

20 June 2001

Steven Castan
Robert Lehrer
Max Fink (procurator)

Baha Boys

Dear Sirs

**ESPLANADE HOTEL - SUB-LEASE OF GROUND FLOOR, BASEMENT AND FIRST FLOOR
ESPY KITCHEN TENANCIES**

Thank you for your fax of 16 June 2001.

As discussed, we are still in the process of finalising tenancy areas, valuations and refurbishment costs and expect to be in a better position to provide further information by the end of the week. Accordingly, prior to agreeing to final commercial terms with you (which need to be finalised prior to the close of tender on 29 June 2001) I confirm that the Esplanade Hotel Foundation (EHF) would agree to the following key terms and principles in relation to your tenancy of the above areas:

1. Sub-tenancy of the entire ground floor area including the public bar, the entire basement area and a tenancy of the first floor proposed 'Espy Kitchen' restaurant.

We are also speaking to other prospective tenants for each of these areas, however we have no objection in principle to a single tenant occupying one or more of these tenancies provided they can be operated in accordance with the principle requirements of the Foundation and commercial terms are otherwise satisfactory.

2. That the terms of this tenancy would be a standard commercial lease as prepared by Freehills which would contain the following principle covenants:

- A commitment to meeting the objectives of the EHF as detailed in the constitution including the continuation of the Hotel as an entertainment venue providing live original music and comedy as frequently as currently provided and disclosed in the Knight Frank report.
- A prohibition on any gaming machines in the venue without the prior written consent of the EHF.
- No exclusion to members of the public based on appearance, dress or other criteria (nudity and intoxication levels excluded) without the prior written consent of the EHF.
- An on-going role for the EHF in the implementation of the entertainment policy expressed above via:
 - ◊ a role in the selection of the managers/operators who have the responsibility to book the entertainment (ie review of employment contracts with a role in selecting the preferred candidates list against an agreed criteria);
 - ◊ opportunities for a number of limited functions/festivals for the EHF (ie 2 per year with funding to be agreed).
- That the EHF as Landlord would undertake:
 - ◊ All necessary statutory occupational health and safety, fire controls, building and/or structural issues;
 - ◊ All plumbing electrical and other service points fitted off to your tenancy areas to your reasonable specifications;
 - ◊ All ventilation renewed to comply with the appropriate codes and practical operation;
 - ◊ As the tenant you would be responsible for fitting out all your tenancy areas and would allow the EHF as landlord reasonable access to undertake all structural works

necessary to maintain and fit out the building (this is particularly relevant to the access works necessary in relation to the proposed lift/lobby renovation works to be undertaken at the Pollington Street entrance);

We are still finalising cost estimates for the building restoration/refurbishment works and will endeavour to provide more detail as to how we propose the structural fitout works are to be divided, costed and arranged as between the Landlord and the tenants.

- Whilst the EHF is prepared in principle to offer a five x 10 year lease term as you propose, such a long term lease would need to be provided at market rates. We are waiting on final estimates from Landmark White as to precise market rental rates for each tenancy, however our indications to date suggest a rental in the order of 8% per annum of gross turnover plus outgoings.
- That the Tenant be responsible for the purchase of the business component of the current Hotel operations, being the stock in trade, the fittings and fixtures and the goodwill. We have had preliminary indications that the figure for the business is in the order of \$850,000-\$1,000,000 + rent prior to finalising this figure.

At this stage we suggest that the best way to progress the matter is to agree in principle to a specific rental for an initial period of say the first two years based on a set figure such as 8% of gross turnover (as disclosed by Becton during the due diligence process) or the market rental as determined by Landmark White.

As the EHF is a non-profit entity you can be assured that the Foundation's motivations for seeking market rents from its tenants are not for the purposes of commercial gain. However, if the Foundation is to put in a competitive bid by 29 June 2001 (and in light of the short time that selected tenderers have had to examine the due diligence material provided by the vendor), then the imperatives of commercial financing necessitate that market rents are agreed at least in the interim.

We have been advised by Becton that the due diligence materials will be provided to us some time today and upon providing these to our valuers and cost consultants we expect to be in a better position to resolve the proposed rental and outgoings levels towards the end of the week. In the meantime, we intend to arrange a building inspection with our quantity surveyor and architect at 10am on Thursday 21 June 2001 and invite you to attend.

We also confirm that we have recently received an approach from another party interested in leasing the existing hotel operations on the ground floor only but as yet we have not received a firm proposal. As previously discussed we had intended on leasing the 'Espy kitchen' tenancy and the basement tenancy to separate operators, however we have no specific preference in this regard provided that basic rental and consistency of tenancy issues remain unchanged.

Please contact us if you are interested in continuing these discussions with a view to reaching agreement on the principles and basic terms set out above. We are also hoping to receive a prospective lease from Freehills which will set out the above agreement in greater detail and we will provide this to you in due course.

Yours sincerely

DAVID O'BRIEN
ESPLANADE HOTEL FOUNDATION