

UPP (Lancaster) Limited
Report and financial statements
for the year ended 30 September 2006



UPP (Lancaster) Limited

Report and financial statements for the year ended 30 September 2006

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UPP (Lancaster) Limited

Directors and advisors

Directors

C W Crawford
R S McClatchey

Secretary

J C W Benkel

Auditors

Grant Thornton UK LLP
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UPP (Lancaster) Limited

Directors' report for the year ended 30 September 2006

The directors present their report and the audited financial statements for the year ended 30 September 2006

Results, principal activities and review of business

The company's principal activity is the development, funding and construction of student accommodation under the University Partnership Programme

There are three construction phases to the project Phase 1 (402 rooms) achieved practical completion in May 2005 Phase 2 (1,936 rooms) achieved practical completion in August 2005 and Phase 3 (1,047 rooms) achieved practical completion in September 2006

The scheme achieved 98.3% occupancy for the 2005/06 year, and 99.4% occupancy for the 2006/07 year

The result for the year attributable to shareholders and reported in the financial statements is £Nil (2005 £Nil)

Events since the balance sheet date

On 5 June 2007, the company entered into agreement to develop, fund and construct a further 962 rooms (Phase 4)

At that time all outstanding amounts due under the current debt facility were repaid and a new senior debt facility was entered into (see note 20)

Key performance indicators

The following are considered by the Directors to be indicators of performance of the company that are not necessarily evident from the statutory accounts.

	2005/06	2004/05
Applications Acceptance ratio	5.61	6.31
Core demand pool (no. of students)	8,721	8,756

The indicators above are directly related to the performance of Lancaster University and any changes in these statistics may potentially effect the performance of UPP (Lancaster) Limited. The company therefore monitors these indicators on an annual basis for any significant changes. The directors are satisfied that the movements noted above are within tolerable levels.

Financial risk management objectives and policies

The company uses various financial instruments including loans, cash, equity investments and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the company's operations. All of the company's financial instruments are of sterling denomination and the company does not trade in financial instruments or derivatives.

UPP (Lancaster) Limited

Directors' report (continued) for the year ended 30 September 2006

Financial risk management objectives and policies (continued)

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from the previous year.

Interest rate risk

The company finances its operations through a mixture of retained profits, related party borrowings and bank borrowings. The company exposure to interest rate fluctuations on its bank borrowings is managed by the use of interest swaps which fix variable interest rates for a period of time.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably.

The maturity of borrowings is set out in note 14 to the financial statements.

Demand risk

The company is subjected to risks arising from occupancy voids and no nominations by the university partners which can lead to uncertain revenues. This risk is managed by cementing relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income.

Portfolio risk

The asset is in the student market and reduced student numbers could impact upon financial performance. The company seeks to mitigate this risk by building excellent long term relationships with its university partner and ensuring up to date in depth market analysis is completed each year to enable the company to review its strategic position.

Dividend

The directors are unable to propose the payment of a dividend (2005 £Nil).

Directors

The directors holding office during the year ended 30 September 2006 are shown below.

C W Crawford
R S McClatchey

At 30 September 2006, none of the directors had any beneficial interest in the shares of the company or in any of the group companies.

UPP (Lancaster) Limited

Directors' report (continued) for the year ended 30 September 2006

Employee involvement

The directors attach the greatest importance to the development of employee involvement throughout the company based on good communication and working relationships. Consultation takes place through normal regular management contacts and in meetings with all levels of employees to assist the employees in developing their awareness of the financial and economic factors which affect the business and performance of the company.

Creditor payment terms

When entering into commitments for the purchase of services and goods the company gives due consideration to quality, price and the terms of payment. Suppliers are made aware of these terms. The company abides by these terms where it is satisfied that suppliers have provided the services or goods in accordance with such agreed terms and conditions. In the event of disputes, every effort is made to resolve these quickly.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements 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.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

UPP (Lancaster) Limited

Directors' report (continued) for the year ended 30 September 2006

Auditors

Grant Thornton UK LLP were appointed auditors during the period to fill the vacancy in accordance with Section 388(1) of the Companies Act 1985. Special notice pursuant to section 388(3) having been given, a resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the annual general meeting.

On behalf of the board



**C W Crawford
Director**

30 August 2007

**Report of the independent auditor to the members of UPP
(Lancaster) Limited**

We have audited the company's financial statements for the year ended 30 September 2006 which comprise the profit and loss account, balance sheet and the related notes 1 to 20. These financial statements have been prepared on the basis of 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

The directors' responsibilities for preparing the Directors' Report and financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Policies) are set out in the Statement of Director's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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.

UPP (Lancaster) Limited

Report of the independent auditor to the members of UPP (Lancaster) Limited (continued)

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 30 September 2006 and of its result for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

Grant Thornton UK LLP

**Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Central Milton Keynes**

30 August 2007

UPP (Lancaster) Limited

Profit and loss account for the year ended 30 September 2006

	Notes	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
Turnover	2	7,954	5,535
Cost of sales		(3,009)	(2,241)
Gross profit		4,945	3,294
Operating expenses		(322)	(539)
Operating profit		4,623	2,755
Interest receivable and similar income	7	102	76
Interest payable and similar charges	8	(4,719)	(2,822)
Profit on ordinary activities before taxation		6	9
Tax on profit on ordinary activities	9	(6)	(9)
Retained result for the year		-	-

The above results all relate to continuing operations

The company has no recognised gains and losses other than the result for the years ended 30 September 2006 and 30 September 2005 and therefore no separate statement of total recognised gains and losses has been presented

UPP (Lancaster) Limited

Balance sheet as at 30 September 2006

	Notes	30 September 2006 £'000	30 September 2005 £'000
Current assets			
Debtors amounts falling due within one year	10	3,415	935
Debtors amounts falling due after more than one year	11	116,510	94,787
Cash at bank and in hand	12	3,721	8,643
		<u>123,646</u>	<u>104,365</u>
Creditors: amounts falling due within one year	13	(18,347)	(14,491)
Net current assets		<u>105,299</u>	<u>89,874</u>
Creditors, amounts falling due after more than one year	14	(104,124)	(88,705)
Provisions for liabilities & charges	15	(15)	(9)
		<u>1,160</u>	<u>1,160</u>
Capital and reserves			
Share capital	16	1,160	1,160
Profit and loss account	17	-	-
Equity shareholders' funds	17	<u>1,160</u>	<u>1,160</u>

The financial statements were approved by the board on 30 August 2007
and were signed on its behalf by



C W Crawford
Director

UPP (Lancaster) Limited

Notes to the financial statements for the year ended 30 September 2006

1. Principal accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985. The accounting policies have remained unchanged from the previous year.

(b) Going concern

The directors have reviewed the company's projected cashflows which have been prepared on the basis of a detailed analysis of the company's finances, contracts and likely future demand trends. The projected cashflows include all Phase 4 related liabilities. After consideration of these projections the directors consider that the company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

(c) Cash flow statement

The company has taken advantage of the exemption available under FRS 1 (revised) and has not prepared a cash flow statement.

(d) Presentation of principal asset

Rent receivable is generated from the Company's interest in university accommodation. In accordance with the provisions of FRS5 (Application note F) the appropriate balance sheet treatment of this interest is to treat the asset as a finance asset. Each year the company reviews the status of the asset (the balance of the significant risks and rewards of ownership) and assesses the appropriateness of continuing to account for its investments as a finance receivable asset.

(e) Finance receivable

In initially accounting for costs as a finance receivable, all attributable expenditure, including net finance costs, are included in the cost of the finance asset. The finance asset is subsequently valued using the internal rate of return method calculated on the basis of net present value of future cashflows throughout the operational phase, which vary from year to year.

The finance asset is amortised over the operational phase of the project in accordance with FRS 5 (Application note F). This method of amortisation has been chosen as the profile of profit recognition is principally in line with the debt costs incurred over the life of the project. The amortisation is then charged or credited to finance receivable dependent on the profit profile of the project over the lease term.

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

(f) Income recognition

Rent receivable is recognised on the basis of the amount receivable in respect of the accounting period. Amounts received in advance are included within deferred income. There is an obligation on the company to maintain the finance receivable asset in a fit state of repair, and a portion of the rent receivable is deferred at a level to fund a diminishing proportion of the next three years planned maintenance expenditure.

In the operational phase, the amount recognised in the year is apportioned to turnover and interest receivable in such a manner as to leave the company in a break even position at operating profit level. This apportionment reflects the fact that the company generates profit through its financing activity rather than on its facilities management activity. If the company generates an operating loss in the period no adjustment is made.

Until such time that the company is fully operational the amount recognised in the year is apportioned to turnover to leave the company with a break even position at retained earnings level, with the remainder being apportioned to deferred income. This deferred income is then released to the profit & loss account on the same basis as the amortisation of the finance receivable asset.

(g) Taxation

(i) Current tax

The charge for current taxation for the year is based on the result for the year, adjusted for disallowable items.

(ii) Deferred tax

Full provision has been made for deferred taxation in respect of timing differences that have originated, but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future by the balance sheet date except that:

- Provision is made for gains on disposal of assets that have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned.
- Deferred tax assets are recognised to the extent 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 a non-discounted basis at the tax rates that are expected to apply in the years in which the timing differences reverse, based on the tax rates enacted at the balance sheet date.

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

(h) Interest rate swaps

Interest rate swaps are used to hedge the company's exposure to movements on interest rates. The fair value of this financial instrument, which may be an asset or a liability to the company, depending upon the market rate, is not recognised in the financial statements as the company is exempt from applying FRS 26. The interest payable on the debt and associated interest rate swaps is accrued for within the financial statements.

Should the company terminate the interest rate swaps earlier than they mature the company may become liable to pay penalties.

(i) Debt issue costs

The debt issue costs incurred have been offset against the related debt and will be charged to finance costs at a constant rate on the carrying value of the debt.

(j) Defined contribution pension scheme

Contributions to employees' personal pension arrangements during the year are charged to the profit & loss account as incurred. Details of the pension arrangements are given in note 6.

2. Turnover

Turnover arises wholly from the UK, and is net of VAT and discounts.

3. Directors' remuneration

The directors received £Nil (2005: £Nil) in respect of services performed in connection with the management of the affairs of this company.

4. Audit fees

The audit fees for the year ended 30 September 2006 amounting to £25,000 (2005: £35,000) were borne by the company.

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

5. Employee information

The average number of persons employed by the company during the year was as follows

	2006 Number	2005 Number
Site manager (full time)	1	1
Administration, maintenance and cleaning (full and part time)	8	5
	<u>9</u>	<u>6</u>

The employment costs of all employees included above were

	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
Wages and salaries	249	201
Social security	25	15
Pension	4	3
	<u>278</u>	<u>219</u>

6. Pension arrangements

For eligible employees, contributions are made to employees' personal pension schemes, based on a predetermined percentage of individuals' salaries

7. Interest receivable and similar income

	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
Bank interest	148	141
Interest capitalised	(46)	(65)
	<u>102</u>	<u>76</u>

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

8. Interest payable and similar charges

	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
Interest payable on bank loans	5,695	4,464
Interest payable on subordinated loan debt	720	318
Amortisation of commitment fees and issue costs	66	52
	<u>6,481</u>	<u>4,834</u>
Finance costs capitalised	<u>(1,762)</u>	<u>(2,012)</u>
	<u>4,719</u>	<u>2,822</u>

9. Tax on profit on ordinary activities

	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
a) Analysis of charge for the year		
<i>Current tax</i>		
Current tax on income for the year (note 9b)	-	-
<i>Deferred tax</i>		
Current year	3	8
Adjustment in respect of prior years	3	1
Total deferred tax (note 15)	<u>6</u>	<u>9</u>
Tax on profit on ordinary activities	<u>6</u>	<u>9</u>

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

9. Tax on profit on ordinary activities (continued)

b) Factors affecting current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%)

	Year ended 30 September 2006 £'000	Year ended 30 September 2005 £'000
Profit for the year	<u>6</u>	<u>9</u>
Profit for the year multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	2	3
<i>Effects of</i>		
Expenses disallowable for tax purposes	3	8
Capital allowances in excess of depreciation	(640)	(928)
Unutilised tax losses	<u>635</u>	<u>917</u>
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

10. Debtors: amounts falling due within one year

	30 September 2006 £'000	30 September 2005 £'000
Trade debtors	57	4
Other debtors	2,515	146
Amounts owed by related parties	109	17
VAT receivable	<u>734</u>	<u>768</u>
	<u>3,415</u>	<u>935</u>

11. Debtors: amounts falling due after more than one year

	30 September 2006 £'000	30 September 2005 £'000
Finance receivable – asset under construction	<u>116,510</u>	<u>94,787</u>

The finance receivable asset includes net finance costs of £6,102,000 (2005 £4,385,000)

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

12. Cash at bank and in hand

	30 September 2006 £'000	30 September 2005 £'000
Cash at bank and in hand	<u>3,721</u>	<u>8,643</u>

Cash at bank includes £320,000 (2005 £437,000) held in a Completion Trust Account which can only be utilised to pay for items defined in the stabilisation agreement entered into on 12 January 2005, once the related expenditure is approved by an independent quantity surveyor

13. Creditors: amounts falling due within one year

	30 September 2006 £'000	30 September 2005 £'000
Debt due within one year	7,726	6,725
Trade creditors	1,453	396
Accruals and deferred income	8,938	6,758
Amounts owed to related parties	230	612
	<u>18,347</u>	<u>14,491</u>

14. Creditors: amounts falling due after more than one year

	30 September 2006 £'000	30 September 2005 £'000
Senior debt	97,309	82,291
Equity bridge debt	5,846	8,597
Subordinated loan debt	10,188	6,101
Less. unamortised issue expenses	(1,493)	(1,559)
	<u>111,850</u>	<u>95,430</u>
Less amounts falling due within one year	(7,726)	(6,725)
	<u>104,124</u>	<u>88,705</u>

Maturity of debt

In one year or less	7,726	6,725
In more than one year but less than two years	1,707	4,611
In more than two years but less than five years	4,777	4,698
In more than five years	99,133	80,955
Less unamortised issue expenses	(1,493)	(1,559)
	<u>111,850</u>	<u>95,430</u>
Less amounts falling due within one year	(7,726)	(6,725)
	<u>104,124</u>	<u>88,705</u>

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

14. Creditors: amounts falling due after more than one year (continued)

Loan amounts drawn down to date of £113,343,000 are part of total facilities advanced of £114,500,000

Senior debt

The senior debt is repayable by September 2033 with principal repayments commencing in March 2006. The interest rate is fixed via a swap at 6.42% per annum plus a variable margin.

The senior debt was fully repaid in June 2007, and a new facility for £181,041,000 was entered into. This new facility is repayable by March 2042 with principal repayments starting in March 2009. The interest rate on this new facility is fixed via a swap at 5.67% per annum.

Equity bridge debt

The equity bridge interest rate is fixed via a swap at 5.16% per annum plus a variable margin. The equity bridge is repayable in four tranches: £2,752,000 was paid on 30 September 2004 and £2,880,000 on 31 October 2005. £2,923,000 that was due for repayment on 30 September 2006 was paid on 2 October 2006 and the balance is repayable on 30 September 2007.

The outstanding amount due for repayment on 30 September 2007 was fully repaid on 5 June 2007.

Subordinated Loan Debt

The subordinated loan notes are provided by Alma Mater. The subordinated loans are subordinated to the right of payment of senior debt providers with an interest rate payable of between 11% and 14% per annum over the term of the loan notes. The loan notes will be repaid over 34 years following their issue.

The terms of the subordinated loan notes were amended and restated on 5 June 2007. The loan notes will be repaid by 2042 and are subject to an interest rate of 14.5%.

The senior and equity bridge debts are secured by way of a first fixed charge over the finance receivable asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the company in any other form. The company is not obliged to support any losses, nor does it intend to do so.

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

15. Provisions for liabilities & charges

	30 September 2006 £'000	30 September 2005 £'000
Deferred tax liability		
At 1 October	9	-
Profit & loss account (note 9a)	6	9
At 30 September	15	9
 The deferred tax liability consists of		
Accelerated capital allowances	3,660	3,055
Other timing differences	(3,645)	(3,046)
Total deferred tax liability	15	9

16. Share capital

	30 September 2006 £'000	30 September 2005 £'000
Authorised		
1,159,800 Ordinary shares of £1 each	1,160	1,160
	1,160	1,160
 Allotted, called up and fully paid		
1,159,800 Ordinary shares of £1 each	1,160	1,160
	1,160	1,160

On 5 June 2007 the authorised share capital was increased to 2,159,800 Ordinary shares of £1 each by the creation of a further 1,000,000 of Ordinary shares of £1 each
On 5 June 2007 840,000 Ordinary shares of £1 each were issued at par for cash consideration

17. Reconciliation of shareholders' funds and movement on reserves

	Share capital £'000	Profit and Loss Account £'000	Total shareholders' funds £'000
At 1 October 2004	1,160	-	1,160
Result for the year	-	-	-
At 30 September 2005	1,160	-	1,160
Result for the year	-	-	-
At 30 September 2006	1,160	-	1,160

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

18. Related party transactions

The ordinary shareholding in UPP (Lancaster) Holdings Limited (the company's immediate parent undertaking) is jointly owned by UPP Investments Limited and Alma Mater Fund LP. UPP Investments is owned by Alma Mater Fund LP (acting through its general partner Barclays Alma Mater General Partner Limited). Barclays Alma Mater General Partner Limited and Alma Mater Fund LP are collectively referred to as 'Alma Mater'. Barclays Alma Mater General Partner Limited is 100% owned by Barclays Private Equity Limited, a subsidiary of Barclays Bank plc.

UPP Projects Limited and UPP Residential Services Limited are subsidiaries of Alma Mater. Therefore, the directors consider that UPP Projects Limited, UPP Residential Services, Alma Mater and Barclays Bank plc are related companies.

The company incurred £13,000 (2005: £75,000) for services provided by UPP Projects Limited. An amount of £Nil (2005: £45,000) remains outstanding at the balance sheet date and is included within creditors falling due within one year.

The company incurred costs of £1,021,000 (2005: £143,000) for services provided by UPP Residential Services Limited. An amount of £158,000 (2005: £143,000) remains outstanding at the balance sheet date and is included within creditors falling due within one year.

The company, on normal commercial terms, recharged costs of £15,000 (2005: £Nil) for services provided on behalf of UPP Residential Services. An amount of £15,000 (2005: £Nil) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, incurred costs of £Nil (2005: £29,000) for services provided by Barclays Bank plc. An amount of £9,000 (2005: £29,000) remains outstanding at the balance sheet date and is included within creditors falling due within one year. The company had loans as at 30 September 2006 due to a syndicate of banks including Barclays Bank plc. The terms, amounts and interest in respect of these loans are disclosed in notes 8 and 14.

The company, on normal commercial terms, incurred costs of £17,000 (2005: £40,000) for services provided by Alma Mater. An amount of £57,000 (2005: £40,000) remains outstanding at the balance sheet date and is included within creditors falling due within one year.

The company incurred interest of £720,000 (2005: £318,000) on the subordinated debt provided by Alma Mater. Accrued interest of £Nil (2005: £318,000) outstanding at the balance sheet date and is included within creditors falling due within one year. Subordinated loan principal, including capitalised interest of £1,038,000 (2005: £Nil), of £10,188,000 (2005: £6,101,000) provided by Alma Mater remains outstanding at the balance sheet date as disclosed in note 14.

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

18. Related party transactions (continued)

The company owes £6,000 (2005 £37,000) to UPP Holdings Limited, a company controlled by Alma Mater, in respect of balances paid on its behalf. This balance is included within creditors falling due within one year.

The company, on normal commercial terms, recharged costs of £5,000 (2005 £Nil) for services provided on behalf of UPP Holdings Limited. An amount of £5,000 (2005 £Nil) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £13,000 (2005 £10,000) for services provided on behalf of UPP (Broadgate Park) Limited, a company controlled by Alma Mater. An amount of £23,000 (2005 £10,000) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £16,000 (2005 £4,000) for services provided on behalf of UPP (Rachel McMillan) Limited, a company jointly controlled by Alma Mater and Barclays European Infrastructure Limited. An amount of £20,000 (2005 £4,000) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £4,000 (2005 £3,000) for services provided on behalf of UPP (Plymouth 3) Limited, a company controlled by Alma Mater. An amount of £7,000 (2005 £3,000) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £12,000 (2005 £Nil) for services provided on behalf of UPP (Aberdeen) Limited, a company controlled by Alma Mater. An amount of £12,000 (2005 £Nil) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £14,000 (2005 £Nil) for services provided on behalf of UPP (Miller Street) A Limited, a company controlled by Alma Mater. An amount of £14,000 (2005 £Nil) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £6,000 (2005 £Nil) for services provided on behalf of UPP (RNCM) Limited, a company controlled by Alma Mater. An amount of £6,000 (2005 £Nil) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

The company, on normal commercial terms, recharged costs of £7,000 (2005 £Nil) for services provided on behalf of UPP (York) Limited, a company controlled by Alma Mater. An amount of £7,000 (2005 £Nil) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

UPP (Lancaster) Limited

Notes to the financial statements (continued) for the year ended 30 September 2006

19. Parent undertaking and controlling party

The company's immediate parent undertaking is UPP (Lancaster) Holdings Limited

The company's ultimate parent undertaking and controlling party is Alma Mater

The parent undertaking of the smallest and largest group of which the company is a member and for which group accounts are prepared is UPP (Lancaster) Holdings Limited

Copies of the group accounts of UPP (Lancaster) Holdings Limited can be obtained from Companies House, Cardiff CF4 3UZ

20. Post balance sheet events

On 5 June 2007, the company entered into agreement to develop, fund and construct a further 962 rooms (Phase 4)

At that time all outstanding amounts due under the current senior and equity bridge debt facility of £114,500,000 were repaid and a new senior debt facility of £181,041,000 was entered into. This new facility is repayable by March 2042 with principal repayments commencing in March 2009

Also at that time the authorised share capital was increased to 2,159,800 Ordinary shares of £1 each by the creation of a further 1,000,000 of Ordinary shares of £1 each, and subsequently 840,000 Ordinary shares of £1 each were issued at par for cash consideration