

KRF Holdings Limited

REPORT AND FINANCIAL STATEMENTS

31 July 2007

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COMPANIES HOUSE

Company Registration No 03840094 (England & Wales)

KRF Holdings Limited

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KRF Holdings Limited

DIRECTORS AND ADVISORS

DIRECTORS

Wilmington Trust SP Services (London) Limited

(appointed 6 March 2007)

M McDermott

M Filer (appointed 1 November 2006)

R Samson (appointed 1 November 2006)

REGISTERED OFFICE

Tower 42 (Level 11)

25 Old Broad Street

London

EC2N 1HQ

BANKERS

Citibank N A

Citibank House

336 Strand

London

WC2R 1HB

AUDITORS

Moore Stephens

6 Ridge House

Ridgehouse Drive

Festival Park

Stoke-on-Trent

Staffordshire

ST1 5TL

SECRETARY

Wilmington Trust SP Services (London) Limited

KRF Holdings Limited

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 July 2007

PRINCIPAL ACTIVITIES

The principal activity of the group and its subsidiaries is that of the collection of rental income from student accommodation located on the campus of the University of Keele. The principal activity of the company is that of a dormant holding company.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

On 1 November 2006 the company changed its name from Owengate Keele (Holdings) Limited to KRF Holdings Limited.

For the year 2007, the group achieved total income of £8,048,539 (2006 £7,779,113) and the result for the year was a loss of £11,988,002 (2006 £1,359,886 profit). The result in the year was significantly impacted by one-off charges relating to the refinancing of Keele Residential Funding plc.

No dividend was proposed or paid (2006 £nil).

During the year the directors reviewed the scope of the group's operations and its funding. It was decided that the scope of the property leased from the University of Keele be revised and that the term of the leases be extended. During July 2007, a refinancing of the subsidiary company Keele Residential Funding plc was completed as follows:

1. The holders of the Keele Residential Funding plc existing listed bond consented to an early repayment of the outstanding principal and accrued interest. The existing bond, which had a principal outstanding of £69,199,109, did not include terms for early repayment and as a result a premium of £7,049,706 was required to secure the early redemption. Including accrued interest the total cost of redemption was £78,327,101.
2. An agreement was entered into by Keele Residential Funding plc with the University of Keele for two further leases of student accommodation properties, the first, of additional land to enable new student accommodation to be constructed for the benefit of the group (the "Supplemental Lease") with a term expiring at the same time as the existing lease of student accommodation held by the company, and the second, with a term commencing on expiry of the Supplemental Lease and the existing lease and continuing to 31 July 2047, to include the land let by both leases.
3. A new 2.108 per cent Guaranteed Index Linked Secured Bond was launched by Keele Residential Funding plc, listed on the London Stock Exchange, for a term expiring in 2047 for an amount of £137,450,000 which reflected the additional future income available to the group from the revised lease arrangements noted above. For the lease term increase noted above, the group paid a premium to the University of Keele of £48,283,704 with a further deferred premium of £5,048,607 due in 2029.

The directors believe that the group's accommodation units will continue to attract student tenants at realistic rents throughout 2008.

The key business risks affecting the group come from:

- Under-occupation of the available accommodation units
- Failure to achieve anticipated rental from the lettable estate
- Legislation change (although this risk is deemed to be negligible)

The directors judge the performance of the business by reference to the overall rental achieved from its lettable estate. Finance costs are calculated by reference to the terms of the bonds which form the underlying funding of the business.

KRF Holdings Limited

DIRECTORS' REPORT

The group paid a bonus to the managing agents for 2007, reflecting their performance in managing the lettable estate

On 24 November 2006, the Keele Residential Funding plc acquired the entire share capital of KRF Management Limited (formerly Owengate Structured Finance Limited) The post acquisition results of the subsidiary are incorporated into the consolidated accounts

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The group's activities expose it to two key financial risks, cash flow risk and liquidity risk Exposure to price risk and credit risk is limited due to the nature of the market

Cash flow risk

The group's activities expose it to the financial risks of changes in interest rates, which can have an impact on its anticipated income from that source The directors manage this risk by prudent forecasting of rates and by careful selection of the investment vehicles for its cash reserves

Liquidity risk

The group's income is seasonal, in line with the academic year and its expense outlays do not necessarily correspond with the timing of its income The directors manage this risk by careful forecasting and transferring any anticipated cash requirements into liquid funds accounts twice a year

DIRECTORS

The following directors have held office during the year

Wilmington Trust SP Services (London) Limited (appointed 6 March 2007)

M McDermott

M Filer (appointed 1 November 2006)

R Samson (appointed 1 November 2006)

R Baker (resigned 1 November 2006)

J Fairrie (resigned 1 November 2006)

DIRECTORS' INTERESTS IN SHARES

Directors' interests in shares of the Parent, including family interests, were as follows

	<i>C Ordinary shares of £1 each</i>	
	31 July 2007	31 July 2006
Wilmington Trust SP Services (London) Limited	100	100
M McDermott	-	-
M Filer	-	-
R Samson	-	-

POLICY ON PAYMENT OF CREDITORS

It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the group and its suppliers, providing that all trading terms have been complied with

Trade creditor days based on creditors at 31 July 2007 were 3 (2006 0 days)

GOING CONCERN

The directors confirm that they are satisfied that the group has adequate resources to continue in business for the foreseeable future For this reason they have adopted the going concern basis in preparing these accounts

KRF Holdings Limited

DIRECTORS' REPORT

AUDIT INFORMATION

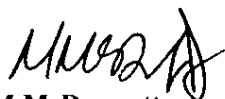
The directors have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. The directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITORS

Following the 2006 accounts, Keens Shay Keens, Milton Keynes, resigned as auditors of the company and the directors appointed Moore Stephens to fill the vacancy arising.

A resolution to reappoint Moore Stephens, Chartered Accountants, as auditors will be put to the members at the Annual General Meeting.

By order of the board



M McDermott

Director

Tower 42 (Level 11)

25 Old Broad Street

London

EC2N 1HQ

KRF Holdings Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the EU.


The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the company and the group, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the financial statements, the directors are required to

- a select suitable accounting policies and then apply them consistently,
- b make judgements and estimates that are reasonable and prudent,
- c state whether they have been prepared in accordance with IFRS adopted by the EU,
- d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


M McDermott
Director

KRF Holdings Limited

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KRF HOLDINGS LIMITED

We have audited the financial statements of KRF Holdings Limited for the year ended 31 July 2007 set out on pages 8 to 37. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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 financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union 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 and Article 4 of the IAS Regulation, and whether the information given in the Directors' Report is consistent with the financial statements. We also 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. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit work 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 preparation of the financial statements, and of whether the accounting policies are appropriate for the company's circumstances consistently applied and adequately disclosed.

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 a 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.

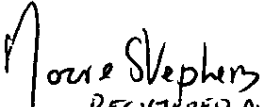
KRF Holdings Limited

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KRF HOLDINGS LIMITED

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with IFRS adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 July 2007 and of the group results and cashflows for the period then ended and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements


REGISTERED AUDITORS
Moore Stephens
Chartered Accountants
Stoke-on-Trent

20/02/08

KRF Holdings Limited
CONSOLIDATED INCOME STATEMENT
At 31 July 2007

	Note	2007 Group £	<i>(restated)</i> 2006 Group £
CONTINUING OPERATIONS			
REVENUE	4	8,048,539	7,779,113
Administrative expenses		(1,979,256)	(737,088)
(Loss)/gain on investment property revaluations		(5,000,000)	1,950,000
PROFIT FROM OPERATIONS	5	1,069,283	8,992,025
Finance costs	7	(17,169,649)	(7,497,717)
Finance income	8	179,001	291,574
PROFIT/ (LOSS) BEFORE TAX		(15,921,365)	1,785,882
Income tax credit/(expense)	9	3,933,363	(425,996)
PROFIT/ (LOSS) FOR THE YEAR		(11,988,002)	1,359,886
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		<u>(11,988,002)</u>	<u>1,359,886</u>

No separate Statement of Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Income Statement

KRF Holdings Limited
CONSOLIDATED BALANCE SHEET
At 31 July 2007

	Note	2007 Group £	<i>(restated)</i> 2006 Group £
ASSETS			
NON CURRENT ASSETS			
Investment property	11	226,850,000	128,050,000
Deferred tax asset	10	386,578	-
Financial Assets	14	2,596,000	-
TOTAL NON CURRENT ASSETS		229,832,578	128,050,000
CURRENT ASSETS			
Trade and other receivables <i>(2006 restated)</i>	15	16	202,214
Cash and cash equivalents	16	2,812,306	3,561,202
TOTAL CURRENT ASSETS		2,812,322	3,763,416
TOTAL ASSETS		232,644,900	131,813,416
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(442,827)	(153,698)
Obligation under finance lease	18	-	(1,241,930)
Financial liabilities	19	(1,347,804)	(191,629)
TOTAL CURRENT LIABILITIES		(1,790,631)	(1,587,257)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(111,054,411)	(57,083,071)
Financial liabilities	19	(126,476,033)	(64,073,841)
Deferred tax liability	10	-	(3,757,420)
TOTAL NON CURRENT LIABILITIES		(237,530,444)	(124,914,332)
TOTAL LIABILITIES		(239,321,075)	(126,501,589)
NET(LIABILITIES)/ASSETS		(6,676,175)	5,311,827
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		(6,726,175)	5,261,827
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		(6,676,175)	5,311,827
TOTAL EQUITY		(6,676,175)	5,311,827

KRF Holdings Limited

COMPANY BALANCE SHEET

At 31 July 2007

	Note	<u>2007</u> Company £	<u>2006</u> Company £
ASSETS			
NON CURRENT ASSETS			
Investments	13	50,000	50,000
<i>TOTAL NON CURRENT ASSETS</i>		50,000	50,000
<i>NET ASSETS</i>		<u>50,000</u>	<u>50,000</u>
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		-	-
<i>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</i>		50,000	50,000
TOTAL EQUITY		<u>50,000</u>	<u>50,000</u>

The financial information on pages 8 to 37 was approved by the board of directors and authorised for issue on 18 MARCH, 2008 and was signed on its behalf by



M McDermott
Director

KRF Holdings Limited
CONSOLIDATED CASHFLOW STATEMENT
At 31 July 2007

	Note	2007 Group £	2006 Group £
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the period		(11,988,002)	1,359,886
<i>Adjustments for</i>			
Finance costs		17,169,649	7,317,684
Finance income		(179,001)	(291,574)
Loss/(gain) on investment property revaluations		5,000,000	(1,950,000)
Goodwill impairment		591,832	-
Income tax (credit)/expense		(3,933,363)	425,996
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		6,661,115	6,861,992
Decrease in trade and other receivables		197,624	62,036
Increase/(decrease) in trade and other payables		137,621	(2,418,298)
CASH GENERATED BY OPERATIONS		6,996,360	4,505,730
Income tax paid		(210,000)	-
NET CASH FLOW FROM OPERATING ACTIVITIES		6,786,360	4,505,730
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		178,985	291,574
Purchase of subsidiary	22	(587,500)	-
Cash acquired on acquisition		256	-
Held for maturity investment		(2,596,000)	-
NET CASH FLOW FROM INVESTING ACTIVITIES		(3,004,259)	291,574
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash receipts from new bonds issue		137,450,000	-
Cost of redeeming old bonds		(74,410,026)	-
Premium paid to University of Keele		(48,283,704)	-
Payment for lease and new bonds		(3,291,471)	(358,650)
Finance costs		(6,324,578)	(7,285,050)
Old bonds payments		(45,055)	-
Capitalised bond costs		(9,626,163)	-
NET CASH FLOW FROM FINANCING ACTIVITIES		(4,530,997)	(7,643,700)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(748,896)	(2,846,396)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,561,202	6,407,598
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	2,812,306	3,561,202

KRF Holdings Limited

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 July 2007

GROUP	Note	Share capital	(restated) Retained earnings	Total
		£	£	£
Balance as at 31 July 2005 as previously reported		50,000	4,815,694	4,865,694
Correction of error on deferred tax	28	-	391,609	391,609
Correction of error on prepayments	28	-	(1,305,362)	(1,305,362)
Balance as at 31 July 2005 as restated		50,000	3,901,941	3,951,941
Total recognised income and expense – profit for the year (restated)	28	-	1,359,886	1,359,886
Profit as at 31 July 2006 as restated		50,000	5,261,827	5,311,827
Total recognised income and expense – loss for the year		-	(11,988,002)	(11,988,002)
At 31 July 2007		50,000	(6,726,175)	(6,676,175)

COMPANY	Share Capital	Retained earnings	Total
	£	£	£
Balance as at 31 July 2005	50,000	-	50,000
Total recognised income and expense – Profit/(loss) for the year	-	-	-
Profit as at 31 July 2006	50,000	-	50,000
Total recognised income and expense – Profit/(loss) for the year	-	-	-
At 31 July 2007	50,000	-	50,000

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

1 GENERAL INFORMATION

KRF Holdings Limited and its subsidiaries are incorporated and operate in the United Kingdom. The company is a private company limited by shares.

The accounting policies applied in the preparation of the financial information are set out below and are consistent with the accounting policies used in the group's financial statements for the year ended 31 July 2006.

The financial statements for the year ended 31 July 2006 were audited by the company's auditors at the time, Keens Shay Keens, Milton Keynes, who reported their opinion without qualification to the company's shareholders on 6 June 2007 and those audited financial statements have been filed at Companies House. The company subsequently accepted the resignation of Keens Shay Keens, Milton Keynes and has appointed Moore Stephens as the group's auditors. Keens Shay Keens, Milton Keynes, did not ask for any matters to be brought to the attention of the company's shareholders or creditors in connection with their resignation.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 STATEMENT OF COMPLIANCE

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU with the exception of the following adopted IFRSs which were available but have not been applied by the group in these financial statements:

- IAS 1 (Amendment) 'Presentation of financial statements' – effective for annual periods beginning on or after 1 January 2007
- IFRS 8 'Operating segments' – effective for annual periods beginning on or after 1 January 2009
- IFRIC 10 'Interim financial reporting and impairment' – effective for annual periods beginning on or after 1 November 2006
- IFRIC 11 'IFRS 2 – Group and treasury share transactions' – effective for annual periods beginning on or after 1 March 2007
- IFRIC 12 'Service concession arrangements' – effective for annual periods beginning on or after 1 January 2008
- IFRIC 14 'IAS19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008)

The group does not anticipate that the adoption of these standards and interpretations will have a material effect on its financial statements on initial adoption.

The amendments brought in by IFRS 7 have been adopted early by the group.

2.2. BASIS OF PREPARATION

The financial statements are prepared on the historical cost basis except that investment properties are carried at their fair value.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

2.3. GOING CONCERN

The directors have reviewed the group's current and projected cashflows by reference to a financial model covering accounting periods up to 31 July 2047

In particular the directors have considered the reasonableness of the key assumptions contained therein particularly in relation to demand and forecast rental growth and believe that these are reasonable for the following reasons

- Demand for rooms is greater than the number of existing rooms given that the majority of the second year of students cannot be accommodated on campus,
- Rents at the University of Keele are not considered to be above the level of rents at comparable universities,
- Refurbishment works to improve the standard of accommodation will allow future rental growth,
- Assumptions concerning inflation are reasonable and have been consistently applied in the financial model,
- The ground rent paid to the University is subordinated to bond repayments and no event of default is created in the event of non-payment to the University of rent outstanding in any period

As a result of the factors noted above the directors believe that the group will be able to settle its liabilities as they fall due, and accordingly the financial information has been prepared on a going concern basis

2.4. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation

2.5. BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

2.6. GOODWILL

Goodwill arising on the acquisition of a subsidiary entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.7 REVENUE RECOGNITION

RENTAL INCOME

Revenue is measured at the fair value of the consideration received or receivable and represents rent and fees receivable in respect of the group's principal activity, net of discounts, VAT and other sales related taxes. Rental income is recognised on a straight-line basis over the term of the relevant lease. Fee income represents licence fees for use of residences out of term time and car parking licence fees. Fee income is recognised on a straight line basis over an academic year.

FINANCE INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

2.8 FINANCE COSTS

Net financing costs comprise interest payable and other borrowing costs.

Borrowing costs are recognised in the income statement in the period in which they are incurred.

Interest payable is recognised in the income statement as it accrues, using the effective interest method.

2.9 INVESTMENT PROPERTY

Investment property, which is property held to earn rentals, is carried at its fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment property are included in net profit or loss for the period in which they arise.

Gains or losses arising from the retirement or disposal of investment property being the difference between the net disposal proceeds and carrying value are included in profit or loss for the period of the retirement/disposal except those that relate to sale and leaseback arrangements.

2.10. LEASED ASSETS

Finance leases

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Income Statement.

2.11. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

The carrying amounts of the group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For assets that have an indefinite useful life that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.12. CURRENT TAXATION

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

deductible The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

2.13. DEFERRED TAXATION

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

2.14. FINANCIAL ASSETS

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

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For the year ended 31 July 2007

2.14.1. Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

2.14.2. Held-to-maturity investments

Guaranteed investment contracts with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

2.14.3. Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2.14.4. Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2.15 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

2.15.1. Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.15.2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

2.15.3. Financial liabilities

Financial liabilities are classified as 'other financial liabilities'.

2.15.4. Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

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For the year ended 31 July 2007

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated net future cash flows through the expected life of the financial liability, or, where appropriate, a shorter period.

2.15.5. Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Some asset and liability amounts reported in the accounts are based on management estimates and assumptions. There is therefore a risk of significant changes to the carrying amounts for these assets and liabilities within the next financial year.

3.1 Impairment of goodwill and property

The group has investment properties of £226,850,000 (2006: £128,050,000) and gross trade receivables of £271,378 (2006: £310,448). These receivables have been fully impaired as at 31st July 2007 as it was agreed that they become an asset of Keele University under the terms of the new bond issue in July 2007 – see note 15.

This judgement is based on current conditions and in future years may change resulting in material impairment provisions against these assets being required or impairment provisions being reversed.

3.2 Classification of leases

The group utilises assets subject to finance leases. The classification of these leases is based on a number of factors, such as risk and rewards, length of use and the fair value of minimum lease payments. Lease classification is made at the inception of the lease.

3.3. Valuation of investment property

The group obtains annual valuations for its investment properties. These valuations are performed at a point in time and take into account facts and circumstances that are relevant and identified at that date. In future years conditions may change resulting in material uplifts in value or impairments to value being required.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

4. REVENUE

An analysis of the group's revenue is as follows:

	2007 Group £	2006 Group £
<i>Continuing operations</i>		
Rental income from student accommodation	7,216,459	6,975,578
Fee income from use of residences out of term time	832,080	803,535
	<u>8,048,539</u>	<u>7,779,113</u>

5 PROFIT FROM OPERATIONS

Group profit for the year has been arrived at after charging

	2007 £	2006 £
Loss/ (Gain) on investment property revaluations (note 11)	5,000,000	(1,950,000)
Impairment of goodwill (note 12)	591,832	-
<i>Auditors' remuneration</i>		
Audit services		
- Statutory audit group	19,000	8,700
	<u>19,000</u>	<u>8,700</u>

During the year no benefit in kind was paid to the Auditors of the group

6 STAFF COSTS

Group & Company

The average number of persons employed (including directors) during the year, analysed by category, was as follows

	2007	2006
Head office and administration	<u>3</u>	<u>3</u>

None of the directors received any remuneration during the year (2006 £nil)

KEY MANAGEMENT AND DIRECTORS' REMUNERATION

The key management of the group and company comprises the directors only. Their remuneration is paid by Wilmington Trust SP Services (London) Limited.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

7. FINANCE COSTS

Group	2007 £	2006 £
Interest on secured bond	4,541,621	4,626,950
Interest on finance leases	504,585	2,690,734
Premium paid to redeem old bond	7,049,706	-
Other bank interest and charges	95,042	-
Write-off of capitalised old bond costs	4,978,695	180,033
	<u>17,169,649</u>	<u>7,497,717</u>

8. FINANCE INCOME

Group	2007 £	2006 £
Interest on cash balances	<u>179,001</u>	<u>291,574</u>

9 INCOME TAX EXPENSE

Group	2007 £	(restated) 2006 £
<i>Recognised in the income statement</i>		
Current tax		
Current year	(635)	-
Tax on supplemental lease of £5 25m @ 4%	<u>(210,000)</u>	<u>-</u>
Total current tax	(210,635)	-
Deferred tax		
Origination and reversal of temporary differences	3,883,936	(425,996)
Effect of tax rate change on opening balance	260,062	-
Total deferred tax	4,143,998	(425,996)
Total tax credit/(expense) in income statement	<u>3,933,363</u>	<u>(425,996)</u>

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Reconciliation of effective tax rate

	2007 £	(restated) 2006 £
Group (loss)/profit before tax	<u>(15,921,365)</u>	<u>1,785,882</u>
Tax using the UK corporation tax rate of 30%	4,776,410	(535,765)
EFFECT OF:		
Expenses not deductible for tax purposes	(317,620)	(565,378)
Other fixed asset differences, adjustment & movements	(512,112)	585,000
Tax on supplemental lease at 4%	(210,000)	-
Rate adjustments to 28%	(27,613)	-
Tax adjustments & other timing differences	<u>224,298</u>	<u>90,147</u>
Total current tax charge and effective rate of tax	<u>3,933,363</u>	<u>(425,996)</u>

10 DEFERRED TAX ASSETS AND (LIABILITIES)

Group

Recognised deferred tax assets and (liabilities)

	2007 £	(restated) 2006 £
<i>Analysis for financial reporting purposes</i>		
Deferred tax assets	6,579,744	4,704,231
Deferred tax liabilities	(6,193,166)	(8,461,651)
Net position at the year end	<u>386,578</u>	<u>(3,757,420)</u>

The movement in the year in the group's deferred tax position was as follows

	Assets		Liabilities		Net	
	2007	2006 (restated)	2007	2006 (restated)	2007	2006 (restated)
	£	£	£	£	£	£
Assets/(liability) at beginning of the year	4,704,231	4,599,217	(8,461,651)	(7,930,660)	(3,757,420)	(3,331,424)
Charge to income statement for the year	1,875,513	105,014	2,268,485	(530,991)	4,143,998	(425,996)
Assets/(liability) at end of the year	<u>6,579,744</u>	<u>4,704,231</u>	<u>(6,193,166)</u>	<u>(8,461,651)</u>	<u>386,578</u>	<u>(3,757,420)</u>

KRF Holdings Limited
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Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2007	2007	2007	2007	2007	2007
	£	£	£	£	£	£
Tax losses	23,499,085	6,579,744	-	-	23,499,085	6,579,744
Revaluations	-	-	(22,118,449)	(6,193,166)	(22,118,449)	(6,193,166)
Net tax assets/(liabilities)	23,499,085	6,579,744	(22,118,449)	(6,193,166)	1,380,636	386,578

	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2006	2006	2006	2006	2006	2006
	(restated)	(restated)	(restated)	(restated)	(restated)	(restated)
	£	£	£	£	£	£
Tax losses	15,680,770	4,704,231	-	-	15,680,770	4,704,231
Other timing differences	-	-	(6,440,563)	(1,932,169)	(6,440,563)	(1,932,169)
Revaluations	-	-	(21,764,940)	(6,529,482)	(21,764,940)	(6,529,482)
Net tax assets/(liabilities)	15,680,770	4,704,231	(28,205,503)	(8,461,651)	(12,524,733)	(3,757,420)

Deferred tax assets relating to tax losses have been recognised in full, as the directors believe the losses will be utilised in future periods

11. INVESTMENT PROPERTY

Group	2007 Buildings £	2006 Buildings £
<i>Fair value</i>		
At beginning of year	128,050,000	126,100,000
(Decrease)/increase in fair value in the year	(5,000,000)	1,950,000
Additional investment in lease arrangement	103,800,000	
At end of year	226,850,000	128,050,000

The fair value of the group's investment property at 31 July 2007 has been arrived at on the basis of a valuation carried out by the directors and professional valuers, Atisreal UK, at that date and following the revised lease arrangements noted on page 2. The valuation is based on the gross value of the leasehold interest, which comprises a valuation of the rights under the lease, but ignoring the obligation to pay rent.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

The group has pledged all of its investment property to secure general banking facilities granted

The property rental income is earned by the group from its investment property, all of which is leased under finance leases

The group enters into an annual contract for the maintenance of its investment property with the University of Keele

12. GOODWILL

Group	2007	2006
Cost	£	£
Balance at beginning of the year	-	-
Additional amounts recognised from business combination occurring during the year	591,832	-
Balance at the end of the year	<u>591,832</u>	<u>-</u>
Accumulated impairment losses		
Balance at beginning of the year	-	-
Additional amounts recognised from business combination occurring during the year	(591,832)	-
Balance at the end of the year	<u>(591,832)</u>	<u>-</u>
Carrying amount		
At the beginning of the year	<u>-</u>	<u>-</u>
At the end of the year	<u>-</u>	<u>-</u>

Test of impairment.

During the financial year, the group assessed the recoverable amount of goodwill, and determined that goodwill acquired on business combinations during the year was impaired in full

13. INVESTMENT IN SUBSIDIARY

COMPANY	2007	2006
	Shares in subsidiaries	Shares in subsidiaries
	£	£
<i>Cost and net book value</i>		
At beginning and end of year	<u>50,000</u>	<u>50,000</u>

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Details of the company's subsidiaries at 31 July 2007 are as follows

Name of the company	Principal activity	Place of incorporation	Proportion of shares acquired	Proportion of voting rights	Cost of acquisition £
Keele Residential Funding plc	Rental of student accommodation	England & Wales	100%	100%	50,000
KRF Management Limited (Formerly Owengate Structured Finance Limited)	Management Services	England & Wales	100%	100%	587,500

KRF Management Limited was acquired by the subsidiary company Keele Residential Funding plc on 24th November 2006. The investment in the subsidiary has been impaired by £587,498 in the balance sheet of Keele Residential Funding plc at 31 July 2007 and has been charged to administrative expenses within the income statement.

14. OTHER FINANCIAL ASSETS

Group	2007 £	2006 £
Long term cash investment	<u>2,596,000</u>	<u>-</u>

Under the terms of the new lease arrangements with the University of Keele, a portion of the premium due under the leases is deferred to be paid in 2029. The long term cash investment is a guaranteed investment contract which will return the required amount at the due date.

15. TRADE AND OTHER RECEIVABLES

Group	2007 £	Restated 2006 £
<i>Amounts falling due within one year</i>		
Trade receivables	271,378	310,448
Less provision for impairment of receivables	(271,378)	(123,404)
	<u>-</u>	<u>187,044</u>
Prepayments and accrued income	16	15,170
	<u>16</u>	<u>202,214</u>

Under the new lease financing arrangements entered into in July 2007, all outstanding student debt at that date relating to the company was agreed to be an asset of Keele University as such debt prior to the date of the agreement was not required by the company for its funding going forward. This is not a change in accounting policy and future financial statements will record student debt as it arises.

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16 CASH AND CASH EQUIVALENTS

Group	2007 £	2006 £
Cash at bank and in hand	2,812,306	3,561,202

17. TRADE AND OTHER PAYABLES

Group	2007 £	2006 £
Bank overdraft	-	490
Corporation tax payable	635	-
Accruals and deferred income	442,192	153,208
	442,827	153,698

18. OBLIGATIONS UNDER FINANCE LEASE

18.1. LEASING ARRANGEMENTS

The finance lease relates to the acquisition of a leasehold interest in the investment property as shown in note 11. Lease payments are increased year on year by RPI. There are no financial restrictions imposed by the lease agreement.

18.2. FINANCE LEASE LIABILITIES

Group	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2007	2006	2007	2006
	£	£	£	£
The borrowings are repayable as follows				
No later than 1 year	3,373,758	3,291,471	-	1,241,930
Later than 1 year and not later than 5 years	14,359,821	13,322,852	-	2,524,972
Later than 5 years	219,999,232	86,170,437	111,054,411	54,558,099
	237,732,811	102,784,760	111,054,411	58,325,001
Less future financing charges	(126,678,400)	(44,459,759)	-	-
Present value of minimum lease payments	111,054,411	58,325,001	111,054,411	58,325,001

Included in the financial statements as:

Current borrowings	-	1,241,930
Non-current borrowings	111,054,411	57,083,071
	111,054,411	58,325,001

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18.3 FAIR VALUE

The fair value of the finance lease liabilities is approximately equal to their carrying amount

19. FINANCIAL LIABILITIES

This note provides information about the contractual terms of the company and interest bearing loans and borrowings. For more information about the company's exposure to interest rate and foreign currency risk see note 20

	<i>Current</i>		<i>Non-Current</i>	
	2007	2006	2007	2006
	£	£	£	£
Guaranteed secured bond (19.1)	1,261,641	191,629	124,423,404	64,073,841
Financial Guarantee fee payable to FSA (19.2)	86,163	-	2,052,629	-
	<u>1,347,804</u>	<u>191,629</u>	<u>126,476,033</u>	<u>64,073,841</u>

19.1. GUARANTEED INDEX LINKED SECURED BOND

During July 2007 the subsidiary company Keele Residential Funding plc recalled the previous fixed rate bonds and issued new 2 108% guaranteed index linked secured bonds. Interest and principle payments will be made half yearly, thereby limiting the company's exposure to interest rate risk. The principal is repayable by instalments, which commence in January 2008, in accordance with the issue documents, the final amounts to be repaid in 2047. The interest and capital repayments have been spread over the repayment period. At 31 July 2007 the principal outstanding on the new bonds, on a cash-paid basis, was £137,450,000 (2006 £64,265,470)

The above liability is secured by a charge created between Keele Residential Funding plc and Citibank, N A, as trustee for the beneficiaries, in order to secure all obligations which the Parent company may at any time have to the security trustee, on its own account or as trustee to the beneficiaries, or any other beneficiaries, including obligations under the terms of the debenture loan detailed above.

A second charge was also created between Keele Residential Funding plc, Citibank, N A and Financial Security Assurance (UK) Limited (FSA), the amount secured being all obligations which Keele Residential Funding plc may at any time have to Citibank (whether on its own account or as trustee for the beneficiaries) or any other beneficiaries under or pursuant to finance documents including those relating to the issue of the above bonds, which shall include without limitation any obligations of the company to FSA which may from time to time arise by way of subrogation.

19.2 FINANCIAL GUARANTEE FEE PAYABLE TO FSA

A financial guarantee fee is payable to FSA with regards to the new issued 2 108% guaranteed index linked secured bonds. Payments will be made half yearly. The amount is repayable by instalments, which commence in August 2007 and the final amounts to be repaid in 2047. The above amount has been stated at fair value arrived by discounting the future agreed payment using the relevant interest rates applicable at 31 July 2007.

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NOTES TO THE FINANCIAL STATEMENTS
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20. FINANCIAL INSTRUMENTS

20.1. CAPITAL RISK MANAGEMENT

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance

20.2 SIGNIFICANT ACCOUNTING POLICIES

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements

20.3. CATEGORIES OF FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

Group	2007 £	2007 £	Total
	Loans and receivables	Held for maturity investments	
Cash at bank and in hand	2,812,306	-	2,812,306
Trade and other receivables	16	-	16
Financial investment	-	2,596,000	2,596,000
	2,812,322	2,596,000	5,408,322

Group	2006 £	2006 £	Total
	Loans and receivables	Held for maturity investments	
Cash at bank and in hand	3,561,202	-	3,561,202
Trade and other receivables	202,214	-	202,214
Financial investment	-	-	-
	3,763,416	-	3,763,416

FINANCIAL LIABILITIES

Group	2007 £	2007 £	Total
	Loans and other payables	Financial liabilities held at amortised cost	
Trade and other payables	(442,827)	-	(442,827)
Guaranteed index linked secured bond	-	(125,685,045)	(125,685,045)
Obligation under finance lease	-	(111,054,411)	(111,054,411)
Financial Guarantee fee payable to FSA	-	(2,138,792)	(2,138,792)
	(442,827)	(238,878,248)	(239,321,075)

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For the year ended 31 July 2007

Group	2006 £	
	Loans and other payables	Financial liabilities held at amortised cost
Trade and other payables	(153,698)	(153,698)
Guaranteed index linked secured bond	-	(64,265,470)
Obligation under finance lease	-	(58,325,001)
	(153,698)	(122,590,471)
		(122,744,169)

20.4. FINANCIAL RISK MANAGEMENT

The group's debt financing exposes it to a variety of financial risks that include the effects of changes in debt market prices, credit risks, liquidity and interest rates. The group has in place risk management policies that seek to limit the adverse effects on the financial performance of the group by using various instruments and techniques. The directors do not believe that the group is subject to significant finance risk or market risk.

Risk management policies have been set by the Board and applied by the group.

20.4.1 Foreign exchange risk

The group does not enter into transactions or hold balances in foreign currencies and is therefore not exposed to foreign exchange risk.

20.4.2 Interest rate risk

The group operates an interest rate policy designed to minimise interest costs and reduce volatility in reported earnings. This policy is achieved by maintaining a target range of fixed and floating rate debt for discrete annual periods, over a defined time horizon.

As at 31 July 2007 £5,408,306, (2006 £3,561,202) was on deposit with various banks. A 1% change in interest rates would have a £54,083 (2006 £35,612) impact on profit before tax. The 2.108% guaranteed secured bond is index linked, however the risk of adverse movements in RPI affecting bond coupon payments is offset by the Parent company's rental income also being index linked.

20.4.3 Credit risk

The group's financial assets are bank balances and cash, trade and other receivables, which represent the group's maximum exposure to credit risk in relation to financial assets.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the present value of estimated future cash flows. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

There are no impairment losses recognised on other financial assets.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

20.4.4 *Liquidity risk*

The group actively maintains facilities that are designed to ensure that the group has sufficient funds for operations and planned expansions. The maturity analysis of financial liabilities is given in note 18 and note 19.

20.5 UNDRAWN COMMITTED BORROWING FACILITIES

At the year-end the group had no undrawn committed borrowing facilities (2006 Nil)

20.6. INTEREST RATE EXPOSURE

The interest rate exposure of the group is as follows

Group	Fixed rate	2007 Floating rate	Total
	£	£	£
Borrowings	238,878,248	-	238,878,248
Cash and cash equivalents	-	2,812,306	2,812,306
Long term cash deposits	2,596,000	-	2,596,000
	241,474,248	2,812,306	244,286,554

Group	Fixed rate	2006 Floating rate	Total
	£	£	£
Borrowings	(122,590,471)	-	(122,590,471)
Cash and cash equivalents	-	3,561,202	3,561,202
	(122,590,471)	3,561,202	(119,029,269)

20.7. FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENTS

The comparison of book and fair values of all the group's financial assets and liabilities at the year end is set out below

Group	2007		2006	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	2,812,306	2,812,306	3,561,202	3,561,202
Long Term Cash Deposits	2,596,000	2,596,000	-	-
Trade and other receivables	16	16	202,214	202,214
Trade and other payables	(442,827)	(442,828)	(153,698)	(153,698)
Short term borrowings	(1,347,804)	(1,347,804)	(1,433,559)	(1,433,559)
Long term borrowings	(237,530,444)	(237,530,444)	(121,156,912)	(121,156,912)
	(233,912,753)	(233,912,753)	(118,980,753)	(118,980,753)

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The following methods and assumptions were used in estimating fair values for financial instruments

Short-term borrowings, cash and deposits approximate to book value due to their short maturities. For bank and other loans, carrying fixed rates of interest, included within long term borrowings, the repayments which the company is committed to make have been discounted at the relevant interest rates applicable at 31 July 2007

21 SHARE CAPITAL

Company	Authorised				Total
	A	B1	B2	C	
	Ordinary shares of £1 each £	Ordinary shares of £1 each £	Ordinary shares of £1 each £	Ordinary shares of £1 each £	£
At beginning and end of year	49,850	25	25	100	50,000
	Allotted, called up and fully paid				Total
	A	B1	B2	C	
	Ordinary shares of £1 each £	Ordinary shares of £1 each £	Ordinary shares of £1 each £	Ordinary shares of £1 each £	£
At beginning and end of year	49,850	25	25	100	50,000

With the exception of the rights listed below, the four classes of authorised share capital rank pari passu to each other in all respects

Income

Any income that is distributed by the company will be allocated between the classes of shares on the basis of a non cumulative dividend in the following percentages 9.5%, 40%, 50.5% to A, B and C Ordinary shareholders respectively with B1 Ordinary and B2 Ordinary shares taken as one class for this purpose

On winding up

The assets and retained profits of the company available for distribution among the members following the payment of any arrears of dividends and amounts credited as paid up on the relevant shares will be allocated on the basis of the percentages detailed above

Votes

A Ordinary shares, B1 Ordinary shares and B2 Ordinary shares are classed as non-voting shares and the holders of these classes of shares do not have any entitlement to vote on any matters

Appointment of directors

Holders of A Ordinary shares, B1 Ordinary shares and B2 Ordinary shares do not have the right to appoint directors of the company at any time

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

22 GROUP ACQUISITIONS

22.1 SUBSIDIARY ACQUIRED

	Principal activity	Date of acquisition	Proportion of shares acquired	Cost of acquisition £
2007				
KRF Management Limited (Formerly Owengate Structured Finance Limited) - acquired by Keele Residential Funding plc	Management Services	24/11/06	100%	587,500
2006				
<i>None</i>	-	-	-	-

22.2. ANALYSIS OF NET ASSETS ACQUIRED AND GOODWILL

	KRF Management Limited	
Assets & Liabilities acquired	Vendor's Book Value	Fair Value to the company
Sundry Debtors	2	2
Cash	256	256
Other Creditors	(4,590)	(4,590)
Net assets acquired	<u>(4,332)</u>	<u>(4,332)</u>
<i>Net cash flow on acquisition:</i>		
Cash Consideration paid		(587,500)
Goodwill arising on acquisition		<u>(591,832)</u>

22.3. FAIR VALUES DETERMINED ON A PROVISIONAL BASIS

The fair values of the assets and liabilities are approximately equal to their carrying amount

22.4. COST OF ACQUISITION

The cost of acquisition of KRF Management Limited was paid in cash

22.5. GOODWILL ARISING ON ACQUISITION

Goodwill arose in the business combination because the cost of the combination included a control premium paid to KRF Management Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development of KRF Management Limited. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

22.6. IMPACT OF THE ACQUISITION ON THE RESULTS OF THE GROUP

Included in the loss for the year is £18,238 attributable to the additional cost suffered by KRF Management Limited, and £591,832 attributable to the goodwill written off on the acquisition of KRF Management Limited

23 CAPITAL COMMITMENTS

There were no capital commitments at the beginning or end of the financial year

24. RELATED PARTY TRANSACTIONS

During the year £28,504 (2006 £20,308) was charged by Wilmington Trust SP Services (London) Limited for corporate services. Wilmington Trust SP Services (London) Limited is a director of KRF Holdings Limited and Mr M McDermott and Mr M Filer are directors of Wilmington Trust SP Services (London) Limited

During the period the company paid Paul Bruton, a former shareholder of KRF Holdings Limited (the company's immediate Parent undertaking), £1,916,580 in respect of the acquisition of his shares in KRF Management Ltd, for services related to the new lease arrangements outlined in note 19 and for the acquisition of the rights to his management services contract with KRF Management Limited

During the period, the group paid Douglas Pinnock, a former shareholder of KRF Holdings Limited, £1,004,028 in respect of the acquisition of his shares in KRF Management Limited and for services in relation to the company's refinancing during 2007

All transactions were made on an arms length basis and at open market value

25. POST BALANCE SHEET EVENTS

There are no reportable post-balance sheet events

26. CONTINGENT LIABILITIES

There are no contingent liabilities to report

27 ULTIMATE CONTROLLING PARTY

The ultimate controlling party is the Millslade Charitable Trust. The 'B' and 'C' Ordinary share capital of the parent company, KRF Holdings Limited is held by Wilmington Trust SP Services (London) Limited, on trust for the benefit of the Millslade Charitable Trust, and these shares have specific rights attached which would define the trust as having ultimate control

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

28. PRIOR YEAR ADJUSTMENT

An error has been discovered in the treatment of lease payments in the accounts of subsidiary company Keele Residential Funding plc for the year ended 31 July 2006 and before

In accordance with IAS17 "Leases", the directors have treated the lease as a finance lease, which has been measured at amortised cost using the effective interest method. Consequently payments made in accordance with the lease contract should be treated as payments against the lease liability.

In 2006, an element of these lease payments had been treated as prepaid in error resulting in the creation of an asset of £1,337,996 on the balance sheet.

It was found that the error originated from before the comparative period. The financial statements for the year ended 31 July 2005 recognise a prepayment of £1,305,362. Thus the impact on the results for 2006 was only £32,634 through 'finance cost'.

The cumulative error at 31 July 2005 of £1,305,362 has been offset against the retained reserves at 1 August 2005 as detailed below.

Consequently this error impacts on the recognised deferred tax balance in 2006 and before. The prepayment attributed to periods before 2006 amounts to £1,305,362, whilst the resultant deferred tax adjustment is calculated as £391,609. This amount has been added to retained earnings at 1 August 2005. In the year ended 31 July 2006 profit has been reduced by £248,085 to reflect the tax effect of various other timing differences not recognised in that year.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

PRIOR YEAR ADJUSTMENT (Continued)

	As previously reported Company	Adjustment for Rent prepayment	Deferred tax adjustment	Restated as at 1st August 2005 Company
IFRS Balance Sheet as at 1st August 2005	£	£	£	£
ASSETS				
NON CURRENT ASSETS				
Investment property	126,100,000	-	-	126,100,000
TOTAL NON CURRENT ASSETS	126,100,000	-	-	126,100,000
CURRENT ASSETS				
Trade and other receivables	1,602,246	(1,305,362)	-	296,884
Cash and cash equivalents	6,407,598	-	-	6,407,598
TOTAL CURRENT ASSETS	8,009,844	(1,305,362)	-	6,704,482
TOTAL ASSETS	134,109,844	(1,305,362)	-	132,804,482
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	(2,571,996)	-	-	(2,571,996)
Financial liabilities	(538,683)	-	-	(538,683)
TOTAL CURRENT LIABILITIES	(3,110,679)	-	-	(3,110,679)
NON CURRENT LIABILITIES				
Financial liabilities	(122,410,438)	-	-	(122,410,438)
Deferred tax liability	(3,723,033)	-	391,609	(3,331,424)
TOTAL NON CURRENT LIABILITIES	(126,133,471)	-	391,609	(125,741,862)
TOTAL LIABILITIES	(129,244,150)	-	391,609	(128,852,541)
NET ASSETS	4,865,694	(1,305,362)	391,609	3,951,941
EQUITY				
Share capital	50,000	-	-	50,000
Retained earnings	4,815,694	(1,305,362)	391,609	3,901,941
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS	4,865,694	(1,305,362)	391,609	3,951,941
TOTAL EQUITY	4,865,694	(1,305,362)	391,609	3,951,941

KRF Holdings Limited

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For the year ended 31 July 2007

PRIOR YEAR ADJUSTMENT (Continued)

	As previously stated company	Adjustment for Rent payment	Deferred tax adjustment	2006 company
IFRS Income Statement as at 31 st July 2006	£	£	£	£
CONTINUING OPERATIONS				
REVENUE	7,779,113	-	-	7,779,113
Administrative expenses	(737,088)	-	-	(737,088)
Gain/(Loss) on investment property revaluations	1,950,000	-	-	1,950,000
<i>PROFIT FROM OPERATIONS</i>	8,992,025	-	-	8,992,025
Finance costs	(7,465,083)	(32,634)	-	(7,497,717)
Finance income	291,574	-	-	291,574
PROFIT/(LOSS) BEFORE TAX	1,818,516	(32,634)	-	1,785,882
Income tax credit/(expense)	(177,911)	-	(248,085)	(425,996)
PROFIT/(LOSS) FOR THE YEAR	1,640,605	(32,634)	(248,085)	1,359,886
ATTRIBUTABLE TO: EQUITY HOLDERS OF THE PARENT	1,640,605	(32,634)	(248,085)	1,359,886

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2007

PRIOR YEAR ADJUSTMENT (Continued)

	As previously reported Company	Adjustment for Rent prepayment	Deferred tax adjustment Company	(restated) 2006 Company
IFRS Balance Sheet as at 31 st July 2006	£	£	£	£
ASSETS				
NON CURRENT ASSETS				
Investment property	128,050,000	-		128,050,000
TOTAL NON CURRENT ASSETS	<u>128,050,000</u>	<u>-</u>	<u>-</u>	<u>128,050,000</u>
CURRENT ASSETS				
Trade and other receivables	1,540,210	(1,337,996)		202,214
Cash and cash equivalents	3,561,202	-		3,561,202
TOTAL CURRENT ASSETS	<u>5,101,412</u>	<u>(1,337,996)</u>	<u>-</u>	<u>3,763,416</u>
TOTAL ASSETS	<u>133,151,412</u>	<u>(1,337,996)</u>	<u>-</u>	<u>131,813,416</u>
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	(153,698)	-		(153,698)
Financial liabilities	(1,433,559)	-		(1,433,559)
TOTAL CURRENT LIABILITIES	<u>(1,587,257)</u>	<u>-</u>	<u>-</u>	<u>(1,587,257)</u>
NON CURRENT LIABILITIES				
Financial liabilities	(121,156,912)	-		(121,156,912)
Deferred tax liability	(3,900,944)	-	143,524	(3,757,420)
TOTAL NON CURRENT LIABILITIES	<u>(125,057,856)</u>	<u>-</u>	<u>143,524</u>	<u>(124,914,332)</u>
TOTAL LIABILITIES	<u>(126,645,113)</u>	<u>-</u>	<u>143,524</u>	<u>(126,501,589)</u>
NET ASSETS	<u>6,506,299</u>	<u>(1,337,996)</u>	<u>143,524</u>	<u>5,311,827</u>
EQUITY				
Share capital	50,000	-		50,000
Retained earnings	6,456,299	(1,337,996)	143,524	5,261,827
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS	<u>6,506,299</u>	<u>(1,337,996)</u>	<u>143,524</u>	<u>5,311,827</u>
TOTAL EQUITY	<u>6,506,299</u>	<u>(1,337,996)</u>	<u>143,524</u>	<u>5,311,827</u>