

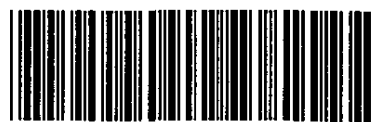
# KRF Holdings Limited

## REPORT AND FINANCIAL STATEMENTS

31 July 2010

Company Registration No 03840094 (England & Wales)

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COMPANIES HOUSE

# KRF Holdings Limited

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# KRF Holdings Limited

## DIRECTORS AND ADVISORS

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### DIRECTORS

Wilmington Trust SP Services (London) Limited  
M McDermott  
M Filer  
R Samson  
S Masson

### 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

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The directors submit their report and the audited financial statements for the year ended 31 July 2010

### 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 company.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

For the year 2010, the Group achieved total income of £8,979,944 (2009 £8,900,184) and the result for the year after tax, was a profit of £5,487,388 (2009 £2,298,993). 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 (2009 £nil)

The directors believe that the company's accommodation units will continue to attract student tenants at realistic rents throughout 2011.

The key business risks affecting the company 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

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### DIRECTORS

The following directors have held office during the year

Wilmington Trust SP Services (London) Limited

M McDermott

M Filer

R Samson

S Masson

### 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 2010 were 0 (2009 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

### 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



22/11/2010

**M McDermott**

Director

Fifth Floor

6 Broad Street Place

London

EC2M 7JH

# KRF Holdings Limited

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the company, such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



22/11/2010

**M McDermott**  
Director

# KRF Holdings Limited

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KRF HOLDINGS LIMITED

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We have audited the financial statements of KRF Holdings Limited for the year ended 31 July 2010 which are set out on pages 7 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Sections 495 - 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 July 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# KRF Holdings Limited

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KRF HOLDINGS LIMITED

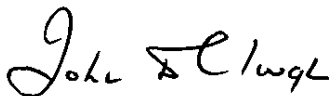
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### Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



John D Clough (Senior Statutory Auditor)

For and on behalf of Moore Stephens, Statutory Auditor  
Chartered Accountants and Registered Auditor  
6 Ridge House  
Ridgehouse Drive  
Stoke on Trent  
Staffordshire  
ST1 5TL

26/11/10



**KRF Holdings Limited**  
**CONSOLIDATED INCOME STATEMENT**  
For the year ended 31 July 2010

	Note	<u>2010</u>	<u>2009</u>
		Group	Group
		£	£
<b>CONTINUING OPERATIONS</b>			
REVENUE	4	<b>8,979,944</b>	8,900,184
Administrative expenses		<b>(192,975)</b>	(327,747)
Gain on investment property revaluations		<b>5,846,064</b>	5,788,126
<b>PROFIT FROM OPERATIONS</b>	5	<b>14,633,033</b>	14,360,563
Finance costs	7	<b>(7,517,996)</b>	(11,723,342)
Finance income	8	<b>161,754</b>	211,041
<b>PROFIT BEFORE TAX</b>		<b>7,276,791</b>	2,848,262
Income tax (expense)/credit	9	<b>(1,789,403)</b>	(549,269)
<b>PROFIT FOR THE YEAR</b>		<b>5,487,388</b>	2,298,993
<b>ATTRIBUTABLE TO:</b>			
<b>EQUITY HOLDERS OF THE PARENT</b>		<b>5,487,388</b>	2,298,993

No separate Statement of Recognised Income and Expense 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 2010**

	Note	2010 Group £	2009 Group £
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Investment property	11	249,257,905	243,411,841
Financial assets	14	3,022,770	2,875,966
<b>TOTAL NON CURRENT ASSETS</b>		<b>252,280,675</b>	<b>246,287,807</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	15	122,376	341,598
Cash and cash equivalents	16	3,186,904	2,782,164
<b>TOTAL CURRENT ASSETS</b>		<b>3,309,280</b>	<b>3,123,762</b>
<b>TOTAL ASSETS</b>		<b>255,589,955</b>	<b>249,411,569</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	(91,433)	(164,136)
Financial liabilities	19	(34,700)	(1,641,977)
<b>TOTAL CURRENT LIABILITIES</b>		<b>(126,133)</b>	<b>(1,806,113)</b>
<b>NON CURRENT LIABILITIES</b>			
Obligation under finance lease	18	(111,971,498)	(111,740,366)
Financial liabilities	19	(133,792,218)	(133,441,775)
Deferred tax liability	10	(3,562,724)	(1,773,321)
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>(249,326,440)</b>	<b>(246,955,462)</b>
<b>TOTAL LIABILITIES</b>		<b>(249,452,573)</b>	<b>(248,761,575)</b>
<b>NET ASSETS</b>		<b>6,137,382</b>	<b>649,994</b>
<b>EQUITY</b>			
Share capital	21	50,000	50,000
Retained earnings		6,087,382	599,994
<b>ISSUED CAPITAL AND RESERVES</b>		<b>6,137,382</b>	<b>649,994</b>
<b>ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>6,137,382</b>	<b>649,994</b>
<b>TOTAL EQUITY</b>		<b>6,137,382</b>	<b>649,994</b>

**KRF Holdings Limited**  
**COMPANY BALANCE SHEET**  
**At 31 July 2010**

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	Note	<u>2010</u>	<u>2009</u>
		Company	Company
		£	£
<b>ASSETS</b>			
<b>NON CURRENT ASSETS</b>			
Investments	13	50,000	50,000
<b>TOTAL NON CURRENT ASSETS</b>		<b>50,000</b>	<b>50,000</b>
<b>NET ASSETS</b>		<u><b>50,000</b></u>	<u><b>50,000</b></u>
<b>EQUITY</b>			
Share capital	21	50,000	50,000
Retained earnings		-	-
<b>ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>50,000</b>	<b>50,000</b>
<b>TOTAL EQUITY</b>		<u><b>50,000</b></u>	<u><b>50,000</b></u>

The financial information on pages 7 to 28 was approved by the board of directors and authorised for issue on 22 November 2010 and was signed on its behalf by



**M McDermott**  
 Director

**KRF Holdings Limited**  
**CONSOLIDATED CASHFLOW STATEMENT**  
For the year ended 31 July 2010

	Note	2010	2009
		Group	Group
		£	£
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period		<b>5,487,388</b>	2,298,993
<i>Adjustments for</i>			
Finance costs		<b>7,517,996</b>	11,723,342
Finance income		<b>(161,754)</b>	(211,041)
Gain on investment property revaluations		<b>(5,846,064)</b>	(5,788,126)
Income tax expense		<b>1,789,403</b>	549,269
<b>OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL</b>		<b>8,786,969</b>	8,572,437
Decrease/(increase) in trade and other receivables		<b>219,222</b>	(173,262)
(Decrease)/ increase in trade and other payables		<b>(72,703)</b>	64,862
<b>CASH GENERATED BY OPERATIONS</b>		<b>8,933,488</b>	8,464,037
Income tax paid		-	-
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>8,933,488</b>	8,464,037
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Finance income		<b>14,950</b>	71,900
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>14,950</b>	71,900
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments due on lease and bonds		<b>(8,543,698)</b>	(8,443,176)
<b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>		<b>(8,543,698)</b>	(8,443,176)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>404,740</b>	92,761
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<b>2,782,164</b>	2,689,403
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	16	<b>3,186,904</b>	2,782,164

# KRF Holdings Limited

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 July 2010

GROUP	Note	Share capital	Retained earnings	Total
		£	£	£
Balance as at 31 July 2008		50,000	(1,698,999)	(1,648,999)
Total recognised income and expense – profit for the year		-	2,298,993	2,298,993
Balance as at 31 July 2009		50,000	599,994	649,994
Total recognised income and expense – profit for the year		-	5,487,388	5,487,388
<b>Balance as at 31 July 2010</b>	<b>21</b>	<b>50,000</b>	<b>6,087,382</b>	<b>6,137,382</b>

COMPANY	Note	Share Capital	Retained earnings	Total
		£	£	£
Balance as at 31 July 2008		50,000	-	50,000
Total recognised income and expense – profit for the year		-	-	-
Balance as at 31 July 2009		50,000	-	50,000
Total recognised income and expense – profit for the year		-	-	-
<b>Balance as at 31 July 2010</b>	<b>21</b>	<b>50,000</b>	<b>-</b>	<b>50,000</b>

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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### 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:

- IFRS 3 (Business Combinations – Amendments resulting from May 2010 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 July 2010
- IFRS 7 (Financial Instruments Disclosures – Amendments resulting from May 2010 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2011
- IFRS 7 (Financial Instruments Disclosures – Amendments enhancing disclosures about transfers of financial assets) – effective for annual periods beginning on or after 1 July 2011
- IFRS 8 (Operating Segments – Amendments resulting from April 2009 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2010
- IFRS 9 (Financial Instruments – Classification and Measurement) – effective for annual periods beginning on or after 1 January 2013
- IAS 1 (Presentation of Financial Statements – Amendments resulting from April 2009 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2010
- IAS 1 (Presentation of Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2011
- IAS 7 (Statement of Cash Flows – Amendments resulting from April 2009 annual improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2010
- IAS 17 (Leases – Amendments resulting from April 2009 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2010
- IAS 24 (Related Party Disclosures – Revised definition of related parties) – effective for annual periods beginning on or after 1 January 2011
- IAS 27 (Consolidated and Separate Financial Statements – Amendments resulting from May 2010 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 July 2010

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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- IAS 36 (Impairment of Assets – Amendments resulting from April 2009 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2010
- IAS 39 (Financial Instruments Recognition and Measurement – Amendments resulting from April 2009 Annual Improvements to IFRSs) – effective for annual periods beginning on or after 1 January 2010

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 cash flows 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

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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### 2.5. REVENUE RECOGNITION

#### **FEE & RENTAL INCOME**

Revenue is measured at the fair value of the consideration receivable and represents rent and fees receivable net of discounts, VAT and other sales related taxes

#### **FINANCE INCOME**

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

### 2.6. 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 rate method

### 2.7. 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

### 2.8. OBLIGATION UNDER FINANCE LEASE

The Group's finance lease obligation was initially measured at an amount equal to the fair value of the leased property. Subsequently minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred

### 2.9. GUARANTEED INDEX LINKED SECURED BOND

As a financial liability other than at fair value through profit or loss, the Group's guaranteed index linked secured bond liability is measured on an amortised cost basis using the effective interest rate method. Transaction costs incurred in originating this floating rate instrument are being amortised on a straight line basis over the life of the bond

### 2.10. 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. 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

#### ***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



# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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### 2.11. TAXATION

#### *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.

#### *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.

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.

#### *Tax charge for the period*

Current and deferred tax are recognised as an expense or income, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

### 2.12. FINANCIAL ASSETS

Financial assets are initially measured at fair value plus transaction costs on the date that right to receive economic benefit becomes unconditional. Subsequent measurement is as follows:

#### **2.12.1. 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 rate method less any impairment, with revenue recognised on an effective yield basis.

#### **2.12.2. 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.

#### **2.12.3. Effective interest rate method**

The effective interest rate 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.

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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### 2.13. FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

#### 2.13.1. 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

#### 2.13.2. 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

#### 2.13.3. Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs

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

#### 2.13.4. 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

The critical accounting estimates and judgements made by the Group regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial year are

#### 3.1 Valuation of investment property

The Group determines annual valuations for its investment property on the basis of the present value of expected future cash flows. These future cash flows are subject to inflation. The estimate of inflation used at 31 July 2010 is 3.3% being the difference in yield between long dated index linked and fixed interest government gilts at this date. The discount factor applied to obtain the present value of the future cash flows so estimated is 5.36% being the average yield on long dated AA rated corporate bonds at 31 July 2010. In future years conditions may change resulting in material uplifts in value or impairments to value being required

#### 3.2 Obligation under finance lease

Rentals payable under the Group's finance lease obligation are subject to inflation. At inception, in calculating the effective interest rate for apportionment of the rental payments between interest and capital an inflation estimate of 2.5% per annum was used. Differences brought about by actual inflation not averaging 2.5% are treated as contingent rents and expensed in the period in which they are incurred

**KRF Holdings Limited**  
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**4. REVENUE**

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

	2010 Group £	2009 Group £
<i>Continuing operations</i>		
Rental income from student accommodation	8,066,406	7,995,386
Fee income from use of residences out of term time	913,538	904,798
	<u>8,979,944</u>	<u>8,900,184</u>

**5. PROFIT FROM OPERATIONS**

Group profit for the year has been arrived at after charging

	2010 £	2009 £
Gain on investment property revaluations (note 11)	5,846,064	5,788,126
<i>Auditors' remuneration</i>		
Audit services	20,562	20,125
Taxation services	4,112	4,313
	<u>24,676</u>	<u>24,438</u>

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

**6. STAFF COSTS**

**Group**

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

	2010	2009
Head office and administration	<u>4</u>	<u>4</u>

**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.

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**7. FINANCE COSTS**

<b>Group</b>	<b>2010 £</b>	<b>2009 £</b>
Interest on secured bond	3,690,426	8,110,200
Interest on finance leases	3,771,005	3,569,049
Interest on AGL liability	56,565	44,093
	<u>7,517,996</u>	<u>11,723,342</u>

**8. FINANCE INCOME**

<b>Group</b>	<b>2010 £</b>	<b>2009 £</b>
Interest on cash balances	<u>161,754</u>	<u>211,041</u>

**9. INCOME TAX EXPENSE**

<b>Group</b>	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
<i>Recognised in the income statement</i>		
Current tax		
Previous year	-	-
Current year	-	-
Tax on supplemental lease of £5 25m @ 4%	<u>-</u>	<u>-</u>
Total current tax	-	-
Deferred tax		
Origination and reversal of temporary differences	(1,789,403)	(549,269)
Effect of tax rate change on opening balance		
Total deferred tax	(1,789,403)	(549,269)
Total tax expense in income statement	<u>(1,789,403)</u>	<u>(549,269)</u>

**KRF Holdings Limited**  
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*Reconciliation of effective tax rate*

	2010 £	2009 £
Group (loss)/profit before tax	<u>7,276,791</u>	<u>2,848,262</u>
Tax using the UK corporation tax rate of 28% (2009 28%)	2,037,501	797,513
<b>EFFECT OF:</b>		
Expenses not deductible for tax purposes	-	-
Other fixed asset differences, adjustment & movements	-	-
Tax on supplemental lease at 4%	-	-
Deferred tax rate adjustments	-	-
Accounting adjustments and transfers	-	-
Annual allowance on lease premiums paid	(248,098)	(248,244)
Tax adjustments & other timing differences	-	-
<b>Total current tax charge and effective rate of tax</b>	<u>1,789,403</u>	<u>549,269</u>

**10. DEFERRED TAX ASSETS AND (LIABILITIES)**

**Group**

*Recognised deferred tax assets and (liabilities)*

	2010 £	2009 £
<i>Analysis for financial reporting purposes</i>		
Deferred tax assets	8,647,876	8,865,098
Deferred tax liabilities	(12,210,595)	(10,638,419)
Net position at the year end	<u>(3,562,719)</u>	<u>(1,773,321)</u>

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

	Assets		Liabilities		Net	
	2010 £	2009 £	2010 £	2009 £	2010 £	2009 £
Assets/(liability) at beginning of the year	8,865,098	7,813,839	(10,638,419)	(9,037,891)	(1,773,321)	(1,224,052)
Charge to income statement for the year	(217,222)	1,051,259	(1,572,181)	(1,600,528)	(1,789,403)	(549,269)
Assets/(liability) at end of the year	<u>8,647,876</u>	<u>8,865,098</u>	<u>(12,210,600)</u>	<u>(10,638,419)</u>	<u>(3,562,724)</u>	<u>(1,773,321)</u>

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

### 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
	2010	2010	2010	2010	2010	2010
	£	£	£	£	£	£
Tax losses	30,885,271	8,647,876	-	-	30,885,271	8,647,876
Revaluations	-	-	(43,609,267)	(12,210,600)	(43,609,267)	(12,210,600)
Net tax assets/(liabilities)	30,885,271	8,647,876	(43,609,267)	(12,210,600)	(12,723,996)	(3,562,724)

	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2009	2009	2009	2009	2009	2009
	£	£	£	£	£	£
Tax losses	31,661,065	8,865,098			31,661,065	8,865,098
Revaluations			(37,994,355)	(10,638,419)	(37,994,355)	(10,638,419)
Net tax assets/(liabilities)	31,661,065	8,865,098	(37,994,355)	(10,638,419)	(6,333,290)	(1,773,321)

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	2010 Interest in lease £	2009 Interest in lease £
<i>Fair value</i>		
At beginning of year	243,411,841	237,623,715
Increase in fair value in the year	5,846,064	5,788,126
At end of year	249,257,905	243,411,841

The fair value of the Group's investment property at 31 July 2010 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 parent company 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 parent company enters into an annual contract for the maintenance of its investment property with the University of Keele

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

### 12. GOODWILL

Group	2010	2009
Cost	£	£
Balance at beginning of the year	591,832	591,832
Balance at the end of the year	<u>591,832</u>	<u>591,832</u>
<b>Accumulated impairment losses</b>		
Balance at beginning of the year	(591,832)	(591,832)
Balance at the end of the year	<u>(591,832)</u>	<u>(591,832)</u>
<b>Carrying amount</b>		
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	2010 Shares in subsidiaries £	2009 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 2010 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

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

### 14. OTHER FINANCIAL ASSETS

Group	2010 £	2009 £
Long term cash investment	<u>3,022,770</u>	<u>2,875,966</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	2010 £	2009 £
<i>Amounts falling due within one year</i>		
Trade receivables	235,338	176,293
Less provision for impairment of receivables	(112,962)	-
	<u>122,376</u>	<u>176,293</u>
Prepayments and accrued income	-	163,199
Social Security and other taxes	-	2,106
	<u>122,376</u>	<u>341,598</u>

### 16. CASH AND CASH EQUIVALENTS

Group	2010 £	2009 £
Cash at bank and in hand	<u>3,186,904</u>	<u>2,782,164</u>

### 17. TRADE AND OTHER PAYABLES

Group	2010 £	2009 £
Accruals and deferred income	89,128	164,136
Social Security and other taxes	2,305	-
	<u>91,433</u>	<u>164,136</u>



# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

### 18. OBLIGATIONS UNDER FINANCE LEASE

#### 18.1. LEASING ARRANGEMENTS

The finance lease relates to the acquisition of a leasehold interest in the investment property 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	
	2010	2009	2010	2009
The borrowings are repayable as follows	£	£	£	£
No later than 1 year	3,633,168	3,544,554	-	-
Later than 1 year and not later than 5 years	15,622,661	15,086,787	158,704	-
Later than 5 years	197,767,646	201,936,689	111,812,794	111,740,366
	217,023,475	220,568,030	111,971,498	111,740,366
Less future financing charges	(105,051,977)	(108,827,664)	-	-
Present value of minimum lease payments	111,971,498	111,740,366	111,971,498	111,740,366

*Included in the financial statements as:*

Current borrowings	-	-
Non-current borrowings	111,971,498	111,740,366
	111,971,498	111,740,366

#### 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 group 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	
	2010	2009	2010	2009
	£	£	£	£
Guaranteed secured bond (see note 19.1)	-	1,619,919	131,779,446	131,384,292
Financial Guarantee fee payable to AGL (see note 19.2)	34,700	22,058	2,012,772	2,057,483
	34,700	1,641,977	133,792,218	133,441,775

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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### **19.1. GUARANTEED INDEX LINKED SECURED BOND**

During July 2007 the Group company 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 amounts to be repaid in 2047. The interest and capital repayments have been spread over the repayment period. At 31 July 2010 the principal outstanding on the new bonds, on a cash-paid basis, was £132,442,697 (2009 £134,228,172).

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 the Keele Residential Funding Plc, Citibank, N A and Assured Guaranty (UK) Ltd (AGL - previously Financial Security Assurance (UK) Limited which was acquired by AGL during 2009), the amount secured being all obligations which the Parent company 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 AGL which may from time to time arise by way of subrogation.

### **19.2. FINANCIAL GUARANTEE FEE PAYABLE TO AGL**

A financial guarantee fee is payable to AGL with regards to the new issued 2 108% guaranteed index linked secured bonds. Payments are made half yearly. The amount is repayable by instalments, which commenced 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 2010.

## **20. FINANCIAL INSTRUMENTS**

### **20.1. CAPITAL RISK MANAGEMENT**

The Group is almost exclusively debt financed in the form of its finance lease obligation and the guaranteed secured bond detailed in note 19. This capital strategy remains unchanged from 2009.

### **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.

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

### 20.3. CATEGORIES OF FINANCIAL INSTRUMENTS

#### FINANCIAL ASSETS

Group	Loans and receivables	2010 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	3,186,904	-	3,186,904
Trade and other receivables	122,376	-	122,376
Financial investment	-	3,022,770	3,022,770
	<b>3,309,280</b>	<b>3,022,770</b>	<b>6,332,050</b>

Group	Loans and receivables	2009 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	2,782,164	-	2,782,164
Trade and other receivables	341,598	-	341,598
Financial investment	-	2,875,966	2,875,966
	<b>3,123,762</b>	<b>2,875,966</b>	<b>5,999,728</b>

#### FINANCIAL LIABILITIES

Group	Loans and other payables	2010 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(91,433)	-	(91,433)
Guaranteed index linked secured bond	-	(131,779,446)	(131,779,446)
Obligation under finance lease	-	(111,971,498)	(111,971,498)
Financial Guarantee fee payable to AGL	-	(2,047,472)	(2,047,472)
	<b>(91,433)</b>	<b>(245,798,416)</b>	<b>(245,889,849)</b>

Group	Loans and other payables	2009 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(164,136)	-	(164,136)
Guaranteed index linked secured bond	-	(133,004,211)	(133,004,211)
Obligation under finance lease	-	(111,740,366)	(111,740,366)
Financial Guarantee fee payable to AGL	-	(2,079,541)	(2,079,541)
	<b>(164,136)</b>	<b>(246,824,118)</b>	<b>(246,988,254)</b>

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

### 20.4. FINANCIAL RISK MANAGEMENT

The Group's debt and lease financing expose it to liquidity and interest rate risk. The Group's investments expose it to credit risk. The policies and strategies for managing these risks are summarised as follows:

#### 20.4.1 Interest rate risk

The Group's debt and lease financing arrangements provide for interest and rental payments that vary in line with the Retail Prices Index (RPI). Increases in the RPI will lead to increased interest and rental payments by the Group. This risk is mitigated by the fact that rental income from the Group's investment property is also linked to RPI such that increases in interest and rental payments will be met by an increase in the Group's rental income.

#### 20.4.2 Credit risk

The Group's significant financial assets are its bank balance and long term cash investment. The credit risk on these funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

#### 20.4.3 Liquidity risk

The Group's debt and lease financing commit it to future cash outflows. The funds to meet these commitments will be provided by the rental income from the Group's investment property. The security of the rental income from the investment property is addressed in the going concern section of the significant accounting policies note above.

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 (2009: Nil).

### 20.6. INTEREST RATE EXPOSURE

The interest rate exposure of the Group is as follows:

	2010		Total
	Fixed rate	Floating rate	
	£	£	£
Borrowings	-	(245,798,416)	(245,798,416)
Cash and cash equivalents	-	3,186,904	3,186,904
Long term cash deposits	3,022,770	-	3,022,770
	3,022,770	(242,611,512)	(239,588,742)

	2009		Total
	Fixed rate	Floating rate	
	£	£	£
Borrowings	-	(246,824,118)	(246,824,118)
Cash and cash equivalents	-	2,782,164	2,782,164
Long term cash deposits	2,875,966	-	2,875,966
	2,875,966	(244,041,954)	(241,165,988)

### 20.7. FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENTS

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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

	2010		2009	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	3,186,904	3,186,904	2,782,164	2,782,164
Long Term Cash Deposits	3,022,770	3,022,770	2,875,966	2,875,966
Trade and other receivables	122,376	122,376	341,598	341,598
Trade and other payables	(91,433)	(91,433)	(164,136)	(164,136)
Short term borrowings	(34,700)	(34,700)	(1,641,977)	(1,641,977)
Long term borrowings	(245,763,716)	(245,763,716)	(245,182,141)	(245,182,141)
	<b>(239,557,799)</b>	<b>(239,557,799)</b>	<b>(240,988,526)</b>	<b>(240,988,526)</b>

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 group is committed to make have been discounted at the relevant interest rates applicable at 31 July 2010

## 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
	A	B1	B2	C	Total
	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*

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2010

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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 £59,497 (2009 £58,187), inclusive of VAT, was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to Keele Residential Funding plc. At the year end a balance of £nil (2009 £nil) was due to Wilmington Trust SP Services (London) Limited. Wilmington Trust SP Services (London) Limited is a director of Keele Residential Funding plc and Mr McDermott and Mr Filer are directors of Wilmington Trust SP Services (London) Limited.

## **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 '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.