

AVENELL PROPERTY PLC

(Registered company number 3817411)

Report and Financial Statements

31 December 2005



AVENELL PROPERTY PLC

REPORT AND FINANCIAL STATEMENTS 2005

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AVENELL PROPERTY PLC

OFFICERS

DIRECTORS

LDC Corporate Director No. 1 Limited
LDC Corporate Director No. 2 Limited
D J Merchant

SECRETARY

Clifford Chance Secretaries Limited

REGISTERED OFFICE

10 Upper Bank Street
London
E14 5JJ

AVENELL PROPERTY PLC

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 December 2005.

ACTIVITIES

The company's principal activities are the contribution to a Property Pool, the issuing of a Secured Bond, the granting of security for the Bond, the entering into a Zero Coupon Bond Issuance Facility Agreement, the issuing of the Zero Coupon Bonds, being granted the benefit of a Financial Guarantee, and the disposal of its interests in the Properties on or about the Maturity date (in accordance with the terms of the Property Agreement).

RESULTS

The results for the year are set out on page 6. The directors do not recommend the payment of a dividend (2004:£nil).

DIRECTORS

The directors set out on page 1 served throughout the year. The directors have no interests in the shares of the company or any other company within the group.

REVIEW OF DEVELOPMENTS IN YEAR AND ANTICIPATED FUTURE DEVELOPMENTS

There have been no significant developments during the year. The company has continued to carry out the activities described above and will continue to do so in the future.

Zero Coupon Bonds were issued during the year with a nominal value of £9,534,308 (2004: £10,379,429). Interest of £2,046,000 (2004: £2,046,000) was paid to the holders of the secured bonds. Retained profit for the year totalled £148,000 (2004: £179,000).

AUDITORS

A resolution to re-appoint Deloitte & Touche as auditors will be proposed at the forthcoming general meeting.

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

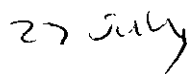
The company raises finance through the issue of a fixed rate Secured Bond and Zero Coupon Bonds in accordance with its policy to maintain all of its borrowings at fixed rates of interest.

The redemption of the Secured Bond and Zero Coupon Bonds, all due to mature in 2023, are dependent on the realisation of at least £170 million from the sale of Avenell Property plc's interest in the freeholds. A downturn in property prices may mean this amount is not realised. Avenell Property plc has the benefit of a financial guarantee from J Sainsbury Plc for the redemption value of the Secured Bond and Zero Coupon Bonds.

Approved by the Board of Directors
and signed on behalf of the Board



LDC Corporate Director No. 2 Limited



2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the year then ended. In preparing those financial statements the directors are required to:

- *select suitable accounting policies and then apply them consistently;*
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements prepared comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AVENELL PROPERTY PLC

We have audited the financial statements of Avenell Property Plc for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes 1 to 17. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended and the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
St Helier, Jersey

28 July 2006

AVENELL PROPERTY PLC

PROFIT AND LOSS ACCOUNT Year ended 31 December 2005

	Note	2005 £'000	2004* £'000
Administrative expenses		(45)	(31)
Other operating income	6	25	33
Operating profit/(loss)	3	(20)	2
Interest receivable and similar income		2	1
Accretion in value of investment	9	3,308	3,064
Interest payable and similar charges	7	(3,142)	(2,888)
		168	177
Profit on ordinary activities before taxation		148	179
Taxation	8	-	5*
Profit on ordinary activities after taxation and profit for the financial year		148	184*
Retained profit brought forward		707	523
Retained profit carried forward		855	707*

* 2004 figure has been re-stated (£5k taxation charges were previously omitted incorrectly)

All results are derived from continuing operations.

There are no other recognised gains or losses or movements in shareholders' funds for the current or preceding financial years other than as stated in the profit and loss account.

The notes on pages 9 to 14 form an integral part of these financial statements.

AVENELL PROPERTY PLC

BALANCE SHEET 31 December 2005

	Note	2005 £'000	2004 £'000
FIXED ASSETS			
Investments	9	43,487	40,179
CURRENT ASSETS			
Debtors	10	75	65
Cash		-	-
		75	65
CREDITORS: amounts falling due within one year	11	(1,625)	(1,619)*
NET CURRENT LIABILITIES		(1,550)	(1,554)*
TOTAL ASSETS LESS CURRENT LIABILITIES		41,937	38,625*
CREDITORS: amounts falling due after more than one year	12	(41,032)	(37,868)
		905	757*
CAPITAL AND RESERVES			
Called up share capital	13	50	50
Profit and loss account		855	707*
EQUITY SHAREHOLDERS' FUNDS		905	757*

* 2004 figure has been re-stated (£5k taxation charges were previously omitted incorrectly)

These financial statements were approved by the Board of Directors on 27 July 2006.

Signed on behalf of the Board.

Authorised signatory on behalf of:
LDC Corporate Director No. 1 Limited
Director



The notes on pages 9 to 14 form an integral part of these financial statements.

AVENELL PROPERTY PLC

CASH FLOW STATEMENT 31 December 2005

	Note	2005 £'000	2004 £'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	14	(23)	(45)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		2	1
Interest paid on secured bond		(2,046)	(2,046)
Taxation refund		-	5
		<u>(2,044)</u>	<u>(2,040)</u>
NET CASH OUTFLOW BEFORE FINANCING		(2,067)	(2,085)
FINANCING			
Issue of zero coupon bonds		2,067	2,067
Increase/(decrease) in cash in the year		<u>0</u>	<u>(18)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
Increase/(decrease) in cash		0	(18)
Issue of zero coupon bond		<u>(2,067)</u>	<u>(2,067)</u>
Change in net debt resulting from cash flow		(2,067)	(2,085)
Amortisation of issue costs		(59)	(59)
Amortisation of zero coupon bonds		<u>(1,037)</u>	<u>(784)</u>
		(3,163)	(2,928)
MOVEMENT IN NET DEBT			
Net debt at 1 January		<u>(37,869)</u>	<u>(34,941)</u>
Net debt at 31 December	14	<u>(41,032)</u>	<u>(37,869)</u>

The notes on pages 9 to 14 form an integral part of these financial statements.

NOTES TO THE ACCOUNTS

31 December 2005

1. INCORPORATION

The company is registered in England and Wales.

2. ACCOUNTING POLICIES

The financial statements are prepared in accordance with accounting standards applicable in the United Kingdom. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

Fixed asset investments

Investments held as fixed assets are initially recorded at cost. The appreciation in value of the company's interest in freeholds underlying the value of the investment, to the extent that the realisation of such appreciation is reasonably certain, will be accreted at a constant periodic rate over the term to maturity of that investment.

Provision is made against the carrying value of the asset to the extent that there has been an impairment in value.

In accordance with FRS 26 "Financial Instruments: Measurement", the Investments meet the criteria of 'Held to Maturity Investments' and are therefore recorded at cost. The intent and ability of holding the fixed asset investments to maturity will be assessed at each balance sheet date. Any discount relating to the acquisition of the investments will be amortised at a constant periodic rate over the term to maturity of that investment.

Financing issue costs

The costs relating to the issue of financial instruments are spread over the term of the instruments at a constant rate on the carrying amount of the debt.

Interest payable

Interest on the secured bond is charged to the profit and loss account on an accruals basis.

Discount on the zero coupon bonds is recognised on a basis to give a constant yield to maturity.

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions on foreign currencies are recorded at the rate ruling at the date of the transaction. All movements are taken to the profit and loss account.

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

3. OPERATING PROFIT

	2005 £'000	2004 £'000
Operating profit is stated after charging:		
Auditors' remuneration	6	5

NOTES TO THE ACCOUNTS (CONTINUED)

31 December 2005

4. STAFF NUMBERS AND COSTS

The company had no employees in 2005 (2004 : nil). The directors received no remuneration in 2005 (2004 : nil).

5. SEGMENTAL ANALYSIS

The company's income and expenses, profit before tax and net assets all arise in the UK from the sole class of business which is the raising and servicing of finance used to purchase an interest in the Property Pool.

6. OTHER OPERATING INCOME

	2005 £'000	2004 £'000
Head lease rental	25	33

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £'000	2004 £'000
Secured bond interest	2,046	2,046
Zero coupon bond amortisation	1,036	783
Issue expenses amortised	59	59
	<u>3,141</u>	<u>2,888</u>

8. TAXATION

	2005 £'000	2004 £'000
Based on profits for the year		
Corporation tax at 30% (2004: 30%)	-	-

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	148	184*
Corporation tax at 30% thereon	(44)	(54)*
<i>Effects of:</i>		
Non-taxable unrealised gains on fixed asset investments	992	919
Deferred tax asset not recognised	(948)	(865)
Current tax charge for the year	<u>-</u>	<u>-</u>

* 2004 figure has been re-stated (£5k taxation charges were previously omitted incorrectly)

	2004 (Adjusted) £'000	2004 (Original) £'000
Company Taxes	184	179

AVENELL PROPERTY PLC

NOTES TO THE ACCOUNTS (CONTINUED)

31 December 2005

9. FIXED ASSET INVESTMENTS

	2005 £'000	2004 £'000
At 1 January	40,179	37,115
Accretion in value in the year	3,308	3,064
At 31 December	43,487	40,179

The company holds an interest as a beneficiary to a trust. The trust assets comprise ownership of freehold commercial properties. This is explained more fully in note 16.

10. DEBTORS

	2005 £'000	2004 £'000
Called up share capital unpaid	37	37
Prepayments	2	1
Other debtors	36	27
	75	65

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005 £'000	2004 £'000
Accruals	1,625	1,620

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2005 £'000	2004 £'000
£56,905,653 zero coupon bond (2004: £47,371,345)	13,190	10,087
£28,853,000 of 7.0907913% secured bond due 2023 (2004: £28,853,000)	27,842	27,781
	41,032	37,868

The secured bond was issued at par and is secured by a fixed and floating charge over the company's property, assets and undertakings. For maturity analysis of the secured bond and zero coupon bonds (note 16). The secured bond (Which is listed on the Irish Stock Exchange) is held by Highbury Finance B.V. The zero coupon bonds are issued to and held by Avenell Leasing limited.

13. CALLED UP SHARE CAPITAL

	2005 £	2004 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
Allotted and called up		
2 ordinary shares of £1 each – fully paid up	2	2
49,998 ordinary shares of £1 each – paid up to £0.25	49,998	49,998
	50,000	50,000

NOTES TO THE ACCOUNTS (CONTINUED)
31 December 2005

14. NOTES TO THE CASH FLOW STATEMENT

	2005	2004	
	£'000	£'000	
a) Reconciliation of operating loss to net cash outflow from operating activities:			
Operating profit/(loss)	(20)	2	
(Decrease)/increase in creditors	6	(20)	
(Increase)/decrease in debtors	(10)	(27)	
	<u>(24)</u>	<u>(45)</u>	
b) Analysis of changes in net debt:			
	At 1		At 31
	January		December
	2005	Cash flow	2005
	£'000	£'000	£'000
		Non-cash	
		movements	
		£'000	
Cash	-	-	-
Debt due after one year			
Secured bond 2023	(27,782)	-	(27,841)
Zero coupon bond	(10,087)	(2,067)	(13,191)
	<u>(37,869)</u>	<u>(2,067)</u>	<u>(41,032)</u>

15. FINANCIAL COMMITMENTS

Avenell Property plc has entered into an agreement with Avenell Leasing Limited to issue a series of zero coupon bonds issues at a discount over the period to 2023. The zero coupon bonds will be issued to fund Avenell Property plc's ongoing interest liabilities.

Avenell Leasing Limited has entered into a joint financial arrangement with Avenell Property plc, Highbury Finance B.V. and J Sainsbury plc.

16. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The company has raised finance through the issue of a secured bond. Borrowings are at fixed rates of interest. The company is committed to the issue of the series of zero coupon bonds to Avenell Leasing Limited.

The company operates a long-term business and its policy is to finance it with long-term financing.

The disclosure below excludes short-term debtors and creditors.

Interest rate risk profile of financial liabilities

	Fixed rate £'000	Weighted average interest rate %	Weighted average period for which rate is fixed yrs
At 31 December 2004			
Sterling at carrying value	<u>37,868</u>	<u>7.57</u>	<u>19</u>
At 31 December 2005			
Sterling at carrying value	<u>41,031</u>	<u>7.66</u>	<u>18</u>

NOTES TO THE ACCOUNTS (CONTINUED)
31 December 2005

16. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk profile of financial assets

The financial assets comprise an interest as beneficiary to a trust. The company, through its interest as beneficiary to a trust, is entitled to a priority payment from the proceeds of the sale of the freeholds up to £170 million. In addition should the sale proceeds of the freeholds be higher than £170 million the company has the right to share in the excess according to a sliding scale. A downturn in property values may mean that the £170 million is not realised. However, the company has the benefit of a financial guarantee from J Sainsbury Plc for £170 million.

The interest rate of the assets is fixed up to £170 million at 8.119% and over £170 million according to the sliding scale.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the company's financial assets and financial liabilities as at 31 December 2005.

	Book value at 31 December 2005 £'000	Fair value at 31 December 2005 £'000
Secured bond 2023	(27,840)	(31,088)
Zero coupon bond	(13,191)	(15,123)
Investment	43,487	45,177

The fair value of the secured bond 2023, zero coupon bond and investment have been determined by discounted cash flows at a rate equal to the prevailing market rate of interest for financial instruments having substantially the same term and characteristics.

Maturity of the company's financial liabilities (nominal value)

	2005 £'000	2004 £'000
In less than one year	-	-
Between one and two years	-	-
Between two and five years	-	-
In more than five years	85,758	76,224
	<u>85,758</u>	<u>76,224</u>
Unamortised issue costs	(1,012)	(1,702)
	<u>84,746</u>	<u>74,522</u>

The secured bond and zero coupon bonds are due to be repaid in full in March 2023. This redemption will be funded by the sale of the company's interest in the freeholds. Interest on the secured bond is paid at a rate of 7.0907913% per annum. No interest is paid on the zero coupon bonds until maturity which accrues interest at a fixed rate of 9.196%.

NOTES TO THE ACCOUNTS (CONTINUED)

31 December 2005

17. ULTIMATE PARENT UNDERTAKING

The company's immediate parent company is Avenell Holdings Limited, a company registered in England and Wales.

In the directors' opinion, the company's ultimate controlling party is the company's immediate parent which is PXS Limited (owning ninety B Ordinary shares each of £1, the other 10 shares being held by The Law Debenture Intermediary Corporation p.l.c. along with 100 Preference shares). PXS Limited's parent undertaking is Bivar Limited. The shareholders are companies registered in England and Wales and accounts can be obtained from 400 Capability Green, Luton, Beds LU1 3LU (PXS Limited) and Fifth Floor, 100 Wood Street, London EC2V 7EX (The Law Debenture Intermediary Corporation p.l.c.).