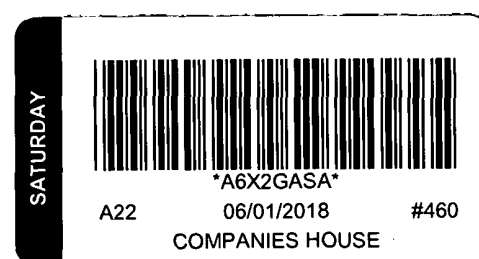


# KRF Holdings Limited

## REPORT AND FINANCIAL STATEMENTS

31 July 2017

Company Registration No. 03840094 (England & Wales)



# KRF Holdings Limited

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# KRF Holdings Limited

## DIRECTORS AND ADVISORS

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### DIRECTORS

Wilmington Trust SP Services (London) Limited  
Mark Filer – Resigned 11 April 2017  
Andreas Demosthenous  
Daniel Wynne – Appointed 27 March 2017

### REGISTERED OFFICE

Third Floor  
1 King's Arms Yard  
London,  
EC2R 7AF

### BANKERS

HSBC Bank Plc  
2 Etruria Office Village  
Forge Lane  
Festival Park  
Stoke on Trent  
ST1 5RQ.

### AUDITORS

Moore Stephens  
1 Lakeside  
Festival Way  
Festival Park  
Stoke on Trent  
ST1 5RY

### SECRETARY

Wilmington Trust SP Services (London) Limited

# KRF Holdings Limited

## STRATEGIC REPORT

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### 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.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

For the year 2017, the Group achieved total income of £11,240,388 (2016: £10,829,372) and the result for the year after tax, was a profit of £17,820,299 (2016: £24,485,761). The result in the year was positively affected 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 (2016: £nil).

The directors believe that the company's accommodation units will continue to attract student tenants at realistic rents throughout 2018.

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

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.

By order of the board



**D Wynne**  
Director

**30** November 2017

# 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 2017.

### DIRECTORS

The following directors have held office during the year:

Wilmington Trust SP Services (London) Limited  
Mark Filer – Resigned 11 April 2017  
Andreas Demosthenous  
Daniel Wynne – Appointed 27 March 2017

### 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



**D Wynne**  
Director  
Third Floor  
1 King's Arms Yard  
London,  
EC2R 7AF

**30** November 2017

# KRF Holdings Limited

## STATEMENT OF DIRECTORS' RESPONSIBILITIES


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The directors are responsible for preparing the Strategic Report, 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 International Financial Reporting Standards (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. 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.



**D Wynne**  
Director

**30** November 2017

# KRF Holdings Limited

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

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### Opinion

We have audited the financial statements of KRF Holdings Limited (the "parent company") and its subsidiaries for the year ended 31 July 2017 which comprise the consolidated income statement, consolidated balance sheet, company balance sheet, consolidated cash flow statement, consolidated statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. 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.

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 2017 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.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

# KRF Holdings Limited

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

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### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### *Carrying amount of investment property*

##### *The risk*

The Group calculates the carrying value of investment property at fair value. Annual valuations for its investment property are prepared by the Group using the present value of expected future cash flows. The key estimates used in this calculation are the discount rate and inflation rate determined at each reporting date.

The discount rate applied to future cash flows is based on the average yield on long dated AA rated corporate bonds and the estimate of future inflation is the difference in yield between long dated index linked and fixed interest government gilts.

##### *Our response*

We have reviewed the Group's calculations in determining the present value of future cash flows and in doing so have considered the estimates of discount rate and future inflation. We compared these estimates to published data for long dated AA rated corporate bonds and long dated index linked and fixed interest government gilts.

Further, we considered whether these rates had been applied correctly in calculating the present value of future cash flows. We discovered a material error in the calculation of the present value of future cash flows and hence the carrying value of investment property. The directors agreed to adjust the financial statements to recognise the correction of such error.

### **Our application of materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures.

Based on our professional judgement we determined materiality for these group financial statements to be £3.269m, being 1% of gross assets. Given the nature of the Group and the types of transactions undertaken we considered gross assets to be an appropriate benchmark on which to base materiality.

We reported to the Audit Committee all adjusting journals in excess of materiality and there were no unadjusted journals to report.

### **An overview of the scope of our audit**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the nature of its operations.



# KRF Holdings Limited

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

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We assessed and understood the controls in place within the organisation as part of our risk assessment. However, given the low volume and frequency of transactions, we obtained evidence primarily using substantive audit testing. Following our risk assessment and in consideration of materiality we determined the key areas on which to focus our testing.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

# KRF Holdings Limited

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

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### **Responsibilities of directors**

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the Financial Reporting Councils website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.



Ashley M Conway, *Senior Statutory Auditor*

For and on behalf of Moore Stephens, Statutory Auditor

1 Lakeside  
Festival Way  
Festival Park  
Stoke on Trent  
Staffordshire  
ST1 5RY

30 November 2017

**KRF Holdings Limited**  
**CONSOLIDATED INCOME STATEMENT**  
For the year ended 31 July 2017

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|   | Note | <b>2017</b><br>Group<br>£ | <b>2016</b><br>Group<br>£ |
|---|------|---------------------------|---------------------------|
| <b>CONTINUING OPERATIONS</b>            |      |                           |                           |
| REVENUE                                 | 4    | <b>11,240,388</b>         | 10,829,372                |
| Administrative expenses                 |      | <b>(333,863)</b>          | (279,292)                 |
| Gain on investment property revaluation |      | <b>19,752,834</b>         | 25,618,607                |
| <b>PROFIT FROM OPERATIONS</b>           | 5    | <b>30,659,359</b>         | 36,168,687                |
| Finance costs                           | 7    | <b>(10,911,168)</b>       | (9,173,714)               |
| Finance income                          | 8    | <b>248,351</b>            | 245,799                   |
| <b>PROFIT BEFORE TAX</b>                |      | <b>19,996,542</b>         | 27,240,772                |
| Income tax expense                      | 9    | <b>(2,176,243)</b>        | (2,755,011)               |
| <b>PROFIT FOR THE YEAR</b>              |      | <b>17,820,299</b>         | 24,485,761                |
| <b>ATTRIBUTABLE TO:</b>                 |      |                           |                           |
| <b>EQUITY HOLDERS OF THE PARENT</b>     |      | <b>17,820,299</b>         | 24,485,761                |

No separate Statement of Other Comprehensive Income 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 2017**

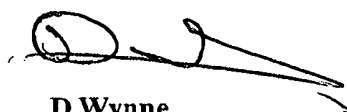
|   | Note | 2017<br>Group<br>£   | 2016<br>Group<br>£   |
|---|------|----------------------|----------------------|
| <b>ASSETS</b>   |      |                      |                      |
| <b>NON CURRENT ASSETS</b>   |      |                      |                      |
| Investment property   | 11   | 409,720,311          | 389,967,477          |
| Other financial assets  | 14   | 4,284,213            | 4,076,146            |
| <b>TOTAL NON CURRENT ASSETS</b>                                       |      | <b>414,004,524</b>   | <b>394,043,623</b>   |
| <b>CURRENT ASSETS</b>   |      |                      |                      |
| Trade and other receivables   | 15   | 242,272              | 267,145              |
| Cash and cash equivalents   | 16   | 3,664,330            | 3,513,053            |
| <b>TOTAL CURRENT ASSETS</b>   |      | <b>3,906,602</b>     | <b>3,780,198</b>     |
| <b>TOTAL ASSETS</b>   |      | <b>417,911,126</b>   | <b>397,823,821</b>   |
| <b>LIABILITIES</b>  |      |                      |                      |
| <b>CURRENT LIABILITIES</b>  |      |                      |                      |
| Trade and other payables  | 17   | (68,473)             | (57,577)             |
| Obligations under finance lease                                       | 18   | (566,882)            | (446,461)            |
| Other financial liabilities   | 19   | (61,347)             | (1,464,644)          |
| <b>TOTAL CURRENT LIABILITIES</b>                                      |      | <b>(696,702)</b>     | <b>(1,968,682)</b>   |
| <b>NON CURRENT LIABILITIES</b>  |      |                      |                      |
| Obligation under finance lease  | 18   | (110,466,988)        | (111,033,870)        |
| Financial liabilities   | 19   | (148,266,717)        | (146,337,092)        |
| Deferred tax liability  | 10   | (29,495,748)         | (27,319,505)         |
| <b>TOTAL NON CURRENT LIABILITIES</b>                                  |      | <b>(288,229,453)</b> | <b>(284,690,467)</b> |
| <b>TOTAL LIABILITIES</b>  |      | <b>(288,926,155)</b> | <b>(286,659,149)</b> |
| <b>NET ASSETS</b>   |      | <b>128,984,971</b>   | <b>111,164,672</b>   |
| <b>EQUITY</b>   |      |                      |                      |
| Share capital   | 21   | 50,000               | 50,000               |
| Retained earnings   |      | 128,934,971          | 111,114,672          |
| <b>ISSUED CAPITAL AND RESERVES<br/>ATTRIBUTABLE TO EQUITY HOLDERS</b> |      | <b>128,984,971</b>   | <b>111,164,672</b>   |
| <b>TOTAL EQUITY</b>   |      | <b>128,984,971</b>   | <b>111,164,672</b>   |

**KRF Holdings Limited**  
**COMPANY BALANCE SHEET**  
**At 31 July 2017**

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|   | Note | <u>2017</u>          | <u>2016</u>          |
|---|------|----------------------|----------------------|
|   |      | <b>Company</b>       | <b>Company</b>       |
|   |      | <b>£</b>             | <b>£</b>             |
| <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 9 to 30 was approved by the board of directors and authorised for issue on **30** November 2017 and was signed on its behalf by:

  
**D Wynne**  
 Director

**KRF Holdings Limited**  
**CONSOLIDATED CASH FLOW STATEMENT**  
For the year ended 31 July 2017

|   | Note | 2017<br>Group<br>£ | 2016<br>Group<br>£ |
|---|------|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |      |                    |                    |
| (Loss)/profit for the year                                  |      | 17,820,299         | 24,485,761         |
| <i>Adjustments for:</i>                                     |      |                    |                    |
| Finance costs   |      | 10,911,168         | 9,173,714          |
| Finance income  |      | (248,351)          | (245,799)          |
| Gain on investment property revaluation                     |      | (19,752,834)       | (25,618,607)       |
| Income tax expense  |      | 2,176,243          | 2,755,011          |
| <b>OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL</b>  |      | 10,906,525         | 10,550,080         |
| Decrease in trade and other receivables                     |      | 24,873             | 203,818            |
| Increase/(decrease) in trade and other payables             |      | 10,896             | (363,154)          |
| <b>CASH GENERATED BY OPERATIONS</b>                         |      | 10,942,294         | 10,390,744         |
| Income tax paid   |      | -                  | -                  |
| <b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>              |      | 10,942,294         | 10,390,744         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |      |                    |                    |
| Finance income  |      | 40,284             | 49,341             |
| <b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>              |      | 40,284             | 49,341             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |      |                    |                    |
| Payments made on lease and bonds                            |      | (10,831,301)       | (10,561,535)       |
| <b>NET CASH OUTFLOW FROM FINANCING ACTIVITIES</b>           |      | (10,831,301)       | (10,561,535)       |
| <b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b> |      | 151,277            | (121,450)          |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR          |      | 3,513,053          | 3,634,503          |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>         | 16   | 3,664,330          | 3,513,053          |

**KRF Holdings Limited**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
For the year ended 31 July 2017

| <b>GROUP</b>   | <b>Note</b> | <b>Share<br/>capital</b> | <b>Retained<br/>earnings</b> | <b>Total</b>              |
|--|-------------|--------------------------|------------------------------|---------------------------|
|  |             | <u>£</u>                 | <u>£</u>                     | <u>£</u>                  |
| Balance as at 31 July 2015                                   |             | 50,000                   | 86,628,911                   | 86,678,911                |
| Total recognised income and expense –<br>profit for the year |             | <u>-</u>                 | <u>24,485,761</u>            | <u>24,485,761</u>         |
| Balance as at 31 July 2016                                   |             | 50,000                   | 111,114,672                  | 111,164,672               |
| Total recognised income and expense –<br>profit for the year |             | <u>-</u>                 | <u>17,820,299</u>            | <u>17,820,299</u>         |
| <b>Balance as at 31 July 2017</b>                            | <b>21</b>   | <b><u>50,000</u></b>     | <b><u>128,934,971</u></b>    | <b><u>128,984,971</u></b> |

| <b>COMPANY</b>   | <b>Note</b> | <b>Share<br/>Capital</b> | <b>Retained<br/>earnings</b> | <b>Total</b>         |
|--|-------------|--------------------------|------------------------------|----------------------|
|  |             | <u>£</u>                 | <u>£</u>                     | <u>£</u>             |
| Balance as at 31 July 2015                                   |             | 50,000                   | -                            | 50,000               |
| Total recognised income and expense –<br>profit for the year |             | <u>-</u>                 | <u>-</u>                     | <u>-</u>             |
| Balance as at 31 July 2016                                   |             | 50,000                   | -                            | 50,000               |
| Total recognised income and expense –<br>profit for the year |             | <u>-</u>                 | <u>-</u>                     | <u>-</u>             |
| <b>Balance as at 31 July 2017</b>                            | <b>21</b>   | <b><u>50,000</u></b>     | <b><u>-</u></b>              | <b><u>50,000</u></b> |

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

---

### 1. GENERAL INFORMATION

KRF Holdings Limited and its subsidiaries are incorporated and operate in the United Kingdom. The company is a 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 those standards in issue but not in force. None of the new standards and amendments to standards that are mandatory for the first time for the financial year commencing 1 August 2016 affected any of the amounts recognised in the current period or any prior period.

##### *New IFRSs endorsed by the EU that have not yet begun to be applied*

IFRS 9 – Financial Instruments which is effective for accounting periods beginning on or after 1 January 2018 was endorsed by the EU on 22 November 2016. The standard is applicable to financial assets and financial liabilities, and covers the classification, measurement, impairment and de-recognition of financial assets and financial liabilities together with a new hedge accounting model. The standard is not expected to have a material impact on the Group's results

IFRS 15 – Revenue from Contracts with Customers which is effective for accounting periods beginning on or after 1 January 2018 was endorsed by the EU on 22 September 2016 and replaces IAS 18 – Revenue and IAS 11 – Construction Contracts. While the details of the Group's revenue policy will change as a result of adopting IFRS 15, the directors' preliminary analysis indicates that the adoption of the standard will not impact on revenue recognition to any significant extent. The directors consider that none of the other EU adopted International Financial Reporting Standards (IFRSs) in issue but not in force at the balance sheet date will have a material impact on these financial statements.

##### *New IFRSs not yet endorsed by the EU*

The directors have also considered International Financial Reporting Standards (IFRSs) which have not been endorsed by the EU and which are in issue but not in force at the balance sheet date. IFRS 16 – Leases sets out principles for the recognition, measurement, presentation and disclosure of leases. The standard eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 17 – Insurance Contracts, IFRIC 22 – Foreign Currency Transactions and Advance Consideration and IFRIC 23 – Uncertainty Over Income Tax Treatments become effective for accounting periods to July 2022, July 2019 and July 2020 respectively. The directors believe that the adoption of the aforementioned standards and interpretations will not have a significant impact on these financial statements.

#### 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.



# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

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

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

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

### 2.4. BASIS OF CONSOLIDATION

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

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

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

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

### 2.5. REVENUE RECOGNITION

#### FEE & RENTAL INCOME

Revenue is measured at the fair value of the consideration receivable and represents rent and fees receivable on a time basis net of discounts, VAT and other sales related taxes. Revenue is recognised in accordance with the terms of the contract.

#### 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. SEGMENTS

The Group operates in only one business segment as defined by IFRS 8 which is the rental of property. As the investment property is located wholly within the United Kingdom, no segmental analysis is presented.

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

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### 2.7. 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.

### 2.8. 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.

### 2.9. 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.

### 2.10. 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.

### 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.

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.

### 2.12. 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.

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

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### ***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.

## **2.13. 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:

### **2.13.1. 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.

### **2.13.2. 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.

### **2.13.3. 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.

### **2.13.4. Derecognition of financial assets**

The company 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 company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**KRF Holdings Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 July 2017**

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**2.14 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP**

**2.14.1. 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.

**2.14.2. 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.

**2.14.3. 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.

**2.14.4. 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 directors do not believe that they have had to make any significant judgements in relation to accounting policies in preparing these financial statements. Critical accounting estimates made by the Group 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 2017 is 3.35% (2016: 2.86%) 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 2.49% (2016: 2.43%) being the average yield on long dated AA rated corporate bonds at 31 July 2017. A decrease in the discount factor relative to the inflation factor as applied to the property valuation has caused a £19,752,834 increase in the property valuation. In future year's conditions may change resulting in 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**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 July 2017

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**4. REVENUE**

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

|  | 2017<br>Group<br>£       | 2016<br>Group<br>£       |
|--|--------------------------|--------------------------|
| <i>Continuing operations:</i>                      |                          |                          |
| Rental income from student accommodation           | 10,123,572               | 9,725,843                |
| Fee income from use of residences out of term time | <u>1,116,816</u>         | <u>1,103,529</u>         |
|  | <u><b>11,240,388</b></u> | <u><b>10,829,372</b></u> |

The Group earns all of its revenue from a single entity.

**5. PROFIT FROM OPERATIONS**

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

|   | 2017<br>£  | 2016<br>£    |
|---|------------|--------------|
| Gain on investment property revaluation (note 11) | 19,752,834 | 25,618,607   |
| <i>Auditors' remuneration</i>                     |            |              |
| Audit services                                    | 20,000     | 17,500       |
| Taxation services                                 | <u>-</u>   | <u>4,000</u> |

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

**6. STAFF COSTS**

|  | 2017     | 2016     |
|--|----------|----------|
| <b>Group</b>   |          |          |
| The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows: |          |          |
| Head office and administration   | <u>2</u> | <u>2</u> |

Staff remuneration in the year ended 31 July 2017 amounted to £nil (2016 - £nil)

**Key management and directors' remuneration**

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

**KRF Holdings Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 July 2017

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**7. FINANCE COSTS**

| <b>Group</b>               | <b>2017</b><br><b>£</b> | <b>2016</b><br><b>£</b> |
|----------------------------|-------------------------|-------------------------|
| Interest on secured bond   | 6,981,911               | 5,236,057               |
| Interest on finance leases | 3,890,942               | 3,899,150               |
| Interest on AGL liability  | 38,315                  | 38,507                  |
|                            | <u>10,911,168</u>       | <u>9,173,714</u>        |

**8. FINANCE INCOME**

| <b>Group</b>              | <b>2017</b><br><b>£</b> | <b>2016</b><br><b>£</b> |
|---------------------------|-------------------------|-------------------------|
| Interest on cash balances | <u>248,351</u>          | <u>245,799</u>          |

**9. INCOME TAX EXPENSE**

| <b>Group</b>                                      | <b>2017</b><br><b>£</b> | <b>2016</b><br><b>£</b> |
|---|-------------------------|-------------------------|
| <i>Recognised in the income statement:</i>        |                         |                         |
| Current tax                                       | -                       | -                       |
| Deferred tax:                                     |                         |                         |
| Origination and reversal of temporary differences | (3,693,993)             | (5,211,460)             |
| Movement in losses and other deductions           | 1,517,750               | 2,456,449               |
| Effect of tax rate change on opening balance      |                         |                         |
| Total deferred tax                                | <u>(2,176,243)</u>      | <u>(2,755,011)</u>      |
| Total tax (expense)/credit in income statement    | <u>(2,176,243)</u>      | <u>(2,755,011)</u>      |

*Reconciliation of effective tax rate*

|  | <b>2017</b><br><b>£</b> | <b>2016</b><br><b>£</b> |
|--|-------------------------|-------------------------|
| Group profit before tax                                    | <u>19,996,542</u>       | <u>27,240,772</u>       |
| Tax using the UK corporation tax rate of 19.67% (2016:18%) | (3,933,320)             | (4,903,339)             |
| <b>EFFECT OF:</b>  |                         |                         |
| Deferred tax rate adjustments                              | 1,517,750               | 2,456,449               |
| Other timing differences                                   | 327,146                 | (148,764)               |
| Annual allowance on lease premiums paid                    | (87,819)                | (159,357)               |
| <b>Total current tax charge and effective rate of tax</b>  | <u>(2,176,243)</u>      | <u>(2,755,011)</u>      |

**KRF Holdings Limited**  
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**10. DEFERRED TAX ASSETS AND (LIABILITIES)**

**Group**

| <b>Recognised deferred tax assets and (liabilities)</b> | <b>2017</b>                | <b>2016</b>                |
|---|----------------------------|----------------------------|
|   | <b>£</b>                   | <b>£</b>                   |
| <i>Analysis for financial reporting purposes:</i>       |                            |                            |
| Deferred tax assets                                     | <b>8,446,381</b>           | 8,751,164                  |
| Deferred tax liabilities                                | <b>(37,942,129)</b>        | (36,070,669)               |
| <b>Net position at the year end</b>                     | <b><u>(29,495,748)</u></b> | <b><u>(27,319,505)</u></b> |

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

|  | <b>Assets</b>           |                  | <b>Liabilities</b>         |                     | <b>Net</b>                 |                     |
|--|-------------------------|------------------|----------------------------|---------------------|----------------------------|---------------------|
|  | <b>2017</b>             | <b>2016</b>      | <b>2017</b>                | <b>2016</b>         | <b>2017</b>                | <b>2016</b>         |
|  | <b>£</b>                | <b>£</b>         | <b>£</b>                   | <b>£</b>            | <b>£</b>                   | <b>£</b>            |
| Assets/(liabilities) at beginning of the year    | <b>8,751,164</b>        | 9,804,393        | <b>(36,070,669)</b>        | (34,368,887)        | <b>(27,319,505)</b>        | (24,564,494)        |
| Charge/(credit) to income statement for the year | <b>(304,783)</b>        | (1,053,229)      | <b>(1,871,460)</b>         | (1,701,782)         | <b>(2,176,243)</b>         | (2,755,011)         |
| <b>Assets/(liabilities) at end of the year</b>   | <b><u>8,446,381</u></b> | <u>8,751,164</u> | <b><u>(37,942,129)</u></b> | <u>(36,070,669)</u> | <b><u>(29,495,748)</u></b> | <u>(27,319,505)</u> |

***Deferred tax assets and liabilities***

Deferred tax assets and liabilities are attributable to the following:

|                                     | <b>Assets</b>            |                         | <b>Liabilities</b>          |                            | <b>Net</b>                  |                            |
|-------------------------------------|--------------------------|-------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                                     | <b>Gross amount</b>      | <b>Tax amount</b>       | <b>Gross amount</b>         | <b>Tax amount</b>          | <b>Gross amount</b>         | <b>Tax amount</b>          |
|                                     | <b>2017</b>              | <b>2017</b>             | <b>2017</b>                 | <b>2017</b>                | <b>2017</b>                 | <b>2017</b>                |
|                                     | <b>£</b>                 | <b>£</b>                | <b>£</b>                    | <b>£</b>                   | <b>£</b>                    | <b>£</b>                   |
| Tax losses                          | <b>49,684,594</b>        | <b>8,446,381</b>        |                             |                            | <b>49,684,594</b>           | <b>8,446,381</b>           |
| Revaluations                        |                          |                         | <b>(223,189,001)</b>        | <b>(37,942,129)</b>        | <b>(223,189,001)</b>        | <b>(37,942,129)</b>        |
| <b>Net tax Assets/(liabilities)</b> | <b><u>49,684,594</u></b> | <b><u>8,446,381</u></b> | <b><u>(223,189,001)</u></b> | <b><u>(37,942,129)</u></b> | <b><u>(173,504,407)</u></b> | <b><u>(29,495,748)</u></b> |

|                                     | <b>Assets</b>            |                         | <b>Liabilities</b>          |                            | <b>Net</b>                  |                            |
|-------------------------------------|--------------------------|-------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                                     | <b>Gross amount</b>      | <b>Tax amount</b>       | <b>Gross amount</b>         | <b>Tax amount</b>          | <b>Gross amount</b>         | <b>Tax amount</b>          |
|                                     | <b>2016</b>              | <b>2016</b>             | <b>2016</b>                 | <b>2016</b>                | <b>2016</b>                 | <b>2016</b>                |
|                                     | <b>£</b>                 | <b>£</b>                | <b>£</b>                    | <b>£</b>                   | <b>£</b>                    | <b>£</b>                   |
| Tax losses                          | <b>48,617,578</b>        | <b>8,751,164</b>        |                             |                            | <b>48,617,578</b>           | <b>8,751,164</b>           |
| Revaluations                        |                          |                         | <b>(200,392,606)</b>        | <b>(36,070,669)</b>        | <b>(200,392,606)</b>        | <b>(36,070,669)</b>        |
| <b>Net tax Assets/(liabilities)</b> | <b><u>48,617,578</u></b> | <b><u>8,751,164</u></b> | <b><u>(200,392,606)</u></b> | <b><u>(36,070,669)</u></b> | <b><u>(151,775,028)</u></b> | <b><u>(27,319,505)</u></b> |

**KRF Holdings Limited**  
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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**

| <b>Group</b>                       | <b>2017<br/>Interest in<br/>lease<br/>£</b> | <b>2016<br/>Interest in<br/>lease<br/>£</b> |
|------------------------------------|---|---|
| <i>Fair value</i>                  |   |   |
| At beginning of year               | <b>389,967,477</b>                          | 364,348,870                                 |
| Increase in fair value in the year | <b>19,752,834</b>                           | 25,618,607                                  |
| At end of year                     | <b><u>409,720,311</u></b>                   | <u>389,967,477</u>                          |

The fair value of the Group's investment property at 31 July 2017 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.

**12. GOODWILL**

| <b>Group</b>                                 | <b>2017<br/>£</b>       | <b>2016<br/>£</b> |
|--|-------------------------|-------------------|
| <b>Cost</b>                                  |                         |                   |
| Balance at the beginning and end of the year | <b><u>591,832</u></b>   | <u>591,832</u>    |
| <b>Accumulated impairment losses</b>         |                         |                   |
| Balance at the beginning and end of the year | <b><u>(591,832)</u></b> | <u>(591,832)</u>  |
| <b>Carrying amount</b>                       |                         |                   |
| Balance at the beginning and end of the year | <b><u>-</u></b>         | <u>-</u>          |

**13. INVESTMENT IN SUBSIDIARY**

| <b>Company</b>                 | <b>2017<br/>Shares in<br/>subsidiaries<br/>£</b> | <b>2016<br/>Shares in<br/>subsidiaries<br/>£</b> |
|--------------------------------|--|--|
| <i>Cost and net book value</i> |  |  |
| At beginning and end of year   | <b><u>50,000</u></b>                             | <u>50,000</u>                                    |



**KRF Holdings Limited**  
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Details of the company's subsidiaries at 31 July 2017 are as follows:

| Name of the company           | Principal activity              | Place of incorporation | Proportion of shares acquired | Proportion of voting rights | Cost of acquisition<br>£ |
|-------------------------------|---------------------------------|------------------------|-------------------------------|-----------------------------|--------------------------|
| 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.

**14. OTHER FINANCIAL ASSETS**

| Group                     | 2017<br>£        | 2016<br>£        |
|---------------------------|------------------|------------------|
| Long term cash investment | <u>4,284,213</u> | <u>4,076,146</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   | 2017<br>£        | 2016<br>£        |
|---|------------------|------------------|
| <i>Amounts falling due within one year:</i>   |                  |                  |
| Trade receivables                             | 726,230          | 901,280          |
| Less: allowance for impairment of receivables | <u>(580,984)</u> | <u>(673,024)</u> |
|   | 145,246          | 228,256          |
| Prepayments and accrued income                | 97,026           | 38,889           |
| Social Security and other taxes               | <u>242,272</u>   | <u>267,145</u>   |

**16. CASH AND CASH EQUIVALENTS**

| Group                    | 2017<br>£        | 2016<br>£        |
|--------------------------|------------------|------------------|
| Cash at bank and in hand | <u>3,664,330</u> | <u>3,513,053</u> |

**KRF Holdings Limited**  
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**17. TRADE AND OTHER PAYABLES**

| <b>Group</b>                    | <b>2017</b>   | <b>2016</b>   |
|---------------------------------|---------------|---------------|
|                                 | <b>£</b>      | <b>£</b>      |
| Trade payables                  | -             | 13,892        |
| Accruals and deferred income    | 66,084        | 31,036        |
| Social Security and other taxes | 2,389         | 12,649        |
|                                 | <b>68,473</b> | <b>57,577</b> |

**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**

| <b>Group</b>                                    | <b>Minimum Lease Payments</b> |              | <b>Present Value of Minimum Lease Payments</b> |             |
|---|-------------------------------|--------------|--|-------------|
|   | <b>2017</b>                   | <b>2016</b>  | <b>2017</b>                                    | <b>2016</b> |
|   | <b>£</b>                      | <b>£</b>     | <b>£</b>                                       | <b>£</b>    |
| The borrowings are repayable as follows:        |                               |              |  |             |
| No later than 1 year                            | 4,318,695                     | 4,213,361    | 566,881  | 446,461     |
| Later than 1 year - not later than 5yrs         | 18,381,785                    | 17,933,449   | 3,610,224                                      | 3,058,540   |
| Later than 5 years                              | 166,901,912                   | 171,668,944  | 106,856,765                                    | 107,975,330 |
|   | 189,602,392                   | 193,815,754  | 111,033,870                                    | 111,480,331 |
| Less future financing charges                   | (78,568,522)                  | (82,335,423) | -  | -           |
| Present value of minimum lease payments         | 111,033,870                   | 111,480,331  | 111,033,870                                    | 111,480,331 |
| <i>Included in the financial statements as:</i> |                               |              |  |             |
| Current borrowings                              |                               |              | 566,882  | 446,461     |
| Non-current borrowings                          |                               |              | 110,466,988                                    | 111,033,870 |
|   |                               |              | 111,033,870                                    | 111,480,331 |

**18.3. FAIR VALUE**

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

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**19. FINANCIAL LIABILITIES**

**Group**

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

|  | <i>Current</i> |           | <i>Non-Current</i> |             |
|--|----------------|-----------|--------------------|-------------|
|  | 2017           | 2016      | 2017               | 2016        |
|  | £              | £         | £                  | £           |
| Guaranteed secured bond (see note 19.1)                | -              | 1,404,949 | <b>146,599,913</b> | 144,610,030 |
| Financial Guarantee fee payable to AGL (see note 19.2) | <b>61,347</b>  | 59,695    | <b>1,666,804</b>   | 1,727,062   |
|  | <b>61,347</b>  | 1,464,644 | <b>148,266,717</b> | 146,337,092 |

**19.1. GUARANTEED INDEX LINKED SECURED BOND**

During July 2007 the subsidiary company Keele Residential Funding 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 2017 the principal outstanding on the new bonds, on a cash-paid basis, was £117,695,686 (2016: £120,055,703).

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 Parent company, Citibank, N.A. and Assured Guaranty (UK) Ltd (AGL), 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 in note 19 has been stated at fair value arrived by discounting the future agreed payment using the relevant interest rates applicable at 31 July 2017.

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**20. FINANCIAL INSTRUMENTS**

**20.1. CAPITAL RISK MANAGEMENT**

Neither Group nor Company are subject to externally imposed capital requirements.

Capital is considered to comprise share capital and retained earnings; balances and movements in which are reported in the Statement of Changes in Equity.

The Group's assets and liabilities are constructed such that cash inflows and outflows are equalised. Any balance on retained earnings is timing differences resulting from differing accounting treatments applied to the assets and liabilities. No active management of capital is required. This capital strategy remains unchanged from 2016.

**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<br>receivables | 2017<br>Held for<br>maturity<br>investments | Total            |
|-----------------------------|--------------------------|---|------------------|
|                             | £                        | £   | £                |
| Cash at bank and in hand    | 3,664,330                | -   | 3,664,330        |
| Trade and other receivables | 242,272                  | -   | 242,272          |
| Financial investment        | -                        | 4,284,213                                   | 4,284,213        |
|                             | <b>3,906,602</b>         | <b>4,284,213</b>                            | <b>8,190,815</b> |

|                             | Loans and<br>receivables | 2016<br>Held for<br>maturity<br>investments | Total            |
|-----------------------------|--------------------------|---|------------------|
|                             | £                        | £   | £                |
| Cash at bank and in hand    | 3,513,053                | -   | 3,513,053        |
| Trade and other receivables | 228,256                  | -   | 228,256          |
| Financial investment        | -                        | 4,076,146                                   | 4,076,146        |
|                             | <b>3,741,309</b>         | <b>4,076,146</b>                            | <b>7,817,455</b> |

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**FINANCIAL LIABILITIES  
GROUP**

|  | Loans and<br>other<br>payables | 2017<br>Financial<br>liabilities held at<br>amortised cost | Total                |
|--|--------------------------------|--|----------------------|
|  | £                              | £  | £                    |
| Trade and other payables               | (68,473)                       | -  | (68,473)             |
| Guaranteed index linked secured bond   | -                              | (146,599,913)  | (146,599,913)        |
| Obligation under finance lease         | -                              | (111,033,870)  | (111,033,870)        |
| Financial Guarantee fee payable to AGL | -                              | (1,728,151)  | (1,728,151)          |
|  | <b>(68,473)</b>                | <b>(259,361,934)</b>                                       | <b>(259,430,407)</b> |

|  | Loans and<br>other payables | 2016<br>Financial<br>liabilities held at<br>amortised cost | Total                |
|--|-----------------------------|--|----------------------|
|  | £                           | £  | £                    |
| Trade and other payables               | (13,892)                    | -  | (13,892)             |
| Guaranteed index linked secured bond   | -                           | (146,014,979)  | (146,014,979)        |
| Obligation under finance lease         | -                           | (111,480,331)  | (111,480,331)        |
| Financial Guarantee fee payable to AGL | -                           | (1,786,757)  | (1,786,757)          |
|  | <b>(13,892)</b>             | <b>(259,282,067)</b>                                       | <b>(259,295,959)</b> |

**20.4. FINANCIAL RISK MANAGEMENT**

The Group's debt and lease financing expose it to liquidity and market 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. Market 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.

*Sensitivity analysis* - changes to RPI at the balance sheet date would not result in a material change to the reported profit as, in accordance with relevant accounting standards, relevant balances, and consequential gains or interest expenses, are calculated by reference to estimates of future inflation, calculated as the difference between long dated fixed and index linked gilts, and period end investment grade bond yields. The difference between long dated fixed and index linked gilts and bond yields do not represent real risks to the Group.

**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 required to be banks with a minimum credit rating assigned by international credit rating agencies as prescribed in an accounts agreement with the company. The maximum exposure to credit risk is the bank and long term investment balances of £3,664,330 (2016 - £3,513,053) and £4,284,213 (2016 - £4,076,146) respectively. No collateral is held.

**KRF Holdings Limited**  
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**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 note 2.3 of the significant accounting policies.

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 (2016: Nil).

**20.6. INTEREST RATE EXPOSURE**

The Group is not directly exposed to fluctuations in interest rates. The Group's liability under the guaranteed index linked secured bond is however exposed to variations in the retail price index (RPI).

If the RPI were increased by 1 index point then the Group's liability, at the balance sheet date, under the guaranteed index linked secured bond would increase by £585,259 (2016 - £596,995). However, the future cash inflows received under the contract with Keele University, accounted for as an investment property, are adjusted likewise to reflect changes to RPI and therefore this risk is managed.

**20.7. FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENT**

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

|                             | 2017          |               | 2016          |               |
|-----------------------------|---------------|---------------|---------------|---------------|
|                             | Book value    | Fair value    | Book value    | Fair value    |
|                             | £             | £             | £             | £             |
| Cash at bank and in hand    | 3,664,330     | 3,664,330     | 3,513,053     | 3,513,053     |
| Long Term Cash Deposits     | 4,284,213     | 4,284,213     | 4,076,146     | 4,076,146     |
| Trade and other receivables | 242,272       | 242,272       | 228,256       | 228,256       |
| Trade and other payables    | (68,473)      | (68,473)      | (13,892)      | (13,892)      |
| Short term borrowings       | (628,229)     | (628,229)     | (1,911,105)   | (1,911,105)   |
| Long term borrowings        | (258,733,705) | (357,739,074) | (257,370,962) | (249,813,492) |
|                             | (251,239,592) | (350,244,961) | (251,478,504) | (243,921,034) |

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. Guaranteed index linked secured bonds, included within long term borrowings, have been valued using published bond price indices at 31 July 2017. For the year ended 31 July 2016 the fair value of the guaranteed index linked secured bonds was determined by discounting, at the relevant interest rate, the repayments to which the Group was committed.

**KRF Holdings Limited**  
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**21. SHARE CAPITAL  
COMPANY**

|                              | A                                     | B1                                    | Authorised<br>B2                      | C                                     | Total  |
|------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------|
|                              | Ordinary<br>shares of<br>£1 each<br>£ | Ordinary<br>shares of<br>£1 each<br>£ | Ordinary<br>shares of<br>£1 each<br>£ | Ordinary<br>shares of<br>£1 each<br>£ | £      |
| At beginning and end of year | 49,850                                | 25                                    | 25                                    | 100                                   | 50,000 |

|                              | A                                     | B1                                    | B2                                    | C                                     | Total  |
|------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|--------|
|                              | Ordinary<br>shares of<br>£1 each<br>£ | Ordinary<br>shares of<br>£1 each<br>£ | Ordinary<br>shares of<br>£1 each<br>£ | Ordinary<br>shares of<br>£1 each<br>£ | £      |
| At beginning and end of year | 49,850                                | 25                                    | 25                                    | 100                                   | 50,000 |

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

*Income*

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

*On winding up*

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

*Votes*

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

*Appointment of directors*

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

**22. CAPITAL COMMITMENTS**

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

# KRF Holdings Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2017

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### **23. RELATED PARTY TRANSACTIONS**

During the year £76,547 (2016: £75,247), inclusive of VAT, was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to Keele Residential Funding plc and £9,024 (2016: £8,864) was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to KRF Management Limited. At the year-end a balance of £ Nil (2016: £ 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 Wynne is a director 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 'B' & '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.