

KRF Holdings Limited

REPORT AND FINANCIAL STATEMENTS

31 July 2008



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
M McDermott
M Filer
R Samson
S Masson (appointed 26th October 2007)

REGISTERED OFFICE

Fifth Floor
6 Broad Street Place
London
EC2M 7JH

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 2008.

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

For the year 2008, the Group achieved total income of £8,463,750 (2007: £8,048,539) and the result for the year after tax, was a profit of £5,027,176 (2007: £11,988,002 loss). The result in the year was significantly impacted by a revaluation of the property interests held under a long term lease— see financial report and notes to the accounts.

No dividend was proposed or paid (2007: £nil).

The directors believe that the Group's accommodation units will continue to attract student tenants at realistic rents throughout 2009.

The key business risks affecting the Group come from:

- Under-occupation of the available accommodation units
- Failure to achieve anticipated rental from the leasehold interest
- 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 leasehold interest. Finance costs are calculated by reference to the terms of the bonds which form the underlying funding of the business.

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.

KRF Holdings Limited

DIRECTORS' REPORT

DIRECTORS

The following directors have held office during the year:

Wilmington Trust SP Services (London) Limited
M McDermott
M Filer
R Samson
S Masson (appointed 26th October 2007)

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 2008 were 3 (2007: 3 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.

AUDIT INFORMATION

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

AUDITORS

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
Fifth Floor
6 Broad Street Place
London
EC2M 7JH

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 ("IFRSs") adopted by the EU.

The financial statements are required by law and IFRSs 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 IFRSs 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 2008 set out on pages 7 to 30. 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 (IFRSs) 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 IFRSs adopted by the European Union, of the state of the Group's and the parent company's affairs as at 31 July 2008 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.

Moore Stephens

Moore Stephens
Chartered Accountants
Registered Auditors
6 Ridge House
Ridgehouse Drive
Festival Park
Stoke on Trent
ST1 5TL

11/10/08

KRF Holdings Limited
CONSOLIDATED INCOME STATEMENT
For the year ended 31 July 2008

	Note	<u>2008</u> Group £	<u>2007</u> Group £
CONTINUING OPERATIONS			
REVENUE	4	8,463,750	8,048,539
Administrative expenses		(244,518)	(1,979,256)
Gain/(Loss) on investment property revaluations		<u>10,773,715</u>	<u>(5,000,000)</u>
<i>PROFIT FROM OPERATIONS</i>	5	18,992,947	1,069,283
Finance costs	7	(12,722,853)	(17,169,649)
Finance income	8	<u>367,719</u>	<u>179,001</u>
PROFIT/ (LOSS) BEFORE TAX		6,637,813	(15,921,365)
Income tax (expense)/credit	9	<u>(1,610,637)</u>	<u>3,933,363</u>
PROFIT/ (LOSS) FOR THE YEAR		5,027,176	(11,988,002)
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		<u><u>5,027,176</u></u>	<u><u>(11,988,002)</u></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 2008

	Note	2008	2007
		Group	Group
		£	£
ASSETS			
NON CURRENT ASSETS			
Investment property	11	237,623,715	226,850,000
Deferred tax asset	10	-	386,578
Financial assets	14	2,736,825	2,596,000
TOTAL NON CURRENT ASSETS		240,360,540	229,832,578
CURRENT ASSETS			
Trade and other receivables	15	168,336	16
Cash and cash equivalents	16	2,689,403	2,812,306
TOTAL CURRENT ASSETS		2,857,739	2,812,322
TOTAL ASSETS		243,218,279	232,644,900
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(99,274)	(442,827)
Financial liabilities	19	(68,943)	(1,347,804)
TOTAL CURRENT LIABILITIES		(168,217)	(1,790,631)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(111,668,393)	(111,054,411)
Financial liabilities	19	(131,806,616)	(126,476,033)
Deferred tax liability	10	(1,224,052)	-
TOTAL NON CURRENT LIABILITIES		(244,699,061)	(237,530,444)
TOTAL LIABILITIES		(244,867,278)	(239,321,075)
NET(LIABILITIES)		(1,648,999)	(6,676,175)
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		(1,698,999)	(6,726,175)
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		(1,648,999)	(6,676,175)
TOTAL EQUITY		(1,648,999)	(6,676,175)

KRF Holdings Limited

COMPANY BALANCE SHEET

At 31 July 2008

	Note	<u>2008</u>	<u>2007</u>
		Company	Company
		£	£
ASSETS			
NON CURRENT ASSETS			
Investments	13	50,000	50,000
<i>TOTAL NON CURRENT ASSETS</i>		50,000	50,000
NET ASSETS		<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 7 to 30 was approved by the board of directors and authorised for issue on ~~27 November, 2008~~ and was signed on its behalf by:


M McDermott
Director

KRF Holdings Limited
CONSOLIDATED CASHFLOW STATEMENT
At 31 July 2008

	Note	2008	2007
		Group	Group
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) for the period		5,027,176	(11,988,002)
<i>Adjustments for:</i>			
Finance costs		12,722,853	17,169,649
Finance income		(367,719)	(179,001)
(Gain)/Loss on investment property revaluations		(10,773,715)	5,000,000
Goodwill impairment		-	591,832
Income tax expense/(credit)		1,610,637	(3,933,363)
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		8,219,232	6,661,115
(Increase)/decrease in trade and other receivables		(148,030)	197,624
(Decrease)/increase in trade and other payables		(342,918)	137,621
CASH GENERATED BY OPERATIONS		7,728,284	6,996,360
Income tax paid		(642)	(210,000)
NET CASH FLOW FROM OPERATING ACTIVITIES		7,727,642	6,786,360
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		206,605	178,985
Purchase of subsidiary		-	(587,500)
Cash acquired on acquisition		-	256
Held for maturity investment		-	(2,596,000)
NET CASH FLOW FROM INVESTING ACTIVITIES		206,605	(3,004,259)
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		(8,057,150)	(3,291,471)
Finance costs		-	(6,324,578)
Old bonds payments		-	(45,055)
Capitalised bond costs		-	(9,626,163)
NET CASH FLOW FROM FINANCING ACTIVITIES		(8,057,150)	(4,530,997)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(122,903)	(748,896)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,812,306	3,561,202
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	2,689,403	2,812,306

KRF Holdings Limited
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 July 2008

GROUP	Note	Share capital	Retained earnings	Total
		<u>£</u>	<u>£</u>	<u>£</u>
Balance as at 31 July 2006		50,000	5,261,827	5,311,827
Total recognised income and expense – loss for the year		-	(11,988,002)	(11,988,002)
Balance as at 31 July 2007		50,000	(6,726,175)	(6,676,175)
Total recognised income and expense – loss for the year		-	5,027,176	5,027,176
Balance as at 31st July 2008	21	50,000	(1,698,999)	(1,648,999)

COMPANY		Share Capital	Retained earnings	Total
		<u>£</u>	<u>£</u>	<u>£</u>
Balance as at 31 July 2006		50,000	-	50,000
Total recognised income and expense – Profit/(loss) for the year		-	-	-
Balance as at 31 July 2007		50,000	-	50,000
Total recognised income and expense – Profit/(loss) for the year		-	-	-
Balance as at 31 July 2007	21	50,000	-	50,000

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2008

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.

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 (IFRSs) as adopted by the EU with the exception of the following adopted IFRSs which were available and applicable to the Group but have not been applied by the Group in these financial statements:

- IAS 1 (Amendments resulting from May 2008 annual improvements to IFRSs): 'Presentation of financial statements' – effective for annual periods beginning on or after 1 January 2009
- IFRS 8: 'Operating segments' – effective for annual periods beginning on or after 1 January 2009.
- IAS 27 (Amendments resulting from May 2008 annual improvements to IFRSs): 'Consolidated and separate financial statements' – effective for annual periods beginning on or after 1 January 2009
- IAS 36 (Amendments resulting from May 2008 annual improvements to IFRSs): 'Impairment of assets' – effective for annual periods beginning on or after 1 January 2009
- IAS 38 (Amendments resulting from May 2008 annual improvements to IFRSs): 'Intangible assets' – effective for annual periods beginning on or after 1 January 2009
- IAS 40 (Amendments resulting from May 2008 annual improvements to IFRSs): 'Investment property' – effective for annual periods beginning on or after 1 January 2009

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.

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.

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;

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2008

- 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.

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

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2008

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

FEE & 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. Subsequent to initial recognition, investment property is measured at fair value. 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.

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.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2008

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 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

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2008

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.

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.

KRF Holdings Limited

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2008

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.

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.

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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 assets

The Group has investment properties of £237,623,715 (2007: £226,850,000) and gross trade receivables of £144,678 (2007: £271,378). Trade receivables had been fully impaired in the previous year as it was agreed that they become an asset of the University of Keele under the terms of the new bond issue in July 2007 – see note 15. The directors consider current year valuations to reflect market value and as such no impairment is required during the year.

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 determines annual valuations for its investment property on the basis of expected future cashflows. 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.

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For the year ended 31 July 2008

4. REVENUE

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

	2008 Group £	2007 Group £
<i>Continuing operations:</i>		
Rental income from student accommodation	7,593,973	7,216,459
Fee income from use of residences out of term time	869,777	832,080
	<u>8,463,750</u>	<u>8,048,539</u>

5. PROFIT FROM OPERATIONS

Group profit for the year has been arrived at after charging:

	2008 £	2007 £
(Gain)/Loss on investment property revaluations (note 11)	(10,773,715)	5,000,000
Impairment of goodwill (note 12)	-	591,832
<i>Auditors' remuneration</i>		
Audit services		
- Statutory audit Group	18,500	25,000
	<u>18,500</u>	<u>25,000</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:

	2008	2007
Head office and administration	<u>3</u>	<u>3</u>

None of the directors received any remuneration during the year (2007: £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
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7. FINANCE COSTS

Group	2008 £	2007 £
Interest on secured bond	8,609,342	4,541,621
Interest on finance leases	4,038,593	504,585
Interest on FSA liability	74,918	-
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
	<u>12,722,853</u>	<u>17,169,649</u>

8. FINANCE INCOME

Group	2008 £	2007 £
Interest on cash balances	<u>367,719</u>	<u>179,001</u>

9. INCOME TAX EXPENSE

Group

	2008 £	2007 £
<i>Recognised in the income statement:</i>		
Current tax:		
Previous year	(7)	
Current year	-	(635)
Tax on supplemental lease of £5.25m @ 4%	-	(210,000)
Total current tax	<u>(7)</u>	<u>(210,635)</u>
Deferred tax:		
Origination and reversal of temporary differences	(1,610,630)	3,883,936
Effect of tax rate change on opening balance	-	260,062
Total deferred tax	<u>(1,610,630)</u>	<u>(210,635)</u>
Total tax (expense)/ credit in income statement	<u>(1,610,637)</u>	<u>3,933,363</u>

KRF Holdings Limited
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Reconciliation of effective tax rate

	2008 £	2007 £
Group profit/(loss) before tax	<u>6,637,813</u>	<u>(15,921,365)</u>
Tax using the UK corporation tax rate of 30% (2007:30%)	1,991,344	4,776,410
EFFECT OF:		
Expenses not deductible for tax purposes	(3,497,784)	(317,620)
Other fixed asset differences, adjustment & movements	184,195	(512,112)
Tax on supplemental lease at 4%	-	(210,000)
Deferred tax rate adjustments	(115,045)	(27,613)
Accounting adjustments and transfers	7	-
Tax adjustments & other timing differences	<u>3,047,920</u>	<u>224,298</u>
Total current tax charge and effective rate of tax	<u>1,610,637</u>	<u>3,933,363</u>

10. DEFERRED TAX ASSETS AND (LIABILITIES)

Group

Recognised deferred tax assets and (liabilities)

	2008 £	2007 £
<i>Analysis for financial reporting purposes:</i>		
Deferred tax assets	7,813,839	6,579,744
Deferred tax liabilities	(9,037,891)	(6,193,166)
Net position at the year end	<u>(1,224,052)</u>	<u>386,578</u>

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

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£
Assets/(liability) at beginning of the year	6,579,744	4,704,231	(6,193,166)	(8,461,651)	386,578	(3,757,420)
Charge to income statement for the year	1,234,095	1,875,513	2,844,725	2,268,485	(1,610,630)	4,143,998
Assets/(liability) at end of the year	<u>7,813,839</u>	<u>6,579,744</u>	<u>(9,037,891)</u>	<u>(6,193,166)</u>	<u>(1,224,052)</u>	<u>386,578</u>

KRF Holdings Limited
NOTES TO THE FINANCIAL STATEMENTS
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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
	2008	2008	2008	2008	2008	2008
	£	£	£	£	£	£
Tax losses	27,906,569	7,813,839	-	-	27,906,569	7,813,839
Revaluations	-	-	(32,278,182)	(9,037,891)	(32,278,182)	(9,037,891)
Net tax assets/(liabilities)	27,906,569	7,813,839	(32,278,182)	(9,037,891)	(4,371,613)	(1,224,052)

	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

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	2008 Interest in lease £	2007 Interest in lease £
<i>Fair value</i>		
At beginning of year	226,850,000	128,050,000
(Decrease)/increase in fair value in the year	10,773,715	(5,000,000)
Additional investment in lease arrangement	-	103,800,000
At end of year	237,623,715	226,850,000

The fair value of the Group's investment property at 31 July 2008 has been arrived at on the basis of a valuation 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.

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.

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For the year ended 31 July 2008

12. GOODWILL

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

13. INVESTMENT IN SUBSIDIARY

COMPANY	2008 Shares in subsidiaries £	2007 Shares in subsidiaries £
<i>Cost and net book value</i>		
At beginning and end of year	<u>50,000</u>	<u>50,000</u>

Details of the company's subsidiaries at 31 July 2008 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	Management Services	England & Wales	100%	100%	587,500

Shares in KRF Management Limited are owned by Keele Residential Funding plc.

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14. OTHER FINANCIAL ASSETS

Group	2008	2007
	£	£
Long term cash investment	<u>2,736,825</u>	<u>2,596,00</u>

Under the terms of the 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	2008	2007
	£	£
<i>Amounts falling due within one year:</i>		
Trade receivables	144,678	271,378
Less: provision for impairment of receivables	-	(271,378)
	<u>144,678</u>	<u>-</u>
Prepayments and accrued income	20,289	16
Social Security and other taxes	3,369	-
	<u><u>168,336</u></u>	<u><u>16</u></u>

The 2007 student debt was fully impaired as it was agreed that these debts be transferred to Keele University under the lease financing agreement signed in July 2007. All subsequent student debt is an asset of the company. Impairment requirements will be reviewed annually as per the accounting policies.

16. CASH AND CASH EQUIVALENTS

Group	2008	2007
	£	£
Cash at bank and in hand	<u>2,689,403</u>	<u>2,812,306</u>

17. TRADE AND OTHER PAYABLES

Group	2008	2007
	£	£
Trade creditors	50,126	-
Corporation tax payable	-	635
Accruals and deferred income	49,148	442,192
	<u><u>99,274</u></u>	<u><u>442,827</u></u>

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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	
	2008	2007	2008	2007
	£	£	£	£
The borrowings are repayable as follows:				
No later than 1 year	3,510,226	3,373,758	-	-
Later than 1 year and not later than 5 years	14,940,676	14,359,821	-	-
Later than 5 years	219,364,585	219,999,232	111,668,393	111,054,411
	237,815,487	237,732,811	111,668,393	111,054,411
Less future financing charges	(126,147,094)	(126,678,400)	-	-
Present value of minimum lease payments	111,668,393	111,054,411	111,668,393	111,054,411

Included in the financial statements as:

Current borrowings	-	-
Non-current borrowings	111,668,393	111,054,411
	111,668,393	111,054,411

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.

	Current		Non-Current	
	2008	2007	2008	2007
	£	£	£	£
Guaranteed secured bond (19.1)	-	1,261,641	129,749,938	124,423,404
Financial Guarantee fee payable to FSA (19.2)	68,943	86,163	2,056,678	2,052,629
	68,943	1,347,804	131,806,616	126,476,033

19.1. GUARANTEED INDEX LINKED SECURED BOND

During July 2007 the Group recalled the previous fixed rate bonds and issued new 2.108% guaranteed index linked secured bonds. Interest and principle payments are made half yearly, thereby limiting the company's exposure to interest rate risk. The principal is repayable by instalments, which commenced in January 2008, in accordance with the issue documents; the final

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amounts to be repaid in 2047. The interest and capital repayments have been spread over the repayment period. At 31 July 2008 the principal outstanding on the new bonds, on a cash-paid basis, was £135,940,799 (2007: £137,450,000).

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 Keele Residential Funding plc 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 the Keele Residential Funding plc, Citibank, N.A. and Financial Security Assurance (UK) Limited (FSA), the amount secured being all obligations which the 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 2008.

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

	Loans and receivables	2008 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	2,689,403	-	2,689,403
Trade and other receivables	168,336	-	168,336
Financial investment	-	2,736,825	2,736,825
	2,857,739	2,736,825	5,594,564

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	Loans and receivables	2007 Held for maturity investments	Total
	£	£	£
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
	<u>2,812,322</u>	<u>2,596,000</u>	<u>5,408,322</u>

FINANCIAL LIABILITIES

GROUP

	Loans and other payables	2008 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(99,274)	-	(99,274)
Guaranteed index linked secured bond	-	(129,749,938)	(129,749,938)
Obligation under finance lease	-	(111,668,393)	(111,668,393)
Financial Guarantee fee payable to FSA	-	(2,125,621)	(2,125,621)
	<u>(99,274)</u>	<u>(243,543,952)</u>	<u>(243,643,226)</u>

	Loans and other payables	2007 Financial liabilities held at amortised cost	Total
	£	£	£
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)
	<u>(442,827)</u>	<u>(238,878,248)</u>	<u>(239,321,075)</u>

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.

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For the year ended 31 July 2008

As at 31 July 2008 £5,426,228, (2007: £5,408,306) was on deposit with various banks. A 1% change in interest rates would have a £54,262 (2006: £54,083) 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 Group'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.

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: (2007: Nil).

20.6. INTEREST RATE EXPOSURE

The interest rate exposure of the Group is as follows:

	Fixed rate	2008 Floating rate	Total
	£	£	£
Borrowings	(243,543,952)	-	(243,543,952)
Cash and cash equivalents	-	2,689,403	2,689,403
Long term cash deposits	2,736,825	-	2,736,825
	<u>(240,807,127)</u>	<u>2,689,403</u>	<u>238,117,724</u>

	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
	<u>(236,282,248)</u>	<u>2,812,306</u>	<u>233,469,942</u>

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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	2008		2007	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	2,689,403	2,689,403	2,812,306	2,812,306
Long Term Cash Deposits	2,736,825	2,736,825	2,596,000	2,596,000
Trade and other receivables	168,336	168,336	16	16
Trade and other payables	(99,274)	(99,274)	(442,827)	(442,827)
Short term borrowings	(68,943)	(68,943)	(1,347,804)	(1,347,804)
Long term borrowings	(243,475,009)	(243,475,009)	(237,530,444)	(237,530,444)
	(238,048,662)	(238,048,662)	(233,912,753)	(233,912,753)

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 2008.

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
	<u>49,850</u>	<u>25</u>	<u>25</u>	<u>100</u>	<u>50,000</u>
	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
	<u>49,850</u>	<u>25</u>	<u>25</u>	<u>100</u>	<u>50,000</u>

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

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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.

22. CAPITAL COMMITMENTS

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

23. RELATED PARTY TRANSACTIONS

During the year £81,925 (2007: £28,504), inclusive of VAT, was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to Keele Residential Funding plc. Wilmington Trust SP Services (London) Limited is a director of Keele Residential Funding plc and Mr M McDermott, Mr M Filer are directors of Wilmington Trust SP Services (London) Limited.

During the previous year, the group paid Paul Bruton, a former shareholder of KRF Holdings Limited (the company's immediate Parent undertaking) £293,750 in respect of the acquisition of his share in KRF Management Limited, £200,000 in respect of the right, title and benefit held by Paul Bruton under a management services contract between him and KRF Management Limited and £1,300,000 in respect of his work and £78,071 in respect of fees and expenses in relation to the proposed refinancing outlined in note 19.

During the previous year, the group paid Douglas Pinnock, a former shareholder of KRF Holdings Limited £293,750 in respect of the acquisition of his share in KRF Management Limited and £700,000 in respect of his work in relation to the proposed refinancing outlined in note 19.

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

24. POST BALANCE SHEET EVENTS

There are no reportable post-balance sheet events.

25. CONTINGENT LIABILITIES

There are no contingent liabilities to report.

26. 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.