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* insert full name
of company

COMPANIES FORM No. 395 Particulars of a mortgage or charge

Pursuant to section 395 of the Companies Act 1985

7

395

To the Registrar of Companies

For official use Company number

[] [] [] [] [] []

610095

Name of company

WATERSTONE'S BOOKSELLERS LIMITED ("the Company")

Date of creation of the charge

22 May 1998

Description of the instrument (if any) creating or evidencing the charge (note 2)

A Legal Charge (the "Legal Charge") supplemental to the Debenture (as defined below) dated 22 May 1998 and made between the Company and Swiss Bank Corporation (the "Security Agent")

Amount secured by the mortgage or charge

See Schedules 1 and 2

Names and addresses of the mortgagees or persons entitled to the charge

Swiss Bank Corporation, 2 Finsbury Avenue, London EC2M 2PP as trustee for the Beneficiaries as "Security Agent" which expression shall include any person for the time being appointed as security trustee for the purpose of, and in accordance with, the Senior Facility Agreement.

Presentor's name address and
reference (if any):

**Clifford Chance
200 Aldersgate Street
London EC1A 4JJ**

SKP\$01\$8.24

Time critical reference

For official use
Mortgage Section

Post room



Short particulars of all the property mortgaged or charged

See Schedules 3 and 4

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in black type, or
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Particulars as to commission allowance or discount (note 3)

None.

Signed

Clifford Chance

Date

8 June 1998

On behalf of [company] [mortgagee/chargee] †

† delete as
appropriate

NOTES

- 1 The original instrument (if any) creating or evidencing the charge, together with these prescribed particulars correctly completed must be delivered to the Registrar of Companies within 21 days after the date of creation of the charge (section 395). If the property is situated and the charge was created outside the United Kingdom delivery to the Registrar must be effected within 21 days after the date on which the instrument could in due course of post, and if dispatched with due diligence, have been received in the United Kingdom (section 398). A copy of the instrument creating the charge will be accepted where the property charged is situated and the charge was created outside the United Kingdom (section 398) and in such cases the copy must be verified to be a correct copy either by the company or by the person who has delivered or sent the copy to the Registrar. The verification must be signed by or on behalf of the person giving the verification and where this is given by a body corporate it must be signed by an officer of that body. A verified copy will also be accepted where section 398(4) applies (property situated in Scotland or Northern Ireland) and Form No. 398 is submitted.
- 2 A description of the instrument, eg "Trust Deed", "Debenture", "Mortgage" or "Legal charge", etc, as the case may be, should be given.
- 3 In this section there should be inserted the amount or rate per cent. of the commission, allowance or discount (if any) paid or made either directly or indirectly by the company to any person in consideration of his;
 - (a) subscribing or agreeing to subscribe, whether absolutely or conditionally, or
 - (b) procuring or agreeing to procure subscriptions, whether absolute or conditional,for any of the debentures included in this return. The rate of interest payable under the terms of the debentures should not be entered.
- 4 If any of the spaces in this form provide insufficient space the particulars must be entered on the prescribed continuation sheet.

SCHEDULE 1

DEFINITIONS

In this Form 395:

"Agent" means Swiss Bank Corporation and includes any person appointed as agent for the purpose of, and in accordance with, the Senior Facility Agreement provided that such person shall have executed and delivered to the Security Agent a duly completed accession undertaking under the Senior Facility Agreement which has been countersigned by the outgoing Agent;

"Agreements for Lease" means (severally) all agreements, contracts, options or undertakings whether now or hereafter in existence for or relating to the creation of any estate, interest or right in or over the Other Principal Property or any part thereof (including without limitation any lease, licence, tenancy or right to occupy whether on a fixed term or periodic basis and whether in all cases in respect of the whole or any part of the Other Principal Property);

"Agreements for Sale" means (severally) all agreements, contracts or options now or hereafter in existence for or in relation to the assignment or transfer or disposal by way of sale of the whole or any part of or for or in relation to the creation of any estate or interest in the Other Principal Property or any part thereof upon the sale thereof or in relation to or under which any capital sum is or is to be derived from the Other Principal Property or any part thereof;

"Arrangers" means the Joint Lead-Arranger and any additional arrangers appointed from time to time as agreed between the parties;

"Banks" means Merrill Lynch Capital Corporation and Swiss Bank Corporation and each a "Bank";

"Beneficiaries" means the Agent, the Arrangers, the Banks (including the Fronting Bank) any Hedge Counterparty and the Security Agent and "Beneficiary" means any of them and provided that any successor, assignee or transferee of any Beneficiary shall have executed and delivered to the Security Agent a duly completed accession undertaking under the Senior Facility Agreement which has been countersigned by the Agent;

"Debenture" means a debenture dated 28 March 1998 and made between the Company and the Security Agent.

"Fronting Bank" means any Bank as may have been agreed in writing with the Parent and the Joint Lead-Arrangers to issue any letter of credit in accordance with the provisions of the Senior Facility Agreement;

"Group" means the Parent and its subsidiaries from time to time;

"Group Entity" means any member of the Group;

"Hedge Counterparty" means any Bank which has entered into a Hedging Agreement with any member of the Group;

"Hedging Agreements" means each of the agreements entered into or to be entered into by the Group Entities in accordance with the Hedging Strategy Letter;

"Hedging Strategy Letter" means the hedging strategy letter identified as such and agreed between the Parent and the Joint Lead-Arrangers under the Senior Facility Agreement;

"Intercreditor Deed" means a deed dated 28 March 1998 as amended and restated from time to time made between amongst others Merrill Lynch Capital Corporation and SBC Warburg Dillon Read, a Division of Swiss Bank Corporation as joint lead-arrangers, Swiss Bank Corporation as agent, Swiss Bank Corporation as security agent, the financial institutions named therein as senior lenders, the original investors named

therein, the vendor named therein and others and in which the parties thereto agreed that certain claims should be regulated and/or subordinated in the manner set out therein;

"Joint Lead-Arrangers" means Merrill Lynch Capital Corporation and SBC Warburg Dillon Read (a division of Swiss Bank Corporation);

"Lease" or "Leases" means (severally) any lease, underlease, sublease, licence agreement, option, occupation agreement or any other document governing the use or occupation of the Real Property or any part thereof;

"Other Principal Property" means the Real Property owned by the Company for which lessor's consent to charge has been obtained, as specified in Schedule 4 hereto;

"Parent" means HMV Media Group plc, a company incorporated under the laws of England and Wales with registered number 3412290;

"Real Property" means all estates and other interests in freehold, feuhold, leasehold and other immovable or heritable property wheresoever situate now or hereafter belonging to the Company of which the Company is the registered proprietor, owner specified, entitled to an interest, and all buildings, trade and other fixtures, fixed plant and machinery from time to time on any such freehold, feuhold, leasehold and other heritable or immovable property and any reference to the Real Property shall be taken to refer to the whole or any part or parts of any property comprised therein at any time;

"Secured Obligations" means all sums and liabilities covenanted to be paid and discharged by the Company as set out in Schedule 2 hereto;

"Senior Facility Agreement" means the senior facility agreement dated 25 February 1998 as amended and restated from time to time made between HMV Media Group plc as parent, Merrill Lynch Capital Corporation and SBC Warburg Dillon Read, a Division of Swiss Bank Corporation as joint lead arrangers, Swiss Bank Corporation as agent and as security agent and the financial institutions defined therein as Banks, and in which the Banks have agreed to make available certain term loan facilities and working capital facilities on the terms set out therein;

"Successor" in relation to any person means an assignee or successor in title of such person or any person who, under the laws of its jurisdiction of incorporation or domicile, has assumed the rights and obligations of such first-mentioned person or to whom under such laws the same have been transferred.

Any reference in this Form 395 to:

the "Security Agent", the "Company", the "Agent", or a "Bank", shall be construed so as to include its or their respective Successors and any Successor of such a Successor in accordance with their respective interests;

the term "including" shall be construed as meaning "including without limitation";

a "person" shall be construed as a reference to any person, firm, company, corporation, body corporate, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

a "Schedule" shall, subject to any contrary indication, be construed as a reference to a schedule hereto;

a "subsidiary" of any person shall be construed as a reference to any other person which is a "subsidiary undertaking" of the first-mentioned person within the meaning ascribed to that term by Section 258 of the Companies Act 1985 as it is in force at the date hereof;

SCHEDULE 2

Amount secured by the mortgage or charge

The Company shall discharge each and every liability which the Company may now or hereafter have to the Security Agent (whether for its own account or as trustee for the Beneficiaries) or any of the Beneficiaries (whether solely or jointly with one or more persons and whether as principal or as surety) under or pursuant to the Senior Facility Agreement (including the Debenture) including any liability in respect of any further advances made thereunder and pay to the Security Agent when due and payable every sum (of principal, interest or otherwise) now or hereafter owing, due or incurred by the Company to the Security Agent (whether for its own account or as trustee for the Beneficiaries) or any of the other Beneficiaries in respect of any such liabilities Provided that:-

- (a) there shall be excluded from the foregoing covenant any liability or sum which would, but for this proviso, cause such covenant or the security which would be otherwise constituted by this Legal Charge for such liability or sum constitute unlawful financial assistance prohibited by Section 151 of the Companies Act 1985; and*
- (b) every payment by the Company of any sum in respect of the liability herein covenanted to be discharged by the Company to or for the account of the Beneficiary to whom the same is due and payable which is made in accordance with the terms of the Senior Facility Agreement under which sum is payable to such Beneficiary shall operate in satisfaction pro tanto of such covenant.*

SCHEDULE 3

Short particulars of all the property charged

1. Assignments, Fixed and Floating Charges

1.1 Pursuant to the Legal Charge, and subject to clause 1.2 below, the Company has:-

Fixed Charges

- (a) charged in favour of the Security Agent as trustee for the Beneficiaries with the payment and discharge of the Secured Obligations by way of first fixed charge (which so far as it relates to land in England and Wales vested in the Company at the date hereof shall be a charge by way of legal mortgage) the Other Principal Property*

Equitable Charges

- (b) charged by way of equitable charge any equitable interest in the Other Principal Property;*

Assignments of Property Rights

- (c) assigned to the Security Agent as trustee for the Beneficiaries all the Company's rights, title and interest in and to each of the following:-*
 - (aa) all rights and claims to which the Company is now or may hereafter become entitled in relation to the Other Principal Property and including those against any manufacturer, supplier or installer of such property, any builder, contractor or professional adviser engaged in relation to any such property and any lessee, sub-lessee or licensee of any of the Other Principal Property and any guarantor or surety for the obligations of such person, the rights under the hiring, leasing, rental contract and any guarantee, indemnity or security for the performance of the obligation of such person and any other rights and benefits relating thereto;*
 - (bb) the benefit of the Agreements for Sale and Agreements for Lease to which the Company is party and all proceeds or any payments of any claims, awards,*

judgements, sums or damages arising out of such Agreements payable to the Company thereunder and all the Company's rights or remedies now or hereafter in existence arising thereunder;

- (cc) *the benefit of all covenants, agreements, undertakings or obligations entered into by any other party to any Lease to which the Company is party or to any licences, deeds, rent deposit agreements or other deeds or documents supplemental or collateral to any such Lease or of all guarantees or indemnities in any of the aforesaid;*

1.2 Exceptions to the Fixed Security

The security created pursuant to Clause 1.1(a), (b) or (c) shall not extend to any asset situated outside the United Kingdom to the extent that and for so long as any such security created pursuant thereto would be unlawful under the laws of jurisdiction in which such asset is situated;

- 1.3** *The Company declared and agreed that, subject to the charges and assignments created or made pursuant to the foregoing provisions of this Clause 1, it shall hold all of its right and title, interest and benefit in and to all of its property and assets whatsoever and wheresoever present and future on trust for application in accordance with the priority of payments specified in the Intercreditor Deed.*

2. Negative Pledge

The Legal Charge contains a negative pledge.

3. Further Assurance

The Legal Charge contains covenants for further assurance.

SCHEDULE 4

Other Principal Property

All that leasehold land and buildings known as Unit 1, The Hayes, Cardiff registered at HM Land Registry under title number WA661976 as comprised with the registered lease;

All that leasehold land and buildings known as 1, 3 and 5 Bridlesmith Gate, Nottingham on the ground and basement floors of that building registered at HM Land Registry under title number NT232927as comprised in the registered lease; and

All that leasehold property known as First Floor, 83/93 (odd) Deansgate, Manchester and Ground Floor, 1 King Street, Manchester and comprised in a lease dated 29 April 1998 and made between The Scottish Life Assurance Company (1) and Waterstone's Booksellers Limited (2).

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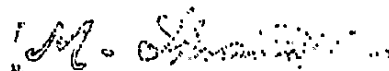
**CERTIFICATE OF THE REGISTRATION
OF A MORTGAGE OR CHARGE**

Pursuant to section 401(2) of the Companies Act 1985

COMPANY No. 00610095

THE REGISTRAR OF COMPANIES FOR ENGLAND AND WALES HEREBY CERTIFIES THAT A LEGAL CHARGE SUPPLEMENTAL TO THE DEBENTURE OF EVEN DATE DATED THE 22nd MAY 1998 AND CREATED BY WATERSTONE'S BOOKSELLERS LIMITED FOR SECURING ALL MONIES DUE OR TO BECOME DUE FROM THE COMPANY TO SWISS BANK CORPORATION, AS TRUSTEE FOR THE BENEFICIARIES (AS DEFINED) UNDER OR PURSUANT TO THE SENIOR FACILITY AGREEMENT (AS DEFINED) WAS REGISTERED PURSUANT TO CHAPTER 1 PART XII OF THE COMPANIES ACT 1985 ON THE 8th JUNE 1998.

GIVEN AT COMPANIES HOUSE, CARDIFF THE 10th JUNE 1998.


D. M. HUGHES

for the Registrar of Companies



COMPANIES HOUSE

HC026B

LC
D. 10/6/98