Grant Thornton

Financial Statements The Modus Alpha General Partner Limited

For the period ended 30 June 2009

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Company No 5622821

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Company information

Company registration number :	5622821
Registered office :	The Edge Clowes Street Manchester M3 5NA
Directors :	D Lockhart B Flood
Secretary :	J E Davies
Bankers :	National Westminster Bank Old Swan Liverpool Branch 509 Prescot Road Liverpool L13 3BZ
Auditor :	Grant Thornton UK LLP Registered Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

Index to the financial statements

Report of the directors

The directors present their report together with the audited financial statements for the period ended 30 June 2009

Principal activity
The company's principal activity is acting as general partner of a property investment partnership

Results and dividends
The profit for the period after taxation amounted to £2,969 (2007 £1,975) The directors do not recommend the payment of a dividend (2007 £Nil)

Directors
The directors who served during the period are listed below All directors served throughout the period unless otherwise indicated

D Lockhart
B Flood
A Buchan (resigned 24 June 2009)
I F Nichol (resigned 24 June 2009)

Statement of directors' responsibilities
The directors are responsible for preparing the report of the directors 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 director has 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 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 maintaining 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 for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditor

KPMG LLP resigned as auditor during the period and Grant Thornton UK LLP were appointed to fill the casual vacancy Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006

Small company exemption

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies

ON BEHALF OF THE BOARD

D Lockhart
Director
The Modus Alpha General Partner Limited - Company No 5622821

12 April 2010

GrantThornton

Report of the independent auditor to the members of The Modus Alpha General Partner Limited

We have audited the financial statements of The Modus Alpha General Partner Limited for the period ended 30 June 2009 which comprise the principal accounting policies, the profit and loss account, the balance sheet and notes 1 to 10 These financial statements have been prepared in accordance with the accounting policies set out therein and the requirements of the Financial Reporting Standard for Smaller Entities (effective January 2007)

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 report of the directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' 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 whether in our opinion the information given in the report of the directors 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 other transactions is not disclosed

We read the report of the directors 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

Grant Thornton

Report of the independent auditor to the members of The Modus Alpha General Partner Limited

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 applicable to Smaller Entities, of the state of the company's affairs as at 30 June 2009 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the report of the directors is consistent with the financial statements

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the going concern disclosures made in the accounting policies section of the financial statements concerning the company's ability to continue as a going concern These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
MANCHESTER

12 April 2010

Principal accounting policies

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007)

The principal accounting policies of the company have remained unchanged in the period and are set out below The directors have reviewed the accounting policies in accordance with FRS 18 and consider them to be the most appropriate to the company's circumstances

Going concern

The company acts as general partner to Modus Alpha Property Partners Limited Partnership ('the LP') The company receives a fee for acting in this capacity, but has no interest in the profits or assets of the LP However, the company's future income streams and its ability to recover amounts due from the LP and its related entities (together, 'the Alpha Fund) is dependent on the ability of the LP to continue in operational existence

The current economic environment is challenging, particularly in regard to the property sector, and the partners of the LP consider that the future outlook presents significant challenges both in terms of availability of funding and volatility of property values

During the period to 30 June 2009, the Alpha Fund has breached the loan to value covenants on a number of its bank facilities and is currently in negotiations with its lending banks In addition, during the period, one of the Alpha Fund's equity partners took the decision to exit the Alpha Fund As a result, in June 2009 the equity partner wrote off its equity investment of £8 1m and in October 2009 wrote off its mezzanine loans and rolled up interest amounting in total to £20 2m This exit by the equity partner formed part of a wider restructuring of the Alpha Fund, in which the investors agreed to extend the life of the Fund to 30 June 2014 Based on the negotiations to date with the lending banks, all of whom are supportive of the restructuring of the Alpha Fund, the partners are confident that all facilities will be renewed, although it is likely there will be revisions to the existing facility terms An agreement in principle has been reached with the principal lender to the Alpha Fund, who at 30 June 2009 accounted for 63% of the Alpha Fund's total debt

Whilst the directors of the company acknowledge that these circumstances cast some uncertainty over the company's ability to remain as a going concern, they are confident that the LP's negotiations with its lending banks will lead to a successful outcome For this reason, the directors continue to adopt the going concern basis in the preparation of the financial statements

Turnover

Turnover consists of the company's fee for acting as the general partner to Modus Alpha Property Partners Limited Partnership and is recognised on an accruals basis over the period to which the service relates

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date Deferred tax assets are recognised when it is more likely than not that they will be recovered Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date

Profit and loss account

	Note	**Period ended 30 June 2009 £**	Year ended 31 December 2007 £
Turnover	1	**3,750**	2,500
Profit on ordinary activities before taxation	1	**3,750**	2,500
Tax on profit on ordinary activities	3	**(781)**	(525)
Profit for the financial period	7	**2,969**	1,975

The results disclosed above relate entirely to continuing operations

There were no recognised gains or losses other than the profit for the financial period

Balance sheet

	Note	30 June 2009 £	31 December 2007 £
Current assets			
Debtors	4	**8,008**	5,100
Creditors : amounts falling due within one year	5	**(781)**	(842)
Net current assets		**7,227**	4,258
Net assets		**7,227**	4,258
Capital and reserves			
Called up share capital	6	**100**	100
Profit and loss account	7	**7,127**	4,158
Shareholders' funds	8	**7,227**	4,258

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2007)

The financial statements were approved by the Board on 12 April 2010

David Lockhart

D Lockhart Director

Notes to the financial statements

1 Turnover and profit on ordinary activities before taxation

The turnover and profit on ordinary activities are attributable to the principal activity of the company, and arose entirely within the United Kingdom

Remuneration in respect of the company's auditor is settled by Modus Alpha Property Partners Limited Partnership, a related undertaking

2 Directors and employees

There were no employees of the company during the period other than the directors The directors received no remuneration during the period (2007 £Nil)

3 Tax on profit on ordinary activities

The tax charge represents	**Period ended 30 June 2009 £**	Year ended 31 December 2007 £
UK corporation tax at 21% (2007 19 8%)	**781**	494
Adjustment in respect of prior years	**-**	31
	781	525

Factors affecting the tax charge for the period
The difference between the actual tax assessed in the period and the charge based on the standard rate of corporation tax in the United Kingdom of 21% (2007 19 8%) is explained as follows

	Period ended 30 June 2009 £	Year ended 31 December 2007 £
Profit on ordinary activities before taxation	**3,750**	2,500
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the United Kingdom of 21% (2007 19 8%)	**788**	494
Effect of		
Change in tax rate	**(7)**	-
Adjustment in respect of prior years	**-**	31
Current tax charge for the period	**781**	525

4 Debtors

	30 June 2009 £	31 December 2007 £
Amounts owed by related undertaking (note 9)	**7,908**	5,000
Unpaid share capital	**100**	100
	8,008	5,100

5 Creditors : amounts falling due within one year

	30 June 2009 £	31 December 2007 £
Corporation tax	**781**	842

6 Share capital

	30 June 2009 £	31 December 2007 £
Authorised		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted		
100 ordinary shares of £1 each	**100**	100

7 Reserves

	Profit and loss account £
At 1 January 2008	4,158
Profit for the financial period	2,969
At 30 June 2009	**7,127**

8 Reconciliation of movements in shareholders' funds

	Period ended 30 June 2009 £	Year ended 31 December 2007 £
Profit for the financial period	**2,969**	1,975
Opening shareholders' funds	**4,258**	2,283
Closing shareholders' funds	**7,227**	4,258

9 Related party transactions

The company has taken advantage of the exemption in FRS 8 and has not disclosed transactions with group undertakings

During the period the company received a fee of £3,750 (2007 £2,500) from Modus Alpha Property Partners Limited Partnership, a limited partnership of which the company acts as general partner At 30 June 2009 the company was owed a balance of £7,908 (2007 £5,000) from Modus Alpha Property Partners Limited Partnership

10 Ultimate parent undertaking

The company is a subsidiary undertaking of Spectrum Investment Management Limited which is the ultimate parent undertaking

Grant Thornton

Financial Statements Modus Alpha Property Partners Limited Partnership

For the period ended 30 June 2009

Partnership Accounts

These accounts form part of

Registered No LP011049

General information

Registration number :	LP011049
Registered office :	The Edge Clowes Street Manchester M3 5NA
Bankers :	Royal Bank of Scotland Old Swan Liverpool Branch 509 Prescot Road Liverpool L13 3BZ Nationwide Kings Park Road Moulton Park Northampton NM3 6NW
Solicitors :	DLA Piper UK LLP 101 Barbirolli Square Manchester M2 3DL
Auditor :	Grant Thornton UK LLP Registered Auditor Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB

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Report of the general partner

The general partner presents its report together with the audited financial statements for the period ended 30 June 2009

Reporting framework
Although the entity is a limited partnership, its governing document, the partnership agreement specifies that the accounts should be produced under United Kingdom Generally Accepted Practice and the Partnership and Unlimited Companies (Accounts) Regulations 1993 Regulation 4 of the Partnership and Unlimited Companies (Accounts) Regulations 1993 stipulates that the accounts should be prepared under Part VII of the Companies Act 1985 as if the partnership were a company formed and registered under that Act

Principal activity
The principal activity of the partnership is property investment.

Business review
The profit for the period after taxation amounted to £3,386,000 (2007 restated loss £961,000)

The Modus Alpha Property Partners Limited Partnership ('the Alpha Fund') was established, in November 2005 with an estimated life to run to November 2010

The economic environment has been very challenging over the eighteen month period under review, along with most other asset classes, values in the commercial property market have been significantly affected by the credit crunch and resulting global economic crisis There has been an unprecedented lack of liquidity in the market in general and this has lead to a large drop in transactional activity in the property sector and as a result values of retained properties across the sector have been adversely affected As a consequence of the economic climate a number of key changes to the Alpha Fund have been made in the period as summarised below

- A proposal was made to the investors in May 2009 to extend the life of the Alpha Fund to June 2014 The proposal was made in order to allow time for the property values to recover to enable optimum returns for investors in the Alpha Fund The proposal was accepted by the Investors and the restructure was completed in October 2009,
- Negotiations with the lending banks over the restructure of the Alpha Fund are at an advanced stage Generally all banks have been very supportive over the eighteen month period, albeit they have all taken the opportunity to increase fees/margins based upon a reduction in property values across the sector All banks have been supportive of the Alpha Fund extension to June 2014,
- One of the equity partners took the decision to exit the Alpha Fund and wrote off its equity investment and subsequent to the year end wrote off its mezzanine loan to the Alpha Fund,
- Modus Stourbridge was liquidated on the 29th October 2008 and the property previously held by the partnership was acquired by Modus Alpha Jersey Property Unit Trust as consideration of the inter company loan balance
- The partners performed a valuation of the investment portfolio based on advice from the partnership's property asset manager The results of the valuation have been reflected in the accounts

To date the Alpha Fund has a portfolio of 24 properties and given the hard work undertaken in the reporting period it is in a much stronger position to face the current and future market conditions

The partners would like to take this opportunity to thank all interested parties in the Alpha Fund for their support and encouragement over the period under review and we look forward to facing the challenges that lie ahead

Post balance sheet events
Post balance sheet events are disclosed in note 27 to the financial statements

Partners
Modus Alpha General Partner Limited acts as general partner to the limited partnership Modus Alpha Jersey Property Unit Trust, Brendan Flood and Modus Alpha Founder Partner LLP are the limited partners

Financial risk management policies and objectives
The partnership uses various financial instruments to finance its operations, including bank loans, loans from the partners and also items which arise directly from its operations such as cash, trade debtors and trade creditors

The main risks arising from the group's financial instruments are market risk, liquidity risk, interest rate risk and credit risk The partnership has no exposure to currency risk since all of its operations are carried out within the United Kingdom The directors review and agree policies for managing each of these risks and they are summarised below These policies have remained unchanged from previous years

Market risk
The partnership's exposure to market risk primarily relates to movements in the value of its investment properties, since the value of the properties is subject to a number of mainly external factors, many of which are outside of the partners' control such as general economic conditions, interest rate fluctuations and other factors specific to the property sector The partners monitor the market value of the properties by undertaking regular independent valuations

Liquidity risk
The partners seek to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short–term flexibility is achieved by loans from the partners

The partnership finances its operations primarily through bank borrowings and loans from the partners The maturity of these obligations is set out in note 15 to the financial statements

Interest rate risk
The partnership manages its exposure to interest rate fluctuations on its bank borrowings by entering into fixed rate agreements where possible, and also by the use of interest rate swap agreements

Credit risk
In order to manage credit risk, the partners regularly review the quality and credit rating of its tenant base Credit limits are set where appropriate and reviewed by the finance team on a regular basis in conjunction with debt ageing and collection history

Statement of the general partner's responsibilities
The general partner is responsible for preparing the report of the general partner and the financial statements in accordance with applicable law and regulations

Company law requires the general partners to prepare financial statements for each financial year Under that law the general partners 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 partnership at the end of the period and of the profit or loss for the period then ended In preparing those financial statements, the general partner is required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable 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 partnership will continue in business

The general partner is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the partnership and enable it to ensure that the financial statements comply with the Companies Act 1985 as applied by the Partnerships and Unlimited Companies (Accounts) Regulations 1993 The general partner is also responsible for safeguarding the assets of the partnership and for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the general partner is aware

- there is no relevant audit information of which the partnership's auditor is unaware, and
- the general partner has taken all steps that it ought to have taken to make itself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditor

KPMG LLP resigned as auditor during the period and Grant Thornton UK LLP were appointed to fill the casual vacancy Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed reappointed for the next financial year in accordance with section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006

ON BEHALF OF THE GENERAL PARTNER

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For and on behalf of Modus Alpha General Partner Limited
General Partner

12 April 2010

Grant Thornton

Report of the independent auditor to the members of Modus Alpha Property Partners Limited Partnership

We have audited the financial statements of Modus Alpha Property Partners Limited Partnership for the period ended 30 June 2009 which comprise the principal accounting policies, the consolidated profit and loss account, the consolidated balance sheet, the partnership balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses and notes 1 to 27 These financial statements have been prepared in accordance with the accounting policies set out therein

This report is made solely to the partnership's members, as a body, in accordance with Section 235 of the Companies Act 1985 as applied by the Partnerships and Unlimited Companies (Accounts) Regulations 1993 Our audit work has been undertaken so that we might state to the partnership'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 partnership and the partnership's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of general partner and auditor

The general partner's responsibilities for preparing the report of the general partner and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of general partner'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 as applied by the Partnerships and Unlimited Companies (Accounts) Regulations 1993 We also report to you whether in our opinion the information given in the report of the general partner is consistent with the financial statements

In addition we report to you if, in our opinion, the partnership has not kept proper accounting records, if we have not received all the information and explanations we require for our audit

We read the report of the general partner 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 general partner in the preparation of the financial statements, and of whether the accounting policies are appropriate to the partnership's circumstances, consistently applied and adequately disclosed

Grant Thornton

Report of the independent auditor to the members of Modus Alpha Property Partners Limited Partnership

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 affairs of the group and the partnership as at 30 June 2009 and of the profit of the group for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 as applied by the Partnerships and Unlimited Companies (Accounts) Regulations 1993, and
- the information given in the report of the general partner is consistent with the financial statements

Emphasis of matter - going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the going concern disclosures made in the accounting policies section of the financial statements concerning the partnership's ability to continue as a going concern These conditions indicate the existence of a material uncertainty which may cast significant doubt about the partnership's ability to continue as a going concern The financial statements do not include the adjustments that would result if the partnership was unable to continue as a going concern

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
MANCHESTER

12 April 2010

Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention except that they have been modified to include the revaluation of tangible fixed assets

The principal accounting policies of the partnership have remained unchanged in the period and are set out below The general partner has reviewed the accounting policies in accordance with FRS 18 and considers them to be the most appropriate to the company's circumstances

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the partnership and all subsidiary undertakings Acquisitions are accounted for under the acquisition method The results of entities acquired or disposed of are included in the group profit and loss account from or up to the date that control passes

Going concern

The principal activity of Modus Alpha Property Partners Limited Partnership ('the LP') and its related entities (together, 'the Alpha Fund'), together with the factors likely to affect its future performance and development are described in the report of the general partner

As described in the report of the general partner, the current economic environment is challenging, particularly in regard to the property sector, and the partners of the LP consider that the future outlook presents significant challenges both in terms of availability of funding and volatility of property values

As disclosed in note 9, the LP's investment properties were revalued in the period at £118 2m, a deficit of £20 5m on the carrying value The partners believe that the fall in value of the investment properties is a reflection of the current economic conditions, and is therefore temporary in nature The partners are satisfied that the future rental income streams from the investment properties are robust, since the majority of properties are occupied on long term lease agreements by a very secure tenant base The partners consider there is a potential risk to the financial viability of tenants as a result of the current economic conditions, however to date the LP has not experienced any significant loss in revenue arising from this risk

As a result of the fall in value of the investment properties, during the period to 30 June 2009, the Alpha Fund has breached the loan to value covenants on a number of its bank facilities and is currently in negotiations with its lending banks In addition, during the period, one of the Alpha Fund's equity partners took the decision to exit the Alpha Fund As a result, in June 2009 the equity partner wrote off its equity investment of £8 1m and in October 2009 wrote off its mezzanine loans and rolled up interest amounting in total to £20 2m This exit by the equity partner formed part of a wider restructuring of the Alpha Fund, in which the investors agreed to extend the life of the Fund to 30 June 2014 Based on the negotiations to date with the lending banks, all of whom are supportive of the restructuring of the Alpha Fund, the partners are confident that all facilities will be renewed, although it is likely there will be revisions to the existing facility terms An agreement in principle has been reached with the principal lender to the Alpha Fund, who at 30 June 2009 accounted for 63% of the Alpha Fund's total debt

Whilst the partners acknowledge that these circumstances cast some uncertainty over the LP's ability to remain as a going concern, they are confident that the negotiations with its lending banks will lead to a successful outcome For this reason, the partners continue to adopt the going concern basis in the preparation of the financial statements

Turnover

Turnover consists of rental income receivable which is recognised on an accruals basis and is spread evenly over the term of the lease Incentives paid to tenants to enter into a lease agreement and any costs associated with entering into the lease are spread over the same period

Investment properties

Investment properties are initially recorded at cost and are revalued annually by the directors, with an independent valuation at least once every five years These valuations are reflected in the balance sheet, and the surpluses or deficits on revaluation of such properties are transferred to the revaluation reserve Depreciation is not provided in respect of freehold investment properties Leasehold investment properties are not amortised where the unexpired term is over twenty years

This policy represents a departure from statutory accounting principles, which require depreciation to be provided on all fixed assets The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation Depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified

Intangible fixed assets - goodwill

Purchased goodwill arising on acquisitions is the difference between the fair value of the purchase consideration and the fair value of the group's share of the identifiable assets and liabilities of the acquired business at the date of acquisition Purchased goodwill is capitalised and amortised over its estimated useful life Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently when necessary if circumstances indicate that its carrying value may not be recoverable

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over their expected useful lives The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term

Current tax
The partnership is not subject to corporation tax since the partners are taxed individually The partnership's has a number of corporate subsidiaries which are consolidated into these financial statements, which are subject to corporation tax

Deferred taxation
In respect of the partnership's corporate subsidiaries which are subject to corporation tax, deferred tax is recognised on all timing differences where the transactions or events that give the entity an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date Deferred tax assets are recognised when it is more likely than not that they will be recovered Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date

Financial instruments
Financial liabilities are obligations to pay cash or other financial assets and are recognised when the group becomes a party to the contractual provisions of the instrument All financial liabilities are recorded initially at fair value, net of direct issue costs Finance charges are charged to the profit and loss account on an accruals basis using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise

An equity instrument is any contract that evidences a residual interest in the assets of the partnership after deducting all of its liabilities Distributions relating to equity instruments are debited directly to reserves

Consolidated profit and loss account

	Note	Period ended 30 June 2009 £000	Restated Year ended 31 December 2007 £000
Turnover – continuing operations	3	**13,658**	9,651
Other operating income		**-**	125
Administrative expenses		**(3,404)**	(2,490)
Operating profit – continuing operations		**10,254**	7,286
Profit on disposal of fixed assets		**-**	745
Loss on disposal of subsidiary undertaking	12	**(180)**	-
Exceptional item – write-off of loans	5	**8,119**	-
Net interest	6	**(14,675)**	(8,876)
Profit/(loss) on ordinary activities before taxation	3	**3,518**	(845)
Tax on profit on ordinary activities in corporate subsidiaries	7	**(132)**	(116)
Profit/(loss) for the financial period	18	**3,386**	(961)

Consolidated balance sheet

	Note	30 June 2009 £000	Restated 31 December 2007 £000
Fixed assets			
Tangible assets	9	**118,198**	147,264
Current assets			
Debtors	13	**12,508**	2,561
Cash at bank and in hand		**1,278**	2,595
		13,786	5,156
Creditors . amounts falling due within one year	14	**(152,555)**	(16,043)
Net current liabilities		**(138,769)**	(10,887)
Total assets less current liabilities		**(20,571)**	136,377
Creditors : amounts falling due after more than one year	15	**(8,423)**	(147,861)
Provision for liabilities	16	**(107)**	(72)
Net liabilities		**(29,101)**	(11,556)
Capital and reserves			
Partners' capital accounts	17	**2**	3
Revaluation reserve	18	**(28,426)**	(8,698)
Partners' other reserves	18	**(677)**	(2,861)
Total members' interests	19	**(29,101)**	(11,556)

The financial statements were approved by the general partner on 12 April 2010

David Locker

For and on behalf of Modus Alpha General Partner Limited
General partner

Partnership balance sheet

	Note	30 June 2009 £000	31 December 2007 £000
Fixed assets			
Tangible assets	9	**98,227**	116,871
Investments	11	**22,103**	23,164
		120,330	140,035
Current assets			
Debtors	13	**12,429**	10,549
Cash at bank and in hand		**1,219**	2,408
		13,648	12,957
Creditors : amounts falling due within one year	14	**(152,132)**	(15,409)
Net current liabilities		**(138,484)**	(2,452)
Total assets less current liabilities		**(18,154)**	137,583
Creditors : amounts falling due after more than one year	15	**(8,423)**	(147,861)
Net liabilities		**(26,577)**	(10,278)
Capital and reserves			
Partners' capital accounts	17	**2**	3
Revaluation reserve	18	**(26,132)**	(7,754)
Partners' other reserves	18	**(447)**	(2,527)
Total members' interests	19	**(26,577)**	(10,278)

The financial statements were approved by the general partner on 12 April 2010

For and on behalf of Modus Alpha General Partner Limited
General partner

Consolidated cash flow statement

	Note	Period ended 30 June 2009 £000	Restated Year ended 31 December 2007 £000
Net cash inflow from operating activities	20	**11,210**	10,197
Returns on investments and servicing of finance			
Net interest		**(14,524)**	(8,876)
Net cash outflow from returns on investments and servicing of finance		**(14,524)**	(8,876)
Tax paid		**(44)**	–
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(24)**	(35,390)
Proceeds from sale of tangible fixed assets		**–**	4,856
Net cash outflow from capital expenditure and financial investment		**(24)**	(30,534)
Acquisitions and disposals			
Acquisition of subsidiary undertaking		**–**	(17,657)
Net cash acquired with subsidiary		**–**	285
Disposal of subsidiary undertaking	12	**(110)**	–
Net cash outflow from acquisitions and disposals		**(110)**	(17,372)
Equity dividends paid		**(521)**	(230)
Cash outflow before financing		**(4,013)**	(46,815)
Financing			
Movement in partners capital		**(1)**	1
Movement on bank loans	22	**2,196**	41,964
Movement on partners' loans	22	**501**	6,071
Net cash inflow from financing		**2,696**	48,036
(Decrease)/increase in cash in the period	21	**(1,317)**	1,221

Other primary statements

Statement of total recognised gains and losses

	Note	Period ended 30 June 2009 £000	Restated Year ended 31 December 2007 £000
Profit/(loss) for the financial period		**3,386**	(961)
Unrealised deficit on revaluation of fixed assets		**(20,500)**	(8,698)
Total recognised gains and losses for the period		**(17,114)**	(9,659)

Note of historical cost profits and losses

	Note	Period ended 30 June 2009 £000	Restated Year ended 31 December 2007 £000
Profit/(loss) on ordinary activities before taxation		**3,518**	(845)
Realisation of revaluation deficit of previous years		**(772)**	–
Historical cost profit/(loss) on ordinary activities before taxation		**2,746**	(845)
Historical cost profit/(loss) for the period		**2,614**	(961)

Notes to the financial statements

1 Limited partnership agreement

The agreement dated 22 December 2005 states that the purpose of the partnership is to carry out property investment

During the year, Modus Alpha General Partner Limited acted as general partner to the partnership The general partner had no interest in the profits or assets of the partnership and instead took a fixed salary of £3,750 (2007 £2,500) Modus Alpha Founder Partner LLP ('the FPLLP'), Brendan Flood and Modus Alpha Jersey Property Unit Trust ('the JPUT') are the limited partners, and had interests in the profits and assets of the partnership as follows

- On a winding up or other return of capital the JPUT is entitled to 100% of profits and assets until one half of its unit holders, being the 'B' unit holders, have achieved an internal rate of return ('IRR') of 12% On account of their entitlement the 'B' unit holders are entitled to an annual dividend of 4% on the cost of their investment, payable quarterly Following the settlement of their 12% IRR requirement the 'B' unit holders cede 31 25% of remaining profits and assets to the FPLLP until the point is reached where the other half of the unit holders, being the 'A' unit holders, have achieved an internal rate of return of 20%
- On a winding up or other return of capital the FPLLP is entitled to profits and assets of the partnership as set out above
- On a winding up or other return of capital, Brendan Flood is entitled to the same proportionate remuneration as the 'B' unit holders in the JPUT, relative to the size of their respective investments in the partnership

2 Prior year adjustment

The partners have made a prior year adjustment to correct a fundamental error in the 2007 financial statements Acquisition costs and the goodwill arising in respect of acquisitions made in previous accounting periods were incorrectly eliminated against the carrying value of investment properties rather than recognising goodwill on these acquisitions In addition, amounts written off investments in the partnership were not properly eliminated on consolidation The impact of the prior year adjustment is summarised below, all 2007 comparatives have been restated accordingly

	2007 As previously reported £000	Prior year adjustment £000	2007 As restated £000
Consolidated profit and loss account			
Loss on ordinary activities before taxation	(367)	(478)	(845)
Tax on profit on ordinary activities in corporate subsidiaries	(116)	–	(116)
Loss for the financial year	(483)	(478)	(961)

Prior year adjustment (continued)

	2007 As previously reported £000	Prior year adjustment £000	2007 As restated £000
Consolidated balance sheet			
Tangible assets	148,143	(879)	147,264
Current assets	5,156	–	5,156
Creditors amounts falling due within one year	(16,115)	72	(16,043)
Creditors amounts falling due after more than one year	(147,861)	–	(147,861)
Provisions for liabilities	–	(72)	(72)
Net assets	(10,677)	(879)	(11,556)
Partners' capital accounts	3	–	3
Revaluation reserve	(8,698)	–	(8,698)
Partners' other reserves	(1,982)	(879)	(2,861)
	(10,677)	(879)	(11,556)

3 Turnover and profit/(loss) on ordinary activities before taxation

The turnover and profit/(loss) on ordinary activities are attributable to the principal activity of the group, and arose entirely within the United Kingdom

The profit/(loss) on ordinary activities before taxation is stated after charging

	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
Auditor's remuneration	**30**	53

4 Directors and employees

The directors of the general partner did not receive any remuneration for their services to the limited partnership during the period (2007 £Nil) There were no employees of the partnership during the period (2007 Nil)

5 Exceptional item

On 24 June 2009, one of the equity partners in the Modus Alpha Jersey Property Unit Trust ('the JPUT'), the primary stakeholder in the partnership, took the decision to exit the JPUT and wrote off its equity investment of £8,118,711 Since these funds had been invested by the JPUT in the partnership in the form of a loan, the JPUT in turn wrote off the amount of £8,118,711 from this loan

6 Net interest

	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
Interest on bank loans	15,002	9,081
Other interest payable	–	1
Bank and other interest receivable	(327)	(206)
	14,675	8,876

7 Tax on profit on ordinary activities in corporate subsidiaries

The tax charge represents	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
UK corporation tax at 28% (2007 30%)	97	39
Adjustment in respect of prior years	–	5
	97	44
Deferred taxation (note 16)	35	72
	132	116

Factors affecting the tax charge for the period

The difference between the actual tax assessed in the period and the charge based on the standard rate of corporation tax in the United Kingdom of 28% (2007 30%) is explained as follows

	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
Profit/(loss) on ordinary activities before taxation	3,518	(845)
Profit/(loss) on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 28% (2007 30%)	985	(254)
Effect of		
Profits/(losses) in entities not subject to corporation tax	(980)	274
Expenses not deductible for tax purposes	131	76
Capital allowances in excess of depreciation	(35)	(50)
Tax losses	–	(2)
Small companies relief	(4)	(5)
Adjustment in respect of prior years	–	5
Current tax charge for the period	97	44

8 Dividends

	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
Interim dividend paid	**392**	230
Final dividend payable	**38**	91
	430	321

9 Tangible fixed assets

Group	**Investment property £000**
Cost/valuation and net book amount	
At 1 January 2008 (as restated)	147,264
Additions	24
Disposals	(290)
Disposal of subsidiary undertaking (note 12)	(8,300)
Deficit on revaluation in the period	(20,500)
At 30 June 2009	**118,198**

Partnership	**Investment property £000**
Cost/valuation and net book amount	
At 1 January 2008	116,871
Additions	24
Disposals	(290)
Deficit on revaluation in the period	(18,378)
At 30 June 2009	**98,227**

The partners have performed a valuation of the investment properties as at 30 June 2009, based on advice received from the partnership's property asset manager The valuations were based on applying market rate rental yields to the rental income derived from the properties The last independent professional valuations were undertaken on 31 December 2007 by Savills Chartered Surveyors and CB Richard Ellis, Chartered Surveyors The basis of valuation used was open market value

If the investment properties had not been revalued, they would have been included on the historical cost basis at the following amounts

	Investment property	
	Group £000	**Partnership £000**
Cost and net book amount		
At 30 June 2009	**146,624**	**124,359**
At 31 December 2007	155,962	124,625

10 Intangible fixed assets

Group	Purchased goodwill £000
Cost	
At 1 January 2008 (as restated)	1,133
Disposals	(218)
At 30 June 2009	**915**
Amortisation	
At 1 January 2008 (as restated)	1,133
Disposals	(218)
At 30 June 2009	**915**
Net book amount	
At 30 June 2009	**-**
At 31 December 2007	-

The partnership's policy is to write off purchased goodwill immediately following acquisition The disposal in the period relates to the purchased goodwill previously recognised in respect of Modus Stourbridge Limited, which was disposed of during the period (see note 12)

11 Fixed asset investments

Partnership	Group undertakings £000
Cost	
At 1 January 2008	24,082
Disposals	(1,061)
At 30 June 2009	**23,021**
Amounts written off	
At 1 January 2008 and 30 June 2009	**918**
Net book amount	
At 30 June 2009	**22,103**
At 31 December 2007	23,164

The disposal in the period relates to the sale of the partnership's interest in Modus Stourbridge Limited (see note 12)

Fixed asset investments (continued)

At 30 June 2009 the partnership held an interest of more than 20% in the following entities

Group undertaking	Country of incorporation	Class held	Holding	Principal activity
Hawkbond Properties Limited	UK	Ordinary	100%	Property investment
Modus Alpha Nominees (No 5) Limited	UK	Ordinary	100%	Property investment
The MA Street Unit Trust	Jersey	Units	100%	Property investment

12 Disposal of subsidiary undertaking

On 13 August 2008, the partnership disposed of its 100% interest in Modus Stourbridge Limited to the Modus Alpha Jersey Property Unit Trust ('the JPUT') for a consideration of £1 The JPUT is a related undertaking since it acts as limited partner to the partnership and is the principal stakeholder The net assets disposed of and the loss on disposal is calculated as follows

	£000
Tangible fixed assets	8,300
Creditors	(8,230)
Net assets disposed of	70
Disposal costs	110
	180
Consideration	-
Loss on disposal	180

13 Debtors

	Group 30 June 2009 £000	Group 31 December 2007 £000	Partnership 30 June 2009 £000	Partnership 31 December 2007 £000
Trade debtors	**1,187**	1,214	**944**	881
Amounts owed by related undertakings	**8,494**	21	**8,733**	8,483
Prepayments and accrued income	**171**	724	**136**	639
Other debtors	**2,656**	602	**2,616**	546
	12,508	2,561	**12,429**	10,549

14 Creditors : amounts falling due within one year

	Group		Partnership	
		Restated		
	30 June 2009 £000	31 December 2007 £000	30 June 2009 £000	31 December 2007 £000
Bank loans (note 15)	**142,440**	8,273	**142,440**	8,273
Corporation tax	**97**	44	**-**	-
Trade creditors	**664**	237	**662**	234
Amounts owed to related undertakings	**8**	45	**8**	45
Social security and other taxes	**320**	378	**278**	337
Accruals and deferred income	**8,972**	6,804	**8,728**	6,413
Other creditors	**54**	171	**16**	16
Dividends payable	**-**	91	**-**	91
	152,555	16,043	**152,132**	15,409

15 Creditors : amounts falling due after more than one year

	Group and Partnership	
	30 June 2009 £000	31 December 2007 £000
Bank loans	**-**	131,820
Partner loans	**8,423**	16,041
	8,423	147,861

Bank loans are stated net of unamortised issue costs of £113,461 (2007 £264,690), which are being released to the profit and loss account over the relevant loan term, in accordance with FRS 4

The group has entered into loan facilities with a number of lending banks in order to invest in properties All facilities are secured on the relevant investment properties and interest is payable at various commercial rates, typically based on LIBOR plus margin The partners classify these loans as 'senior' debt, and at 30 June 2009, the total amount of senior debt outstanding was £127,782,000

In addition to the senior debt, the group also has mezzanine funding outstanding at 30 June 2009 of £14,658,000 Interest on the mezzanine debt is payable at 12%, and at 30 June 2009 the total accrued interest amounted to £4,944,000 (disclosed within accruals) As disclosed in note 27 to the financial statements, the provider of the mezzanine funding took the decision to exit their investment in the partnership, and in October 2009 wrote off the mezzanine loans The amount written off, including accrued interest charges, amounted to £20 2m

During the period, the group has breached the loan to value covenants on all of its senior debt facilities All relevant facilities have therefore been disclosed as immediately repayable

The group has entered into various interest rate swap agreements during the period At 30 June 2009, the group had interest rate swap agreements covering total bank debt of £122,536,000 The fair value of these swap agreements at 30 June 2009 was £6,201,000 (liability) which has not been recognised in the financial statements

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

In addition to the write-off of the mezzanine loans disclosed above, in June 2009 the equity partner also wrote-off its equity investment of £8,118,711 in the Modus Alpha Jersey Property Unit Trust ('the JPUT') As disclosed in note 5, these funds had in turn been invested in the partnership by the JPUT by way of a loan (disclosed as partner loans above) and during the period the JPUT wrote off the amount of £8,118,711 from its outstanding loan to the partnership

Bank and other loans are repayable as follows

	Group and Partnership	
	30 June 2009 £000	31 December 2007 £000
Within one year		
Bank loans	**142,440**	8,273
Between one and two years		
Bank loans	**–**	9,430
Between two and five years		
Bank loans	**–**	122,390
Partner loans	**8,423**	–
After more than five years		
Partner loans	**–**	16,041
	150,863	156,134

16 Provisions for liabilities

Group	**Deferred taxation £000**
At 1 January 2008	72
Charge for the period	35
At 30 June 2009	**107**

Deferred tax has been calculated at 28%, and the above liability relates entirely to accelerated capital allowances

17 Partners capital accounts

Group and Partnership	**30 June 2009 £000**	31 December 2007 £000
Limited partners	**2**	3
General partner	**–**	–
	2	3

18 Reserves

Group	Revaluation reserve £000	Partners' other reserves £000
At 1 January 2008 – as previously reported	(8,698)	(1,982)
Prior year adjustment (note 2)	–	(879)
At 1 January 2008 – as restated	(8,698)	(2,861)
Profit for the financial period	–	3,386
Dividends	–	(430)
Deficit on revaluation of fixed assets	(20,500)	–
Transfer	772	(772)
At 30 June 2009	**(28,426)**	**(677)**

Partnership	Revaluation reserve £000	Partners' other reserves £000
At 1 January 2008	(7,754)	(2,527)
Profit for the financial period	–	2,510
Dividends	–	(430)
Deficit on revaluation of fixed assets	(18,378)	–
At 30 June 2009	**(26,132)**	**(447)**

Profit attributable to the partnership

The partnership has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements The partnership's profit for the period was £2,510,000 (2007 loss £1,107,00)

19 Reconciliation of movement in total members' interests

Group	Period ended 30 June 2009 £000	Restated Year ended 31 December 2007 £000
Profit/(loss) for the financial period	**3,386**	(961)
Dividends	**(430)**	(321)
Deficit on revaluation of tangible fixed assets	**(20,500)**	(8,698)
Movement in partners' capital	**(1)**	1
Net movement in total members' interests	**(17,545)**	(9,979)
Opening members' interests	**(11,556)**	(1,577)
Closing members' interests	**(29,101)**	(11,556)

Reconciliation of movement in total members' interests (continued)

Partnership	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
Profit/(loss) for the financial period	2,510	(1,107)
Dividends	(430)	(321)
Deficit on revaluation of tangible fixed assets	(18,378)	(7,754)
Movement in partners' capital	(1)	1
Net movement in total members' interests	(16,299)	(9,181)
Opening members' interests	(10,278)	(1,097)
Closing members' interests	(26,577)	(10,278)

20 Reconciliation of operating profit to net cashflow from operating activities

	Period ended 30 June 2009 £000	Restated Year ended 31 December 2007 £000
Operating profit	10,254	7,286
Loss on disposal of fixed assets	290	–
Amortisation of goodwill	–	732
Increase in debtors	(9,947)	(558)
Increase in creditors	10,613	2,737
	11,210	10,197

21 Reconciliation of net cash flow to movement in net debt

	Period ended 30 June 2009 £000	Year ended 31 December 2007 £000
(Decrease)/increase in cash in the period	(1,317)	1,221
Movement on bank loans	(2,196)	(41,964)
Movement on partners' loans	(501)	(6,070)
Movement in net debt arising from cash flows	(4,014)	(46,813)
Other non-cash changes	7,968	–
Movement in net debt	3,954	(46,813)
Opening net debt	(153,539)	(106,726)
Closing net debt	(149,585)	(153,539)

22 Analysis of net debt

	At 1 January 2008 £000	Cash flow £000	Non-cash changes £000	At 30 June 2009 £000
Cash at bank and in hand	2,595	(1,317)	–	**1,278**
Bank debt	(140,093)	(2,196)	(151)	**(142,440)**
Partner loans	(16,041)	(501)	8,119	**(8,423)**
	(153,539)	(4,014)	7,968	**(149,585)**

The non-cash movements in respect of the bank debt relate to the release of deferred bank arrangement fees, and in respect of the partner loans relate to the write-off of part of the loan as disclosed in notes 5 and 15

23 Leasing commitments

The group and partnership had annual commitments under non-cancellable operating leases as follows

Group and Partnership	**30 June 2009 £000**	31 December 2007 £000
Land and buildings		
Leases which expire after more than five years	**219**	140

24 Capital commitments

Group and Partnership	**30 June 2009 £000**	31 December 2007 £000
Contracted, but not provided in the financial statements	**23,606**	23,606

The commitment disclosed above relates to an agreement entered into by the partnership to purchase an investment property In November 2009, the partnership entered into a Deed of Release which released the partnership from this commitment Other than the professional costs of acquisition incurred, the partnership has not suffered any financial loss as a result of severing this commitment

25 Contingent liability

At 31 December 2007, the partnership had a potential contingent liability in respect of one of the loans outstanding to its equity partners The terms of the loan provided for an exit fee payable to the partner equal to 25% of the profit in the event of the sale of a specific investment property No amounts had been provided in the financial statements in respect of this liability since it was not the intention of the partners to dispose of the relevant property, and hence the potential liability could not be quantified As disclosed in note 12, the partnership sold its investment in Modus Stoubridge Limited to the Modus Alpha Jersey Property Unit Trust ('the JPUT') during the period This potential contingent liability was transferred to the JPUT as a result. There were no material contingent liabilities at 30 June 2009

26 Related party transactions

There is no ultimate controlling party

Spectrum Investment Management Limited
Spectrum Investment Management Limited ('SIM') is a 50% shareholder in Modus Alpha General Partner Limited, the general partner of Modus Alpha Property Partners Limited Partnership ('the LP') In addition, D Lockhart and P Macfarlane, who are the controlling shareholders of SIM, are beneficiaries of the Modus Investors Syndicate Trust ('MIST'), a unit holder in the Modus Alpha Jersey Property Unit Trust ('the JPUT') which is the principal equity stakeholder in the LP They are also members of the Modus Alpha Founder Partner Limited Liability Partnership ('the FPLLP') which also has an equity stake in the LP

During the period, the following transactions took place with SIM

i Fees of £197,403 (2007 £460,014) were paid to SIM for the provision of various services, including the day to day management of the LP's property portfolio

Royal Bank of Scotland Plc
Royal Bank of Scotland Plc (RBS) is a 50% stakeholder in the LP, via its subsidiary undertaking KUC Properties Limited ('KUC') KUC is also a 50% stakeholder in the JPUT

During the period, the following transactions took place with RBS

i RBS provided mezzanine funding to the LP, the balance outstanding on which at 30 June 2009 amounted to £14,658,000 Interest charged on the mezzanine loans in the period amounted to £2,818,000, bringing the total amount of accrued interest to £4,944,000 which is disclosed within accruals

ii The LP has entered into interest rate swap agreements with RBS, which at 30 June 2009 covered £130,656,000 of the group's borrowings The interest paid to RBS during the period in respect of these swap agreements amounted to £842,390 (2007 received £824,820)

Modus Ventures Limited
Modus Ventures Limited ('MVL') is controlled by B Flood During the period the following transactions took place with MVL

i MVL leased premises from the LP during the period at an annual rental of £429,510 The amount of rental received during the period amounted to £456,757 (2007 £408,836)

ii On 29 May 2009, MVL entered into administration As a result, the LP has made a provision against a debtor for outstanding rental income of £107,143, and also written off the unamortised balance of £272,421 on the reverse lease premium paid to MVL in September 2007

Modus Alpha General Partner Limited
Modus Alpha General Partner Limited ('MAGP') acts as general partner of the LP During the period the following transactions took place with MAGP

i The LP paid a salary of £3,750 (2007 £2,500) to MAGP in respect of its role as general partner At 30 June 2009, the amounts owed by MAGP amounted to £7,907 (2007 £5,000)

Related party transactions (continued)

The Modus Alpha Jersey Property Unit Trust ('JPUT')

The JPUT is the primary stakeholder in the LP, and at 30 June 2009 had contributed capital of £812 (2007 £607) and loans of £8,117,899 (2007 £9,666,036) to the LP

During the period, the following transactions took place with the JPUT

i The JPUT's 'B' unit holders have an obligation to reimburse the LP for any arrangement fees levied by SIM The JPUT has agreed to collect these amounts from the 'B' unit holders and distribute them to the LP At 30 June 2009, the JPUT owed the LP £Nil (2007 £20,944) in respect of amounts due from the 'B' unit holders

ii As disclosed in notes 11 and 12, on 13 August 2008 the LP sold its 100% interest in Modus Stourbridge Limited to the JPUT for a consideration of £1 The LP made a loss of £180,416 on the disposal In its individual partnership accounts, the LP recorded a loss of £1,170,989 on the disposal

iii As part of the agreement for the sale of Modus Stourbridge Limited ("MSL') to the JPUT, the LP's inter-company loan with MSL was novated to the JPUT The amounts owed by the JPUT in respect of this loan at 30 June 2009 amounted to £8,493,650 (2007 £Nil) and is disclosed within debtors

27 Post balance sheet events

During the period, the investors in the LP and its related entities (together, 'the Alpha Fund') unanimously approved a restructuring of the Alpha Fund and an extension to the life of the Alpha Fund to 30 June 2014 This restructuring was performed following the decision by one of the equity partners to exit the Alpha Fund, and was completed on 7 October 2009 As disclosed in note 15, in June 2009 the equity partner wrote-off its equity investment in the JPUT, which in turn wrote-off the amount of £8 1m from its loan to the LP On completion of the restructuring in October 2009, the equity partner wrote off its mezzanine loans to the LP, which together with accrued interest amounted in total to £20 2m

In November 2009, as disclosed in note 24, the partnership entered into an agreement which released the partnership from the commitment to purchase an investment property for £23 6m Although the partnership effectively lost the deposit paid of £2 5m by entering into this agreement, this had been entirely funded by additional mezzanine loans, which as disclosed above were written off in October 2009 Hence, the partnership has not suffered any financial loss from severing this commitment other than the professional acquisition costs incurred