment Date of the amounts required to be paid from the Rent Account under the Servicing Agreement, or, in certain circumstances, a default in performance of any of its other material covenants or obligations under the Servicing Agreement, or the occurrence of certain insolvency related events in relation to it. On the termination of the appointment of the Servicer or the Special Servicer by the Security Agent, the Security Agent may, subject to certain conditions appoint a substitute servicer or substitute special servicer, as the case may be.

The appointment of the person then acting as Special Servicer in relation to the Loans may also be terminated upon the relevant Operating Adviser notifying the Issuer that it requires a replacement Special Servicer to be appointed.

Each of the Servicer and the Special Servicer may terminate its appointment upon not less than three months' notice to each of the Issuer, the Junior Lender, the Facility Agent, the Security Agent, the Note Trustee, the Issuer Security Trustee and the Servicer or the Special Servicer (as applicable).

No termination of the appointment of the Servicer or the Special Servicer, as applicable, will be effective until a qualified substitute servicer or substitute special servicer, as the case may be, shall have been appointed and agreed to be bound by the relevant Transaction Documents, such appointment to be effective not later than the date of termination, and provided further that the Rating Agencies have confirmed that the then applicable ratings of the Notes will not be adversely affected as a result thereof.

***General***

Neither the Servicer nor the Special Servicer will be liable for any obligation of the Borrower under the Credit Agreement or the Loan Security, have any liability for the obligations of the Issuer under the Notes or under the Transaction Documents or have any liability for the failure by the Issuer to make any payment due by it under the Notes or any of the Transaction Documents unless such failure by the Issuer results from a failure by the Servicer or the Special Servicer, as the case may be, to perform its obligations under the Servicing Agreement.

The Servicing Agreement will be governed by English law.

## TRANSACTION DOCUMENTS

### 1. Liquidity Facility Agreement

#### *General*

On or before the Closing Date, the Issuer will enter into a liquidity facility agreement (the **Liquidity Facility Agreement**) with the Liquidity Bank, the Issuer Security Trustee and the Cash Manager pursuant to which the Liquidity Bank will provide a renewable 364-day committed liquidity facility (the **Liquidity Facility**) to the Issuer. The Liquidity Facility will, subject to certain conditions, be available to be drawn by or on behalf of the Issuer where Available Issuer Income is insufficient to make certain payments under the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, as applicable.

In the event that one or more of certain events of default by the Issuer is outstanding under the Liquidity Facility Agreement, including non-payment of amounts payable by the Issuer to the Liquidity Bank, the Liquidity Bank may cancel the Liquidity Facility and/or declare that all or part of any amounts outstanding under the Liquidity Facility are (i) immediately due and payable and/or (ii) payable on demand by the Liquidity Bank.

The Liquidity Facility committed amount will be for an initial amount of £52,856,771 and will with respect to each Interest Period decrease as the Principal Amount Outstanding of the Notes decreases in accordance with the terms of the Liquidity Facility Agreement and will be an amount equal to the lower of £7,928,516 and 14.86 per cent. of the Principal Amount Outstanding of the Notes as at 5:00 p.m. (London time) on the first day of the relevant Interest Period (each such amount, the **Liquidity Facility Commitment**).

#### *Income Deficiency Drawings*

The Calculation and Reporting Agent is required to calculate Available Issuer Income on each Calculation Date in accordance with the terms of the Cash Management Agreement.

**Available Issuer Income** will comprise:

- (a) all monies (other than principal and any prepayment amounts (other than Facility Fees)) to be paid to the Issuer under or in respect of the Credit Agreement less the amount of any expected shortfall in such amount in each case as notified to the Calculation and Reporting Agent by the Servicer;
- (b) in respect of an Interest Payment Date, all amounts received by the Issuer from the Interest Rate Swap Provider under the Interest Rate Swap Agreement (other than any amounts received from the Interest Rate Swap Provider in respect of collateral provided in support of its obligations under the Interest Rate Swap Agreement); and
- (c) in respect of an Interest Payment Date, any interest accrued upon the Issuer Transaction Account, the Pre-Funding Account and the Liquidity Stand-by Account and paid into the Issuer Transaction Account, the Pre-Funding Account or the Liquidity Stand-by Account, as applicable, together with the yield element of the proceeds of any Eligible Investments made by or on behalf of the Issuer out of amounts standing to the credit of the Issuer Transaction Account, the Pre-Funding Account or the Liquidity Stand-by Account and paid into the Issuer Transaction Account, the Pre-Funding Account or the Liquidity Stand-by Account, in each case received since the immediately preceding Interest Payment Date and as notified to the Calculation and Reporting Agent by the Account Bank.



To the extent that Available Issuer Income will be insufficient to make the payments set out under paragraphs (a) to (l) of the Pre-Enforcement Revenue Priority of Payments or paragraphs (a) to (k) of the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments on the next Interest Payment Date, the Calculation and Reporting Agent will notify the Cash Manager and the Cash Manager will arrange for a drawing (an **Income Deficiency Drawing**) to be made under the Liquidity Facility Agreement in an amount equal to the deficiency (the **Income Deficiency**). The proceeds of any Income Deficiency Drawing will be credited to the Issuer Transaction Account and, together with the Available Issuer Income, will constitute the **Adjusted Available Issuer Income**. This will be applied on behalf of the Issuer in making payments from the Issuer Transaction Account under the Pre-Enforcement Revenue Priority of Payments and the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, as applicable, on the next following Interest Payment Date.

#### *Liquidity Facility Commitment*

The Liquidity Facility Agreement will permit drawings to be made by the Issuer of up to the Liquidity Facility Commitment. The Liquidity Facility Commitment will reduce:

- (a) following repayment in accordance with **Condition 6.2** (Redemption for taxation or other reasons) or redemption in accordance with **Condition 6.3** (Mandatory redemption in whole or in part) or **Condition 6.4** (Optional redemption in whole or in part), in an amount proportionate to the reduction in the aggregate Principal Amount Outstanding of the Notes;
- (b) following the occurrence of an Appraisal Reduction (as defined below), in an amount proportionate to the Appraisal Reduction; and
- (c) following receipt of confirmation from the Rating Agencies that the proposed reduction in the amount of the Liquidity Facility Commitment will not adversely affect the then current ratings of the Notes.

#### *Appraisal Reductions*

Not later than the earliest to occur of:

- (a) the date 120 days after the occurrence of any Loan Event of Default as a result of non-payment; and
- (b) the date 90 days after the occurrence of a Loan Event of Default as a result of the occurrence of any insolvency event in respect of the Borrower,

and, in each case, provided that such Loan Event of Default is continuing, the Servicer (or if the Loans are Specially Serviced Loans, the Special Servicer) is required, under the terms of the Servicing Agreement, to obtain a valuation in respect of the Portfolio (unless, at the Servicer's or the Special Servicer's discretion, as applicable, a valuation has been obtained during the immediately preceding 12 months and the Servicer or the Special Servicer, as applicable, has confirmed that, in its view, neither the Properties nor the relevant property markets have experienced any material change since the date of such previous valuation).

If the Servicer determines that the principal amount of the Loans then outstanding (together with any unpaid interest) exceeds the sum of 90 per cent. of the value of the Properties as determined by the relevant valuation, an **Appraisal Reduction** will be deemed to have occurred and the amount of Liquidity Facility Commitment will reduce proportionately.

#### *Liquidity Stand-by Drawings*

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

- (a) the rating of the Liquidity Bank falls below either of the Liquidity Requisite Ratings; or
- (b) the Liquidity Bank refuses to renew the Liquidity Facility,

then the Issuer must either find an alternative liquidity bank or require the Liquidity Bank to pay an amount equal to its undrawn commitment under the Liquidity Facility Agreement (a **Liquidity Stand-by Drawing**) into an account solely for that purpose maintained with the Account Bank (such account, the **Liquidity Stand-by Account**) and which can receive interest amounts without deduction of Taxes. If one of the events described in (a) or (b) above occurs, the Liquidity Bank shall, at its expense and if so requested by or on behalf of the Issuer, transfer the Liquidity Facility to, or replace it with, a facility provided by a new liquidity bank. In the event that the Cash Manager, on behalf of the Issuer, makes a Liquidity Stand-by Drawing, the Cash Manager will be required, prior to the expenditure of the proceeds of such drawing as described above, to invest such funds in Eligible Investments on the instructions of the Issuer and pursuant to the terms of the Cash Management Agreement. Amounts standing to the credit of the Liquidity Stand-by Account will be available to the Issuer prior to the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full and prior to the occurrence of certain events of default under the Liquidity Facility Agreement for the purposes of making deemed Income Deficiency Drawings as described above, and otherwise in the circumstances provided in the Liquidity Facility Agreement. Following the service of an Acceleration Notice or the Notes otherwise becoming due and repayable in full and following certain events of default under the Liquidity Facility Agreement, principal amounts standing to the credit of the Liquidity Stand-by Account in respect of a Liquidity Stand-by Drawing will be returned to the Liquidity Bank and will not be applied in accordance with any of the Priorities of Payments.

For these purposes:

**Liquidity Requisite Ratings** means a bank that has a rating of at least "F1" by Fitch, "P-1" by Moody's and "A-1+" by S&P for its short-term unsecured, unsubordinated and unguaranteed debt obligations and a rating of at least "A1" by Moody's for its long-term unsecured, unsubordinated and unguaranteed debt obligations; and

**Eligible Investments** means (a) sterling denominated government securities or (b) sterling demand or time deposits, certificates of deposit, money market funds and short term debt obligations (including commercial paper); provided that in all cases such investments will mature at least one Business Day prior to the next Interest Payment Date and the short term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised bank under the Financial Services and Markets Act 2000 (as amended from time to time)) are rated at least "F1" by Fitch, "P-1" by Moody's and "A-1+" by S&P or are otherwise acceptable to the Rating Agencies.

#### *Repayment of drawings*

The Issuer must repay any Income Deficiency Drawing on the earlier of: (i) the Interest Payment Date immediately following the date on which the Issuer receives amounts representing overdue amounts of scheduled interest on the Loan, as applicable after having first accounted for any scheduled interest due on that day; (ii) the Liquidity Facility Term Date (as defined in the Liquidity Facility Agreement) and (iii) the Final Maturity Date. In the event that such Income Deficiency Drawings are not repaid on the relevant due date, the amount outstanding under the Liquidity Facility will be deemed to be repaid (but only for the purposes of the Liquidity Facility) and redrawn on the relevant day in an amount equal to the amount outstanding. The procedure will be repeated on each Interest Payment Date or other due date thereafter, as applicable, up to the amount of the Liquidity Facility Commitment until all amounts outstanding under the Liquidity Facility are paid and/or repaid.

The Issuer will pay interest on each drawing under the Liquidity Facility at a rate equal to three month LIBOR (as determined under the Notes) plus a specified margin and certain mandatory costs of the Liquidity Bank.

All payments due to the Liquidity Bank under the Liquidity Facility Agreement (other than in respect of any Liquidity Subordinated Amounts) will rank in priority to payments of interest and principal on the Notes.

**Liquidity Subordinated Amounts** means all amounts payable under, or in any way in connection with, the Liquidity Facility Agreement, other than:

- (a) principal and interest in respect of a drawing under the Liquidity Facility, except that part of the interest (in each case, for the relevant interest period under the Liquidity Facility Agreement):
  - (i) on a drawing under the Liquidity Facility which represents Liquidity Facility Mandatory Costs (as defined in the Liquidity Facility Agreement) in excess of 0.20 per cent. per annum on the maximum amount then available to be drawn under the Liquidity Facility Agreement; and
  - (ii) on a Liquidity Stand-by Drawing which is in excess of an amount equal to the interest actually earned on the Liquidity Stand-by Account plus the Liquidity Facility Commitment Fee (as defined in the Liquidity Facility Agreement) that would have been due on the undrawn portion of the Liquidity Facility Commitment had that Liquidity Stand-by Drawing not been utilised; and
- (b) the Liquidity Facility Commitment Fee.

#### *Governing law*

The Liquidity Facility Agreement will be governed by English law.

## **2. Interest Rate Swap Agreement**

On or before the Closing Date, the Issuer will enter into the Interest Rate Swap Agreement with the Interest Rate Swap Provider and the Interest Rate Swap Transactions pursuant thereto (each as described below) in order to protect itself against potential interest rate exposure in relation to its floating rate interest payment obligations under the Notes.

The Senior Loan bears interest at a fixed rate whereas the Notes bear interest at a floating rate based on three-month LIBOR, exposing the Issuer to potential interest rate risk in respect of payment obligations under such Notes. In addition the Loan Interest Period under the Senior Loan will not match the Interest Periods under the Notes. In order to hedge against such exposure, the Issuer and the Interest Rate Swap Provider will enter into fixed/floating rate interest rate swap transactions (the **Interest Rate Swap Transactions**). Pursuant to the Interest Rate Swap Transactions, interest at a fixed rate in respect of the fixed rate Senior Loan will be due from the Issuer to the Interest Rate Swap Provider and interest at a floating rate based on three-month LIBOR, as calculated in accordance with the Notes, will be due from the Interest Rate Swap Provider to the Issuer on each Interest Payment Date. If the Issuer redeems the Notes in whole or in part prior to their respective scheduled redemption dates, it will be obliged to terminate the Interest Rate Swap Transactions in a corresponding amount. Depending on LIBOR at the relevant time, a payment may be due from the Issuer to the Interest Rate Swap Provider or from the Interest Rate Swap Provider to the Issuer in connection with such termination.

The Interest Rate Swap Transactions may be terminated in accordance with certain termination events and events of default (each, an **Interest Rate Swap Termination Event**), some of which are more particularly described below. Subject to the following, the Interest Rate Swap Provider is obliged to make payments under the Interest Rate Swap Transactions only to the extent that the Issuer makes the

corresponding payments under the Interest Rate Swap Transactions, though the Issuer may meet such payments by drawing down funds under the Liquidity Facility. Furthermore, a failure by the Issuer to make timely payment of amounts due from it under the Interest Rate Swap Transactions will constitute a default in respect of the relevant payment due under the relevant Interest Rate Swap Transactions thereunder and entitle the Interest Rate Swap Provider to terminate the relevant Interest Rate Swap Transactions.

The Interest Rate Swap Provider will be obliged to make payments under the Interest Rate Swap Agreement without any withholding or deduction of taxes unless required by law. If any such withholding or deduction is required by law, the Interest Rate Swap Provider will be required to pay such additional amount as is necessary to ensure that the amount actually received by the Issuer will equal the full amount the Issuer would have received had no such withholding or deduction been required. If such withholding or deduction is a withholding or deduction which becomes the subject of any tax credit, allowance, set-off, repayment or refund the Issuer shall ensure that any such benefit is paid directly to the Interest Rate Swap Provider.

The Interest Rate Swap Agreement will provide, however, that if due to action taken by a relevant taxing authority or brought in a court of competent jurisdiction or any change in tax law since the Closing Date the Interest Rate Swap Provider will, or there is a substantial likelihood that it will, on the next Interest Payment Date, be required to pay additional amounts in respect of tax under the Interest Rate Swap Agreement or will, or there is a substantial likelihood that it will, receive payment from the other party from which an amount is required to be deducted or withheld for or on account of tax (an **Interest Rate Swap Tax Event**), the Interest Rate Swap Provider will use its reasonable efforts to transfer its rights and obligations to another of its offices, branches or affiliates or a suitably rated third party to avoid the relevant Interest Rate Swap Tax Event. If no such transfer can be effected, the Interest Rate Swap Agreement and the relevant Interest Rate Swap Transaction may be terminated. The Interest Rate Swap Agreement will contain certain other limited termination events and events of default which will entitle either party to terminate it.

The Interest Rate Swap Provider will, on or prior to the Closing Date, have a rating assigned to its long-term unsubordinated and unsecured debt obligations of "AA-" by S&P, "AA-" by Fitch and "Aa3" by Moody's and its short-term unsubordinated and unsecured debt obligations of "A-1+" by S&P, "F1+" by Fitch and "P-1" by Moody's.

If the short-term, unsecured and unsubordinated debt obligations of the Interest Rate Swap Provider cease to be rated as high as "A-1" by S&P or "P-1" by Moody's or "F1" by Fitch or the long-term unsubordinated and unsecured debt obligations of the Interest Rate Swap Provider cease to be rated as high as "A1" by Moody's or "A" by Fitch (the **Minimum Interest Rate Swap Provider Ratings**), the Interest Rate Swap Provider, at its option must within 30 days (unless in certain circumstances the Rating Agencies confirm that no downgrade to the then current ratings of the Notes shall occur as a result of such downgrade of the Interest Rate Swap Provider),

- (a) provide collateral in support of its obligations under the Interest Rate Swap Agreement; or
- (b) transfer all of its rights and obligations with respect to the Interest Rate Swap Agreement to a replacement third party with the Minimum Interest Rate Swap Provider Ratings; or
- (c) find a co-obligor with the Minimum Interest Rate Swap Provider Ratings or obtain a guarantee of its rights and obligations under the Interest Rate Swap Agreement from a third party with the Minimum Interest Rate Swap Provider 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 cessation.

If the Interest Rate Swap Provider does not perform (a), (b), (c) or (d) above (or, if having posted collateral pursuant to (a) above, such ratings fall below a further ratings trigger and the Interest Rate Swap Provider fails to take any of the measures described in (b), (c) or (d) above within the then applicable time limit) then the Issuer will be entitled to terminate the Interest Rate Swap Transactions and enter into replacement interest rate swap transactions with another appropriately rated entity. If the Interest Rate Swap Provider defaults in its obligations under the Interest Rate Swap Transactions resulting in the termination thereof, the Issuer will, pursuant to the Note Trust Deed, be obliged to procure replacement interest rate swap transactions within 30 days of such default unless the Rating Agencies confirm that no downgrade to the then current ratings of the Notes would occur as a result of the Interest Rate Swap Transactions being terminated.

#### *Governing law*

The Interest Swap Agreement will be governed by English law.

### **3. Cash Management Agreement**

The Issuer, the Servicer, the Special Servicer, the Account Bank, the Issuer Security Trustee, the Calculation and Reporting Agent and the Cash Manager will enter into an agreement (the **Cash Management Agreement**) on or before the Closing Date pursuant to which the Cash Manager will provide certain cash management services and the Calculation and Reporting Agent will provide certain calculation and reporting services to the Issuer in respect of amounts standing to the credit of the Issuer Accounts (described below under "*Transaction Documents—Bank Account Agreement*").

On each **Calculation Date** (being the second Business Day prior to the relevant Interest Payment Date), the Calculation and Reporting Agent will be required to determine the various amounts required to pay interest and principal due on each Class of Notes on the forthcoming Interest Payment Date and all other amounts then payable by the Issuer, and the amounts expected to be available to make such payments in part based on information provided by the Servicer. In addition, on each Calculation Date, the Calculation and Reporting Agent will calculate the Principal Amount Outstanding for each Class of Notes for the Interest Period commencing on such forthcoming Interest Payment Date.

On each Calculation Date, the Calculation and Reporting Agent must determine, in accordance with the terms of the Cash Management Agreement, the amount of Available Issuer Income, Available Issuer Principal and the amounts to be paid under the Pre-Enforcement Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments or the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, as applicable, on the next Interest Payment Date. If the Calculation and Reporting Agent, acting on the basis of information provided to it, determines that the amount of Available Issuer Income, less any Priority Amounts paid since the immediately preceding Interest Payment Date or due to be paid by the Issuer prior to the next Interest Payment Date, will be insufficient to make payments set out under paragraphs (a) to (l) of the Pre-Enforcement Revenue Priority of Payments or paragraphs (a) to (k) of the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, as applicable, the Calculation and Reporting Agent will so notify the Cash Manager and the Cash Manager will, on behalf of the Issuer, make an Income Deficiency Drawing under the Liquidity Facility in the amount of such shortfall, subject to the availability of the Liquidity Facility. On the relevant Interest Payment Date, the Cash Manager will apply Adjusted Available Issuer Income in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, as applicable, and Available Issuer Principal in accordance with the Pre-Acceleration Principal Priority of Payments. Subject to receipt of funds from the Borrower, the Cash Manager will, prior to receipt of an Acceleration Notice, make

all payments required to carry out a redemption of Notes pursuant to **Condition 6** (Redemption), in each case according to the provisions of the relevant Condition from the Issuer Transaction Account. See further "*Cashflows*" below.

#### *Issuer Quarterly Report*

Pursuant to the Cash Management Agreement and subject to receipt of information from the Servicer regarding amounts received under the Senior Loan, the Calculation and Reporting Agent will prepare a quarterly Issuer report (each an **Issuer Quarterly Report**) containing, amongst other things, information in respect of each Calculation Date on receipts by the Issuer under the Senior Loan, amounts drawn under the Liquidity Facility and the administration of the Priorities of Payments. The Issuer Quarterly Report will be made available to Noteholders, the Issuer, the Principal Paying Agent, the Cash Manager, the Issuer Security Trustee, the Note Trustee and the Rating Agencies on the website of the Calculation and Reporting Agent currently located at [www.ctslink.com](http://www.ctslink.com) and on the Bloomberg page "CN".

#### *Termination*

In certain circumstances the Issuer will have the right to terminate the appointment of the Cash Manager and/or the Calculation and Reporting Agent and to appoint a substitute (the identity of which will be subject to the Issuer Security Trustee's written approval, acting on the instructions of the Note Trustee). Any substitute cash manager and/or reporting and calculation agent will have substantially the same rights and obligations as the Cash Manager and/or the Calculation and Reporting Agent (although the fee payable to any substitute cash manager and/or calculation and reporting agent may be higher).

#### *Governing law*

The Cash Management Agreement is governed by English law.

### **4. Bank Account Agreement**

The Issuer, the Cash Manager, the Issuer Security Trustee and the Account Bank will each enter into an agreement (the **Bank Account Agreement**) on or before the Closing Date pursuant to which the Issuer will establish the following bank accounts:

- (a) an account into which all amounts received in connection with the Senior Loan or the Loan Security, all drawings under the Liquidity Facility Agreement (other than Liquidity Stand-by Drawings) and all payments to the Issuer under the Interest Rate Swap Agreement are required to be paid (the **Issuer Transaction Account**);
- (b) an account into which the proceeds of issuance of the Notes representing the Pre-Funded Senior Loan commitment will on the Closing Date be deposited (the **Pre-Funding Account**) whereupon the Cash Manager will invest such sums in Eligible Investments in accordance with the terms of the Cash Management Agreement; and
- (c) an account (the **Liquidity Stand-by Account** and, together with the Issuer Transaction Account, the Pre-Funding Account and any other accounts maintained by the Issuer in accordance with the terms of the Transaction Documents from time to time, the **Issuer Accounts**) which will be opened by the Issuer with the Account Bank when a Liquidity Stand-by Drawing is made and into which the Liquidity Stand-by Drawing will be deposited.

The Servicer (acting as agent for the Issuer and the Security Agent, as applicable) will be responsible, pursuant to the terms of the Servicing Agreement, for ensuring that the amounts received in

connection with the Senior Loan are paid into the Issuer Transaction Account, subject to the terms of the Intercreditor Deed. Payments out of the Issuer Transaction Account will be made by the Cash Manager in accordance with the provisions of the Cash Management Agreement and the relevant Priorities of Payments as described under "*Cashflows*" below. The Issuer Accounts will be subject to the Issuer Security as described below under "*Transaction Documents—Issuer Deed of Charge*". On the Interest Payment Date falling in April 2007, any balance remaining in the Pre-Funding Account will be used to make a mandatory redemption of the Notes in accordance with **Condition 6.3(d)** (Mandatory Redemption in whole or in part).

If the Account Bank ceases to be an **Eligible Bank** (being a UK bank or a UK branch of a bank the short-term, unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least "F1" by Fitch, "P-1" by Moody's and "A-1+" by S&P and the long-term, unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least "A" by Fitch, "A1" by Moody's and "AA-" by S&P, or is otherwise acceptable to the Rating Agencies), the Account Bank will be required to procure the transfer (within 30 days) of the Issuer Accounts to an Eligible Bank on terms acceptable to the Issuer Security Trustee, acting on the instructions of the Note Trustee.

If, other than in the circumstances specified above, the Servicer or the Cash Manager wishes the bank or branch at which any account of the Issuer is maintained to be changed, the Servicer or the Cash Manager, as the case may be, will be required to obtain the prior written consent of the Issuer and the Issuer Security Trustee (acting on the instructions of the Note Trustee), in the case of the Issuer such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

#### *Governing law*

The Bank Account Agreement will be governed by English law.

## **5. Note Trust Deed**

On or before the Closing Date, the Issuer and the Note Trustee will enter into a trust deed (the **Note Trust Deed**) pursuant to which the Notes will be constituted. The Note Trust Deed will include the form of the Notes and contain a covenant from the Issuer to the Note Trustee to pay all amounts due under the Notes. The Note Trustee will hold the benefit of that covenant on trust for the Noteholders.

The Note Trust Deed will contain provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders equally (except where expressly provided otherwise), but where there is, in the Note Trustee's opinion, a conflict between any such interests of (i) the Class A Noteholders and (ii) any other Class of Noteholders, the Note Trust Deed will require the Note Trustee to have regard to the interests of the Class A Noteholders only, provided there are Class A Notes outstanding. If, in the Note Trustee's opinion, there is a conflict between the interests of (i) the Class B Noteholders and (ii) the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, the Note Trust Deed will require the Note Trustee to have regard to the interests of the Class B Noteholders only, provided there are Class B Notes outstanding. If, in the Note Trustee's opinion, there is a conflict between the interests of (i) the Class C Noteholders and (ii) the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, the Note Trust Deed will require the Note Trustee to have regard to the interests of the Class C Noteholders only, provided there are Class C Notes outstanding. If, in the Note Trustee's opinion, there is a conflict between the interests of (i) the Class D Noteholders and (ii) the Class E Noteholders and the Class F Noteholders, the Note Trust Deed will require the Note Trustee to have regard to the interests of the Class D Noteholders only, provided there are Class D Notes outstanding. If, in the Note Trustee's opinion, there is a conflict between the interests of (i) the Class E Noteholders and (ii) the Class F Noteholders, the Note Trust Deed will require the Note Trustee to have regard to the interests of the Class E Noteholders only, provided there are Class E Notes outstanding. Only the

holders of the Most Senior Class of Notes outstanding may request or direct the Note Trustee to take any action under the Note Trust Deed.

#### *Governing law*

The Note Trust Deed will be governed by English law.

### **6. Issuer Deed of Charge**

#### *General*

On or before the Closing Date, the Issuer will enter in to a deed of charge (the **Issuer Deed of Charge**) with each of the Issuer Security Trustee, the Note Trustee, the Liquidity Bank, the Interest Rate Swap Provider, the Cash Manager, the Calculation and Reporting Agent, the Agent Bank, the Paying Agents, the Account Bank, the Corporate Services Provider, the Servicer and the Special Servicer (together with the Noteholders and any appointee of the Issuer Security Trustee or the Note Trustee, the **Issuer Secured Creditors**) pursuant to which the Issuer will grant security in respect of its obligations, including the Notes. The Issuer expects that the appointment of an administrative receiver by the Issuer Security Trustee under the Issuer Deed of Charge will not be prohibited by Section 72A of the Insolvency Act 1986 as the appointment will fall within the exception set out under Section 72B of the Insolvency Act 1986 (First Exception: Capital Market).

#### *Security*

Under the Issuer Deed of Charge, the Issuer will grant the following security in favour of the Issuer Security Trustee who holds or will hold such security on trust for the benefit of itself and the other Issuer Secured Creditors:

- (a) an assignment by way of first security of its right, title, interest and benefit, present and future, in, to and under:
  - (i) the Servicing Agreement;
  - (ii) the Cash Management Agreement;
  - (iii) the Liquidity Facility Agreement;
  - (iv) the Agency Agreement;
  - (v) the Corporate Services Agreement; and
  - (vi) the Bank Account Agreement; and
  - (vii) the Interest Rate Swap Agreement;
- (b) an assignment by way of first security over all of its right, title, interest and benefit, present and future, under the Finance Documents and the Intercreditor Deed;
- (c) a first fixed charge over all of its right, title, interest and benefit, present and future, in and to the amounts from time to time standing to the credit of the Issuer Accounts;
- (d) a first fixed charge over all of its right, title, interest and benefit, present and future, in and to all Eligible Investments (permitted to be made by or on behalf of the Issuer); and



- (e) a first floating charge (ranking behind the claims of certain preferential creditors and the fixed security created pursuant to the Issuer Deed of Charge) over the whole of its undertaking and the property and assets of the Issuer not already subject to fixed security,

(together, the **Issuer Security**), all as more particularly set out in the Issuer Deed of Charge.

The Issuer Security Trustee shall not and shall not be bound to take proceedings against the Issuer or any other person to enforce the provisions of the Issuer Deed of Charge or any of the other Transaction Documents or any other action thereunder unless:

- (a) it shall have been directed or requested to do so by the Note Trustee or, but only to the extent that none of the Notes remain outstanding, has been requested in writing by all of the remaining Issuer Secured Creditors; and
- (b) it shall have been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The Notes will be full recourse obligations of the Issuer.

#### *Non-petition*

Each of the Issuer Secured Creditors which is a party to the Issuer Deed of Charge (other than the Note Trustee and the Issuer Security Trustee) will agree in the Issuer Deed of Charge that, unless the Issuer Security shall have become enforceable and the Issuer Security Trustee having become bound to take steps or proceedings to the enforce the Issuer Security, fails to do so within a reasonable period and such failure is continuing, it will not take any steps for the purpose of recovering any debts due or owing to it by the Issuer or to petition or procure the petitioning for the winding-up or administration of the Issuer or to file documents with the court or serve a notice of intention to appoint an administrator in relation to the Issuer.

#### *Enforcement*

The Issuer Security will become enforceable on the occurrence of a Note Event of Default pursuant to **Condition 10** (Events of Default) (or on the Final Maturity Date or any earlier redemption in full of the Notes, in each case upon failure to pay amounts due on the Notes). The Issuer Security Trustee will not, and will not be bound to, enforce the Issuer Security unless it has been instructed to do so by the Note Trustee. In respect of a Note Event of Default, if the Issuer Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Issuer Security Trustee will not be entitled to dispose of the assets comprising the Issuer Security or any part thereof unless (i) a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes, or (ii) the Issuer Security Trustee is of the opinion, which will be binding on the Noteholders, reached after considering at any time and from time to time the advice, upon which the Issuer Security Trustee will be entitled to rely, of such professional advisers as are selected by the Issuer Security Trustee, that the cashflow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes, or (iii) the Issuer Security Trustee determines that not to effect such disposal would place the Issuer Security in jeopardy, and, in any event, the Issuer Security Trustee has been secured and/or indemnified to its satisfaction.

#### *Governing law*

The Issuer Deed of Charge will be governed by English law, except insofar as any Issuer Charged Property is governed by Scots law in terms of the relevant Transaction Documents, in which case the Issuer Deed of Charge and all matters arising out of or connected with it in connection with such Issuer Charged Property shall be governed by and construed in accordance with Scots law.

## **7. Corporate Services Agreement**

The Issuer, the Options Holder, the Corporate Services Provider and the Issuer Security Trustee will each enter into a services agreement (the **Corporate Services Agreement**) on or before the Closing Date pursuant to which the Corporate Services Provider will agree to provide certain administrative services to the Issuer and certain administrative services to the Options Holder. The Corporate Services Provider will be entitled to receive a fee for the provision of such services. The Corporate Services Agreement may be terminated by any of the Issuer, the Options Holder or the Corporate Services Provider pursuant to its terms, but such termination shall only take effect when a substitute corporate services provider has been appointed (on substantially the same terms as the Corporate Services Provider) in accordance with the Corporate Services Agreement.

The Corporate Services Agreement will be governed by English law.

## **8. Post-Enforcement Call Option Agreement**

The Post-Enforcement Call Option Agreement will be entered into between the Issuer Security Trustee, the Note Trustee, the Issuer and the Options Holder pursuant to which a Post-Enforcement Call Option will be granted to the Options Holder. The terms of the post-enforcement call option (the **Post-Enforcement Call Option**) will require the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, in accordance with the terms of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes, respectively, to transfer the Notes to the Options Holder if the Options Holder exercises the Post-Enforcement Call Option in the event that:

- (a) the Issuer Security is enforced; and
- (b) professional advisers selected by the Issuer Security Trustee determine that the proceeds of such enforcement are insufficient to pay any further amounts on the Notes after payment of all other claims ranking in priority to the Notes.

The Class A Noteholders, Class B Noteholders, Class C Noteholders, Class D Noteholders, Class E Noteholders and Class F Noteholders will be paid a nominal amount only for such transfer.

The Post-Enforcement Call Option Agreement will be governed by English law.

## **9. Agency Agreement**

Pursuant to an agency agreement to be entered into on or prior to the Closing Date (the **Agency Agreement**) between the Issuer, the Note Trustee, the Principal Paying Agent, the Irish Paying Agent and the Agent Bank, provision will be made for, *inter alia*, payment of principal and interest in respect of the Notes of each Class.

The Agency Agreement will be governed by English law.

## **10. Master Definitions and Construction Schedule**

On or prior to the Closing Date, each of the Issuer, the Note Trustee, the Issuer Security Trustee, the Account Bank, the Cash Manager, the Calculation and Reporting Agent, the Liquidity Bank, the Interest Rate Swap Provider, the Servicer, the Special Servicer, the Agent Bank, the Paying Agents

and the Corporate Services Provider, among others, will sign, for the purposes of identification only, a definitions schedule (the **Master Definitions and Construction Schedule**) incorporating the definitions applicable to each of the Transaction Documents where not otherwise defined therein.

## CASHFLOWS

The payment priorities in respect of the Issuer Transaction Account will be set out in the Cash Management Agreement.

Prior to the enforcement of the Issuer Security and the service of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Cash Manager will be responsible for making payments of, among other things, interest on the Notes from Adjusted Available Issuer Income standing to the credit of the Issuer Transaction Account in accordance with the Pre-Enforcement Revenue Priority of Payments described below and for making any payments of scheduled principal or prepayment on the Notes from Available Issuer Principal standing to the credit of the Issuer Transaction Account in accordance with the Pre-Acceleration Principal Priority of Payments.

From and including the time at which the Issuer Security Trustee takes any steps to enforce the Issuer Security (but prior to the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full), payments of scheduled principal or prepayment on the Notes will be made by the Cash Manager (on behalf of the Issuer Security Trustee) in accordance with the Pre-Acceleration Principal Priority of Payments, but payments of, among other things, interest on the Notes will be made by the Cash Manager (on behalf of the Issuer Security Trustee) in accordance with the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments described below.

Following the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Issuer Security Trustee will make payments of principal and interest on the Notes to the extent of available funds in accordance with the Post-Acceleration Priority of Payments described below.

**Available Issuer Income** will comprise:

- (a) all monies (other than principal and any prepayment amounts (other than Facility Fees)) to be paid to the Issuer under or in respect of the Credit Agreement less the amount of any expected shortfall in such amount as notified to the Cash Manager by the Servicer;
- (b) in respect of an Interest Payment Date, all amounts received by the Issuer from the Interest Rate Swap Provider under the Interest Rate Swap Agreement (other than any amounts received from the Interest Rate Swap Provider in respect of collateral provided in support of its obligations under the Interest Rate Swap Agreement); and
- (c) in respect of an Interest Payment Date, any interest accrued upon the Issuer Transaction Account, the Pre-Funding Account and the Liquidity Stand-by Account and paid into the Issuer Transaction Account, the Pre-Funding Account or the Liquidity Stand-by Account, as applicable, together with the yield element of the proceeds of any Eligible Investments made by or on behalf of the Issuer out of amounts standing to the credit of the Issuer Transaction Account, the Pre-Funding Account or the Liquidity Stand-by Account and paid into the Issuer Transaction Account, the Pre-Funding Account or the Liquidity Stand-by Account, in each case received since the immediately preceding Interest Payment Date and as notified to the Calculation and Reporting Agent by the Account Bank.

**Adjusted Available Issuer Income** on any date means Available Issuer Income plus any Income Deficiency Drawings under the Liquidity Facility, in each case standing to the credit of the Issuer Transaction Account.

**Available Issuer Principal** will comprise:

- (a) all monies representing principal and any prepayment amounts to be paid to the Issuer under or in respect of the Credit Agreement less the amount of any expected shortfall in such amount as notified to the Cash Manager by the Servicer; and

- (b) on the Interest Payment Date falling in April 2007, the balance, if any, remaining in the Pre-Funding Account (less any interest amounts or the yield element of the proceeds of any Eligible Investments in respect of such balance made by or on behalf of the Issuer out of amounts standing to the credit of the Pre-Funding Account),

provided that, for the avoidance of doubt, Available Issuer Principal will not comprise any amounts received from the Interest Rate Swap Provider in respect of collateral provided in support of its obligations under the Interest Rate Swap Agreement or any amount standing to the credit of the Liquidity Stand-by Account.

*Payments out of the Issuer Transaction Account – Priority Amounts*

Prior to the enforcement of the Issuer Security or the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Cash Manager will pay, out of funds standing to the credit of the Issuer Transaction Account, sums due to third parties other than the Issuer Secured Creditors, including the Issuer's liability, if any, to taxation (the **Priority Amounts**), on a date other than an Interest Payment Date under obligations incurred in the course of the Issuer's business.

From and including the time at which the Issuer Security Trustee takes any steps to enforce the Issuer Security or following service of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, Priority Amounts will not be paid out of the Issuer Transaction Account.

*Pre-Enforcement Revenue Priority of Payments*

Prior to (i) the enforcement of the Issuer Security or (ii) the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Cash Manager (on behalf of the Issuer) will, on each Interest Payment Date, apply Adjusted Available Issuer Income from the Issuer Transaction Account in the following order of priority (the **Pre-Enforcement Revenue Priority of Payments**) (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full):

- (a) in or towards satisfaction of any costs, expenses, fees, remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to, *pari passu* and *pro rata*, the Note Trustee and the Issuer Security Trustee and any other person appointed by the Note Trustee under the Note Trust Deed and/or any other Transaction Document to which it is a party or by the Issuer Security Trustee under the Issuer Deed of Charge and/or any other Transaction Document to which it is a party (including, without limitation, any Receiver appointed by the Issuer Security Trustee);
- (b) in or towards satisfaction of any amounts due and payable by the Issuer on such Interest Payment Date to, *pari passu* and *pro rata*, the Paying Agents and the Agent Bank (in each case for their own account) under the Agency Agreement;
- (c) in or towards satisfaction, *pari passu* and *pro rata* according to amounts then due, of any amounts due and payable by the Issuer on such Interest Payment Date to:
  - (i) the Cash Manager under the Cash Management Agreement;
  - (ii) the Calculation and Reporting Agent under the Cash Management Agreement;
  - (iii) the Account Bank under the Bank Account Agreement;
  - (iv) the Corporate Services Provider under the Corporate Services Agreement;

- (v) the Servicer under the Servicing Agreement (including any substitute servicer appointed in accordance therewith); and
- (vi) the Special Servicer under the Servicing Agreement (including any substitute special servicer appointed in accordance therewith);
- (d) in or towards satisfaction of any amounts due and payable by the Issuer on such Interest Payment Date to the Liquidity Bank under and in accordance with the Liquidity Facility Agreement (other than any Liquidity Subordinated Amounts);
- (e) in or towards satisfaction of any amounts due and payable by the Issuer on such Interest Payment Date to the Interest Rate Swap Provider under and in accordance with the Interest Rate Swap Agreement (other than any Subordinated Interest Rate Swap Amounts);
- (f) in or towards payment or discharge of sums due to third parties (other than Issuer Secured Creditors) under obligations incurred in the course of the Issuer's business;
- (g) in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class A Notes;
- (h) in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class B Notes;
- (i) in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class C Notes;
- (j) in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class D Notes;
- (k) in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class E Notes;
- (l) in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class F Notes;
- (m) in or towards payment of any Liquidity Subordinated Amounts payable to the Liquidity Bank;
- (n) in or towards payment of any Subordinated Interest Rate Swap Amounts payable by the Issuer on such Interest Payment Date to the Interest Rate Swap Provider;
- (o) to retain in a separate ledger in the Issuer Transaction Account an amount equal to 0.01 per cent. of Available Issuer Income in respect of such Interest Payment Date; and
- (p) any surplus to the Issuer.

**Subordinated Interest Rate Swap Amount** means any termination amount due to the Interest Rate Swap Provider as a result of:

- (a) the occurrence of an Interest Rate Swap Termination Event in respect of the Interest Rate Swap Provider where the Interest Rate Swap Provider is the Defaulting Party (as defined in the Interest Rate Swap Agreement) or sole Affected Party (as defined in the Interest Rate Swap Agreement) in respect of a termination event related to a ratings downgrade of obligations of the Interest Rate Swap Provider; or

- (b) the failure by the Interest Rate Swap Provider to comply with the requirements under the Interest Rate Swap Agreement in relation to loss of Minimum Interest Rate Swap Provider Ratings (as defined above in the section entitled "*Transaction Documents – the Interest Rate Swap Agreement*").

#### *Post-Enforcement, Pre-Acceleration Revenue Priority of Payments*

From and including the time at which the Issuer Security Trustee takes any steps to enforce the Issuer Security but prior to the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Issuer Security Trustee (or with the consent of the Issuer Security Trustee, the Cash Manager on its behalf) or any receiver appointed by it will apply Adjusted Available Issuer Income credited to the Issuer Transaction Account in or towards satisfaction of the liabilities set out in and in the same order of priority as the Pre-Enforcement Revenue Priority of Payments, disregarding items (f) and (p) (such priority the **Post-Enforcement, Pre-Acceleration Revenue Priority of Payments**) and any surplus will be held on trust by the Issuer Security Trustee for application in accordance with the applicable Priorities of Payments on the next Interest Payment Date.

#### *Pre-Acceleration Principal Priority of Payments*

Prior to the enforcement of the Issuer Security, the Cash Manager, and following the enforcement of the Issuer Security but prior to the delivery of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Issuer Security Trustee (or with the consent of the Issuer Security Trustee, the Cash Manager on its behalf) or any receiver appointed by it, will on each Interest Payment Date, apply any Available Issuer Principal standing to the credit of the Issuer Transaction Account in the order of priority (the **Pre-Acceleration Principal Priority of Payments**) (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full) set out in the relevant paragraph of **Condition 6.1** (Redemption at maturity), **Condition 6.2** (Redemption for taxation or other reasons), **Condition 6.3** (Mandatory redemption in whole or in part) or **Condition 6.4** (Optional redemption in whole or in part), as applicable.

#### *Post-Acceleration Priority of Payments*

Following the service of an Acceleration Notice or the Notes otherwise becoming due and repayable in full, the Issuer Security Trustee or any Receiver appointed by it will be required to apply all funds received or recovered by it (other than any principal amounts standing to the credit of the Liquidity Stand-by Account in respect of a Liquidity Stand-by Drawing and any amounts received from the Interest Rate Swap Provider in respect of collateral provided in support of its obligations under the Interest Rate Swap Agreement) in accordance with the following order of priority (the **Post-Acceleration Priority of Payments** and, together with the Pre-Enforcement Revenue Priority of Payments, the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments, the **Priorities of Payments**) (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Cash Management Agreement:

- (a) in or towards satisfaction of any costs, expenses, fees, remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to, *pari passu* and *pro rata*, the Note Trustee and the Issuer Security Trustee and any other person appointed by either of them under the Note Trust Deed, the Issuer Deed of Charge and/or any Transaction Document to which the Note Trustee and/or the Issuer Security Trustee is a party;
- (b) in or towards satisfaction of any amounts due and payable by the Issuer to, *pari passu* and *pro rata*, the Paying Agents and the Agent Bank in respect of amounts properly paid by such persons to the Noteholders and not paid by the Issuer under the Agency Agreement together with any other amounts due to the Paying Agents or the Agent Bank pursuant to the Agency Agreement;

- (c) in or towards satisfaction, pro rata according to the amounts then due, of any amounts due and payable by the Issuer to:
  - (i) the Cash Manager under the Cash Management Agreement;
  - (ii) the Calculation and Reporting Agent under the Cash Management Agreement;
  - (iii) the Account Bank under the Bank Account Agreement;
  - (iv) the Corporate Services Provider under the Corporate Services Agreement;
  - (v) the Servicer under the Servicing Agreement (including any substitute servicer appointed in accordance therewith); and
  - (vi) the Special Servicer under the Servicing Agreement (including any substitute special servicer appointed in accordance therewith);
- (d) in or towards satisfaction of any amounts due and payable by the Issuer to the Liquidity Bank under and in accordance with the Liquidity Facility Agreement (other than any Liquidity Subordinated Amounts);
- (e) in or towards satisfaction of any amounts due and payable by the Issuer to the Interest Rate Swap Provider under and in accordance with the Interest Rate Swap Agreement (other than any Subordinated Interest Rate Swap Amounts);
- (f) in or towards payment of any principal and interest due and interest overdue (and all interest due on such overdue interest) on the Class A Notes;
- (g) in or towards payment of any principal and interest due and interest overdue (and all interest due on such overdue interest) on the Class B Notes;
- (h) in or towards payment of any principal and interest due and interest overdue (and all interest due on such overdue interest) on the Class C Notes;
- (i) in or towards payment of any principal and interest due and interest overdue (and all interest due on such overdue interest) on the Class D Notes;
- (j) in or towards payment of any principal and interest due and interest overdue (and all interest due on such overdue interest) on the Class E Notes;
- (k) in or towards payment of any principal and interest due and interest overdue (and all interest due on such overdue interest) on the Class F Notes;
- (l) in or towards payment of any Liquidity Subordinated Amounts payable to the Liquidity Bank;
- (m) in or towards payment of any Subordinated Interest Rate Swap Amounts payable by the Issuer to the Interest Rate Swap Provider; and
- (n) any surplus to the Issuer.



## ACCOUNT BANK

HSBC Bank plc and its subsidiaries form a UK-based group providing a comprehensive range of banking and related financial services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name of Midland Bank Limited which it held until 1982 when it was re-registered as a public limited company and its name was changed to Midland Bank plc.

During the year ended 31 December 1992, Midland Bank plc became a wholly-owned subsidiary undertaking of HSBC Holdings plc, whose registered head office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in the year ended 31 December 1999. HSBC Holdings plc is listed on the London, Hong Kong, New York, Paris and Bermuda Stock Exchanges.

HSBC Holdings plc and its subsidiaries (the **HSBC Group**) are one of the largest banking and financial services organisations in the world, with over 9,700 offices and over 259,000 staff in 77 countries and territories in five geographical regions: Europe; Hong Kong SAR; the rest of the Asia-Pacific region (including the Middle East and Africa); North America; and South America. As at 30 June 2005 its total assets were valued at US\$1,467 billion. HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe and is one of the leading corporate lenders in the United Kingdom.

The short-term unsecured obligations of HSBC Bank plc are rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch and the long-term obligations of HSBC Bank plc are rated AA- by S&P, Aa2 by Moody's and AA by Fitch.

The information above with respect to HSBC Bank plc has been obtained from them. Delivery of this document shall not create any implication that there has been no change in the affairs of HSBC Bank plc or the HSBC Group since the date hereof or that the information contained or referred to herein is correct as of any time subsequent to this date.

## LIQUIDITY BANK

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London E14 5HP. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from Barclays Bank International Limited to Barclays Bank PLC.

Barclays Bank PLC and its subsidiary undertakings (taken together, the **Barclays Group**) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The Barclays Group also operates in many other countries around the world. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Barclays Group and one of the largest financial services companies in the world by market capitalisation.

The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch and the long-term obligations of Barclays Bank PLC are rated AA by S&P, Aa1 by Moody's and AA+ by Fitch.

From 2005, the Barclays Group will prepare financial statements on the basis of International Financial Reporting Standards (**IFRS**). Based on the unaudited interim financial information as at and for the period ended 30 June 2005, prepared in accordance with IFRS, the Barclays Group had total assets of £850,362 million, total net loans and advances of £272,348 million, total deposits of £302,253 million, and shareholders' equity (excluding minority interests) of £21,824 million. The profit before taxation of the Barclays Group for the period ended 30 June 2005 was £2,690 million after charging an impairment loss on loans and advances and other credit risk provisions of £706 million.

The Barclays Group's audited financial statements for the year ended 31 December 2004 were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP). On this basis, as at 31 December 2004, the Group had total assets of £522,253 million, total net loans and advances of £330,077 million, total deposits of £328,742 million and total shareholders' funds of £18,271 million (including £690 million of non-equity funds). The profit before taxation under UK GAAP for the year ended 31 December 2004 was £4,612 million after charging net provisions for bad and doubtful debts of £1,091 million.

The information above with respect to Barclays Bank PLC has been obtained from them. Delivery of this document shall not create any implication that there has been no change in the affairs of Barclays Bank PLC or the Barclays Group since the date hereof or that the information contained or referred to herein is correct as of any time subsequent to this date.

## DEUTSCHE BANK AG

Deutsche Bank AG, London Branch act as Joint Lead Manager and Joint Bookrunner in respect of the Notes, as Servicer, as Interest Rate Swap Provider and as Facility Agent and Security Agent under the Credit Agreement.

### **Incorporation, Registered Office and Objectives**

Deutsche Bank Aktiengesellschaft (**Deutsche Bank** or the **Bank**) originated from the reunification of Norddeutsche Bank Aktiengesellschaft, Hamburg, Rheinisch-Westfälische Bank Aktiengesellschaft, Duesseldorf and Süddeutsche Bank Aktiengesellschaft, Munich; pursuant to the Law on the Regional Scope of Credit Institutions, these had been disincorporated in 1952 from Deutsche Bank which was founded in 1870. The merger and the name were entered in the Commercial Register of the District Court Frankfurt am Main on 2 May 1957. Deutsche Bank is a banking institution and a stock corporation incorporated under the laws of Germany under registration number HRB 30 000. The Bank has its registered office in Frankfurt am Main, Germany. It maintains its head office at Taunusanlage 12, 60325 Frankfurt am Main and branch offices in Germany and abroad including in London, New York, Sydney, Tokyo and an Asia-Pacific Head Office in Singapore which serve as hubs for its operations in the respective regions.

Deutsche Bank is the parent company of a group consisting of banks, capital market companies, fund management companies, a real-estate finance company, instalment financing companies, research and consultancy companies and other domestic and foreign companies (the **Deutsche Bank Group**).

The objects of Deutsche Bank, as laid down in its Articles of Association, include the transaction of all kinds of banking business, the provision of financial and other services and the promotion of international economic relations. The Bank may realise these objectives itself or through subsidiaries and affiliated companies. To the extent permitted by law, the Bank is entitled to transact all business and to take all steps which appear likely to promote the objectives of the Bank, in particular: to acquire and dispose of real estate, to establish branches at home and abroad, to acquire, administer and dispose of participations in other enterprises, and to conclude company-transfer agreements.

### **Share Capital**

As of 30 June 2005, Deutsche Bank's issued share capital amounted to Euro 1,415,674,150.40 consisting of 552,997,715 ordinary shares without par value. The shares are fully paid up and in registered form. The shares are listed for trading and official quotation on all the German Stock Exchanges. They are also listed on the Stock Exchanges in Amsterdam, Brussels, London, Luxembourg, New York, Paris, Tokyo, Vienna and Zurich.

### **Capitalisation and Indebtedness of Deutsche Bank Group**

As of 30 September 2005, Deutsche Bank Group's capitalisation and indebtedness (un-audited) on the basis of United States Generally Accepted Accounting Principles (**U.S. GAAP**) was as follows:

	As of 30 September 2005 (in Euro million)
Deposits	360,329
Trading liabilities	193,259
Central bank funds purchased and securities sold under repurchase agreements	134,079
Securities loaned	19,183
Other short-term borrowings	26,206
Other liabilities	81,402
Long-term debt	123,852
Obligation to purchase common shares	3,506
<b>Total liabilities</b>	<b>941,816</b>

Common shares, no par value, nominal value of Euro 2.56	1,416
Additional paid-in capital	11,498
Retained earnings	22,140
Common shares in treasury, at cost	(2,290)
Equity classified as obligation to purchase common shares	(3,506)
Share awards	1,926
Accumulated other comprehensive income (loss)	
Deferred tax on unrealized net gains on securities available for sale relating to 1999 and 2000 tax rate changes in Germany	(2,375)
Unrealized net gains on securities available for sale, net of applicable tax and other	2,651
Unrealized net gains on derivatives hedging variability of cash flows, net of tax	20
Minimum pension liability, net of tax	(1)
Foreign currency translation, net of tax	(1,464)
<b>Total accumulated other comprehensive loss</b>	<b>(1,169)</b>
<b>Total shareholders' equity</b>	<b>30,015</b>
<b>Total liabilities and shareholders' equity</b>	<b>971,831</b>

There has been no material change in Deutsche Bank Group's capitalisation and indebtedness since 30 September 2005.

The information above with respect to Deutsche Bank has been obtained from them. Delivery of this document shall not create any implication that there has been no change in the affairs of Deutsche Bank or the Deutsche Bank Group since the date hereof or that the information contained or referred to herein is correct as of any time subsequent to this date.

## ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS

The average lives of the Notes cannot be predicted because the Senior Loan will, in certain circumstances, be prepayable and a number of other relevant factors are unknown.

Calculations of possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Senior Loan is not sold by the Issuer;
- (b) the Senior Loan does not default, is not prepaid (in whole or in part other than in accordance with the amortisation schedule) nor is it enforced and no loss arises; and
- (c) the Closing Date is 9 February 2006,

then the approximate average lives of the Notes would be as follows:

- (i) in respect of the Class A Notes, 7.02 years;
- (ii) in respect of the Class B Notes 7.18 years;
- (iii) in respect of the Class C Notes, 7.18 years;
- (iv) in respect of the Class D Notes, 7.18 years;
- (v) in respect of the Class E Notes, 7.18 years; and
- (vi) in respect of the Class F Notes, 7.18 years.

Assumptions (a) and (b) above relate to circumstances which are not predictable.

The average lives of the Notes will be subject to factors outside the control of the Issuer and consequently no assurance can be given that the estimates above will in fact be realised and they must therefore be viewed with considerable caution.

## USE OF PROCEEDS

The gross proceeds from the issue of the Notes will be approximately £355,654,239 and this sum will be applied by the Issuer in making the Initial Senior Loan to the Borrower pursuant to the terms of the Credit Agreement as described above under "*The Loan and the Loan Security*" and to deposit an amount equal to the Pre-Funded Senior Loan commitment in the Pre-Funding Account of the Issuer which may in whole or part be advanced to the Borrower by the Issuer as the Pre-Funded Senior Loan in connection with the acquisition of the Cardiff Property by the Borrower, subject to the satisfaction of conditions precedent described above under "*The Senior Loan and the Loan Security*".

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes in the form which (subject to modification) they will be set out in the Note Trust Deed. The Conditions set out below will apply to the Notes whether they are in definitive form (if issued) or in global form.*

The issue of the £174,300,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class A Notes**), the £87,200,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2016, the £34,900,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class C Notes**), the £17,400,000 Class D Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class D Notes**), the £31,800,000 Class E Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class E Notes**) and the £10,238,679 Class F Commercial Mortgage Backed Floating Rate Notes due 2016 (the **Class F Notes** and, together with the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes, the **Notes**) by Vanwall Finance plc (the **Issuer**) was authorised by a resolution of the board of directors of the Issuer passed on 6 February 2006.

The Notes are constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Note Trust Deed**) dated on or about 9 February 2006 (the **Closing Date**) made between the Issuer and HSBC Trustee (C.I.) Limited (the **Note Trustee**, which expression includes its successors as trustee or any further or other trustee(s) under the Note Trust Deed as trustee(s) for the holders of the Notes (the **Noteholders**)).

The security for the Notes is constituted by a deed of charge and assignment (the **Issuer Deed of Charge**) dated the Closing Date and made between, among others, the Issuer and HSBC Trustee (C.I.) Limited (in such capacity, the **Issuer Security Trustee**).

Pursuant to an agency agreement (the **Agency Agreement**) dated the Closing Date and made between the Issuer, HSBC Institutional Trust Services (Ireland) Limited as Irish paying agent (the **Irish Paying Agent**), HSBC Bank plc as principal paying agent (the **Principal Paying Agent** and, together with Irish Paying Agent and such additional or other paying agents, if any, appointed from time to time pursuant to the Agency Agreement, the **Paying Agents**), as agent bank (the **Agent Bank**) which expression includes any successor agent bank appointed from time to time in connection with the Notes) and the Note Trustee, provision is made for the payment of principal, premium (if any) and interest in respect of the Notes of each class.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Issuer Deed of Charge and the master definitions and construction schedule (the **Master Definitions and Construction Schedule**) signed by the Issuer Secured Creditors for the purpose of identification on or about the Closing Date.

Copies of the Note Trust Deed, the Issuer Deed of Charge, the Agency Agreement, the Master Definitions and Construction Schedule and the other Transaction Documents are available for inspection during normal business hours at the specified office for the time being of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them.

A reference to a **Class of Notes** or to a **Class of Noteholders** shall be a reference to the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes or the Class F Notes or, as the case may be, the respective holders thereof and **Classes**, in a similar context, shall be construed accordingly.

**Most Senior Class of Notes** means:

- (a) the Class A Notes; or

- (b) if no Class A Notes are then outstanding, the Class B Notes (if, at any time, any Class B Notes are then outstanding); or
- (c) if no Class A Notes or Class B Notes are then outstanding, the Class C Notes (if, at any time, any Class C Notes are then outstanding); or
- (d) if no Class A Notes, Class B Notes or Class C Notes are then outstanding, the Class D Notes (if, at any time, any Class D Notes are then outstanding); or
- (e) if no Class A Notes, Class B Notes, Class C Notes or Class D Notes are then outstanding, the Class E Notes (if, at any time, any Class E Notes are then outstanding); or
- (f) if no Class A Notes, Class B Notes, Class C Notes, Class D Notes or Class E Notes are then outstanding, the Class F Notes (if, at any time, any Class F Notes are then outstanding).

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Master Definitions and Construction Schedule available as described above. These Conditions shall be construed in accordance with the principles of construction set out in the Master Definitions and Construction Schedule.

## 1. GLOBAL NOTES

### 1.1 Temporary Global Notes

Each class of the Notes (which will be in the denomination of £50,000 each (or an integral multiple of £1,000 in excess thereof, and in the case of the Class F Notes only, in an integral multiple of £1 in excess thereof), subject to pro rata redemption of Notes of the same class) is initially represented by a temporary global note (each, a **Temporary Global Note**) in bearer form in the aggregate principal amount on issue of £174,300,000 for the Class A Notes, £87,200,000 for the Class B Notes, £34,900,000 for the Class C Notes, £17,400,000 for the Class D Notes, £31,800,000 for the Class E Notes and £10,238,679 for the Class F Notes.

Each Temporary Global Note has been deposited on behalf of the subscribers of the relevant class of Notes with HSBC Bank plc as common depositary (the **Common Depositary**) for Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) and for Euroclear Bank S.A./N.V., as operator of the Euroclear System (**Euroclear**) on the Closing Date. Upon deposit of the Temporary Global Notes, Clearstream, Luxembourg and Euroclear will credit the account of each Accountholder (as defined below) with the principal amount of Notes for which it had subscribed and paid.

### 1.2 Permanent Global Notes

Interests in each Temporary Global Note are exchangeable on and after the date which is 40 days after the Closing Date, upon certification of non-U.S. beneficial ownership by the relevant Noteholder, for interests in a permanent global note (each, a **Permanent Global Note**) representing the same class of Notes (the expressions **Global Notes** and **Global Note** meaning, respectively, (i) all the Temporary Global Notes and the Permanent Global Notes or the Temporary Global Note and the Permanent Global Note of a particular class, or (ii) any of the Temporary Global Notes or Permanent Global Notes, as the context may require). The Permanent Global Notes have also been deposited with the Common Depositary for Clearstream, Luxembourg and Euroclear.



### 1.3 Form and Title

Title to the Global Notes will pass by delivery. Interests in a Global Note will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as the case may be.

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 Note Trust Deed. The expressions Noteholders and holder of Notes and related expressions shall be construed accordingly

- (a) **Class A Noteholders** means Noteholders in respect of the Class A Notes;
- (b) **Class B Noteholders** means Noteholders in respect of the Class B Notes;
- (c) **Class C Noteholders** means Noteholders in respect of the Class C Notes;
- (d) **Class D Noteholders** means Noteholders in respect of the Class D Notes;
- (e) **Class E Noteholders** means Noteholders in respect of the Class E Notes; and
- (f) **Class F Noteholders** means Noteholders in respect of the Class F Notes.

## 2. DEFINITIVE NOTES

### 2.1 Issue of Definitive Notes

If, while any of the Notes are represented by a Permanent Global Note:

- (a) either Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Note Trustee is then in existence; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date,

the Issuer or any Paying Agent is or will on the next Interest Payment Date (as defined below) be required to make any deduction or withholding from any payment in respect of such Notes which would not be required were such Notes in definitive form, then the Issuer will issue Notes of the relevant class in definitive form (**Definitive Notes**) in exchange for such Permanent Global Note (free of charge to the persons entitled to them) within 30 days of the occurrence of the relevant event. These Conditions and the Transaction Documents will be

amended in such manner as the Note Trustee and Issuer Security Trustee require to take account of the issue of Definitive Notes.

## 2.2 Title to and transfer of Definitive Notes

Definitive Notes (which, if issued, will be in the denomination of £50,000 each) will be serially numbered and will be issued in bearer form with (at the date of issue) interest coupons, principal coupons and, if necessary, talons attached. Title to the Definitive Notes will pass by delivery.

The Issuer, the Paying Agents and the Note Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Definitive Note as the absolute owner for all purposes (whether or not the Definitive Note shall be overdue and notwithstanding any notice of ownership, theft or loss, of any trust or other interest therein or of any writing on the Definitive Note) and the Issuer, the Note Trustee and the Paying Agents shall not be required to obtain any proof thereof or as to the identity of such holder.

## 2.3 Trading in differing nominal amounts

- (a) For so long as the Notes of any 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 minimum nominal amounts of £50,000 and integral multiples of £1,000 in excess thereof (and, in the case of the Class F Notes, in integral multiples of £1 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 any 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 £1,000 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 £1,000 in nominal amount.

## 3. STATUS, SECURITY AND PRIORITY OF PAYMENTS

### 3.1 Status and relationship between Classes of Notes

- (a) The Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes constitute direct, secured and unconditional obligations of the Issuer and are secured by assignments, charges and other fixed and floating security interests over all of the assets of the Issuer (as more particularly described in the Issuer Deed of Charge) (the **Issuer Charged Property**) (such assignments, charges and fixed and floating security together, the **Issuer Security**). Notes of the same Class rank *pari passu* and rateably without any preference or priority amongst themselves.

- (b) In accordance with the provisions of this **Condition 3**, the Note Trust Deed and the Issuer Deed of Charge and save as otherwise provided in **Condition 6.3** (Mandatory redemption in whole or in part) in relation to payment of principal, the Class A Notes will rank in priority to all other Classes of Notes in point of security and as to right of payment of principal and interest, the Class B Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes but will rank in priority to the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes in point of security and as to right of payment of principal and interest. The Class C Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes and the Class B Notes but will rank in priority to the Class D Notes, the Class E Notes and the Class F Notes in point of security and as to right of payment of principal and interest. The Class D Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes, the Class B Notes and the Class C Notes but will rank in priority to the Class E Notes and the Class F Notes in point of security and as to right of payment of principal and interest. The Class E Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes but will rank in priority to the Class F Notes in point of security and as to right of payment of principal and interest. The Class F Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes and the Class E Notes.
- (c) In connection with the exercise of the powers, trusts, authorities, duties and discretions vested in it by the Note Trust Deed and the other Transaction Documents, the Note Trustee shall except where expressly provided otherwise, have regard to the interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders equally PROVIDED THAT if in the opinion of the Note Trustee (1) (for so long as there are any Class A Notes outstanding) there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the Class C Noteholders and/or the Class D Noteholders and/or the Class E Noteholders and/or the Class F Noteholders on the other hand, it shall have regard only to the interests of the Class A Noteholders, (2) (for so long as there are any Class B Notes outstanding) there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders and/or the Class D Noteholders and/or the Class E Noteholders and/or the Class F Noteholders, it shall, subject to (1) above, have regard only to the interests of the Class B Noteholders, (3) (for so long as there are any Class C Notes outstanding) there is a conflict between the interests of the Class C Noteholders and the interests of the Class D Noteholders and/or the Class E Noteholders and/or the Class F Noteholders, it shall, subject to (1) and (2) above, have regard only to the interests of the Class C Noteholders, (4) (for so long as there are any Class D Notes outstanding) there is a conflict between the interests of the Class D Noteholders and the interests of the Class E Noteholders and/or the Class F Noteholders, it shall, subject to (1), (2) and (3) above, have regard only to the interests of the Class D Noteholders and (5) (for so long as there are any Class E Notes outstanding) there is a conflict between the interests of the Class E Noteholders and the interests of the Class F Noteholders, it shall, subject to (1), (2), (3) and (4) above, have regard only to the interests of the Class E Noteholders.

So long as any of the Notes remain 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 Issuer Security.

### 3.2 Security

- (a) The security constituted by the Issuer Deed of Charge is granted to the Issuer Security Trustee, on trust for the Noteholders and certain other creditors of the Issuer, upon and subject to the terms and conditions of the Issuer Deed of Charge.
- (b) The Noteholders will share in the benefit of the security constituted by the Issuer Deed of Charge, upon and subject to the terms and conditions of the Issuer Deed of Charge.

## 4. COVENANTS

4.1 Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Transaction Documents provide or envisage that the Issuer will engage; or (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985) or any employees or premises;
- (c) **Disposal of assets:** transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (e) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other 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) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;
- (h) **Bank accounts:** have an interest in any bank account other than the Issuer Accounts, unless such account or interest therein is charged to the Issuer Security Trustee on terms acceptable to it;
- (i) **VAT:** apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or such act, regulation, order, statutory instrument or directive which may from time to time

re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994; or

- (j) **Surrender of group relief:** offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988.

## 5. INTEREST

### 5.1 Period of accrual

The Notes will bear interest from (and including) the Closing Date. Interest shall cease to accrue on any part of the Principal Amount Outstanding (as defined in **Condition 6.5** (Principal Amount Outstanding) of any Note from the due date for redemption unless, upon due presentation, payment of principal or any part thereof due is improperly withheld or refused or any other default is made in respect thereof. In such event, interest will continue to accrue as provided in the Note Trust Deed.

### 5.2 Interest Payment Dates and Interest Periods

Interest on the Notes is, subject as provided below in relation to the first payment, payable quarterly in arrear on 12 January, 12 April, 12 July and 12 October in each year or, if any such day is not a Business Day (as defined below), the next succeeding Business Day (unless that succeeding Business Day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day) (each, an **Interest Payment Date**). The first such payment is due on the Interest Payment Date falling in April 2006 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date. Each period from (and including) an Interest Payment Date (or the Closing Date, in the case of the first Interest Period) to (but excluding) the next (or, in the case of the first Interest Period, the first) Interest Payment Date is in these Conditions called an **Interest Period**.

### 5.3 Rates of Interest

The rate of interest payable from time to time (the **Rate of Interest**) and the Interest Payment (as defined below) in respect of each Class of Notes will be determined by the Agent Bank on the basis of the following provisions:

- (a) The Agent Bank will, at or as soon as practicable after 11.00 a.m. (London time) on the Business Day that falls on the first day of each Interest Period (each, an **Interest Determination Date**), determine the Rate of Interest applicable to, and calculate the amount of interest payable on each of the Notes (each payment so calculated, an **Interest Payment**), for the next Interest Period. The Rate of Interest applicable to the Notes of each Class for any Interest Period will be equal to:
  - (i) in the case of the Class A Notes, LIBOR (as determined in accordance with **Condition 5.3(b)** (Determination of LIBOR)) plus a margin of 0.28 per cent. per annum;
  - (ii) in the case of the Class B Notes, LIBOR (as so determined) plus a margin of 0.34 per cent. per annum;
  - (iii) in the case of the Class C Notes, LIBOR (as so determined) plus a margin of 0.60 per cent. per annum;
  - (iv) in the case of the Class D Notes, LIBOR (as so determined) plus a margin of 0.80 per cent. per annum;

- (v) in the case of the Class E Notes, LIBOR (as so determined) plus a margin of 1.10 per cent. per annum; and
- (vi) in the case of the Class F Notes, LIBOR (as so determined) plus a margin of 1.50 per cent. per annum.

The Interest Payment in relation to a Note of a particular Class shall be calculated by applying the Rate of Interest applicable to the Notes of that Class to the Principal Amount Outstanding of each Note of that Class, multiplying the product of such calculation by the actual number of days in the relevant Interest Period divided by 365 and rounding the resultant figure to the nearest penny (fractions of half a penny being rounded downwards).

For the purposes of these Conditions:

**Business Day** means a day (other than a Saturday or a Sunday or a public holiday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and Dublin.

(b) **Determination of LIBOR**

For the purposes of determining the Rate of Interest in respect of each Class of Notes under **Condition 5.3(a)**, **LIBOR** will be determined by the Agent Bank on the basis of the following provisions:

- (i) on each Interest Determination Date, the Agent Bank will determine the interest rate for three month sterling deposits (or, in respect of the first such Interest Period, a linear interpolation of the rate for 2 month and 3 month sterling deposits) in the London inter-bank market which appears on Moneyline Telerate Screen No. 3750 (or (x) such other page as may replace Moneyline Telerate Screen No. 3750 on that service for the purpose of displaying such information or (y) if that service ceases to display such information, LIBOR 01 Reuters) (the **LIBOR Screen Rate**) at or about 11.00 a.m. (London time) on such date; or
- (ii) if the LIBOR Screen Rate is not then available, the arithmetic mean (rounded to five decimal places, 0.00005 rounded upwards) of the rates notified to the Agent Bank at its request by each of four reference banks duly appointed for such purpose (the **Reference Banks** provided that, once a Reference Bank has been appointed by the Agent Bank that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such) as the rate at which three month deposits in sterling are offered for the same period as that Interest Period by those Reference Banks to prime banks in the London inter-bank market at or about 11.00 a.m. (London time) on that date (or, in respect of the first Interest Period, the arithmetic mean of a linear interpolation of the rates for 2 and 3 month sterling deposits notified by the Reference Banks). If, on any such Interest Determination Date, at least two of the Reference Banks provide such offered quotations to the Agent Bank the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Note Trustee and the Issuer for the purposes of agreeing one additional bank to provide such a quotation or quotations to the Agent Bank (which bank is in the sole opinion of the Note Trustee suitable

for such purpose) and the rate for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed. 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 for the relevant Interest Period shall be the arithmetic mean (rounded to five decimal places, 0.000005 being rounded upwards) of the rates quoted by major banks in London, selected by the Agent Bank, at approximately 11.00 a.m. (London time) on the Closing Date or the relevant Interest Payment Date, as the case may be, for loans in sterling to leading London banks for a period of three months or, in the case of the first Interest Period, the same as the relevant Interest Period. If the rate for the relevant Interest Period cannot be determined in accordance with the above provisions, then LIBOR shall be determined as at the last preceding Interest Determination Date.

- (c) There will be no minimum or maximum Rate of Interest.

#### **5.4 Publication of Rate of Interest and Interest Payments**

The Agent Bank will cause the Rate of Interest and the Interest Payment relating to each Class of Notes for each Interest Period and the Interest Payment Date to be forthwith notified to the Issuer, the Note Trustee, the Paying Agents, the Calculation and Reporting Agent, the Noteholders and, for so long as the Notes are listed on the Irish Stock Exchange Limited (the **Stock Exchange**), the Stock Exchange within two Business Days of the relevant Interest Determination Date. The Interest Payments 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 a lengthening or shortening of such Interest Period.

#### **5.5 Determination or calculation by Note Trustee**

If the Note Trustee receives notice that the Agent Bank at any time for any reason will not determine or has not determined the Rates of Interest or calculated an Interest Payment in accordance with **Condition 5.3** (Rates of Interest) above, the Note Trustee shall procure the determination of the Rates of Interest at such rates as, in its absolute discretion (having such regard as it shall think fit to the procedure described in **Condition 5.3** (Rates of Interest) above), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Note Trustee shall calculate the Interest Payment in accordance with **Condition 5.3** (Rates of Interest) above, and each such determination or calculation shall be deemed to have been made by the Agent Bank.

#### **5.6 Notification to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Note Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Paying Agents, the Note Trustee and all Noteholders and (in the absence as aforesaid) no liability to the Noteholders shall attach to the Issuer, the Reference Banks, the Agent Bank, the Paying Agents or the Note Trustee in connection with the exercise by them or any of their powers, duties and discretions under this Condition.

#### **5.7 Agent Bank**

The Issuer will procure that, so long as any of the Notes remain outstanding, there will at all times be an Agent Bank. The Issuer reserves the right at any time with the prior written consent of the Note Trustee to terminate the appointment of the Agent Bank. Notice of any

such termination will be given to the Noteholders in accordance with **Condition 16** (Notice to Noteholders). If any person shall be unable or unwilling to continue to act as the Agent Bank, or if the appointment of the Agent Bank shall be terminated, the Issuer will, with the written approval of the Note Trustee, appoint a successor Agent Bank to act as such in its place, provided that neither the resignation nor the removal of the Agent Bank shall take effect until a successor approved by the Note Trustee has been appointed.

## **5.8 Deferral of payment**

Interest on the Notes is payable subject to, and in accordance with the order of priorities set out in, the Priorities 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 C Notes, the Class D Notes, the Class E Notes and/or the Class F Notes under the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, after having paid or provided for items of higher priority, then:

- (a) the Issuer shall be entitled (unless there are then no Class A Notes and/or Class B Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class C Notes:
  - (i) if it then defers all payments of interest then due (but for the provisions of this **Condition 5.8(a)(i)**) in respect of the Class D Notes, the Class E Notes, and the Class F Notes; and
  - (ii) to the extent only of any insufficiency of funds after having paid or provided for all amounts specified in the applicable Priorities of Payments as having a higher priority than interest payable in respect of the Class C Notes;
- (b) the Issuer shall be entitled (unless there are then no Class A Notes and/or Class B Notes and/or Class C Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class D Notes:
  - (i) if it then defers all payments of interest then due (but for the provisions of this **Condition 5.8(b)(i)**) in respect of the Class E Notes and the Class F Notes; and
  - (ii) to the extent only of any insufficiency of funds after having paid or provided for all amounts specified in the applicable Priorities of Payments as having a higher priority than interest payable in respect of the Class D Notes;
- (c) the Issuer shall be entitled (unless there are then no Class A Notes and/or Class B Notes and/or Class C Notes and/or Class D Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class E Notes:
  - (i) if it then defers all payments of interest then due (but for the provisions of this **Condition 5.8(c)(i)**) in respect of the Class F Notes; and
  - (ii) to the extent only of any insufficiency of funds after having paid or provided for all amounts specified in the applicable Priorities of Payments as having a higher priority than interest payable in respect of the Class E Notes;
- (d) the Issuer shall be entitled (unless there are then no Class A Notes and/or Class B Notes and/or Class C Notes and/or Class D Notes and/or Class E Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class F Notes to the extent only of any insufficiency of funds after having paid or



provided for all amounts specified in the applicable Priorities of Payments as having a higher priority than interest payable in respect of the Class F Notes.

Any amount of interest (including any Deferred Interest arising on the immediately preceding Interest Payment Date and accrued interest thereon) on the Class C Notes, the Class D Notes, the Class E Notes and/or the Class F Notes which is not payable on an Interest Payment Date as a result of the provisions of this **Condition 5.8**, is the **Class C Deferred Interest**, the **Class D Deferred Interest**, the **Class E Deferred Interest** and the **Class F Deferred Interest** respectively and, together, 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 C Notes, the Class D Notes, the Class E Notes and/or the Class F Notes (as the case may be) and on the same basis as interest on the Class C Notes, the Class D Notes, the Class E Notes and/or the Class F Notes (as the case may be) 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. As soon as practicable after becoming aware that any part of a payment of interest on the Class C Notes, the Class D Notes, the Class E Notes and/or the Class F 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 C Noteholders, the Class D Noteholders, the Class E Noteholders and/or the Class F Noteholders in accordance with **Condition 16** (Notice 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, at which time all Deferred Interest and accrued interest thereon shall become payable.

## **6. REDEMPTION**

### **6.1 Redemption at maturity**

Unless previously redeemed in full or purchased and cancelled as provided below in this **Condition 6**, the Issuer shall redeem the Notes of each Class at their respective Principal Amounts Outstanding plus interest accrued and unpaid on the Interest Payment Date in 12 April 2016 (the **Final Maturity Date**).

### **6.2 Redemption for taxation or other reasons**

If:

- (i) on or before the occasion of the next Interest Payment Date, the Issuer would become subject to tax on its income in more than one jurisdiction;
- (ii) by reason of a change in tax law (or the application, administration or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any class of the Notes any amount for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein;
- (iii) by reason of a change in tax law (or the application, administration or official interpretation thereof), which change becomes effective on or after the Closing Date, on the next Interest Payment Date, the Borrower would be required to deduct or withhold from any payment of principal, interest or other sum due and payable to the Issuer pursuant to the Credit Agreement any

amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein;

- (iv) by reason of a change in law, which change becomes effective on or after the Closing Date it has become or will become unlawful for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Credit Agreement; or
- (v) an Interest Rate Swap Tax Event occurs and:
  - (A) the Issuer cannot avoid such Interest Rate Swap Tax Event by taking reasonable measures available to it;
  - (B) the Interest Rate Swap Provider is unable to transfer its rights and obligations thereunder to another branch, office or affiliate to cure the Interest Rate Swap Tax Event; and
  - (C) the Issuer is unable to find a replacement interest rate swap provider (the Issuer being obliged to use reasonable efforts to find a replacement Interest Rate Swap Provider),

then the Issuer shall, if the same would avoid the effect of the relevant event described in sub-paragraph (i), (ii) (iii), (iv) or (v) above, appoint a Paying Agent in another jurisdiction or use its reasonable endeavours to arrange the substitution of a company incorporated and/or tax resident in another jurisdiction approved in writing by the Note Trustee as principal debtor under the Notes and as senior lender under the Credit Agreement, provided that the Note Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders.

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in sub-paragraph (i), (ii) (iii), (iv) or (v) above is continuing and that the appointment of a Paying Agent or a substitution as referred to above would not avoid the effect of the relevant event or that, having used its reasonable endeavours, the Issuer is unable to arrange such a substitution, then the Issuer may, on any Interest Payment Date and having given not more than 60 nor less than 30 days' notice (or, in the case of an event described in sub-paragraph (iv) above, such shorter period expiring on or before the latest date permitted by relevant law) to the Noteholders in accordance with **Condition 16** (Notice to Noteholders) and to the Note Trustee and having certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Notes on the relevant Interest Payment Date and to discharge all other amounts required to be paid by it on the relevant Interest Payment Date, redeem all, but not some only, of the Notes at their respective Principal Amounts Outstanding together with accrued but unpaid interest up to but excluding the date of redemption.

### **6.3 Mandatory redemption in whole or in part**

- (a) Each Note shall, subject to **Condition 6.2** (Redemption for taxation or other reasons), this **Condition 6.3** and **Condition 6.4** (Optional redemption in whole or in part), be repaid in quarterly instalments on the Interest Payment Dates and in the amounts (each, an **Amortisation Amount**) corresponding to scheduled repayments of the Senior Loan under Clause 6.1(b) (Repayment) of the Credit Agreement:
- (b) If the Issuer receives a notice from the Borrower pursuant to the terms of the Credit

Agreement that the Borrower intends to exercise its right to voluntarily prepay all or part of the Senior Loan (using funds other than the proceeds of a disposal, a compulsory purchase order or insurance proceeds in respect of a Property or the prepayment of the Senior Loan in connection with the replacement of the Issuer as Senior Lender) on giving not less than 10 Business Days' notice to the relevant Noteholders in accordance with **Condition 16** (Notice to Noteholders) and to the Note Trustee and provided that (A) on or prior to the date on which such notice expires, no Acceleration Notice has been served and (B) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant Class or Classes of Notes on the immediately following Interest Payment Date and to discharge all other amounts required to be paid by it on the immediately following Interest Payment Date ranking senior to amounts due in respect of the relevant Class or Classes of Notes subject to redemption, the Issuer will redeem the whole or part of each Note of any such class or classes in the following order of priority:

- (A) first, the Class F Notes *pro rata*;
  - (B) secondly, the Class E Notes *pro rata*;
  - (C) thirdly, the Class D Notes *pro rata*;
  - (D) fourthly, the Class C Notes *pro rata*;
  - (E) fifthly, the Class B Notes *pro rata*; and
  - (E) sixthly, the Class A Notes *pro rata*.
- (c) If the Issuer receives a prepayment in whole or part of the Senior Loan arising in connection with a mandatory prepayment under the Senior Loan, including in connection with a Property disposal, compulsory purchase in whole or part or insurance proceeds in respect of a Property or a purchase price in respect of the replacement of the Issuer as Senior Lender, the Issuer will, on giving not less than 10 Business Days' notice to the relevant Noteholders in accordance with **Condition 16** (Notice to Noteholders) and to the Note Trustee and provided that (A) on or prior to the date on which such notice expires, no Acceleration Notice has been served and (B) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant Class or Classes of Notes on the immediately following Interest Payment Date and to discharge all other amounts required to be paid by it on the immediately following Interest Payment Date ranking senior to amounts due in respect of the relevant Class or Classes of Notes subject to redemption, redeem the whole or part of each Note of any such class or classes in the following order of priority:
- (A) first, the Class A Notes *pro rata*;
  - (B) secondly, the Class B Notes *pro rata*;
  - (C) thirdly, the Class C Notes *pro rata*;
  - (D) fourthly, the Class D Notes *pro rata*;
  - (E) fifthly, the Class E Notes *pro rata*; and

- (F) sixthly, the Class F Notes *pro rata*.
- (d) On the Interest Payment Date falling in April 2007 any amount standing to the credit of the Pre-Funding Account (less any interest amounts or the yield element of the proceeds of any Eligible Investments in respect of such balance made by or on behalf of the Issuer out of amounts standing to the credit of the Pre-Funding Account, which amounts shall form Available Issuer Income) will, provided that (A) no Acceleration Notice has been served and (B) the Issuer has certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant Class or Classes of Notes on such Interest Payment Date and to discharge all other amounts required to be paid by it on such Interest Payment Date ranking senior to amounts due in respect of the relevant Class or Classes of Notes subject to redemption, be applied to redeem the whole or part of each of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes on a *pro rata* basis.
- (e) Any Note redeemed pursuant to **Condition 6.3(b), (c) or (d)** or **Condition 6.4** will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed relevant to its class as set out below (rounding the resulting figure to the nearest penny, half a penny being rounded upwards) together with, in each case, accrued and unpaid interest on the Principal Amount Outstanding of the relevant Note up to but excluding the date of redemption.
- (f) The Principal Amount Outstanding of any Note redeemed pursuant to **Condition 6.3(b), (c) or (d)** or **Condition 6.4** (excluding the Amortisation Amount (if any) due in respect of such Note on the date of redemption pursuant to **Condition 6.3(a)**) shall be applied to reduce the remaining Amortisation Amounts in respect of such Note, on a *pro rata* basis; and the reduced Amortisation Amounts shall, if necessary, be rounded upwards or downwards to the nearest penny, at the discretion of the Issuer, but so that the sum of the reduced Amortisation Amounts, as so rounded, is equal to the Principal Amount Outstanding of the relevant Note following its redemption pursuant to **Condition 6.3(a)**.

#### **6.4 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 in the following order of priority provided that it gives not more than 60 nor less than 30 Business Days' notice to the Note Trustee and to the Noteholders in accordance with **Condition 16** (Notices to Noteholders) and provided that (A) on or prior to the date on which such notice expires, no Acceleration Notice has been served and (B) the Issuer has, immediately prior to giving such notice, certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the relevant Class or Classes of Notes on such Interest Payment Date and to discharge all other amounts required to be paid by it on such Interest Payment Date ranking senior to amounts due in respect of the relevant class or classes of Notes subject to redemption:

- (A) first, the Class A Notes *pro rata*;
- (B) secondly, the Class B Notes *pro rata*;
- (C) thirdly, the Class C Notes *pro rata*;
- (D) fourthly, the Class D Notes *pro rata*;
- (E) fifthly, the Class E Notes *pro rata*; and

(E) sixthly, the Class F Notes *pro rata*.

## **6.5 Principal Amount Outstanding**

The **Principal Amount Outstanding** of a Note on any date shall be its original principal amount less the aggregate amount of all Amortisation Amounts and principal payments in respect of such Note which have become due and payable since the Closing Date except if and to the extent that any such payment has been improperly withheld or refused.

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

All of the Noteholders will be required to sell, at the request of Vanwall Options Limited (the **Options Holder**), all (but not some only) of their holdings of Notes to the Options Holder pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) to acquire all (but not some only) of the Notes (plus accrued interest thereon) for the consideration of 0.01 pence per Note outstanding (and for these purposes, each Global Note shall constitute one Note), in the event that the Notes are accelerated or otherwise become due and repayable in full and the Issuer Security for the Notes is enforced and at any time after the date on which the Issuer Security Trustee determines that the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to the Notes and after the application of any such proceeds to the Notes under the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments and the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments, as applicable, to pay any further principal, interest and any other amounts due in respect of the Notes.

Each of the Noteholders acknowledges that the Note Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Agreement and each Noteholder, by subscribing for or purchasing the relevant Note(s), agrees to be so bound.

Notice of such determination will be given by the Issuer Security Trustee to the Noteholders in accordance with **Condition 16** (Notice to Noteholders). The consideration will be paid in the same manner as payment of principal under these Conditions.

## **6.7 Notice of redemption**

Any such notice as is referred to in **Condition 6.2** (Redemption for taxation or other reasons), **Condition 6.3** (Mandatory redemption in whole or in part) or **Condition 6.4** (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 of the relevant Class in the amounts specified in these Conditions.

## **6.8 No purchase by the Issuer**

The Issuer will not be permitted to purchase directly or indirectly any of the Notes.

## **6.9 Cancellation**

All Notes redeemed in full will be cancelled upon redemption and may not be resold or re-issued.

## **6.10 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, any of

the events in **Condition 6.2** (Redemption for taxation or other reasons) (i) to (v) would occur on or prior to the next Interest Payment Date (in the case of paragraphs (i) to (iii) and (v) or on or prior to the next Loan Interest Payment Date (in the case of paragraph (iv)), then the Issuer shall inform the Note Trustee accordingly and the Issuer shall, in order to avoid the relevant event described in **Condition 6.2** (Redemption for taxation or other reasons) (i) to (v), 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 Transaction Documents and to such other conditions as the Note Trustee may require and subject to the terms of the Note Trust Deed, but without the consent of the Noteholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Note Trust Deed and the Notes and in respect of the Issuer's obligations under the 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) and subject to a trust deed being executed or some other form of undertaking being given by such body corporate, in form and manner satisfactory to the Note Trustee, agreeing to be bound by the provisions of the Note Trust Deed.

## 7. PAYMENTS

- 7.1 Payments of principal and interest in respect of the Notes will be made in sterling against presentation and, where applicable, surrender of the relevant Global Notes at the specified office of the Principal Paying Agent or, at the option of the holder of the relevant Global Notes, at the specified office of any other Paying Agent outside the United States of America subject, in the case of any Temporary Global Note, to certification of non-U.S. beneficial ownership as provided in such Temporary Global Note. Payments of principal and interest will in each case be made by transfer to a sterling denominated account maintained by the payee with a branch of a bank in London. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on the relevant Global Note by the Paying Agent to which such Global Note was presented for the purpose of making such payment, and such record shall be prima facie evidence that the payment in question has been made. Payments of principal and interest in respect of the Notes will be subject in all cases to any fiscal or other laws and regulations applicable thereto and to normal banking practice.
- 7.2 For so long as the Notes are in global form, each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as being entitled to a particular principal amount of Notes will be deemed to be the holder of such principal amount for all purposes save that none of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as being so entitled shall have any claim directly against the Issuer or the Note Trustee in respect of payments due on such Note whilst such Note is represented by a Global Note and the Issuer or the Note Trustee, as the case may be, shall be discharged by payment of the relevant amount to the bearer of the relevant Global Note.
- 7.3 A holder shall be entitled to present a Note for payment only on a Payment Day and shall not, except as provided in **Condition 5** (Interest), be entitled to any further interest or other payment if a Payment Day is after the due date.

**Payment Day** means a day which (subject to **Condition 9** (Prescription)):

- (i) is or falls after the relevant due date;

- (ii) is a Business Day in the place of the specified office of the Paying Agent at which the Global Note is presented for payment; and
- (iii) in the case of payment by transfer to a sterling denominated account in London as referred to in **Condition 7.1** above, is a Business Day in London.

In this **Condition 7.3, Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

7.4 The names of the initial Paying Agents and their initial specified offices are set out in the Offering Circular. 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 any Paying Agent and to appoint additional or other Paying Agents provided that:

- (i) there will at all times be a Principal Paying Agent;
- (ii) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which, so long as the Notes are admitted to the Official List of the Irish Stock Exchange, shall be Dublin; and
- (iii) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination of appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with **Condition 16** (Notice to Noteholders).

## 8. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**), unless the withholding or deduction of the Taxes is required by applicable law. In that event, the Issuer or, as the case may be, the relevant Paying Agent shall make such payment after the withholding or deduction has been made and shall account to the relevant authorities for the amount required to be withheld or deducted. Neither the Issuer nor any Paying Agent shall be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## 9. PRESCRIPTION

Claims in respect of principal and interest on the Notes will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the relevant payment.

In this **Condition 9**, the "**Relevant Date**", in respect of a payment, is the date on which such payment first becomes due or (if the full amount of the moneys payable on that date 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 moneys having been received, notice to that effect is duly given to the relevant Noteholders in accordance with **Condition 16 (Notice to Noteholders)**.

## 10. EVENTS OF DEFAULT

- 10.1 (a) If a Note Event of Default (as defined in **Condition 10.1(b)**) occurs, then:
- (i) the Note Trustee will, in its absolute discretion, be entitled to, and must, if:
    - (A) it is directed to do so in writing by the holders of not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; or
    - (B) it is directed to do so by an Extraordinary Resolution of holders of the Most Senior Class of Notes then outstanding; andin each case, provided that it has been indemnified and/or secured to its satisfaction, serve notice (an **Acceleration Notice**) on the Issuer declaring the Notes to be immediately due and repayable; and
  - (ii) the Issuer Security will become enforceable.
- (b) Each of the following events is, subject to **Condition 10.2**, a **Note Event of Default**:
- (i) default being made for a period of three days in the payment of any principal of, or default is made for a period of five days in the payment of any interest on, any Note when and as 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 10.1(b)(i)**); or
  - (ii) breach by the Issuer of any representation or warranty made by it in these Conditions, the Note Trust Deed or any of the other Transaction Documents to which it is a party and in any such case (except where the Note Trustee certifies that, in its opinion, such breach is incapable of remedy, when no notice will be required), such breach continues for a period of 30 days following the service by the Note Trustee on the Issuer of notice in writing requiring the same to be remedied; or
  - (iii) the Issuer failing duly to perform or observe any other obligation, condition or provision binding upon it under these Conditions, the Note Trust Deed or any of the other Transaction Documents to which it is a party and in any such case (except where the Note Trustee certifies that, in its opinion, such failure is incapable of remedy, when no notice will be required), such failure continuing for a period of 30 days following the service by the Note Trustee on the Issuer of notice in writing requiring the same to be remedied; or
  - (iv) the Issuer, otherwise than for the purposes of such a pre-approved amalgamation or reconstruction as is referred to in sub-paragraph (vi) below, ceasing or, through an official action of the board of directors of the Issuer, threatening to cease to carry on business (or a substantial part thereof); or
  - (v) the Issuer is or becomes unable to pay its debts within the meaning of section 123(1)(e) of the Insolvency Act 1986; or
  - (vi) an order being made or an effective resolution being passed for the winding-up of the Issuer, except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been



approved in writing by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding; or

- (vii) proceedings being initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, an application to the court for an administration order), or an administration order being granted or an administrative receiver or other receiver (including documents being filed with the court for the appointment of an administrator or notice of intention to appoint an administrator being served), liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer, and such proceedings, distress, execution or process (as the case may be) not being discharged or not otherwise ceasing to apply within 15 days, or the Issuer initiating or consenting to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally.

10.2 In respect of the events described in sub-paragraphs (ii) and (iii) of **Condition 10.1(b)**, the relevant event will not constitute a Note Event of Default unless the Note Trustee first certifies to the Issuer that such event is, in the opinion of the Note Trustee, materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding.

10.3 Upon service of an Acceleration Notice, each Note shall become immediately due and repayable at its Principal Amount Outstanding together with accrued interest as provided in the Note Trust Deed and the Issuer Deed of Charge (but subject to the Post-Acceleration Priority of Payments). The Issuer Security constituted by the Issuer Deed of Charge will become enforceable upon the occurrence of an Note Event of Default.

## 11. ENFORCEMENT

11.1 The Note Trustee may, at its discretion and without notice at any time and from time to time, take such proceedings, or direct the Issuer Security Trustee to take such proceedings, or other action as the Note Trustee may think fit to enforce the provisions of the Notes and the Note Trust Deed (including these Conditions), the Issuer Deed of Charge or any of the other Transaction Documents to which it or the Issuer is a party, provided that, subject to **Condition 11.4** below, enforcement of the Issuer Security shall be the only remedy available for the repayment of the Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes and the payment of accrued interest and, at any time after the Issuer Security has become enforceable, the Note Trustee may direct the Issuer Security Trustee to take such steps as the Note Trustee may think fit to enforce the Issuer Security, but the Note Trustee shall not be bound to take any such proceedings, action or steps or give any such directions unless (a) it shall have been so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes outstanding or so requested in writing by the holders of at least 25 per cent. in aggregate Principal Amount Outstanding for the time being of the Most Senior Class of Notes outstanding and (b) it shall have been secured and/or indemnified to its satisfaction.

11.2 The Issuer Security Trustee shall not, and shall not be bound to, take any such proceedings to enforce the Issuer Security unless it has been directed to do so by the Note Trustee and it shall have been secured and/or indemnified to its satisfaction. The Issuer Deed of Charge provides

that in the exercise of any of its rights, powers, duties, discretions or determinations and at any time that the Issuer Security Trustee is required to give its consent or approval, the Issuer Security Trustee will act solely on the instructions of the Note Trustee so long as the Notes are outstanding.

- 11.3 Subject to **Condition 11.4** below, no Noteholder shall be entitled to proceed directly against the Issuer or any other party to the Transaction Documents or to enforce the Issuer Security unless the Note Trustee or the Issuer Security Trustee (as the case may be), having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Issuer Security 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 under the Issuer Deed of Charge.
- 11.4 If the Issuer Security Trustee has taken enforcement action under the Issuer Deed of Charge and distributed all of the resulting proceeds (including the proceeds of realising the security thereunder), to the extent that any amount is still owing to any Noteholder (a **Shortfall**), any such Noteholder shall be entitled to proceed directly against the Issuer in order to claim such Shortfall and neither the Note Trustee nor the Issuer Security Trustee shall be responsible for any liability occasioned thereby, nor shall it vouch for the validity of such claim.

## 12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, SUBSTITUTION AND DISCRETIONS

- 12.1 The Note Trust Deed contains provisions for convening meetings of Noteholders of any Class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Transaction Documents (other than the Finance Documents) or any other documents the rights and benefits of the Issuer in respect of which are comprised in the Issuer Security.

An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on all the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification (as defined below), which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders.

Without prejudice to the paragraph below, an Extraordinary Resolution passed at any meeting of the Class B Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders.

An Extraordinary Resolution passed at any meeting of the Class B Noteholders, which is effective in accordance with the immediately preceding paragraph, shall be binding on all the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification, which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders or unless the Note Trustee is of the opinion that it would not be

materially prejudicial to the respective interests of the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders.

Without prejudice to the paragraph below, an Extraordinary Resolution passed at any meeting of the Class C Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class A Noteholders and the Class B Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and the Class B Noteholders.

An Extraordinary Resolution passed at any meeting of the Class C Noteholders, which is effective in accordance with the immediately preceding paragraph, shall be binding on all the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification, which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class D Noteholders, the Class E Noteholders and the Class F Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class D Noteholders, the Class E Noteholders and the Class F Noteholders.

Without prejudice to the paragraph below, an Extraordinary Resolution passed at any meeting of the Class D Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders.

An Extraordinary Resolution passed at any meeting of the Class D Noteholders, which is effective in accordance with the immediately preceding paragraph, shall be binding on all the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification, which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class E Noteholders and the Class F Noteholders or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class E Noteholders and the Class F Noteholders.

Without prejudice to the paragraph below, an Extraordinary Resolution passed at any meeting of the Class E Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders.

An Extraordinary Resolution passed at any meeting of the Class E Noteholders, which is effective in accordance with the immediately preceding paragraph, shall be binding on all the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders, irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification, which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class F Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class F Noteholders.

Without prejudice to the paragraph below, an Extraordinary Resolution passed at any meeting of the Class F Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders or unless the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders and the Class E Noteholders.

An Extraordinary Resolution passed at any meeting of the Class F Noteholders, which is effective in accordance with the immediately preceding paragraph shall be binding on all the Class A Noteholders, the Class B Noteholders, the Class C Noteholders, the Class D Noteholders, the Class E Noteholders and the Class F Noteholders.

The quorum at any meeting of the Noteholders of any Class or Classes for passing an Extraordinary Resolution shall be one or more persons holding or representing over 50 per cent. in aggregate Principal Amount Outstanding of the Notes of the relevant Class or Classes then outstanding or, at any adjourned meeting, one or more persons being or representing the Noteholders of the relevant Class or Classes whatever the aggregate Principal Amount Outstanding of the Notes of the relevant Class or Classes so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification the necessary quorum for passing an Extraordinary Resolution shall be one or more persons holding or representing not less than 75 per cent. or at any adjourned such meeting, not less than 33 per cent. in aggregate Principal Amount Outstanding of the Notes of the relevant Class or Classes for the time being outstanding.

As used in these Conditions and the Note Trust Deed:

- (i) **Extraordinary Resolution** means (a) a resolution passed at a meeting of the Noteholders duly convened and held in accordance with the Note Trust Deed by a majority consisting of not less than three fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three fourths of the votes cast on such poll or (b) a resolution in writing signed by or on behalf of not less than 90 per cent. in aggregate Principal Amount Outstanding of the Noteholders, 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 and shall be as valid, effective and binding as a resolution duly passed at such a meeting; and
- (ii) **Basic Terms Modification** means, in respect of a Class of Notes:
  - (A) a change in the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, of the method of calculating the date of payment in respect of any principal or interest in respect of such Notes;
  - (B) alteration of the currency in which payments under such Notes are to be made;
  - (C) alteration of the quorum or majority required to pass an Extraordinary Resolution;
  - (D) the sanctioning of any such scheme or proposal in respect of such Notes as is described in **paragraph 19(i) of Schedule 3** to the Note Trust Deed;

- (E) alteration of this definition or the provisos to **paragraphs 7 or 19 of Schedule 3** to the Note Trust Deed;
- (F) alteration of the Pre-Enforcement Revenue Priority of Payments, the Post-Enforcement, Pre-Acceleration Revenue Priority of Payments, the Pre-Acceleration Principal Priority of Payments or the Post-Acceleration Priority of Payments; and
- (G) alteration of the Issuer Charged Property or amendment to any of the documents relating to the Issuer Charged Property or any other provision of the Issuer Security.

- 12.2 The Note Trustee may agree or may direct the Issuer Security Trustee to agree, without the consent of the Noteholders, (i) to any modification of, or to the waiver or authorisation of any breach or proposed breach of, these Conditions, the Note Trust Deed or any of the other Transaction Documents, which is not, in the opinion of the Note Trustee, materially prejudicial to the interests of any class or classes of Noteholders or (ii) to any modification of these Conditions or any of the Transaction Documents, which, in the opinion of the Note Trustee, is of a formal, minor or technical nature or to correct a manifest error. The Note Trustee may also, without the consent of the Noteholders, determine that any Note Event of Default shall not, or shall not subject to specified conditions, be treated as such, provided that, in the opinion of the Note Trustee, it would not be materially prejudicial to the interests of Noteholders to do so. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Note Trustee agrees otherwise, any such modification shall be notified to the Noteholders in accordance with **Condition 16** (Notice to Noteholders) as soon as practicable thereafter.
- 12.3 The Note Trustee and the Security Trustee shall be entitled to take into account, for the purpose of exercising or performing any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, among other things, any confirmation by any of the Rating Agencies that the then current ratings of the Notes or, as the case may be any Class or Classes of the Notes would not be downgraded, withdrawn or qualified by such exercise or performance.
- 12.4 Where, in connection with the exercise or performance by the Note Trustee of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the other Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination or substitution as referred to above), the Note Trustee is required to have regard to the interests of the Noteholders or the Noteholders of any Class, it shall have regard to the general interests of the Noteholders of such Class as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise or performance for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Note Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer or the Note Trustee or the Issuer Security Trustee (as the case may be) or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

### **13. INDEMNIFICATION AND EXONERATION OF THE NOTE TRUSTEE AND THE ISSUER SECURITY TRUSTEE**

The Note Trust Deed and the Issuer Deed of Charge each contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee and the Issuer Security

Trustee, respectively, and providing for their indemnification in certain circumstances, including provisions relieving them from taking enforcement proceedings or, in the case of the Issuer Security Trustee, enforcing the Issuer Security or taking any other action in relation to the Note Trust Deed or the other Transaction Documents unless secured and/or indemnified to their satisfaction. Neither the Note Trustee nor the Issuer Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Charged Property, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of clearing organisations or their operators or by intermediaries such as banks, brokers, depositories, warehousemen or other persons whether or not on behalf of the Issuer Security Trustee.

Each of the Note Trust Deed and the Issuer Deed of Charge contains provisions pursuant to which the Note Trustee and the Issuer Security Trustee, respectively, or any of their related companies is entitled, among other things, (i) to enter into business transactions with the Issuer and/or any other person who is a party to the Transaction Documents or whose obligations are comprised in the Issuer Charged Property and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any other person who is a party to the Transaction Documents or whose obligations are comprised in the Issuer Charged Property and/or any of their subsidiary or associated companies, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of the Noteholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

The Note Trust Deed and the Issuer Deed of Charge also relieve the Note Trustee and the Issuer Security Trustee, respectively, 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. Neither the Note Trustee nor the Issuer Security Trustee has responsibility in relation to the legality, validity, sufficiency, adequacy and enforceability of the Issuer Security or the Transaction Documents. Neither the Note Trustee nor the Issuer Security Trustee will be obliged to take any action which might result in its incurring personal liabilities unless secured and/or indemnified to its satisfaction or to supervise the performance by the Servicer or any other person of their obligations under the Transaction Documents and each of the Note Trustee and the Issuer Security Trustee shall assume, until it has notice in writing 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 Note Trust Deed and the Issuer Deed of Charge contain other provisions limiting the responsibility, duties and liability of the Note Trustee and the Issuer Security Trustee, respectively.

The Note Trust Deed and the Issuer Deed of Charge contain provisions pursuant to which (i) the Note Trustee and the Issuer Security Trustee, respectively, may retire at any time on giving not less than three months' prior written notice to the Issuer, and will be relieved of any liability incurred by reason of such retirement and (ii) the Noteholders may by Extraordinary Resolution of the holders of each Class of Notes remove the Note Trustee and the Issuer Security Trustee, respectively. The retirement or removal of the Note Trustee or the Issuer Security Trustee (as the case may be) will not become effective until a successor trustee is appointed. The Note Trustee and the Issuer Security Trustee are entitled to appoint a successor trustee in the circumstances specified in the Note Trust Deed and the Issuer Deed of Charge, respectively.

#### 14. REPLACEMENT OF GLOBAL NOTES

If any Global Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of the Principal Paying Agent or the Irish Paying Agent. Replacement of any mutilated, defaced, lost, stolen or destroyed Global Note 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 may reasonably require. A mutilated or defaced Global Note must be surrendered before a new one will be issued.

#### 15. EUROPEAN ECONOMIC AND MONETARY UNION

15.1 If the United Kingdom becomes or, announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders, on giving at least 30 days' prior notice to the Noteholders 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.

15.2 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 15**), shall remain in full force and effect;

(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;

(iv) 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;

- (v) 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; and
- (vi) following redenomination of the Notes pursuant to this **Condition 15** 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.

**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.

**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.

**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).

**Treaty** means the Treaty establishing the European Communities, as amended by the Treaty on European Union and the Treaty of Amsterdam.

## **16. NOTICE TO NOTEHOLDERS**

16.1 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 admitted to the Official List of the Irish Stock Exchange, the Irish 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.

16.2 A copy of each notice given by the Issuer in accordance with this **Condition 16** shall be provided to each of Fitch Ratings Ltd. (**Fitch**), Moody's Investors Service Limited (**Moody's**) and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**S&P** and, together with Fitch and Moody's, the **Rating Agencies**, which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer to provide a credit rating in respect of the Notes or any Class thereof). For the avoidance of doubt, and unless the context otherwise requires, all references to rating and ratings in these Conditions shall be deemed to be references to the ratings assigned by the Rating Agencies. The Note Trustee will (at the expense of the Issuer) upon request from the Issuer or any of the



Rating Agencies provide a copy to the Rating Agencies of any notice given by the Note Trustee to Noteholders under this **Condition 16**.

- 16.3 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.

## 17. CONTROLLING CLASS

- 17.1 If the Controlling Party is the Controlling Class then the majority of persons who constitute the Controlling Class may by notice in writing to the Note Trustee, the Issuer Security Trustee, the Servicer and the Special Servicer appoint not more than one Noteholder of such class to be their representative for the purposes of this Condition (each such person, an **Operating Adviser**).

- 17.2 Any Operating Adviser so appointed will have the rights set forth in the Servicing Agreement. Any Operating Adviser shall, unless instructed to the contrary in writing by the majority of the persons who constitute the Controlling Class, be entitled in its sole discretion to exercise all of the rights given to it pursuant to the Servicing Agreement as it sees fit.

- 17.3 The majority of persons who constitute the Controlling Class may, by notice in writing to the Note Trustee, the Issuer Security Trustee, the Servicer and the Special Servicer terminate the appointment of any Operating Adviser. Any Operating Adviser may retire by giving not less than 21 days' notice in writing to the Noteholders of the Controlling Class (in accordance with the terms of **Condition 16** (Notice to Noteholders)), the Note Trustee, the Issuer Security Trustee, the Servicer and the Special Servicer.

- 17.4 Where:

**Controlling Class** means the most junior class of Notes outstanding from time to time which meets the Controlling Class Test, provided that for so long as no class of Notes meets the Controlling Class Test, the Controlling Class shall mean the most junior class of Notes then outstanding.

A class of Notes shall meet the **Controlling Class Test** if at the relevant time it has a total Principal Amount Outstanding which is not less than 25 per cent. of the Principal Amount Outstanding of such class of Notes on the Closing Date.

Each Noteholder acknowledges and agrees, by its purchase of the Notes, that:

- (a) the Operating Adviser may have special relationships and interests that conflict with those of the holders of one or more classes of the Notes;
- (b) the Operating Adviser may act solely in the interests of the Controlling Class;
- (c) the Operating Adviser does not have any duties to any Noteholders other than the Controlling Class;
- (d) the Operating Adviser may take actions that favour the interests of the Noteholders of the Controlling Class over the interests of the other Noteholders;

- (e) the Operating Adviser will not be deemed to have been negligent or reckless, or to have acted in bad faith or engaged in wilful misconduct, by reason of its having acted solely in the interests of the Controlling Class; and
- (f) the Operating Adviser will have no liability whatsoever for having acted solely in the interests of the Controlling Class, and no holder of any other class of Notes may take any action whatsoever against the Operating Adviser for having so acted.

**18. RIGHTS OF THIRD PARTIES**

This Note does not confer any rights on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

**19. GOVERNING LAW**

The Trust Deed, the Notes and these Conditions are governed by, and will be construed in accordance with, English law.

## UNITED KINGDOM TAXATION

The following, which applies only to persons who are the beneficial owners of the Notes, is a summary of current United Kingdom tax law and H.M. Revenue and Customs practice as at the date of this Offering Circular relating to certain aspects of United Kingdom taxation of the Notes. It is not a comprehensive analysis of the tax consequences arising in respect of the Notes. Some aspects do not apply to certain classes of taxpayer (such as dealers and persons connected with the Issuer). Prospective Noteholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

### 1. Interest on the Notes

#### 1.1 *Withholding tax on payments of interest on the Notes*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes 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 Irish Stock Exchange is a recognised stock exchange. Under an 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 Irish Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

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 whose usual place of abode is not outside 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 of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest or that the payment is made to one of the persons listed in section 349B of the Act in the circumstances specified in section 349B, 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 tax at the lower rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of tax to be withheld (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder with tax deducted at that lower rate (or, as the case may be, for interest to be paid without deduction of tax).

#### 1.2 *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.

### 1.3 *Further United Kingdom income tax issues*

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.

## **2. 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.

## **3. Other United Kingdom tax payers**

### 3.1 *Taxation of chargeable gains*

A disposal of Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the Notes are attributable, may give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

### 3.2 *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.

## **4. Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes into, or transfer by delivery of the Notes, within a clearing system.

## **5. EU Directive on the Taxation of Savings Income**

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria 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.

## SUBSCRIPTION AND SALE

The Joint Lead Managers and the Co-Managers (together, the **Managers**) have agreed, pursuant to a subscription agreement dated 7 February 2006 (the **Subscription Agreement**), made between, *inter alias*, the Managers and the Issuer, jointly and severally, to procure subscribers and failing which to subscribe and pay for the (i) Class A Notes at 100 per cent. of the initial principal amount of such Notes, (ii) Class B Notes at 100 per cent. of the initial principal amount of such Notes, (iii) the Class C Notes at 100 per cent. of the initial principal amount of such Notes, (iv) the Class D Notes at 100 per cent. of the initial principal amount of such Notes, (v) the Class E Notes at 99.42 per cent. of the initial principal amount of such Notes and (vi) the Class F Notes at 100 per cent. of the initial principal amount of such Notes, subject to certain conditions.

The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

### United States of America

Each of the Managers has represented and agreed with the Issuer that the Notes have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold or delivered, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state laws. Each of the Managers 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 purposes only of this section "*Subscription and Sale*", the **Distribution Compliance Period**) within the United States or to, or for the account or benefit of, U.S. Persons and that it will have sent to each distributor, dealer or other person to which it sells Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

In addition, until 40 days after the later of the date of the commencement of the offering of the Notes and the Closing Date, an offer or sale of the Notes within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration 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 possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

### United Kingdom

Each of the Managers has 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.

## **Ireland**

Each of the Managers has represented and agreed that:

- (c) 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;
- (d) 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 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 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
- (e) in connection with offers or sales of Notes, it has only issued or passed on, and it 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.

## **France**

Each of the Managers and the Issuer have 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 Prospectus 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*.

### **Germany**

Each of the Managers has represented and agreed that the Notes have not been and will not be offered or publicly promoted or advertised or sold by it in the Federal Republic of Germany other than in compliance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) of 22nd June, 2005 and any other laws applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

### **The Netherlands**

Each of the Managers 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 who or which are established, domiciled or have their residence in the Netherlands other than Professional Market Parties (as defined below) provided they acquire the Notes for their own account and 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 Economic Area Member State (other than the Netherlands), and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.: DNB*) or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) and acting through a branch office in The Netherlands;
- (b) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes;
- (c) Netherlands enterprises, entities or individuals with net assets (*eigen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes and 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 such date;
- (d) Netherlands subsidiaries of the entities referred to under (a) above provided such subsidiaries are subject to prudential supervision;
- (e) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (f) such other entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.



## **Belgium**

This 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 neither reviewed nor approved this (these) document(s) nor commented as to its (their) accuracy or adequacy nor recommended or endorsed the purchase of Notes.

Each of the Managers 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 22nd 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 14th July, 1991 on consumer protection and trade practices unless such sale is made in compliance with this law and its implementing regulation.

## **Sweden**

Each of the Managers has confirmed and agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (lag (1991: 980) *om handel med finansiealla instrument*).

## **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 in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Offering Circular or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the Managers has undertaken not to offer or sell any of the Notes, or to distribute this document or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

## GENERAL INFORMATION

1. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 6 February 2006.
2. It is expected that listing of the Notes on the Official List of the Irish Stock Exchange will be granted on or about 9 February 2006, 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 Irish Stock Exchange's regulated market for listed securities is €14,000.
3. On 2 February 2006 the Issuer was granted a certificate under section 117(1) 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	024255557	XS0242555570
Class B	024255824	XS0242558244
Class C	024255891	XS0242558913
Class D	024255999	XS0242559994
Class E	024256103	XS0242561032
Class F	024256189	XS0242561891

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 Irish Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Irish Paying Agent in Dublin. The Issuer will not publish interim accounts.
6. Save as disclosed herein, neither the Issuer nor the Borrower is, nor has it been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or, as applicable, the Borrower is aware) which may have, or have had, since the date of its incorporation, a significant effect on the Issuer's or, as applicable, the Borrower's financial position.
7. The Issuer has not entered into any material contracts or arrangements, other than those disclosed in this Offering Circular, since the date of its incorporation.
8. Save as disclosed in this Offering Circular, since 15 November 2005 (being the date of incorporation of the Issuer), the Issuer has not commenced operations, no accounts of the Issuer have been made up and there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.
9. Save as disclosed in this Offering Circular, since 1 April 2005 (being the date of incorporation of the Borrower), no accounts of the Borrower have been made up and there has been no material adverse change in the financial position or prospects of the Borrower and no significant change in the trading or financial position of the Borrower.
10. Each of the Issuer Deed of Charge and the Note Trust Deed will provide that the Issuer Security Trustee and the Note Trustee, respectively, may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Issuer

Deed of Charge and the Note Trust Deed, respectively, whether or not such report or other information, engagement letter or other document entered into by the Issuer Security Trustee or the Note Trustee (as the case may be) 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 inspected during usual business hours in physical form on any weekday (excluding Saturdays, Sundays, and public holidays) at the offices of the Issuer at 35 Great St. Helen's, London EC3A 6AP and at the specified offices of the Irish Paying Agent in Dublin for so long as the Notes are listed on the Irish Stock Exchange from the date of this document:
- (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Memorandum and Articles of Association of the Borrower;
  - (c) the Subscription Agreement; and
  - (d) drafts (subject to modification) of the following documents:
    - (i) the Credit Agreement;
    - (ii) the Borrower Security Documents;
    - (iii) the Mortgage of Shares;
    - (iv) the Leases;
    - (v) the Intercreditor Deed;
    - (vi) the Property Management Agreement;
    - (vii) the Note Trust Deed;
    - (viii) the Issuer Deed of Charge;
    - (ix) the Servicing Agreement;
    - (x) the Bank Account Agreement;
    - (xi) the Cash Management Agreement;
    - (xii) the Liquidity Facility Agreement;
    - (xiii) the Interest Rate Swap Agreement;
    - (xiv) the Agency Agreement;
    - (xv) the Tax Deed of Covenant;
    - (xvi) the Post-Enforcement Call Option Agreement;
    - (xvii) the Corporate Services Agreement; and
    - (xviii) the Master Definitions and Construction Schedule.

## APPENDIX 1

### TOYS "R" US LIMITED: ACCOUNTS

#### PROFIT AND LOSS ACCOUNT

For the 52 weeks ended 2 February 2002

		2002 (52 weeks) £'000	2001 (53 weeks) £'000
<b>TURNOVER</b>	2	488,304	430,622
Cost of sales		348,277	302,842
Gross profit		140,027	127,780
Other operating expenses	3	116,468	114,537
<b>OPERATING PROFIT</b>		23,559	13,243
Profit on disposal of property interests		899	-
Other income	4	1,447	1,712
Interest payable	5	(10,365)	(9,735)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	6	15,540	5,220
Taxation charge	7	5,650	2,204
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		9,890	3,016
Dividends - ordinary dividends paid on equity shares		-	-
<b>PROFIT RETAINED FOR THE FINANCIAL PERIOD</b>	17	9,890	3,016

#### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit of £9,890,000 in the 52 week period ended 2 February 2002 (£3,016,000 in the 53 week period ended 3 February 2001).

**BALANCE SHEET**  
**At 2 February 2002**

	<i>Notes</i>	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
<b>FIXED ASSETS</b>			
Tangible assets	10	207,965	64,423
<b>CURRENT ASSETS</b>			
Stock	11	40,459	41,647
Debtors	12	47,596	25,499
Cash at bank and in hand		45,959	46,668
		<u>134,014</u>	<u>113,814</u>
<b>CREDITORS: amounts falling due within one year</b>	13	(252,373)	(98,745)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>(118,359)</u>	<u>15,069</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		89,606	79,492
<b>CREDITORS: amounts falling due after more than one year</b>	14	(55,000)	(62,188)
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	15	(14,681)	(7,269)
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u>19,925</u>	<u>10,035</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	100	100
Profit and loss account	17	19,825	9,935
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>19,925</u>	<u>10,035</u>

Approved by the Board on 5/8/02

Directors

## NOTES TO THE ACCOUNTS

At 2 February 2002

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

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

The transitional disclosure information required by FRS17 "Retirement Benefits" (see note 21) and FRS19 "Deferred Taxation" have been adopted for the first time by the company in these accounts. There is no material effect of the change in accounting policy for deferred taxation on the results and net assets on the current and prior financial periods.

The company has taken advantage of the exemption offered under FRS I (Revised) in not preparing a cash flow statement, being a wholly owned subsidiary of a company preparing published group accounts including a cash flow statement.

The company has also taken advantage of the exemption in FRS8 from disclosing transactions with related parties that are part of the Toys 'R' Us Inc. group.

#### *Depreciation*

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value of each asset, evenly over its expected useful life as follows:

Long leasehold land	over the period of the relevant lease
Freehold and long leasehold buildings	50 years
Leasehold improvements	25 years
Fixtures, fittings and equipment and trailers	15 years
Point of sale equipment	8 years
Computers, shopping trolleys and pallets	5 years
Material handling equipment	20 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Stocks*

Retail stocks are valued at the lower of cost and net realisable value. Cost is computed by deducting the normal gross profit margin from the selling value of stock.

#### *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of

exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

### ***Deferred taxation***

Deferred taxation is provided on all timing differences, arising from the different treatment for accounts and taxation purposes of transactions and events recognised in the accounts of the current and previous years, with the following exceptions:

- No provision is made for taxation on gains on disposal of fixed assets that have been rolled over into replacement assets or where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the tangible gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

- Deferred taxation assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

***Leases***

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

***Pension costs***

Pension costs continue to be recognised under SSAP 24 on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees.

***Provisions for liabilities and charges***

Onerous contract costs represent amounts for properties which are surplus to the company's trading requirements. Provisions are charged to operating profits, and recorded within provisions for liabilities and charges, when properties become surplus to normal requirements. The provision charged represents the best estimate of unavoidable future costs. These provisions are reviewed annually.

**2. TURNOVER**

Turnover comprises the value of goods sold to customers in the United Kingdom, exclusive of VAT. All turnover relates to continuing retail activities.

**3. OTHER OPERATING EXPENSES**

	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2001</i> <i>(53 weeks)</i> <i>£'000</i>
Retail and distribution costs	100,600	101,085
Administrative expenses	<u>15,868</u>	<u>13,452</u>
	<u>116,468</u>	<u>114,537</u>



## NOTES TO THE ACCOUNTS

At 2 February 2002

### 4. OTHER INCOME

	2002 (52 weeks) £'000	2001 (53 weeks) £'000
Bank interest	642	896
Interest receivable on intercompany loan	805	816
	<u>1,447</u>	<u>1,712</u>

### 5. INTEREST PAYABLE

	2002 (52 weeks) £'000	2001 (53 weeks) £'000
Bank loans and overdrafts	131	8
Interest payable on group loans	10,234	9,727
	<u>10,365</u>	<u>9,735</u>

### 6. PROFIT ON ORDINARY ACTIVITIES

	2002 (52 weeks) £'000	2001 (53 weeks) £'000
Profit for the period is stated after charging:		
Leasehold property rents - external	16,890	15,741
- fellow subsidiary	2,891	11,673
Depreciation of tangible fixed assets	7,843	5,163
Hire of assets under operating leases	1,354	1,484
Auditors' remuneration - audit services	60	55
- non audit services	38	51
Royalty payments	14,638	12,898

### 7. TAXATION

Tax on profit on ordinary activities

	2002 (52 weeks) £'000	2001 (52 weeks) £'000
Current tax:		
UK corporation tax on profits for the period	3,953	7
Group relief payable	643	1,025
Adjustments in respect of previous periods	(8)	(1)
	<u>4,588</u>	<u>1,031</u>
Deferred Tax:		
Originating and reversal of timing differences	1,062	1,173
	<u>1,062</u>	<u>1,173</u>
	<u>5,650</u>	<u>2,204</u>

**7. TAXATION (CONTINUED)**

	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2001</i> <i>(53 weeks)</i> <i>£'000</i>
Factors affecting the tax charge for the period		
Profit on ordinary activities before tax	<u>15,540</u>	<u>5,220</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent. (2001:30 per cent.)	4,662	1,566
Effect of:		
Disallowed expenses and non taxable income	37	52
Capital allowances in excess of depreciation	(1,097)	(1,168)
Depreciation on non-qualifying assets	1,224	593
Other short-term timing differences	40	(11)
Adjustments in respect of previous periods	(8)	(1)
Rollover relief on property disposal profits	(270)	-
Current tax charge for the period	<u>4,588</u>	<u>1,031</u>

**8. EMOLUMENTS OF DIRECTORS**

	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2001</i> <i>(53 weeks)</i> <i>£'000</i>
Emoluments (excluding pension contributions)	<u>1,428</u>	<u>1,283</u>
Company contributions paid to money purchase pension schemes	<u>91</u>	<u>86</u>
	<i>Number</i>	<i>Number</i>
Members of money purchase pension schemes	<u>3</u>	<u>3</u>

The amounts in respect of the highest paid director are as follows:

	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2001</i> <i>(53 weeks)</i> <i>£'000</i>
Emoluments (excluding pension contributions)	<u>702</u>	<u>674</u>
Company contributions paid to money purchase pension schemes	<u>42</u>	<u>40</u>

## 9. STAFF NUMBERS AND COSTS

The average monthly number of persons employed by the company during the period, including directors, was:

	<i>Number of employees</i>	
	<i>2002</i>	<i>2001</i>
Retail and distribution	4,352	4,287
Administration	296	265
	<hr/>	<hr/>
	4,648	4,552
	<hr/>	<hr/>
Staff costs (for the above persons)		
	<i>2002</i>	<i>2001</i>
	<i>(52 weeks)</i>	<i>(53 weeks)</i>
	<i>£'000</i>	<i>£'000</i>
Wages and salaries	40,611	36,812
Social security costs	3,163	2,654
Other pension costs	943	702
	<hr/>	<hr/>
	44,717	40,168
	<hr/>	<hr/>

## 10. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings £'000</i>	<i>Long leasehold land and buildings £'000</i>	<i>Leasehold improve- ments £'000</i>	<i>Fixtures, fitting tools and equipment £'000</i>	<i>Total £'000</i>
<b>Cost:</b>					
At 3 February 2001	3,078	20,008	23,112	58,616	104,814
Additions	3,527	-	2,580	8,884	14,991
Disposals	(4,508)	-	-	(1,234)	(5,742)
Transfers from fellow subsidiary	135,092	19,507	-	2,490	157,089
At 2 February 2002	<u>137,189</u>	<u>39,515</u>	<u>25,692</u>	<u>68,756</u>	<u>271,152</u>
<b>Depreciation:</b>					
At 3 February 2001	203	1,239	6,310	32,639	40,391
Charge for period	1,948	566	1,104	4,225	7,843
Disposals	(373)	-	-	(891)	(1,264)
Transfers from fellow subsidiary	14,042	1,966	-	209	16,217
At 2 February 2002	<u>15,820</u>	<u>3,771</u>	<u>7,414</u>	<u>36,182</u>	<u>63,187</u>
<b>Net book amounts:</b>					
At 2 February 2002	<u>121,369</u>	<u>35,744</u>	<u>18,278</u>	<u>32,574</u>	<u>207,965</u>
At 3 February 2001	<u>2,875</u>	<u>18,769</u>	<u>16,802</u>	<u>25,977</u>	<u>64,423</u>

During the period, the company paid £140,872,000 to Toys 'R' Us Properties Limited, a fellow subsidiary undertaking, for the surrender of its long lease interests in a number of the company's properties.

**11. STOCKS**

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Goods for resale	<u>40,459</u>	<u>41,647</u>

There is no material difference between the value of stock included in the balance sheet and its replacement cost.

**12. DEBTORS**

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Trade debtors	2,591	2,282
Amounts owed by group undertakings	38,651	15,172
Corporation Tax	49	364
Other debtors	178	346
Prepayments and accrued income	6,127	7,335
	<u>47,596</u>	<u>25,499</u>

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Trade creditors	50,150	55,754
Amounts owed to group undertakings	165,812	9,987
Other taxes and social security costs	626	652
VAT	20,599	19,084
Other creditors	4,324	5,303
Accruals	10,862	7,965
	<u>252,373</u>	<u>98,745</u>

**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
Loans from parent undertaking	55,000	55,000
Loan from fellow group undertaking	-	7,188
	<u>55,000</u>	<u>62,188</u>

The above loans are repayable as follows:

	<i>2002</i> <i>£'000</i>	<i>2001</i> <i>£'000</i>
In 2012 (interest payable at 12.33 per cent.)	55,000	55,000
In 2002 (interest payable at 5.32 per cent.)	-	7,188
	<u>55,000</u>	<u>62,188</u>

## 15. PROVISION FOR LIABILITIES AND CHARGES

	<i>Deferred Tax £'000</i>	<i>Onerous contracts £'000</i>	<i>Total £'000</i>
At 3 February 2001	3,342	3,927	7,269
Created in period	1,062	196	1,258
Used in period	-	(260)	(260)
Transfer from fellow subsidiary undertaking	6,414	-	6,414
At 2 February 2002	<u>10,818</u>	<u>3,863</u>	<u>14,681</u>

### *Onerous contracts:*

The provision for onerous contracts represents the estimated future rental obligations, net of sub-rental income, on vacated leasehold property interests.

### *Deferred taxation:*

The major components of deferred taxation, which represents the full potential liability at 30 per cent. (2001:30 per cent.), are as follows:

	<i>2002 £'000</i>	<i>2001 £'000</i>
Accelerated capital allowances	10,861	3,345
Short term timing differences	(43)	(3)
	<u>10,818</u>	<u>3,342</u>

## 16. CALLED UP SHARE CAPITAL

	<i>2002 £'000</i>	<i>2001 £'000</i>
Authorised, allotted and fully paid 100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>

**17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<i>Share capital £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 30 January 2000	100	6,919	7,019
Profit attributable to members of the company	-	3,016	3,016
At 3 February 2001	100	9,935	10,035
Profit attributable to members of the company	-	9,890	9,890
At 2 February 2002	100	19,825	19,925

**18. FINANCIAL COMMITMENTS**

The annual commitments at the period end under non-cancellable operating leases were as follows:

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2002 £'000</i>	<i>2001 £'000</i>	<i>2002 £'000</i>	<i>2001 £'000</i>
Operating leases expiring:				
Within one year	-	-	75	58
Within two to five years	-	-	949	973
Thereafter	18,443	25,978	-	-
	<u>18,443</u>	<u>25,978</u>	<u>1,024</u>	<u>1,031</u>

**19. CAPITAL COMMITMENTS**

There were no contracted capital commitments at the balance sheet date (2001:£Nil).

**20. CONTINGENT LIABILITIES**

The company had no contingent liabilities at the balance sheet date (2001:£Nil).

**21. PENSIONS**

The company continues to account for pensions in accordance with SSAP 24 and the disclosures given in 21(a) below are those required by that standard. FRS 17 "Retirement Benefits" will not be mandatory for the company until the period ended 31 January 2004. Prior to this, phased transitional disclosures are required from 2 February 2002. These disclosures, to the extent not given in 21(a), are set out in 21(b) below.

**(a) UK Pension Schemes**

The company operates a pension scheme for certain employees of its UK subsidiaries, providing benefits based on final pensionable pay. The assets of the scheme are held



separately from those of the company, being invested in a pooled fund managed by independent investment managers and administered by independent trustees. Pension costs are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 2001, the results of which are as follows:

Main assumptions:

Rate of return on investments (per cent. per annum)	6.75
Rate of salary increases (per cent. per annum)	4.5
Rate of pension increases (per cent. per annum)	2.25
Market value of scheme's assets (£'000)	7,215
Level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases.	72.1%

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The company has increased its employer funding contribution rate from 8.5 per cent. to 9 per cent. of pensionable salaries as from 1 April 2002 (compared to a normal contribution rate of 6.6 per cent.), which is designed to eliminate the deficit in the scheme over the expected average remaining service lives of existing members.

The company also operates a defined contribution pension scheme for certain other employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Total pension costs for the period under SSAP 24 are disclosed in note 9 to the accounts.

There were no unpaid pension contributions outstanding at the year end (2001:£Nil).

(b) FRS 17 "Retirement Benefits" Disclosures

The company's contribution to the defined benefit scheme for the period ended 2 February 2002 amounted to £745,000. A full actuarial valuation was carried out as at 1 April 2001 and these valuation calculations have been updated to 2 February 2002 by a qualified independent actuary for FRS 17 disclosure purposes. The major assumptions used by the actuary to calculate scheme liabilities at 2 February 2002 under FRS 17 were (in normal terms):

Rate of increase in salaries	4.00%
Rate of increase of pensions in payment (1)	2.00%
Rate of increase of pensions in deferment (2)	2.00%
Discount rate	6.00%
Inflation assumption	2.00%

Notes:

- (1) Pension accrued prior to 6 April 1997 increases, when in payment, at 3.0 per cent. pa
- (2) Guaranteed Minimum Pensions increase in deferment in accordance with legislation

The assets in the scheme and the expected rate of return were:

	<i>Long-term rate of return expected at 2 February 2002%</i>	<i>Value at 2 February 2002 £'000</i>
Equities	7.00%	6,057
Bonds	5.50%	1,006
Property	7.00%	250
Cash	4.00%	<u>362</u>
Total market value of assets		7,675
Actuarial present value of liabilities		(10,844)
Deficit in the scheme		<u>(3,169)</u>
Related deferred tax asset		951
Net pension liability		<u><u>(2,218)</u></u>
		<i>2002 £'000</i>
Net assets		
Net assets excluding pension liability		19,925
Pension liability		(2,218)
Net assets including pension liability		<u>17,707</u>
Reserves		
Profit and loss reserve excluding pension liability		19,825
Pension liability		(2,218)
Profit and loss reserve		<u>17,607</u>

## **22. ULTIMATE PARENT UNDERTAKING**

The company's ultimate parent undertaking and controlling party is Toys 'R' Us Inc., a company incorporated in the United States of America. The largest group in which the results of the company are consolidated is that headed by Toys 'R' Us Inc. The consolidated accounts are available from Toys 'R' Us Inc., 225 Summit Avenue, Montvale, New Jersey 07645, USA. The smallest group in which the results of the company are consolidated is that headed by Toys 'R' Us Holdings PLC, a public limited company registered in England. Copies of those accounts are available from Toys 'R' Us Holdings PLC, Mitre House, 160 Aldersgate Street, London, EC1A 4DD.

**Profit and Loss Account  
for the 52 weeks ended 1 February 2003**

		2003 (52 weeks) £'000	2002 (52 weeks) £'000
	<i>Notes</i>		
<b>Turnover</b>	2	535,796	488,304
Cost of sales		<u>380,664</u>	<u>348,277</u>
Gross profit		155,132	140,027
Other operating expenses	3	<u>131,128</u>	<u>116,468</u>
<b>Operating profit</b>	4	24,004	23,559
(Loss)/profit on disposal of property interests		(1,047)	899
		<u>22,957</u>	<u>24,458</u>
Other income	7	1,694	1,447
Interest payable	8	<u>(13,671)</u>	<u>(10,365)</u>
<b>Profit on ordinary activities before taxation</b>		10,980	15,540
Taxation charge	9	<u>4,130</u>	<u>5,650</u>
<b>Profit for the financial period</b>	17	<u><u>6,850</u></u>	<u><u>9,890</u></u>

**Statement of Total Recognised Gains and Losses**

There are no recognised gains or losses other than the profit of £6,850,000 in the 52 week period ended 1 February 2003 (£9,890,000 in the 52 week period ended 2 February 2002).

**Balance Sheet**  
**at 1 February 2003**

	<i>Notes</i>	<i>2003</i> £'000	<i>2002</i> £'000
<b><i>Fixed assets</i></b>			
Tangible assets	10	207,507	207,965
<b><i>Current assets</i></b>			
Stock	11	46,218	40,459
Debtors	12	34,233	47,596
Cash at bank and in hand		76,897	45,959
		<u>157,348</u>	<u>134,014</u>
<b><i>Creditors</i></b> : amounts falling due within one year	13	(268,479)	(252,373)
<b><i>Net current assets/(liabilities)</i></b>		<u>(111,131)</u>	<u>(118,359)</u>
<b><i>Total assets less current liabilities</i></b>		96,376	89,606
<b><i>Creditors</i></b> : amounts falling due after more than one year	14	(55,000)	(55,000)
<b><i>Provision for liabilities and charges</i></b>	15	(14,601)	(14,681)
<b><i>Total assets less liabilities</i></b>		<u>26,775</u>	<u>19,925</u>
<b><i>Capital and reserves</i></b>			
Called up share capital	16	100	100
Profit and loss account	17	26,675	19,825
<b><i>Equity shareholders' funds</i></b>		<u>26,775</u>	<u>19,925</u>

Approved by the Board on 6/6/03

Directors

**Notes to the Financial Statements  
at 1 February 2003**

**1. ACCOUNTING POLICIES**

*Accounting convention*

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The transitional disclosure information required by FRS17 "Retirement Benefits" (see note 21) and FRS19 "Deferred Taxation" were adopted for the first time by the company in 2002. There was no material effect of the change in accounting policy for deferred taxation on the results and net assets on the current and prior financial periods.

The company has taken advantage of the exemption offered under FRS1 (Revised) in not preparing a cash flow statement, being a wholly owned subsidiary of a company preparing published group financial statements including a cash flow statement.

The company has also taken advantage of the exemption in FRS8 from disclosing transactions with related parties that are part of the Toys 'R' Us Inc. group.

*Depreciation*

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value of each asset, evenly over its expected useful life as follows:

Long leasehold land	over the period of the relevant lease
Freehold and long leasehold buildings	50 years
Leasehold improvements	25 years
Fixtures, fittings and equipment and trailers	15 years
Point of sale equipment	8 years
Computers, shopping trolleys and pallets	5 years
Material handling equipment	20 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

*Stocks*

Retail stocks are valued at the lower of cost and net realisable value. Cost is computed by deducting the normal gross profit margin from the selling value of stock.

*Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of

exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

### ***Deferred taxation***

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### ***Leases***

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

### ***Pension costs***

Pension costs continue to be recognised under SSAP 24 on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees.

### ***Provisions for liabilities and charges***

Onerous contract costs represent amounts for properties which are surplus to the company's trading requirements. Provisions are charged to operating profits, and recorded within provisions for liabilities and charges, when properties become surplus to normal requirements. The provision charged represents the best estimate of unavoidable future costs. These provisions are reviewed annually.

## **2. TURNOVER**

Turnover comprises the value of goods sold to customers in the United Kingdom, exclusive of VAT. All turnover relates to continuing retail activities.

## **3. OTHER OPERATING EXPENSES**

	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Retail and distribution costs	114,447	100,600
Administrative expenses	<u>16,681</u>	<u>15,868</u>
	<u>131,128</u>	<u>116,468</u>

**Notes to the Financial Statements  
at 1 February 2003**

**4. OPERATING PROFIT**

	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Operating profit for the period is stated after charging:		
Leasehold property rents - external	17,990	16,890
- fellow subsidiary	2,891	2,891
Depreciation of tangible fixed assets	8,744	7,843
Hire of assets under operating leases	1,437	1,354
Auditors' remuneration - audit services	62	60
- non audit services	22	38
Royalty payments	<u>16,074</u>	<u>14,638</u>



**5. EMOLUMENTS OF DIRECTORS**

	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Emoluments (excluding pension contributions)	<u>1,803</u>	<u>1,428</u>
Company contributions paid to money purchase pension schemes	<u>97</u>	<u>91</u>
	<i>Number</i>	<i>Number</i>
Members of money purchase pension schemes	<u>3</u>	<u>3</u>
The amounts in respect of the highest paid director are as follows:		
	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Emoluments (excluding pension contributions)	<u>1,009</u>	<u>702</u>
Company contributions paid to money purchase pension schemes	<u>45</u>	<u>42</u>

## 6. STAFF NUMBERS AND COSTS

The average monthly number of persons employed by the company during the period, including directors, was:

	<i>Number of employees</i>	
	<i>2003</i>	<i>2002</i>
Retail and distribution	4,588	4,352
Administration	<u>326</u>	<u>296</u>
	<u>4,914</u>	<u>4,648</u>

Staff costs (for the above persons)

	<i>2003</i>	<i>2002</i>
	<i>(52 weeks)</i>	<i>(52 weeks)</i>
	<i>£'000</i>	<i>£'000</i>
Wages and salaries	44,716	40,611
Social security costs	3,311	3,163
Other pension costs	<u>817</u>	<u>943</u>
	<u>48,844</u>	<u>44,717</u>

## 7. OTHER INCOME

	<i>2003</i>	<i>2002</i>
	<i>(52 weeks)</i>	<i>(52 weeks)</i>
	<i>£'000</i>	<i>£'000</i>
Bank interest	852	642
Interest receivable on intercompany loan	<u>842</u>	<u>805</u>
	<u>1,694</u>	<u>1,447</u>

**8. INTEREST PAYABLE**

	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Bank loans and overdrafts	32	131
Interest payable on group loans	<u>13,639</u>	<u>10,234</u>
	<u><u>13,671</u></u>	<u><u>10,365</u></u>

**9. TAXATION**

(a) Tax on profit on ordinary activities

	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Current tax:		
UK Corporation tax on profits for the period	3,549	3,953
Group relief payable	68	643
Adjustments in respect of previous periods	<u>41</u>	<u>(8)</u>
	3,658	4,588
Deferred Tax:		
Originating and reversal of timing differences	<u>472</u>	<u>1,062</u>
	<u>472</u>	<u>1,062</u>
	<u><u>4,130</u></u>	<u><u>5,650</u></u>

(b) Factors affecting the tax charge for the period

	<i>2003</i> <i>(52 weeks)</i> <i>£'000</i>	<i>2002</i> <i>(52 weeks)</i> <i>£'000</i>
Profit on ordinary activities before tax	<u>10,980</u>	<u>15,540</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30 per cent. (2002: 30 per cent.)	3,294	4,662
Effect of:		
Disallowed expenses and non taxable income	27	37
Capital allowances in excess of depreciation	(756)	(1,097)
Depreciation on non-qualifying assets	859	1,224
Other short-term timing differences	(121)	40
Adjustments in respect of previous periods	41	(8)
Indexation allowances and rebasing, etc.	<u>314</u>	<u>(270)</u>
Current tax charge for the period	<u>3,658</u>	<u>4,588</u>

(c) Deferred Tax

The major components of deferred taxation, which represents the full potential liability at 30 per cent. (2002: 30 per cent.), are as follows:

	<i>2003</i> £'000	<i>2002</i> £'000
Accelerated capital allowances	11,323	10,861
Short term timing differences	<u>(33)</u>	<u>(43)</u>
	<u>11,290</u>	<u>10,818</u>

	<i>Deferred Tax £'000</i>
At 2 February 2002	10,818
Provided during the period	877
Prior period adjustment	<u>(405)</u>
At 1 February 2003	<u>11,290</u>

(d) Factors that may affect future tax charges

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount not provided for is £5,596,000. At present, it is not envisaged that any tax will become payable in the foreseeable future.

## 10. TANGIBLE FIXED ASSETS

	<i>Freehold land and buildings £'000</i>	<i>Long leasehold land and buildings £'000</i>	<i>Leasehold improve- ments £'000</i>	<i>Fixtures, fittings, tools and equipment £'000</i>	<i>Total £'000</i>
<b>Cost:</b>					
At 2 February 2002	137,189	39,515	25,692	68,756	271,152
Additions		(3)	4,766	10,192	14,955
Disposals	<u>(7,228)</u>	<u>-</u>	<u>-</u>	<u>(978)</u>	<u>(8,206)</u>
At 1 February 2003	<u>129,961</u>	<u>39,512</u>	<u>30,458</u>	<u>77,970</u>	<u>277,901</u>
<b>Depreciation:</b>					
At 2 February 2002	15,820	3,771	7,414	36,182	63,187
Charge for period	1,946	565	1,358	4,875	8,744
Disposals	<u>(802)</u>	<u>-</u>	<u>-</u>	<u>(735)</u>	<u>(1,537)</u>
At 1 February 2003	<u>16,964</u>	<u>4,336</u>	<u>8,772</u>	<u>40,322</u>	<u>70,394</u>
<b>Net book amounts:</b>					
At 1 February 2003	<u>112,997</u>	<u>35,176</u>	<u>21,686</u>	<u>37,648</u>	<u>207,507</u>
At 2 February 2002	<u>121,369</u>	<u>35,744</u>	<u>18,278</u>	<u>32,574</u>	<u>207,965</u>

## 11. STOCKS

	<i>2003 £'000</i>	<i>2002 £'000</i>
Goods for resale	<u>46,218</u>	<u>40,459</u>

There is no material difference between the value of stock included in the balance sheet and its replacement cost.

**12. DEBTORS**

	<i>2003</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>
Trade debtors	8,928	2,591
Amounts owed by group undertakings	16,292	38,651
Corporation Tax	1,043	49
Other debtors	93	178
Prepayments and accrued income	<u>7,877</u>	<u>6,127</u>
	<u>34,233</u>	<u>47,596</u>

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>2003</i>	<i>2002</i>
	<i>£'000</i>	<i>£'000</i>
Trade creditors	49,058	50,150
Amounts owed to group undertakings	177,740	165,812
Other taxes and social security costs	23,708	21,225
Other creditors	4,933	4,324
Accruals	<u>13,040</u>	<u>10,862</u>
	<u>268,479</u>	<u>252,373</u>

**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2003 £'000	2002 £'000
Loans from parent undertaking	<u>55,000</u>	<u>55,000</u>
	<u>55,000</u>	<u>55,000</u>

	2003 £'000	2002 £'000
--	---------------	---------------

The above loans are repayable as follows:

In 2012 (interest payable at 12,33 per cent.)	<u>55,000</u>	<u>55,000</u>
	<u>55,000</u>	<u>55,000</u>

**15. PROVISION FOR LIABILITIES AND CHARGES**

	<i>Deferred Tax £'000</i>	<i>Onerous contracts £'000</i>	<i>Total £'000</i>
At 2 February 2002	10,818	3,863	14,681
Created in period	472	-	472
Used in period	<u>-</u>	<u>(552)</u>	<u>(552)</u>
At 1 February 2003	<u>11,290</u>	<u>3,311</u>	<u>14,601</u>

***Onerous contracts:***

The provision for onerous contracts represents the estimated future rental obligations, net of sub-rental income, on vacated leasehold property interests.

***Deferred Tax:***

Refer to note 9

**16. CALLED UP SHARE CAPITAL**

	2003 £'000	2002 £'000
Authorised, allotted and fully paid 100,000 ordinary shares of £1 each	<u>100</u>	<u>100</u>



## 17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>Share capital £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 3 February 2001	100	9,935	10,035
Profit attributable to members of the company	<u>-</u>	<u>9,890</u>	<u>9,890</u>
At 2 February 2002	100	19,825	19,925
Profit attributable to members of the company	<u>-</u>	<u>6,850</u>	<u>6,850</u>
At 1 February 2003	<u>100</u>	<u>26,675</u>	<u>26,775</u>

## 18. FINANCIAL COMMITMENTS

The annual commitments at the period end under non-cancellable operating leases were as follows:

	<i>Land and Buildings</i>		<i>Other</i>	
	<i>2003 £'000</i>	<i>2002 £'000</i>	<i>2003 £'000</i>	<i>2002 £'000</i>
Operating leases expiring:				
Within one year	-	-	597	75
Within two to five years	-	-	676	949
Thereafter	<u>19,700</u>	<u>18,443</u>	<u>-</u>	<u>-</u>
	<u>19,700</u>	<u>18,443</u>	<u>1,273</u>	<u>1,024</u>

## 19. CAPITAL COMMITMENTS

There were no contracted capital commitments at the balance sheet date (2002: £nil).

## 20. CONTINGENT LIABILITIES

The company had no contingent liabilities at the balance sheet date (2002: £nil).

## 21. PENSIONS

The company continues to account for pensions in accordance with SSAP24 and the disclosures given in 21(a) below are those required by that standard. FRS 17 "Retirement Benefits" will not be mandatory for the company until the period ended 31 January 2005. Prior to this, phased transitional disclosures are required from 2 February 2002. These disclosures, to the extent not given in 21(a), are set out in 21(b) below.

(a) UK Pension Schemes

The company operates a pension scheme for certain employees of its UK subsidiaries, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested in a pooled fund managed by independent investment managers and administered by independent trustees. Pension costs are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 2001, the results of which are as follows:

Main assumptions:

Rate of return on investments (per cent. per annum)	6.75
Rate of salary increase (per cent. per annum)	4.5
Rate of pension increases (per cent. per annum)	2.25
Market value of scheme's assets (£'000)	7,215
Level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	72.1 %

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The company has increased its employer funding contribution rate from 8.5 per cent. to 9 per cent. of pensionable salaries as from 1 April 2002 (compared to a normal contribution rate of 6.6 per cent.), which is designed to eliminate the deficit in the scheme over the expected average remaining service lives of existing members.

The company also operates a defined contribution pension scheme for certain other employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Total pension costs for the period under SSAP 24 are disclosed in note 6 to the financial statements.

There were no unpaid pension contributions outstanding at the period end (2002: £nil).

(b) FRS 17 "Retirement Benefits" Disclosures

The company operates a defined benefit scheme in the UK. The company's contributions to this scheme amounted to £815,000 (£745,000) for 2002/03. A full actuarial valuation was carried out at 01/04/2001 and updated to 01/02/2003 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2003	2002
Rate of increase in salaries	3.50%	4.00%
Rate of increase of pensions in payment	2.00%	2.00%
Discount rate	5.25%	6.00%
Inflation assumption	2.00%	2.00%

Notes:

- (1) Pension accrued prior to 6 April 1997 increases, when in payment, at 3.0 per cent. p.a.
- (2) Guaranteed Minimum Pensions increase in deferment in accordance with legislation.

The assets in the scheme and the expected rate of return were:

	2003	2003	2002	2002
		£000		£000
Equities	7.00%	5,454	7.00%	6,057
Bonds	4.80%	818	5.50%	1,006
Property	7.00%	280	7.00%	250
Cash	4.00%	<u>400</u>	4.00%	<u>362</u>
Total market value of assets		6,952		7,675
Actuarial value of liability		<u>(15,323)</u>		<u>(10,844)</u>
Recoverable (deficit)/surplus in the schemes		(8,371)		(3,169)
Related deferred tax asset/(liability)		<u>2,511</u>		<u>951</u>
Net pension (liability)/asset		<u>(5,860)</u>		<u>(2,218)</u>

	2003 £000	2002 £000
<b><i>Net Assets</i></b>		
Net assets excluding pension (liability)/asset	26,775	19,925
Pension (liability)/asset	<u>(5,860)</u>	<u>(2,218)</u>
Net assets including pension (liability )/assets	<u>20,915</u>	<u>17,707</u>

	<i>At period - end 01/02/0 3 £000</i>	<i>At period - end 02/02/0 2 £000</i>
<b><i>Reserves</i></b>		
Profit and loss reserve excluding pension (liability)/asset	26,675	19,825
Pension liability	<u>(5,860)</u>	<u>(2,218)</u>
Profit and loss reserve	<u>20,815</u>	<u>17,607</u>

	<i>Period to 01/02/03 £000</i>
<b><i>Analysis of the amount charged to operating profit</i></b>	
Service cost	520
Past service cost	<u>-</u>
Total operating charge	<u>520</u>
<b><i>Analysis of net return on pension scheme</i></b>	
Expected return on pension scheme assets	551
Interest on pension liabilities	<u>(676)</u>
Net return	<u>(125)</u>

*Period to  
01/02/03  
£000*

***Analysis of amount recognised in statement of total recognised gains and losses***

Actual return less expected return on assets	(2,463)
Experience gains and losses on liabilities	358
Changes in assumptions	<u>(3,267)</u>
Net (loss)/gain recognised	<u><u>(5,372)</u></u>

***Movement in deficit during the period***

Deficit in scheme at beginning of period	(3,169)
Movement in period:	
(Current service cost)	(520)
Contributions	815
(Past service costs)	-
Net return on assets/(interest cost)	(125)
Actuarial gain/(loss)	<u>(5,372)</u>
Deficit in scheme at end of period	<u><u>(8,371)</u></u>

2003

***History of experience gains and losses***

Difference between expected and actual return on scheme assets:	
- amount (£ million)	(2,463)
- percentage of scheme assets	-35%
Experience gains and losses on scheme liabilities:	
- amount (£ million)	358
- percentage of scheme liabilities	2%
Total amount recognised in statement of total recognised gains and losses:	
- amount (£ million)	(5,372)
- percentage of scheme liabilities	-35%

## **22. ULTIMATE PARENT UNDERTAKING**

The company's ultimate parent undertaking and controlling party is Toys 'R' Us Inc., a company incorporated in the United States of America. The largest group in which the results of the company are consolidated is that headed by Toys 'R' Us Inc. The consolidated financial statements are available from Toys 'R' Us Inc., 225 Summit Avenue, Montvale, New Jersey 07645, USA.

The smallest group in which the results of the company are consolidated is that headed by Toys 'R' Us Holdings PLC, a public limited company registered in England. Copies of those financial statements are available from Toys 'R' Us Holdings PLC, Mitre House, 160 Aldersgate Street, London EC1A 4DD.

**Profit and loss account  
for the 52 weeks from 2 February 2003 to 31 January 2004**

		<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>	<i>Period from 3 Feb 02 to 1 Feb 03 £000</i>
	<i>Notes</i>		
<b>Turnover</b>	2	521,697	535,796
Cost of sales		<u>357,051</u>	<u>365,420</u>
<b>Gross profit</b>		<u>164,646</u>	<u>170,376</u>
Distribution costs		138,363	129,691
Administrative expenses		14,489	16,681
<b>Operating profit</b>	3	11,794	24,004
Loss on disposal of tangible fixed assets	4	-	(1,047)
		<u>11,794</u>	<u>22,957</u>
Interest receivable	7	1,931	1,694
Interest payable	8	(12,532)	(13,671)
		<u>(10,601)</u>	<u>(11,977)</u>
<b>Profit on ordinary activities before taxation</b>		1,193	10,980
Tax on profit on ordinary activities	9	1,538	4,130
<b>(Loss)/profit retained for the financial 52 weeks</b>		<u>(345)</u>	<u>6,850</u>

**Statement of total recognised gains and losses**

There are no recognised gains or losses other than the loss of £345,000 attributable to the shareholders for the 52 weeks ended 31 January 2004 (2003 - profit of £6,850,000).

**Balance sheet  
at 31 January 2004**

	<i>Notes</i>	<i>31 Jan 04</i> £000	<i>1 Feb 03</i> £000
<b><i>Fixed assets</i></b>			
Tangible assets	10	<u>201,571</u>	<u>207,507</u>
<b><i>Current assets</i></b>			
Stocks	11	41,416	46,218
Debtors	12	36,110	34,233
Cash at bank		87,648	76,897
		<u>165,174</u>	<u>157,348</u>
<b><i>Creditors: amounts falling due within one year</i></b>	13	<u>270,579</u>	<u>268,479</u>
<b><i>Net current liabilities</i></b>		<u>(105,405)</u>	<u>(111,131)</u>
<b><i>Total assets less current liabilities</i></b>		96,166	96,376
<b><i>Creditors: amounts falling due after more than one year</i></b>	14	55,000	55,000
<b><i>Provisions for liabilities and charges</i></b>			
Provisions for liabilities and charges	15	<u>14,736</u>	<u>14,601</u>
		<u>26,430</u>	<u>26,775</u>
<b><i>Capital and reserves</i></b>			
Called up share capital	18	100	100
Profit and loss account	19	26,330	26,675
<b><i>Equity shareholders funds</i></b>	19	<u>26,430</u>	<u>26,775</u>

.....  
Mr D Rurka (Chairman)  
Chairman

.....  
Mr. F C Muzika  
Director

3/08/2004



**Notes to the financial statements  
at 31 January 2004**

**1. ACCOUNTING POLICIES**

*Basis of preparation*

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards.

*Cash flow statement*

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

*Related parties transactions*

The company is a wholly owned subsidiary of Toys 'R' Us Inc, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the Toys 'R' Us Inc group. There are no other related party transactions.

*Fixed assets*

All fixed assets are initially recorded at cost. The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

*Depreciation*

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Long leasehold land	- over the period of the relevant lease
Computers, shopping trolleys and pallets	- 5 years
Freehold and long leasehold buildings	- 50 years
Leasehold Improvements	- 25 years or the lease term whichever is shorter
Fixtures, fittings and equipment and trailers	- 15 years
Point of sale equipment	- 8 years
Material handling equipment	- 20 years

*Stocks*

Retail stocks are valued at the lower of cost and net realisable value. Cost is computed by deducting the normal gross profit margin from the selling value of stock.

### ***Provisions for liabilities and charges***

Onerous contract costs represent amounts for properties, which are surplus to the company's trading requirements. Provisions are charged to operating profits, and recorded within provisions for liabilities and charges, when properties become surplus to normal requirements. The provision charged represents the best estimate of unavoidable future costs. These provisions are reviewed annually.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

### ***Operating lease agreements***

Rentals paid under operating leases are charged to income on a straight-line basis over the term of the lease.

### ***Pension costs***

The company operates both a defined benefit pension scheme and a defined contribution pension scheme. Contributions to the defined benefit pension scheme continue to be recognised under SSAP 24 on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees.

Contributions to the defined contribution pension scheme are expensed as they become payable.

## 2. TURNOVER

Turnover comprises the value of goods sold to customers in the United Kingdom, exclusive of VAT. All turnover relates to continuing retail activities.

The directors consider the retailing of toys and other children related products to be the only line of business and the United Kingdom to be the only geographic location in which the company operates. Hence no further disclosure is required with respect to SSAP 25 Segmental Reporting.

## 3. OPERATING PROFIT

This is stated after charging/(crediting):

	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>	<i>Period from 3 Feb 02 to 1 Feb 03 £000</i>
Auditors' remuneration - audit services	74	62
- non-audit services	57	22
	<u>131</u>	<u>84</u>
Depreciation of owned fixed assets	<u>9,401</u>	<u>8,744</u>
Operating lease rentals - land and buildings	21,944	20,881
- plant and machinery	<u>1,505</u>	<u>1,437</u>
Royalty payments	<u>15,782</u>	<u>16,074</u>

## 4. EXCEPTIONAL ITEMS

	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>	<i>Period from 3 Feb 02 to 1 Feb 03 £000</i>
Loss on disposal of fixed assets	<u>-</u>	<u>1,047</u>

**5. STAFF COSTS**

	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>	<i>Period from 3 Feb 02 to 1 Feb 03 £000</i>
Wages and salaries	42,885	44,716
Social security costs	3,230	3,311
Other pension costs (note 21)	945	817
	<u>47,060</u>	<u>48,844</u>

The monthly average number of employees during the 52 weeks was as follows:

	<i>Period from 2 Feb 03 to 31 Jan 04 No.</i>	<i>Period from 3 Feb 02 to 1 Feb 03 No.</i>
Distribution staff	4,599	4,588
Administrative staff	329	326
	<u>4,928</u>	<u>4,914</u>

**6. DIRECTORS' EMOLUMENTS**

	<i>Period from 2 February 2003 to 31 January 2004 £000</i>	<i>Period from 3 February 2002 to 1 February 2003 £000</i>
Emoluments	<u>960</u>	<u>1,803</u>
Value of company pension contributions to money purchase schemes	<u>98</u>	<u>97</u>

	<i>Period from 2 February 2003 to 31 January 2004 No.</i>	<i>Period from 3 February 2002 to 1 February 2003 No.</i>
Members of money purchase pension schemes	<u>3</u>	<u>3</u>

The amounts in respect of the highest paid director are as follows:

	<i>Period from 2 February 2003 to 31 January 2004 £000</i>	<i>Period from 3 February 2002 to 1 February 2003 £000</i>
Emoluments	<u>493</u>	<u>1,009</u>
Value of company pension contributions to money purchase schemes	<u>45</u>	<u>45</u>

**7. INTEREST RECEIVABLE**

	<i>Period from 2 February 2003 to 31 January 2004 £000</i>	<i>Period from 3 February 2002 to 1 February 2003 £000</i>
Bank interest receivable	1,130	852
Other loan interest receivable	<u>801</u>	<u>842</u>
	<u>1,931</u>	<u>1,694</u>

**8. INTEREST PAYABLE**

	<i>Period from 2 February 2003 to 31 January 2004 £000</i>	<i>Period from 3 February 2002 to 1 February 2003 £000</i>
Bank interest payable	157	32
Interest on other loans	<u>12,375</u>	<u>13,639</u>
	<u>12,532</u>	<u>13,671</u>

## 9. TAX

### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	<i>Period from 2 February 2003 to 31 January 2004 £000</i>	<i>Period from 3 February 2002 to 1 February 2003 £000</i>
<i>Current tax:</i>		
UK corporation tax	778	3,549
Tax under provided in previous 52 weeks	<u>225</u>	<u>41</u>
	1,003	3,590
Group relief payable	<u>–</u>	<u>68</u>
Total current tax (note 9(b))	<u>1,003</u>	<u>3,658</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	<u>535</u>	<u>472</u>
Tax on profit on ordinary activities	<u>1,538</u>	<u>4,130</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the 52 weeks is higher than the standard rate of corporation tax in the UK of 30 per cent. (2003 – 30 per cent.). The differences are reconciled below:

	<i>Period from 2 February 2003 To 31 January 2004 £000</i>	<i>Period from 3 February 2002 to 1 February 2003 £000</i>
Profit on ordinary activities before taxation	<u>1,193</u>	<u>10,980</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	358	3,294
Disallowed expenses and non taxable income	10	27
Capital allowances in excess of depreciation	(467)	(756)
Depreciation on non-qualifying assets	1,114	859
Other short-term timing differences	(237)	(121)
Adjustments in respect of previous periods	225	41
Indexation allowances & rebasing, etc	<u>–</u>	<u>314</u>
Total current tax (note 9(a))	<u><u>1,003</u></u>	<u><u>3,658</u></u>

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. Rollover relief will be available if proceeds from the sale of the properties are fully reinvested into qualifying assets within a period of 12 months before, and three years after, the date of disposal. The total amount not provided for is £539,000. At present, it is not envisaged that any tax in respect to this issue will become payable in the foreseeable future.



(d) Deferred tax

	<i>31 January 2004 £000</i>	<i>1 February 2003 £000</i>
Capital allowances in advance of depreciation	(11,854)	(11,323)
Short term timing differences	<u>29</u>	<u>33</u>
Provision for deferred taxation	<u>(11,825)</u>	<u>(11,290)</u>
		<i>£000</i>
At 2 February 2003		(11,290)
Profit and loss account movement arising during the 52 weeks		<u>(535)</u>
At 31 January 2004		<u>(11,825)</u>

## 10. TANGIBLE FIXED ASSETS

	<i>Land and Buildings</i>				
	<i>Freehold Property</i>	<i>Long term leasehold property</i>	<i>Leasehold improvements</i>	<i>Fixtures, fittings, tools and equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:					
At 2 February 2003	129,961	39,512	30,548	77,970	277,901
Additions	-	(6)	(46)	3,533	3,481
Disposals	-	-	(82)	(721)	(803)
	<u>129,961</u>	<u>39,506</u>	<u>30,330</u>	<u>80,782</u>	<u>280,579</u>
Depreciation:					
At 2 February 2003	16,694	4,336	8,772	40,332	70,394
Provided during the 52 weeks	1,878	565	1,611	5,347	9,401
Disposals	-	-	(82)	(705)	(787)
	<u>18,842</u>	<u>4,901</u>	<u>10,301</u>	<u>44,964</u>	<u>79,008</u>
Net book value:					
At 31 January 2004	<u>111,119</u>	<u>34,605</u>	<u>20,029</u>	<u>35,818</u>	<u>201,571</u>
At 2 February 2003	<u>112,997</u>	<u>35,176</u>	<u>21,686</u>	<u>37,648</u>	<u>207,507</u>

## 11. STOCKS

	<i>31 January 2004</i>	<i>1 February 2003</i>
	<i>£000</i>	<i>£000</i>
Finished goods	<u>41,416</u>	<u>46,218</u>

There is no material difference between the value of stock included in the balance sheet and its replacement cost.

**12. DEBTORS**

	<i>31 January 2004</i>	<i>1 February 2003</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	4,346	8,928
Amounts owed by group undertakings	19,085	16,292
Corporation tax	4,351	1,043
Other debtors	648	93
Prepayments and accrued income	<u>7,680</u>	<u>7,877</u>
	<u>36,110</u>	<u>34,223</u>

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>31 January 2004</i>	<i>1 February 2003</i>
	<i>£000</i>	<i>£000</i>
Trade creditors	41,931	49,058
Amounts owed to group undertakings	191,725	177,740
Other taxation and social security	20,664	23,708
Other creditors	3,645	4,933
Accruals and deferred income	<u>12,614</u>	<u>13,040</u>
	<u>270,579</u>	<u>268,479</u>

**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<i>31 January 2004</i>	<i>1 February 2003</i>
	<i>£000</i>	<i>£000</i>
Amounts owed to group undertakings	<u>55,000</u>	<u>55,000</u>

The above loans are repayable in 2012 and bear an interest rate of 12.33 per cent. per annum.

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Onerous contracts</i>	<i>Deferred taxation</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 2 February 2003	3,311	11,290	14,601
Profit and Loss Account movement arising during the 52 weeks	<u>(400)</u>	<u>535</u>	<u>135</u>
At 31 January 2004	<u><u>2,911</u></u>	<u><u>11,825</u></u>	<u><u>14,736</u></u>

### *Onerous Contracts:*

The provision for onerous contracts represents the estimated future rental obligations, net of sub-rental income, on vacated leasehold property interests.

### *Deferred Tax:*

Refer to note 9.

## 16. COMMITMENTS UNDER OPERATING LEASES

At 31 January 2004 the company had annual commitments under non-cancellable operating leases as set out below.

	<i>31 January 2004</i>		<i>1 February 2003</i>	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Within one year	–	914	–	597
In two to five years	–	390	–	676
In over five years	<u>19,287</u>	<u>–</u>	<u>19,700</u>	<u>–</u>
	<u><u>19,287</u></u>	<u><u>1,304</u></u>	<u><u>19,700</u></u>	<u><u>1,273</u></u>

## 17. CONTINGENT LIABILITY

The company has no contingent liabilities at the balance sheet date (2003: £nil).

**18. SHARE CAPITAL**

	<i>Authorised</i>	
	<i>31 January 2004</i>	<i>1 February 2003</i>
	£000	£000
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

	<i>Allotted, called up and fully paid</i>			
	<i>31 January 2004</i>		<i>1 February 2003</i>	
	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	100,000	<u>100</u>	100,000	<u>100</u>

**19. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES**

	<i>Share Capital</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	£000	£000	£000
At 3 February 2002	100	19,825	19,925
Profit for the 52 weeks	<u>–</u>	<u>6,850</u>	<u>6,850</u>
At 1 February 2003	100	26,675	26,675
Loss for the 52 weeks	<u>–</u>	<u>(345)</u>	<u>(345)</u>
At 31 January 2004	<u>100</u>	<u>26,330</u>	<u>26,430</u>

**20. CAPITAL COMMITMENTS**

The directors have confirmed that there were no capital commitments at 31 January 2004.

## 21. PENSIONS

The company continues to account for pensions in accordance with SSAP24 and the disclosures given below are those required by that standard, FRS 17 "Retirement Benefits" is not mandatory for the company at present. However, phased transitional disclosures were required from 2 February 2002. These disclosures, to the extent not given in 21(a), are set out in 21(b) below.

### (a) UK Pension Schemes

The company operates a defined benefit pension scheme for its employees, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested in a pooled fund managed by independent investment managers and administered by independent trustees. Pension costs are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 2001, the results of which are as follows:

#### Main assumptions:

Rate of return on investments (% per annum)	6.75
Rate of salary increase (% per annum)	4.50
Rate of pension increase (% per annum)	2.25
Market value of scheme's assets (£'000)	7,215
Level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	72.1%

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The company has increased its employer funding contribution rate from 9 per cent. to 10 per cent. of pensionable salaries as from 1 April 2003 (compared to a normal contribution rate of 6.6 per cent.), which is designed to eliminate the deficit in the scheme over the expected average remaining service lives of existing members.

The company also operates a defined contribution pension scheme for certain other employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Total pension costs for the period under SSAP 24 are disclosed in note 5 to the financial statements.

Unpaid pension contributions outstanding with respect to the defined contribution scheme, at the period end were £39,795. (2003: £70,402). There were no unpaid contributions outstanding with respect to the defined benefit scheme at the period end (2003: nil).

(b) *FRS17* disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation as at 1 April 2001 and updated by Mercer Human Resource Consulting to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 January 2004, 1 February 2003 and 2 February 2002. Scheme assets are stated at their market value at the respective balance sheet dates.

	2004	2003	2002
	%	%	%
Main assumptions:			
Rate of increase in salaries	4.0	3.5	4.0
Rate of increase in pensions in payment	2.5	2.0	2.0
Rate of increase in deferred pensions	2.8	2.0	2.0
Discount rate	5.6	5.3	6.0
Inflation assumption	2.8	2.0	2.0

The assets and liabilities of the scheme and the expected rate of return at 31 January are:

	2004		2003		2002	
	<i>Long-term rate of return expected</i>	<i>Value</i>	<i>Long-term rate of return expected</i>	<i>Value</i>	<i>Long-term rate of return expected</i>	<i>Value</i>
	%	£000		£000	%	£000
Equities	7.0	7,108	7.0	5,454	7.0	6,057
Bonds	5.6	2,427	4.8	818	5.5	1,006
Properties	7.0	-	7.0	280	7.0	250
Others	4.0	<u>196</u>	4.0	<u>400</u>	4.0	<u>362</u>
Total market value of assets		9,731		6,952		<u>7,675</u>
Present value of scheme liabilities		<u>(19,010)</u>		<u>(15,323)</u>		
Pension liability before deferred tax		(9,927)		(8,371)		
Related deferred tax asset		<u>2,784</u>		2,511		
Net pension liability		<u>(6,495)</u>		<u>(5,860)</u>		



An analysis of the defined benefit cost for the year ended 31 January is as follows:

	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
Current service cost	<u>(774)</u>	<u>(520)</u>
Total operating charge	<u>(774)</u>	<u>(520)</u>
Other finance costs: Expected return on pension scheme assets	498	551
Other finance costs: Interest on pension scheme liabilities	<u>(832)</u>	<u>(676)</u>
Total other finance income	<u>(334)</u>	<u>(125)</u>
Actual return less expected return on pension scheme assets	1,011	(2,463)
Experience (losses)/profits arising on scheme liabilities	(71)	358
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities	<u>(1,607)</u>	<u>(3,267)</u>
Actuarial losses recognised in the statement of total recognised gains and losses	<u>(667)</u>	<u>(5,372)</u>
Analysis of movements in deficit during the 52 weeks		
	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>
At 2 February	(8,371)	(3,169)
Total operating charge	(774)	(520)
Total other finance income	(334)	(125)
Actuarial losses recognised in the statement of total recognised gains and losses	(667)	(5,372)
Contributions	<u>867</u>	<u>815</u>
At 31 January	<u>(9,279)</u>	<u>(8,371)</u>

History of experience gains and losses:

	2004	2003
Difference between expected return and actual return on pension scheme assets		
- amount (£000)	1,011	(2,463)
- % of scheme assets	10.4	(35.4)
Experience (losses)/gains arising on scheme liabilities		
- amount (£000)	(71)	358
- % of the present value of scheme liabilities	(0.4)	2.3
Total actuarial losses recognised in the statement of total recognised gains and losses		
- amount (£000)	(667)	(5,372)
- % of the present value of scheme liabilities	(3.5)	(35.1)

Reconciliations of net assets and reserves under FRS 17

*Net assets*

	2004	2003	2002
	£000	£000	£000
Net assets as stated in balance sheet	<u>26,430</u>	<u>26,775</u>	<u>19,925</u>
Net assets excluding defined benefit liability	26,430	26,775	19,925
FRS 17 pension liability	<u>(6,495)</u>	<u>(5,860)</u>	<u>(2,218)</u>
Net assets including defined benefit liability	<u>19,935</u>	<u>20,915</u>	<u>17,707</u>

*Reserves*

	2004	2003	2002
	£000	£000	£000
Profit and loss reserve as stated in balance sheet	<u>26,330</u>	<u>26,675</u>	<u>19,825</u>
Profit and loss reserve excluding amounts relating to defined benefit liability	26,330	26,675	19,825
FRS 17 pension liability	<u>(6,495)</u>	<u>(5,860)</u>	<u>(2,218)</u>
Profit and loss reserve including amounts relating to defined benefit liability	<u>19,835</u>	<u>20,815</u>	<u>17,607</u>

## **22. IMMEDIATE AND ULTIMATE PARENT COMPANY**

The company's ultimate parent undertaking and controlling party is Toys 'R' Us Inc., a company incorporated in the United States of America. The largest group in which the results of the company are consolidated is that headed by Toys 'R' Us Inc. The consolidated financial statements are available from Toys 'R' Us Inc., 1 Geoffrey Way, Wayne, New Jersey 07470, United States of America.

The smallest group in which the results of the company are consolidated is that headed by Toys 'R' Us Holdings PLC, a public limited company registered in England. Copies of those financial statements are available from Toys 'R' Us Holdings PLC, Mitre House, 160 Aldersgate Street, London EC1A 4DD.

**Profit and loss account  
for the 52 weeks from 1 February 2004 to 29 January 2005**

		<i>Period</i>	<i>Restated)</i>
		<i>from 1 Feb</i>	<i>Period</i>
		<i>04 to 29</i>	<i>from 2 Feb</i>
		<i>Jan 05</i>	<i>03 to 31</i>
	<i>Notes</i>	<i>£000</i>	<i>Jan 04</i>
			<i>£000</i>
<b>Turnover</b>	2	502,030	496,676
Cost of sales		<u>328,449</u>	<u>332,030</u>
<b>Gross profit</b>		173,581	164,646
Distribution costs		141,188	138,363
Administrative expenses		<u>16,800</u>	<u>14,489</u>
<b>Operating profit</b>	3	15,593	11,794
Profit on disposal of tangible fixed assets	4	<u>3,958</u>	<u>–</u>
		<u>19,551</u>	<u>11,794</u>
Interest receivable	7	2,830	1,931
Interest payable and similar charges	8	<u>(13,704)</u>	<u>(12,532)</u>
		<u>(10,874)</u>	<u>(10,601)</u>
<b>Profit on ordinary activities before taxation</b>		8,677	1,193
Tax on profit on ordinary activities	9	<u>2,416</u>	<u>1,538</u>
<b>Profit retained/(loss) for the financial 52 weeks</b>		<u><u>6,261</u></u>	<u><u>(345)</u></u>

**Statement of total recognised gains and losses**

There are no recognised gains or losses other than the profit of £6,261,000 attributable to the shareholders for the 52 weeks ended 29 January 2005 (2004 - loss of £345,000).

**Balance Sheet**  
**at 29 January 2005**

	<i>Notes</i>	<i>29 Jan 05</i> £000	<i>31 Jan 04</i> £000
<b><i>Fixed assets</i></b>			
Tangible assets	10	<u>200,752</u>	<u>201,571</u>
<b><i>Current assets</i></b>			
Stocks	11	46,384	41,416
Debtors	12	30,107	36,110
Cash at bank		<u>1,294</u>	<u>87,648</u>
		77,785	165,174
<b><i>Creditors: amounts falling due within one year</i></b>	13	<u>174,662</u>	<u>270,579</u>
<b><i>Net current liabilities</i></b>		<u>(96,877)</u>	<u>(105,405)</u>
<b><i>Total assets less current liabilities</i></b>		103,875	96,166
<b><i>Creditors: amounts falling due after more than one year</i></b>	14	55,000	55,000
<b><i>Provisions for liabilities and charges</i></b>	15	<u>16,184</u>	<u>14,736</u>
		<u>32,691</u>	<u>26,430</u>
<b><i>Capital and reserves</i></b>			
Called up share capital	17	100	100
Profit and loss account	18	<u>32,591</u>	<u>26,330</u>
<b><i>Equity shareholders' funds</i></b>	18	<u>32,691</u>	<u>26,430</u>

Approved by the Board on 15/08/05

.....  
**Mr D Rurka (Chairman)**  
**Chairman**

.....  
**Mr. F C Muzika**  
**Director**

**Notes to the financial statements  
at 29 January 2005**

**1. ACCOUNTING POLICIES**

*Basis of preparation*

The financial statements are prepared under the historical cost convention, and in accordance with applicable accounting standards. The company has continued to be profitable in the current period and therefore the directors' believe it is appropriate to prepare the financial statements on a going concern basis even though the company has a net current liability at the end of the financial year.

*Cash flow statement*

The directors' have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

*Related parties transactions*

The company is a wholly owned subsidiary of Toys 'R' Us LLC, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members or investees of the Toys 'R' Us LLC group. There are no other related party transactions.

*Fixed assets*

All fixed assets are initially recorded at cost. The carrying value of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

*Depreciation*

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Long leasehold land	- over the period of the relevant lease
Computers, shopping trolleys and pallets	- 5 years
Freehold and long leasehold buildings	- 50 years
Leasehold Improvements	- 25 years or the lease term whichever is shorter
Fixtures, fittings and equipment and trailers	- 15 years
Point of sale equipment	- 8 years
Material handling equipment	- 20 years
Fork lift trucks	- 8 years

### ***Stocks***

Retail stocks are valued at the lower of cost and net realisable value. Cost is computed by deducting the normal gross profit margin from the selling value of stock.

### ***Provisions for liabilities and charges***

Onerous contract costs represent amounts for properties which are surplus to the company's trading requirements. Provisions are charged to operating profits, and recorded within provisions for liabilities and charges, when properties become surplus to normal requirements. The provision charged represents the best estimate of unavoidable future costs. These provisions are reviewed annually.

### ***Deferred taxation***

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over.
- Deferred tax assets are recognised only to the extent that the directors' consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### ***Foreign currencies***

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

### ***Operating lease agreements***

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

### ***Pension costs***

The company operates both a defined benefit pension scheme and a defined contribution pension scheme. Contributions to the defined benefit pension scheme continue to be recognised under SSAP 24 on a systematic basis so that the costs of providing retirement benefits to employees are evenly matched, so far as possible, to the service lives of the employees concerned. Any excess or deficiency of the actuarial value of assets over the actuarial value of liabilities of the pension scheme is allocated over the average remaining service lives of current employees.

Contributions to the defined contribution pension scheme are expensed as they become payable.

## 2. TURNOVER

Turnover comprises the value of goods sold to customers in the United Kingdom, exclusive of VAT. All turnover relates to continuing retail activities.

The directors' consider the retailing of toys and other children related products to be the only line of business and the United Kingdom to be the only geographic location in which the company operates. Hence no further disclosure is required with respect to SSAP 25 Segmental Reporting.

### Notes to the financial statements at 29 January 2005

## 3. OPERATING PROFIT

This is stated after charging/(crediting):

	<i>Period from 1 Feb 04 to 29 Jan 05 £000</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>
Auditors' remuneration - audit services	98	74
- non-audit services	13	57
Depreciation of owned fixed assets	<u>10,027</u>	<u>9,401</u>
Operating lease rentals - land and buildings	25,076	21,944
- plant and machinery	<u>1,627</u>	<u>1,505</u>
Royalty payments	<u>15,352</u>	<u>15,782</u>

## 4. EXCEPTIONAL ITEMS

	<i>Period from 1 Feb 04 to 29 Jan 05 £000</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>
Profit on disposal of fixed assets	<u>3,958</u>	<u>—</u>

## 5. STAFF COSTS

	<i>Period from 1 Feb 04 to 29 Jan 05 £000</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>
Wages and salaries	47,370	42,885
Social security costs	3,786	3,230
Other pension costs (note 20)	1,109	945
	<u>52,265</u>	<u>47,060</u>



The monthly average number of employees during the 52 weeks was as follows:

	<i>Period from 1 Feb 04 to 29 Jan 05 £000 No.</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000 No.</i>
Distribution staff	4,464	4,599
Administrative staff	337	329
	<u>4,801</u>	<u>4,928</u>

**Notes to the financial statements  
at 29 January 2005**

**6. DIRECTORS' EMOLUMENTS**

	<i>Period from 1 Feb 04 to 29 Jan 05 £000</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>
Emoluments	<u>1,505</u>	<u>960</u>
Value of company pension contributions to money purchase schemes	<u>101</u>	<u>98</u>

**6. DIRECTORS' EMOLUMENTS (CONTINUED)**

	<i>Period from 1 Feb 04 to 29 Jan 05.</i>	<i>Period from 2 Feb 03 to 31 Jan 04.</i>
	<i>No</i>	<i>No</i>
Members of money purchase pension schemes	<u>3</u>	<u>3</u>

The amounts in respect of the highest paid director are as follows:

	<i>Period from 1 Feb 04 to 29 Jan 05</i>	<i>Period from 2 Feb 03 to 31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Emoluments	<u>788</u>	<u>493</u>
Value of company pension contributions to money purchase schemes	<u>46</u>	<u>45</u>

**7. INTEREST RECEIVABLE**

	<i>Period from 1 Feb 04 to 29 Jan 05</i>	<i>Period from 2 Feb 03 to 31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Bank interest receivable	2,030	1,130
Other loan interest receivable	800	801
	<u>2,830</u>	<u>1,931</u>

**8. INTEREST PAYABLE AND SIMILAR CHARGES**

	<i>Period from 1 Feb 04 to 29 Jan 05</i>	<i>Period from 2 Feb 03 to 31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Bank interest payable	54	157
Interest on other loans	13,650	12,375
	<u>13,704</u>	<u>12,532</u>

## 9. TAXATION ON ORDINARY ACTIVITIES

### (a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	<i>Period from 1 Feb 04 to 29 Jan 05 £000</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>
<i>Current tax:</i>		
UK corporation tax	2,402	778
Tax under provided in previous 52 weeks	1	225
Total current tax (note 9(b))	<u>2,403</u>	<u>1,003</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	13	535
Tax on profit on ordinary activities	<u>2,416</u>	<u>1,538</u>

### (b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the 52 weeks is lower than the standard rate of corporation tax in the UK of 30 per cent. (2004 - 30 per cent.). The differences are reconciled below:

	<i>Period from 1 Feb 04 to 29 Jan 05 £000</i>	<i>Period from 2 Feb 03 to 31 Jan 04 £000</i>
Profit on ordinary activities before taxation	<u>8,677</u>	<u>1,193</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK	2,603	358
Disallowed expenses and non taxable income	17	10
Capital allowances in excess of depreciation	(175)	(467)
Depreciation on non-qualifying assets	1,169	1,114
Other short-term timing differences	(25)	(237)
Adjustments in respect of previous periods	1	225
Roll over capital gains	(1,187)	–
Total current tax (note 9(a))	<u>2,403</u>	<u>1,003</u>

(c) Factors that may affect future tax charges

No provision has been made for deferred tax on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. Rollover relief will be available if proceeds from the sale of the properties are fully reinvested into qualifying assets within a period of 12 months before, and three years after, the date of disposal. The total amount not provided for is £1,634,000. At present, it is not envisaged that any tax in respect to this issue will become payable in the foreseeable future.

(d) Deferred tax

	<i>29 Jan 05</i> <i>£000</i>	<i>31 Jan 04</i> <i>£000</i>
Capital allowances in advance of depreciation	(11,838)	(11,854)
Short term timing differences	–	29
Provision for deferred taxation	<u>(11,838)</u>	<u>(11,825)</u>
		<i>£000</i>
At 1 February 2004		(11,825)
Profit and loss account movement arising during the 52 weeks		(13)
At 29 January 2005		<u>(11,838)</u>

## 10. TANGIBLE FIXED ASSETS

### *Land and Buildings*

	<i>Freehold Property</i>	<i>Long term leasehold property</i>	<i>Leasehold improvements</i>	<i>Fixtures, fittings, tools and equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:					
At 1 February 2004	129,961	39,506	30,330	80,782	280,579
Additions	-	-	5,276	4,615	9,891
Disposals	(646)	(3)	(35)	(516)	(1,200)
Transfers	-	-	679	(679)	-
At 29 January 2005	<u>129,315</u>	<u>39,503</u>	<u>36,250</u>	<u>84,202</u>	<u>289,270</u>
Depreciation:					
At 1 February 2004	18,842	4,901	10,301	44,964	79,008
Provided during the 52 weeks	1,895	449	1,804	5,879	10,027
Disposals	-	-	(12)	(505)	(517)
Transfers	-	-	208	(208)	-
At 29 January 2005	<u>20,737</u>	<u>5,350</u>	<u>12,301</u>	<u>50,130</u>	<u>88,518</u>
Net book value:					
At 29 January 2005	<u>108,578</u>	<u>34,153</u>	<u>23,949</u>	<u>34,072</u>	<u>200,752</u>
At 1 February 2004	<u>111,119</u>	<u>34,605</u>	<u>20,029</u>	<u>35,818</u>	<u>201,571</u>

## 11. STOCKS

	<i>29 Jan 05</i>	<i>31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Finished goods	<u>46,384</u>	<u>41,416</u>

There is no material difference between the value of stock included in the balance sheet and its replacement cost.

**12. DEBTORS**

	<i>29 Jan 05</i>	<i>31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	3,958	4,346
Amounts owed by group undertakings	16,215	19,085
Corporation tax repayable	2,100	4,351
Other debtors	395	648
Prepayment and accrued income	7,439	7,680
	<u>30,107</u>	<u>36,110</u>

**13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>29 Jan 05</i>	<i>31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Trade creditors	46,382	41,931
Amounts owed to group undertakings	85,224	191,725
Other taxation and social security	23,084	20,664
Other creditors	3,814	3,645
Accruals and deferred income	16,158	12,614
	<u>174,662</u>	<u>270,579</u>

**14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<i>29 Jan 05</i>	<i>31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Amounts owed to group undertakings	<u>55,000</u>	<u>55,000</u>

The above loans are repayable in 2012 and bear an interest rate of 12.33 per cent. per annum.

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Onerous contracts £000</i>	<i>Deferred taxation £000</i>	<i>Total £000</i>
At 1 February 2004	2,911	11,825	14,736
Profit and Loss Account movement arising during the 52 weeks	<u>1,435</u>	<u>13</u>	<u>1,448</u>
At 29 January 2005	<u><u>4,346</u></u>	<u><u>11,838</u></u>	<u><u>16,184</u></u>

### *Onerous Contracts:*

The provision for onerous contracts represents the estimated future rental obligations, net of sub-rental income, on vacated leasehold proper interests.

### *Deferred Tax:*

Refer to note 9.

## 16. COMMITMENTS UNDER OPERATING LEASES

At 29 January 2005 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>29 Jan 05</i>		<i>31 Jan 04</i>	
	<i>Land and buildings £000</i>	<i>Other £000</i>	<i>Land and buildings £000</i>	<i>Other £000</i>
Operating leases which expire:				
Within one year	–	606	–	914
In two to five years	–	377	–	390
In over five years	21,062	–	19,287	
	<u>21,062</u>	<u>983</u>	<u>19,287</u>	<u>1,304</u>

**17. SHARE CAPITAL**

	<i>29 Jan 05</i>	<i>Authorised 31 Jan 04</i>
	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

	<i>Allotted, called up and fully paid</i>			
	<i>29 Jan 05</i>		<i>31 Jan 04</i>	
	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
Ordinary shares of £1 each	100,000	<u>100</u>	100,000	<u>100</u>

**18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES**

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total shareholders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 2 February 2003	100	26,675	26,775
Loss for the 52 weeks	<u>–</u>	<u>(345)</u>	<u>(345)</u>
At 31 January 2004	100	26,330	26,430
Profit for the 52 weeks	–	6,261	6,261
At 29 January 2005	<u>100</u>	<u>32,591</u>	<u>32,691</u>

**19. CAPITAL COMMITMENTS**

Amounts contracted for but not provided in the financial statements amounted to £1,914,000 (2004: £nil).



## 20. PENSIONS

The company continues to account for pensions in accordance with SSAP24 and the disclosures given below are those required by that standard. FRS 17 "Retirement Benefits" is not mandatory for the company at present. However, phased transitional disclosures were required from 2 February 2002. These disclosures, to the extent not given in (a), are set out in 0 below.

### (a) UK Pension Schemes

The company operates a defined benefit pension scheme for its employees, providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, being invested in a pooled fund managed by independent investment managers and administered by independent trustees. Pension costs are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 April 2004, the results of which are as follows:

#### Main assumptions:

Rate of return on investments (% per annum)	6.64
Rate of salary increase (% per annum)	3.75
Rate of pension increase (% per annum)	2.50
Market value of scheme's assets (£'000)	10,078
Level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	62.7%

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The company has increased its employer funding contribution rate from 10 per cent. to 12 per cent. of pensionable salaries as from 1 April 2004 (compared to a normal contribution rate of 8.4 per cent.), which is designed to eliminate the deficit in the scheme over the expected average remaining service lives of existing members. The contribution rate from 1 April 2005 will be increased to 14 per cent.

The company also operates a defined contribution pension scheme for certain other employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

Total pension costs for the period under SSAP 24 are disclosed in note 5 to the financial statements.

Unpaid pension contributions outstanding with respect to the defined contribution scheme at period end were £41,995 (2004: £39,795). There were no unpaid contributions outstanding with respect to the defined benefit scheme at the period end (2004: nil).

(b) FRS17 disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation as at 1 April 2004 and updated by Mercer Human Resource Consulting to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 29 January 2005, 31 January 2004 and 1 February 2003. Scheme assets are stated at their market value at the respective balance sheet dates.

	2005	2004	2003
	%	%	%
Main assumptions:			
Rate of increase in salaries	3.5	4.0	3.5
Rate of increase in pensions in payment	2.6	2.5	2.0
Rate of increase in deferred pensions	2.9	2.8	2.0
Discount rate	5.4	5.6	5.3
Inflation assumption	2.9	2.8	2.0

The assets and liabilities of the scheme and the expected rate of return at 29 January are:

	2005		2004		2003	
	<i>Long-term rate of return expected</i>	<i>Value</i>	<i>Long-term rate of return expected</i>	<i>Value</i>	<i>Long-term rate of return expected</i>	<i>Value</i>
	%	£000	%	£000	%	£000
Equities	6.5	8,584	7.0	7,108	7.0	5,454
Bonds	5.0	3,129	5.6	2,427	4.8	818
Properties	6.5	-	7.0	-	7.0	280
Others	4.0	<u>389</u>	4.0	<u>196</u>	4.0	<u>400</u>
Total market value of assets		12,102		9,731		<u>6,952</u>
Present value of scheme liabilities		<u>(22,540)</u>		<u>(19,010)</u>		
Pension liability before deferred tax		(10,438)		(9,279)		
Related deferred tax asset		<u>3,131</u>		<u>2,784</u>		
Net pension liability		<u>(7,307)</u>		<u>(6,495)</u>		

An analysis of the defined benefit cost for the year ended 29 January is as follows:

	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>
Current service cost	<u>(953)</u>	<u>(774)</u>
Total operating charge	<u>(953)</u>	<u>(774)</u>
Other finance costs: Expected return on pension scheme assets	687	498
Other finance costs: Interest on pension scheme liabilities	<u>(1,100)</u>	<u>(832)</u>
Total other finance income	<u>(413)</u>	<u>(334)</u>
Actual return less expected return on pension scheme assets	302	1,011
Experience (losses)/profits arising on scheme liabilities	(240)	(71)
Gain/(loss) arising from changes in assumptions underlying the present value of scheme liabilities	<u>(852)</u>	<u>(1,607)</u>
Actuarial losses recognised in the statement of total recognised gains and losses	<u>(790)</u>	<u>(667)</u>
Analysis of movements in deficit during the 52 weeks		
	<i>2005</i>	<i>2004</i>
	<i>£000</i>	<i>£000</i>
At 1 February	(9,279)	(8,371)
Total operating charge	(953)	(774)
Total other finance income	(413)	(334)
Actuarial losses recognised in the statement of total recognised gains and losses	(790)	(667)
Contributions	<u>997</u>	<u>867</u>
At 29 January	<u>(10,438)</u>	<u>(9,279)</u>

History of experience gains and losses:

	2005	2004	2003
Difference between expected return and actual return on pension scheme assets			
- amount (£000)	302	1,011	(2,463)
- % of scheme assets	2.5	10.4	(35.4)
Experience (losses)/gains arising on scheme liabilities			
- amount (£000)	(240)	(71)	358
- % of the present value of scheme liabilities	(1.1)	(0.4)	2.3
Total actuarial losses recognised in the statement of total recognized gains and losses			
- amount (£000)	(790)	(667)	(5,372)
- % of the present value of scheme liabilities	(3.5)	(3.5)	(35.1)

Reconciliations of net assets and reserves under FRS 17

*Net assets*

	2005	2004	2003
	£000	£000	£000
Net assets as stated in balance sheet	32,691	26,430	26,775
FRS 17 pension liability	(7,307)	(6,495)	(5,860)
Net assets/(liabilities) including defined benefit asset	<u>25,384</u>	<u>19,935</u>	<u>20,915</u>

*Reserves*

	2005	2004	2003
	£000	£000	£000
Profit and loss reserve as stated in balance sheet	32,591	26,330	26,675
FRS 17 pension liability	<u>(7,307)</u>	<u>(6,495)</u>	<u>(5,860)</u>
Profit and loss reserve including amounts relating to defined benefit asset	<u>25,284</u>	<u>19,835</u>	<u>20,815</u>

## **21. PRIOR YEAR ADJUSTMENT**

The profit and loss account has been restated for a change in accounting policy impacting Turnover and Cost of sales. During the year the group altered its accounting policy for the treatment of vendor coupons and as a result turnover and costs of sales are now shown net of the value of coupons. The prior year amounts for Turnover and Cost of sales have been restated by £25,021,000 to accord with this new policy. There is no impact to the profit for the period.

## **22. IMMEDIATE AND ULTIMATE PARENT COMPANY**

The company's ultimate parent undertaking and controlling party is Toys 'R' Us LLC, a company incorporated in the United States of America. The largest group in which the results of the company are consolidated is that headed by Toys 'R' Us LLC. The consolidated financial statements are available from Toys 'R' Us LLC, 1 Geoffrey Way, Wayne, New Jersey 07470, United States of America.

The smallest group in which the results of the company are consolidated is that headed by Toys 'R' Us Holdings Limited, a public limited company registered in England. Copies of those financial statements are available from Toys 'R' Us Holdings Limited, Mitre House, 160 Aldersgate Street, London EC1A 4DD.

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