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MSREF (UK MEZZCO II) LIMITED
UNAUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2007

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COMPANIES HOUSE

MSREF (UK MEZZCO II) LIMITED

REPORT OF THE DIRECTORS

The Directors present their report and the unaudited financial statements for the year ended 31st December 2007.

INCORPORATION

The Company is incorporated in England and Wales.

ACTIVITIES

The principal activity of the Company is the issue of loan notes.

BUSINESS REVIEW

During 2005 the Company repaid the outstanding amount due in respect of the loan notes issued to Mezzco (Jersey) II Limited.

RESULTS AND DIVIDENDS

The profit for the year amounted to £ 9,410 (2006: £ 32,595).

The Directors are unable to recommend a dividend for the year (2006: £ Nil).

DIRECTORS

The Directors who held office during the year and subsequently were:-

| | |
|--------------|---|
| R.R.W. Falls | |
| A. J. Cooper | (Resigned 21 February 2008) |
| N. Kessell | (Resigned 1 February 2007) |
| M. Overwater | (Appointed 1 February 2007, resigned 8 February 2008) |
| J.R. Jones | (Appointed 11 April 2008) |

SECRETARY

Mourant & Co. Secretaries Limited

BY ORDER OF THE BOARD

M Armstrong

Authorised signatory
Mourant & Co. Secretaries Limited
Secretary

Date: 4 December 2008

MSREF (UK MEZZCO II) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company Law requires the Directors to prepare financial statements which shall be in accordance with generally accepted accounting principles and show a true and fair view of the profit or loss of the Company for the year and of the state of the Company's affairs at the end of the year.

In preparing the 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 a 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 the Company's 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 comply with the Companies Act 1985. They are also responsible for the system of internal controls, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, errors and other irregularities.

MSREF (UK MEZZCO II) LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2007

| | <u>Notes</u> | <u>2007</u> | <u>2006</u> |
|---|--------------|------------------|------------------|
| | | £ | £ |
| CURRENT ASSETS | | | |
| Debtors | 2 | 602 | 632 |
| Cash | | 318,300 | 307,718 |
| | | <u>318,902</u> | <u>308,350</u> |
| CREDITORS: (Amounts falling due within one year) | | | |
| Loan payable | 3 | (1,050) | (1,050) |
| Creditors | 4 | (30,789) | (29,647) |
| | | <u>(31,839)</u> | <u>(30,697)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>287,063</u> | <u>277,653</u> |
| CREDITORS: (Amounts falling due after one year) | | | |
| Loan payable | 5 | (66,500) | (66,500) |
| TOTAL NET ASSETS | | <u>220,563</u> | <u>211,153</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | 6 | 260,002 | 260,002 |
| Profit and loss account | | (39,439) | (48,849) |
| SHAREHOLDER'S FUNDS | 8 | <u>220,563</u> | <u>211,153</u> |

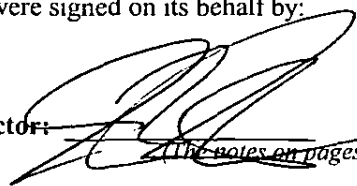
AUDIT EXEMPTION

- (a) For the year ended 31st December 2007 the Company was entitled to exemption under s.249A(1) of the Companies Act 1985.
- (b) No notice has been deposited under s.249B(2) of the Companies Act 1985 requiring audited financial statements to be prepared.
- (c) The directors recognise their responsibilities for:
- (i) ensuring the Company maintains accounting records in accordance with s.221 of the Companies Act 1985; and
 - (ii) preparing financial statements which give a true and fair view of the state of the Company's affairs at the end of the financial year and of any profit or loss in accordance with s.226 of the Companies Act 1985 and otherwise comply with the provisions of the Companies Act 1985 as they relate to financial statements.
- (d) Advantage has been taken of the exemptions conferred by Section A of Sch.8 of the Companies Act 1985.
- (e) In the opinion of the directors, the Company is entitled to those exemptions on the basis that it qualifies as a small Company.
- ii) Preparing financial statements which give a true and fair view of the state of affairs of the company as at the end of its financial year, and of its profit and loss for the financial year in accordance with section 226, and which otherwise comply with the requirements of the Companies Act relating to financial statements, so far as applicable to the Company.

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

The financial statements were approved by the Board of Directors on the 27 day of October 2008 and were signed on its behalf by:

Director:



(The notes on pages 5 to 9 form part of these unaudited financial statements)

MSREF (UK MEZZCO II) LIMITED

PROFIT AND LOSS ACCOUNT**FOR THE YEAR ENDED 31ST DECEMBER 2007**

| | <u>Notes</u> | <u>2007</u> | <u>2006</u> |
|---|--------------|-------------|-------------|
| | | £ | £ |
| EXPENDITURE: | | | |
| Administration fees - Mourant & Co. Limited | | 1,750 | 1,750 |
| Professional fees | | 588 | 529 |
| Annual filing fee | | 30 | 259 |
| | | <hr/> | <hr/> |
| | | 2,368 | 2,538 |
| | | <hr/> | <hr/> |
| OPERATING LOSS | | (2,368) | (2,538) |
| INTEREST: | | | |
| Receivable | | 15,811 | 12,173 |
| | | <hr/> | <hr/> |
| PROFIT / (LOSS) FOR THE YEAR BEFORE TAXATION | | 13,443 | 9,635 |
| TAXATION | | | |
| - total current tax | 7 | (4,033) | 22,960 |
| | | <hr/> | <hr/> |
| PROFIT FOR THE YEAR AFTER TAXATION | | 9,410 | 32,595 |
| BALANCE BROUGHT FORWARD | | (48,849) | (81,444) |
| | | <hr/> | <hr/> |
| BALANCE CARRIED FORWARD | | (39,439) | (48,849) |
| | | <hr/> | <hr/> |

Continuing operations

All items dealt with in arriving at the profit for the year ended 31st December 2007 and profit for the year ended 31st December 2006 relate to continuing operations.

Recognised gains and losses

There are no recognised gains and losses other than the profit attributable to shareholders of the Company of £ 9,410 for the year ended 31st December 2007 and the profit of £ 32,595 for the year ended 31st December 2006 and therefore no separate statement of total recognised gains and losses has been prepared.

(The notes on pages 5 to 9 form part of these unaudited financial statements)

MSREF (UK MEZZCO II) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2007

1. ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. The more significant accounting policies used are set out below:-

Deposit interest

Deposit interest is recognised on an accruals basis. However, there were no material accruals in the current or prior year.

Loan interest receivable and payable

Loan interest is recognised on an accruals basis.

Loan note interest payable

The loan notes are shown at cost plus discount payable to date. The discount on the loan notes issued is amortised over the issue period of the loan notes.

Cash flow statement

A cash flow statement has not been included in these financial statements as the Company qualifies for exemption as a small company under the terms of Financial Reporting Standard No.1 (Revised) "Cash Flow Statements".

MSREF (UK MEZZCO II) LIMITED**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2007****2. DEBTORS**

| | <u>2007</u> | <u>2006</u> |
|-----------------------|-------------|-------------|
| | £ | £ |
| Share capital unpaid | 2 | 2 |
| Companies house | - | 30 |
| Mourant & Co. Limited | 600 | 600 |
| | <u>602</u> | <u>632</u> |

3. LOAN PAYABLE

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|--------------|--------------|
| | £ | £ |
| Mezzco (Jersey) III Limited | <u>1,050</u> | <u>1,050</u> |

The loan is unsecured, interest free and repayable on demand.

4. CREDITORS - DUE WITHIN ONE YEAR

| | <u>2007</u> | <u>2006</u> |
|-----------------------------|---------------|---------------|
| | £ | £ |
| Corporation tax | 4,033 | 2,891 |
| MSREF (Welbeck) Limited | 350 | 350 |
| MSREF (UK Mezzco I) Limited | 26,406 | 26,406 |
| | <u>30,789</u> | <u>29,647</u> |

5. LOAN PAYABLE

| | <u>2007</u> | <u>2006</u> |
|----------------------------------|---------------|---------------|
| | £ | £ |
| MSREF IV International - T, L.P. | <u>66,500</u> | <u>66,500</u> |

The loan is unsecured, interest free and repayable on demand. However, the Directors indicated that the loan will be repaid within 12 months from the date of signing the 2007 accounts.

MSREF (UK MEZZCO II) LIMITED**NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)****FOR THE YEAR ENDED 31ST DECEMBER 2007****6. SHARE CAPITAL**

| | <u>2007</u> | <u>2006</u> |
|--|--------------------|--------------------|
| | £ | £ |
| AUTHORISED: | | |
| 260,000 ordinary shares of £1 each (2006: 260,002) | <u>260,002</u> | <u>260,002</u> |
| ISSUED AND PART PAID: | | |
| 260,002 ordinary shares of £1 each (2006: 260,002) | <u>260,002</u> | <u>260,002</u> |

7. TAXATION

The Company is tax resident in England and Wales and therefore subject to UK corporation tax. However, there is no charge for the current year as the Company has made a loss. The taxation reconciliation is shown below.

| | | |
|--|--------------------|--------------------|
| Tax on Profit on ordinary activities | <u>2007</u> | <u>2006</u> |
| (a) Analysis of charge in period | £ | £ |
| Current Tax | | |
| UK corporation tax on losses / profit for the period | 4,033 | 2,891 |
| Adjustments in respect of previous year | - | (25,851) |
| Total current tax (note 7(b)) | <u>4,033</u> | <u>(22,960)</u> |
| (b) Factors affecting tax charge for period | | |
| Profit / (loss) on ordinary activities before tax | <u>13,443</u> | <u>9,635</u> |
| Profit / loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% | (4,033) | 2,891 |
| Effect of: | | |
| Tax adjustment | - | (25,851) |
| Current tax charge for period (note 7(a)) | <u>(4,033)</u> | <u>(22,960)</u> |

MSREF (UK MEZZCO II) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2007

8. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2007 | 2006 |
|-------------------------------------|-------------|-------------|
| | £ | £ |
| Profit for the year | 9,410 | 32,595 |
| Net addition to shareholder's funds | 9,410 | 32,595 |
| Opening shareholder's funds | 211,153 | 178,558 |
| Closing shareholder's funds | 220,563 | 211,153 |

9. CROSS FUNDING AGREEMENT

The Company has entered into a Cross Funding Agreement with MSREF (UK Mezzco I) Limited and MSREF (UK Mezzco III) Limited (such companies together with the Company being the "Mezzcos") pursuant to which the debt owed by Welbeck Street (GP) Limited as General Partner for the Welbeck Street Partnership (the "Partnership") to the Mezzcos, can be assigned to the MSREF IV Fund so that it is held in proportion to the proportions of the MSREF IV Fund attributable to the T Fund, the TE Fund and the Special Fund (together the "Funds") respectively. Following the exercise of such cross options the Mezzcos will redeem or issue additional deep discounted notes so that they will also have issued such notes in proportion to the size of the T Fund, the TE Fund and the Special Fund. This in turn will enable the aggregate mezzanine debt attributable to the MSREF IV Fund to be held in proportion to the Funds.

10. INTERCREDITOR DEED

The Company has entered into an Intercreditor Deed with the Welbeck Street Partnership acting through its general partner Welbeck Street (GP) Limited, CIT Finance (Jersey) Limited, CIT Group plc, MSREF (Welbeck) Limited, MSREF (UK Mezzco I) Limited and MSREF (UK Mezzco III) Limited.

The parties have agreed to enter into this deed to regulate the priority and subordination arrangements in respect of the Senior Debt and the Junior Debt and the security relating to such Debts.

MSREF (UK MEZZCO II) LIMITED

NOTES TO THE FINANCIAL STATEMENTS - (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2007

11. DIRECTORS' REMUNERATION, INTERESTS AND TRANSACTIONS

The Directors have not been remunerated by the Company during 2007 or 2006.

12. RELATED PARTY

R.R.W. Falls is a director of Mezzco (Jersey) II Limited. There were no related party transactions during the year other than those already stated in the accounts. (2006: Nil)

13. EMPLOYEE DISCLOSURES

The average number of employees employed by the Company during the period was nil (2006: nil).

14. CONTROLLING AND ULTIMATE CONTROLLING PARTY

The immediate controlling party is Mezzco (Jersey) II Limited, which is a company incorporated in Jersey, Channel Islands. The ultimate controlling party is Morgan Stanley Real Estate Fund IV International - GP, L.L.C.