

Keele Residential Funding plc
(formerly Owengate Keele plc)

REPORT AND FINANCIAL STATEMENTS

31 July 2006



Company Registration No 03840096

Keele Residential Funding plc (formerly Owengate Keele plc)

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Keele Residential Funding plc (formerly Owengate Keele plc)

DIRECTORS AND ADVISORS

DIRECTORS

Wilmington Trust SP Services (London) Limited

M McDermott

M Filer (appointed 1 November 2006)

R Samson (appointed 1 November 2006)

REGISTERED OFFICE

Tower 42 (Level 11)

25 Old Broad Street

London

EC2N 1HQ

BANKERS

Citibank N A

Citibank House

336 Strand

London

WC2R 1HB

AUDITORS

Keens Shay Keens – MK –

Sovereign Court

Central Milton Keynes

Buckinghamshire

MK9 2HR

SECRETARY

Wilmington Trust SP Services (London) Limited

Keele Residential Funding plc (formerly Owengate Keele plc)

DIRECTORS' REPORT

The directors submit their report and the financial statements of Keele Residential Funding plc (formerly Owengate Keele plc) for the year ended 31 July 2006

PRINCIPAL ACTIVITIES

The principal activity of the company is that of the collection of rental income from student accommodation located on the campus of Keele University

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

For the year 2006, the company achieved total income of £7,779,113 (2005 £7,787,599) and the result for the year was a profit of £1,640,605 (2005 £6,142,310)

No dividend was proposed or paid (2005 £nil)

The directors believe that the company's accommodation units will continue to attract student tenants at realistic rents throughout 2007

The key business risks affecting the company come from

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

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

The company paid a bonus to the managing agents for 2006, reflecting their performance in managing the lettable estate

Subsequent to the year end, the company has acquired the entire issued share capital of Owengate Structured Finance Limited. The acquired subsidiary currently has no material income or expense

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company'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 company'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 company manages this risk by prudent forecasting of rates and by careful selection of the investment vehicles for its cash reserves

Liquidity risk

The company'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 company manages this risk by careful forecasting and transferring any anticipated cash requirements into liquid funds accounts twice a year

Keele Residential Funding plc (formerly Owengate Keele plc)

DIRECTORS' REPORT

DIRECTORS

The following directors have held office since 1 August 2005

Wilmington Trust SP Services (London) Limited

M McDermott

M Filer (appointed 1 November 2006)

R Samson (appointed 1 November 2006)

R Baker (resigned 1 November 2006)

J Fairrie (resigned 1 November 2006)

DIRECTORS' INTERESTS IN SHARES

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

	<i>Ordinary shares of £1 each</i>	
	31 July 2006	31 July 2005
Wilmington Trust SP Services (London) Limited	1	1
M McDermott	-	-
M Filer	-	-
R Samson	-	-

The share held by Wilmington Trust SP Services (London) Limited represents a non-beneficial holding

EMPLOYEE INVOLVEMENT

The company's policy is to consult and discuss with employees matters likely to affect employees' interests. Information on matters of concern to employees is given through information bulletins and reports, which seek to achieve a common awareness on the part of all employees of the regular and frequent financial and economic factors affecting the group's performance.

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitudes.

POLICY ON PAYMENT OF CREDITORS

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

Trade creditor days based on creditors at 31 July 2006 were nil (2005: 3 days)

GOING CONCERN

The directors confirm that they are satisfied that the company 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

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

Keele Residential Funding plc (formerly Owengate Keele plc)

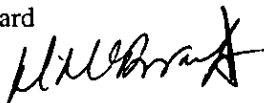
DIRECTORS' REPORT

AUDITORS

Subsequent to the signing of these financial statements, Keens Shay Keens – MK – resigned as auditors of the company and the directors appointed Ernst & Young LLP to fill the casual vacancy arising

A resolution to reappoint Ernst & Young LLP, Chartered Accountants, as auditors will be put to the members at the Annual General Meeting

By order of the board



M McDermott
Director

Tower 42 (Level 11)
25 Old Broad Street
London
EC2N 1HQ

6 June 2007

Keele Residential Funding plc (formerly Owengate Keele plc)

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

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

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

In preparing the financial statements, the directors are required to

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

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

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

Keele Residential Funding plc (formerly Owengate Keele plc)

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KEELE RESIDENTIAL FUNDING PLC

For the year ended 31 July 2006

We have audited the financial statements of Keele Residential Funding plc (Formerly Owengate Keele plc) for the year ended 31 July 2006 which comprise the Income Statement, Statement of Changes in Equity, Balance Sheet, Cash Flow Statement and the related notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' Responsibilities for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and whether the information given in the Directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit work in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in preparation of the financial statements, and of whether the accounting policies are appropriate for the company's circumstances consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give a reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Keele Residential Funding plc (formerly Owengate Keele plc)
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KEELE
RESIDENTIAL FUNDING PLC
For the year ended 31 July 2006

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs adopted by the European Union, of the state of the company's affairs as at 31 July 2006 and of its profit and cashflows for the period then ended and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' report is consistent with the financial statements.



KEENS SHAY KEENS-MK-
Chartered Accountants
& Registered Auditors

Sovereign Court
230 Upper 5th Street
Central Milton Keynes
MK9 2HR

6 JUNE 2007

Keele Residential Funding plc (formerly Owengate Keele plc)

INCOME STATEMENT

For the year ended 31 July 2006

	Note	2006 £	2005 £
CONTINUING OPERATIONS			
REVENUE	1	7,779,113	7,787,599
Administrative expenses		(737,088)	(356,021)
Gain on investment property revaluations		1,950,000	8,100,000
PROFIT FROM OPERATIONS	3	8,992,025	15,531,578
Finance costs	5	(7,465,083)	(7,550,646)
Finance income	6	291,574	309,762
PROFIT BEFORE TAX	1-6	1,818,516	8,290,694
Income tax expense	7	(177,911)	(2,148,384)
PROFIT FOR THE YEAR		1,640,605	6,142,310
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		1,640,605	6,142,310

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

Keele Residential Funding plc (formerly Owengate Keele plc)

BALANCE SHEET

At 31 July 2006

	Note	2006 £	2005 £
ASSETS			
NON CURRENT ASSETS			
Investment property	8	128,050,000	126,100,000
TOTAL NON CURRENT ASSETS		128,050,000	126,100,000
CURRENT ASSETS			
Trade and other receivables	10	1,540,210	1,602,246
Cash and cash equivalents	11	3,561,202	6,407,598
TOTAL CURRENT ASSETS		5,101,412	8,009,844
TOTAL ASSETS		133,151,412	134,109,844
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	(153,698)	(2,571,996)
Financial liabilities	13	(1,433,559)	(538,683)
TOTAL CURRENT LIABILITIES		(1,587,257)	(3,110,679)
NON CURRENT LIABILITIES			
Financial liabilities	13	(121,156,912)	(122,410,438)
Deferred tax liability	9	(3,900,944)	(3,723,033)
TOTAL NON CURRENT LIABILITIES		(125,057,856)	(126,133,471)
TOTAL LIABILITIES		(126,645,113)	(129,244,150)
NET ASSETS		6,506,299	4,865,694

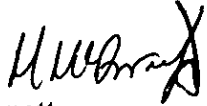
Keele Residential Funding plc (formerly Owengate Keele plc)

BALANCE SHEET

At 31 July 2006

	Note	2006 £	2005 £
EQUITY			
Share capital	15	50,000	50,000
Retained earnings		6,456,299	4,815,694
		<u> </u>	<u> </u>
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		6,506,299	4,865,694
		<u> </u>	<u> </u>
TOTAL EQUITY		6,506,299	4,865,694
		<u> </u>	<u> </u>

The financial statements on pages 8 to 43 were approved by the board of directors and authorised for issue on 6 June 2007 and were signed on its behalf by


M McDermott
Director

Keele Residential Funding plc (formerly Owengate Keele plc)
CASH FLOW STATEMENT
For the year ended 31 July 2006

	Note	2006 £	2005 £
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		1,640,605	6,142,310
<i>Adjustments for</i>			
Finance costs		7,285,050	7,383,148
Finance income		(291,574)	(309,762)
Gain on investment property revaluations		(1,950,000)	(8,100,000)
Income tax expense		177,911	2,148,384
		<hr/>	<hr/>
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		6,861,992	7,264,080
Decrease/(increase) in trade and other receivables		62,036	(46,393)
(Decrease)/increase in trade and other payables		(2,418,298)	2,410,766
		<hr/>	<hr/>
CASH GENERATED BY OPERATIONS		4,505,730	9,628,453
Income tax paid		-	-
		<hr/>	<hr/>
NET CASH FLOW FROM OPERATING ACTIVITIES		4,505,730	9,628,453
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		291,574	309,762
		<hr/>	<hr/>
NET CASH FLOW FROM INVESTING ACTIVITIES		291,574	309,762
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of secured bond and finance leases		(358,650)	(214,260)
Other finance costs		(7,285,050)	(7,383,148)
		<hr/>	<hr/>
NET CASH FLOW FROM FINANCING ACTIVITIES		(7,643,700)	(7,597,408)
		<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,846,396)	2,340,807
Cash and cash equivalents at beginning of year		6,407,598	4,066,791
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	11	3,561,202	6,407,598
		<hr/>	<hr/>

Keele Residential Funding plc (formerly Owengate Keele plc)

CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 July 2006

	Share capital £	Retained earnings £	Total £
At 31 July 2004	50,000	(1,326,616)	(1,276,616)
Total recognised income and expense – profit for the year	-	6,142,310	6,142,310
At 31 July 2005	50,000	4,815,694	4,865,694
Total recognised income and expense – profit for the year	-	1,640,605	1,640,605
At 31 July 2006	50,000	6,456,299	6,506,299

Keele Residential Funding plc (formerly Owengate Keele plc)

ACCOUNTING POLICIES

BASIS OF PREPARATION

Keele Residential Funding plc (formerly Owengate Keele plc) is incorporated and trades in the United Kingdom. The company is a public company limited by shares. The company's shares are not traded on an exchange.

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 August 2004 for the purposes of the transition to Adopted IFRSs.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 18.

TRANSITION TO ADOPTED IFRSs

The company is preparing its financial statements in accordance with Adopted IFRSs for the first time and consequently has applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the company is provided in note 23.

IFRS 1 grants certain exemptions from the full requirements of IFRSs in the transition period. The following exemption has been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 August 2004 have not been restated.

The company has chosen to adopt IFRS 7 'Financial instruments: Disclosure' in these financial statements. IFRS 7 is mandatory for accounting periods commencing on or after 1 January 2007 but early adoption is encouraged. IFRS 7 replaces the disclosure requirements of IAS 32.

MEASUREMENT CONVENTION

The financial statements are prepared on the historical cost basis except that certain financial instruments and investment properties are stated at their fair value.

REVENUE

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

Keele Residential Funding plc (formerly Owengate Keele plc)

ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

Classification of financial instruments issued by the company

Following the adoption of IAS 32 and IFRS 7, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company, and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Recognition and valuation of financial instruments

Financial assets or liabilities are recognised when, and only when the company becomes a party to the contractual provisions of the instrument.

Borrowings are measured at their amortised cost unless they are matched by an associated effective hedging financial instrument in which case they are stated at their fair value.

Cash and cash equivalents comprise cash in hand and demand deposits and overdrafts together with highly liquid investments of less than three months maturity. Unless an enforceable right of set-off exists, the components of cash and cash equivalents are reflected on a gross basis in the balance sheet.

The carrying value of other financial assets and liabilities, including short-term receivables and payables, are stated at amortised cost less any impairment provision unless the impact of the time value of money is considered to be material.

Keele Residential Funding plc (formerly Owengate Keele plc)

ACCOUNTING POLICIES

FINANCE COSTS

Net financing costs comprise interest payable and other borrowing costs

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

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

FINANCE INCOME

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount

INVESTMENT PROPERTY

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

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

LEASED ASSETS

Finance leases

Assets held under finance leases are recognised as assets of the company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income

IMPAIRMENT

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

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

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

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

Keele Residential Funding plc (formerly Owengate Keele plc)

ACCOUNTING POLICIES

IMPAIRMENT (continued)

Calculation of recoverable amount

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

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

Reversal of impairment

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

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

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

TAXATION AND DEFERRED TAXATION

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised.

PROVISIONS

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation.

Keele Residential Funding plc (formerly Owengate Keele plc)

ACCOUNTING POLICIES

ADOPTED IFRS NOT YET APPLIED

The following adopted IFRSs were available but have not been applied by the company in these financial statements

- IAS 1 (Amendment) 'Presentation of financial statements' – effective for annual periods beginning on or after 1 January 2007
- IAS 21 (Amendment) 'The effects of changes in foreign exchange rates' – effective for annual periods beginning on or after 1 January 2006
- IFRS 8 'Operating segments' – effective for annual periods beginning on or after 1 January 2009
- IFRIC 4 'Determining whether an arrangement contains a lease' – effective for annual periods beginning on or after 1 January 2006
- IFRIC 5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds incorporating an amendment to IAS 39 Financial Instruments recognition and Measurement' – effective for annual periods beginning on or after 1 January 2006
- IFRIC 6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment' – effective for annual periods beginning on or after 1 December 2005
- IFRIC 7 'Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Economies' – effective for annual periods beginning on or after 1 March 2006
- IFRIC 8 'Scope of IFRS 2' – effective for annual periods beginning on or after 1 May 2006
- IFRIC 9 'Reassessment of embedded derivatives' – effective for annual periods beginning on or after 1 June 2006
- IFRIC 10 'Interim financial reporting and impairment' – effective for annual periods beginning on or after 1 November 2006
- IFRIC 11 'IFRS 2 – Group and treasury share transactions' – effective for annual periods beginning on or after 1 March 2007
- IFRIC 12 'Service concession arrangements' – effective for annual periods beginning on or after 1 January 2008

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

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

1 REVENUE

An analysis of the company's revenue is as follows

	2006	2005
	£	£
<i>Continuing operations</i>		
Rental income from student accommodation	6,975,578	7,003,662
Fee income from use of residences out of term time	803,535	783,937
	7,779,113	7,787,599

2 SEGMENTAL ANALYSIS

The company is managed by type of business. Segmental information is provided having regard to the nature of the goods and services provided and the markets served.

Primary reporting format – Business Segments

For the year ended 31 July 2006	Rental income from student accommodation	Fee income from use of residences out of term time	Corporate & unallocated	Total as reported for the company
	£	£	£	£
REVENUE	6,975,578	803,535	-	7,779,113
PROFIT/(LOSS) FROM OPERATIONS	7,787,513	1,398,954	(194,442)	8,992,025
Finance costs	-	-	(7,465,083)	(7,465,083)
Finance income	-	-	291,574	291,574
PROFIT/(LOSS) BEFORE TAX	7,787,513	1,398,954	(7,367,951)	1,818,516
SEGMENT ASSETS				
Non current assets	73,875,000	54,175,000	-	128,050,000
Current assets	107,910	79,134	4,914,368	5,101,412
TOTAL ASSETS	73,982,910	54,254,134	4,914,368	133,151,412
SEGMENT LIABILITIES				
Current liabilities	-	-	(1,587,257)	(1,587,257)
Non current liabilities	-	-	(125,057,856)	(125,057,856)
TOTAL LIABILITIES	-	-	(126,645,113)	(126,645,113)

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

2 SEGMENTAL ANALYSIS (continued)

	Rental income from student accommodation	Fee income from use of residences out of term time	Corporate & unallocated	Total as reported for the company
	£	£	£	£
OTHER SEGMENT ITEMS				
Capital expenditure property, plant & equipment	-	-	-	-

All business segments shown above are continuing

Non-corporate expenses, investment property and trade receivables have been allocated to segments based on a time apportionment basis for Keele University as follows

- Rental income from student accommodation – 30 weeks per annum
- Fee income from use of residences out of term time – 22 weeks per annum

For the year ended 31 July 2005	Rental income from student accommodation	Fee income from use of residences out of term time	Corporate & unallocated	Total as reported for the company
	£	£	£	£
REVENUE	7,003,662	783,937	-	7,787,599
PROFIT/(LOSS) FROM OPERATIONS	11,499,303	4,080,739	(48,464)	15,531,578
Finance costs	-	-	(7,550,646)	(7,550,646)
Finance income	-	-	309,762	309,762
PROFIT/(LOSS) BEFORE TAX	11,499,303	4,080,739	(7,289,348)	8,290,694
SEGMENT ASSETS				
Non current assets	72,750,000	53,350,000	-	126,100,000
Current assets	171,279	125,605	7,712,960	8,009,844
TOTAL ASSETS	72,921,279	53,475,605	7,712,960	134,109,844
SEGMENT LIABILITIES				
Current liabilities	-	-	(3,110,679)	(3,110,679)
Non current liabilities	-	-	(126,133,471)	(126,133,471)
TOTAL LIABILITIES	-	-	(129,244,150)	(129,244,150)
OTHER SEGMENT ITEMS				
Capital expenditure property, plant & equipment	-	-	-	-

All business segments shown above are continuing

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

2 SEGMENTAL ANALYSIS (continued)

Non-corporate expenses, investment property and trade receivables have been allocated to segments based on a time apportionment basis for Keele University as follows

- Rental income from student accommodation – 30 weeks per annum
- Fee income from use of residences out of term time – 22 weeks per annum

Secondary reporting format – Geographical Segments

	Sales		Segment assets		Capital expenditure	
	2006	2005	2006	2005	2006	2005
	£	£	£	£	£	£
<i>Continuing operations</i>						
United Kingdom	7,779,113	7,787,599	133,151,412	134,109,844	-	-

The sales analysis in the above table is based on the location of the assets

3 PROFIT FROM OPERATIONS

Profit for the year has been arrived at after charging

	2006	2005
	£	£
Auditors' remuneration for audit services	8,700	4,470
<i>Auditors' remuneration</i>		
Audit services		
- Statutory audit	8,700	4,470
Tax services		
- Compliance services	-	-
- Advisory services	-	-
	8,700	4,470

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

4 STAFF COSTS

	2006	2005
	£	£
The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows		
Head office and administration	3	3

None of the directors received remuneration from the company during the year (2005 £nil)

KEY MANAGEMENT AND DIRECTORS REMUNERATION

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

5 FINANCE COSTS

	2006	2005
	£	£
Interest on secured bond	4,626,950	4,628,980
Finance charges allocated to the year	180,033	167,498
Interest on finance leases	2,658,100	2,754,168
	7,465,083	7,550,646

6 FINANCE INCOME

	2006	2005
	£	£
Interest on cash balances	291,574	309,762

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

7 INCOME TAX EXPENSE

	2006		2005	
	£	£	£	£
<i>Recognised in the income statement</i>				
Current tax				
Current year	-		-	
	<u> </u>		<u> </u>	
Total current tax		-		-
Deferred tax				
Origination and reversal of temporary differences	177,911		2,148,384	
	<u> </u>		<u> </u>	
Total deferred tax		177,911		2,148,384
		<u> </u>		<u> </u>
Total tax in income statement		177,911		2,148,384
		<u> </u>		<u> </u>

<i>Reconciliation of effective tax rate</i>		2006	2005
		£	£
Profit before tax		1,818,516	8,290,694
		<u> </u>	<u> </u>
Tax using the UK corporation tax rate of 30%		545,555	2,487,208
Tax deductions available		(367,644)	(338,824)
		<u> </u>	<u> </u>
Total tax in income statement		177,911	2,148,384
		<u> </u>	<u> </u>

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

8 INVESTMENT PROPERTY

	2006	2005
	Buildings	Buildings
	£	£
<i>Fair value</i>		
At beginning of year	126,100,000	118,000,000
Increase in fair value in the year	1,950,000	8,100,000
	<hr/>	<hr/>
At end of year	128,050,000	126,100,000
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the company's investment property at 31 July 2006 has been arrived at on the basis of a valuation carried out by the directors, and concurred as being fair and reasonable by professional valuers, Atisreal UK at that date. The valuation is based on the gross value of the leasehold interest, which comprises a valuation of the rights under the lease, but ignoring the obligation to pay rent.

The company has pledged all of its investment property to secure general banking facilities granted to the company.

The property rental income earned by the company from its investment property, all of which is leased out under operating leases, and direct operating expenses is disclosed in Note 2.

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

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

9 DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

	2006 £	2005 £
<i>Analysis for financial reporting purposes</i>		
Deferred tax assets	-	-
Deferred tax liabilities	(3,900,944)	(3,723,033)
Net position at the year end	(3,900,944)	(3,723,033)

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

	2006 £	2005 £
Liability at beginning of year	(3,723,033)	(1,574,649)
Charge to income statement for the year	(177,911)	(2,148,384)
Liability at end of year	(3,900,944)	(3,723,033)

There is no unprovided deferred tax

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £
Tax losses	4,560,707	4,207,628	-	-	4,560,707	4,207,628
Other timing differences	-	-	(1,932,169)	(1,986,179)	(1,932,169)	(1,986,179)
Revaluations	-	-	(6,529,482)	(5,944,482)	(6,529,482)	(5,944,482)
Net tax assets/(liabilities)	4,560,707	4,207,628	(8,461,651)	(7,930,661)	(3,900,944)	(3,723,033)

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

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

10 TRADE AND OTHER RECEIVABLES

	2006 £	2005 £
<i>Amounts falling due within one year</i>		
Trade receivables	310,448	296,884
Less provision for impairment of receivables	(123,404)	-
	<u>187,044</u>	<u>296,884</u>
Prepayments and accrued income	1,353,166	1,305,362
	<u>1,540,210</u>	<u>1,602,246</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value

Provision for impairment of receivables

At start of year	-
Impairment charged in the year	123,404
At end of year	<u>123,404</u>

The age profile of the net trade receivables (representing unpaid student rents) at the year end is as follows

2006	Debt age – student rents unpaid						Total
	Year 2000/01	Year 2001/02	Year 2002/03	Year 2003/04	Year 2004/05	Year 2005/06	
<i>Trade receivables</i>							
- Value (£)	-	-	-	-	50,094	136,950	187,044
- %	-	-	-	-	27	73	100
2005	Debt age – student rents unpaid						Total
	Year 1999/00	Year 2000/01	Year 2001/02	Year 2002/03	Year 2003/04	Year 2004/05	
<i>Trade receivables</i>							
- Value (£)	24,249	20,377	27,226	46,684	58,301	120,047	296,884
- %	8	7	9	16	20	40	100

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

11 CASH AND CASH EQUIVALENTS

	2006	2005
	£	£
Cash at bank and in hand	3,561,202	6,407,598
	<u> </u>	<u> </u>

12 TRADE AND OTHER PAYABLES

	2006	2005
	£	£
Bank overdraft	490	-
Accruals and deferred income	153,208	2,571,996
	<u> </u>	<u> </u>
	153,698	2,571,996
	<u> </u>	<u> </u>

13 FINANCIAL LIABILITIES

This note provides information about the contractual terms of the company and interest bearing loans and borrowings. For more information about the company's exposure to interest rate and foreign currency risk see note 14.

	2006	2005
	£	£
<i>Current liabilities</i>		
Guaranteed secured bond	191,629	60,857
Obligations under finance leases	1,241,930	477,826
	<u> </u>	<u> </u>
	1,433,559	538,683
	<u> </u>	<u> </u>
<i>Non-current liabilities</i>		
Guaranteed secured bond	64,073,841	64,085,437
Obligations under finance leases	57,083,071	58,325,001
	<u> </u>	<u> </u>
	121,156,912	122,410,438
	<u> </u>	<u> </u>

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

13 FINANCIAL LIABILITIES (continued)

Guaranteed secured bond

Interest is payable on the financial instruments at a fixed rate of 6.67% with payments made half yearly, thereby limiting the company's exposure to interest rate risk. The principal is repayable by instalments, which commenced in January 2006, in accordance with issue documents, the final amounts to be repaid in 2029. The interest and capital repayments have been spread over the repayment period in accordance with IAS 32 'Financial Instruments Presentation'. At 31 July 2006 the principal outstanding on the bond, on a cash-paid basis, was £69,339,143 (2005 £69,400,000).

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

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

Obligations under finance leases

The finance lease relates to the acquisition of a leasehold interest in the investment property as shown in note 8. Lease payments are increased year on year at the greater of 2.5% and RPI - X. There are no financial restrictions imposed by the lease agreement.

Terms and debt repayment schedule

	2006 £	2005 £
Guaranteed secured bond	64,265,470	64,146,294
Obligations under finance leases	58,325,001	58,802,827
	<hr/>	<hr/>
Borrowings	122,590,471	122,949,121
	<hr/>	<hr/>
The borrowings are repayable as follows	2006 £	2005 £
On demand or within one year	1,433,559	538,683
In the second year	817,763	1,433,559
In the third to fifth years inclusive	4,247,558	3,325,486
After five years	116,091,591	117,651,393
	<hr/>	<hr/>
	122,590,471	122,949,121
	<hr/>	<hr/>

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

14 FINANCIAL INSTRUMENTS

All financial instruments held by the company, as detailed in this note, are classified as "Loans and Receivables" and "Financial Liabilities Measured at Amortised Cost" under IAS 39

FINANCIAL RISK MANAGEMENT

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

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

(a) Foreign exchange risk

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

(b) Interest rate risk

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

As at 31 July 2006, £3,561,202 (2005 £6,407,598) was on deposit with various banks. A 1% change in interest rates would have a £35,612 (2005 £64,076) impact on profit before tax. The guaranteed secured bond is at a fixed rate of 6.67% and therefore the company is not exposed to interest rate risk on this financial instrument.

(c) Credit risk

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

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

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

Note 10 sets out the impairment provision for credit losses on trade receivables and the ageing analysis of overdue trade receivables. There are no impairment losses recognised on other financial assets.

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

14 FINANCIAL INSTRUMENTS (continued)

(d) Liquidity risk

The company actively maintains facilities that are designed to ensure the company has sufficient funds for operations and planned expansions. The maturity analysis of financial liabilities is given in note 13.

ANALYSIS BY CURRENCY

	Borrowings		Cash and cash equivalents	
	2006	2005	2006	2005
	£	£	£	£
Sterling	(122,590,471)	(122,949,121)	3,561,202	6,407,598

UNDRAWN COMMITTED BORROWING FACILITIES

At the year end the company had the following undrawn committed borrowing facilities:

	2006	2005
	£	£
Expiring within one year	-	-

INTEREST RATE EXPOSURE

The interest rate exposure of the company is as follows:

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

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

14 FINANCIAL INSTRUMENTS (continued)

	2005			Total
	Fixed rate	Floating rate	Non- interest bearing	
	£	£	£	£
Borrowings	(122,949,121)	-	-	(122,949,121)
Cash and cash equivalents	-	6,407,598	-	6,407,598
	<u>(122,949,121)</u>	<u>6,407,598</u>	<u>-</u>	<u>(116,541,523)</u>

FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENTS

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

	2006		2005	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	3,561,202	3,561,202	6,407,598	6,407,598
Trade and other receivables	1,540,210	1,540,210	1,602,246	1,602,246
Trade and other payables	(153,698)	(153,698)	(2,571,996)	(2,571,996)
Short term borrowings	(1,433,559)	(1,433,559)	(538,683)	(538,683)
Long term borrowings	(121,156,912)	(143,029,844)	(122,410,438)	(139,671,819)
	<u>(117,642,757)</u>	<u>(139,515,689)</u>	<u>(117,511,273)</u>	<u>(134,772,654)</u>

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

Short-term borrowings, cash and deposits approximate to book value due to their short maturities. For bank and other loans, carrying fixed rates of interest, included within long term borrowings, the repayments which the company is committed to make have been discounted at the relevant interest rates applicable at 31 July 2006

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

15 SHARE CAPITAL

	Authorised A Ordinary shares of £1 each Number
At beginning and end of year	50,000
	<hr/>
	Allotted, called up and fully paid A Ordinary shares of £1 each Number
At beginning and end of year	50,000
	<hr/>

Each of the ordinary shares carries one vote per share and is entitled to dividends at the discretion of the directors. There are no restrictions on any of the shares.

16 CAPITAL COMMITMENTS

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

17 RELATED PARTY TRANSACTIONS

During the year £20,308 (2005: £19,339) was charged by Wilmington Trust SP Services (London) Limited for corporate services. Wilmington Trust SP Services (London) Limited is a director of Keele Residential Funding plc (formerly Owengate Keele plc) and Mr M McDermott and Mr M Filer are directors of Wilmington Trust SP Services (London) Limited.

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

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

18 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Impairment provisions

The company has investment properties of £128,050,000 (2005 £126,100,000) and gross trade receivables of £310,448 (2005 £296,884). No impairment provision has been provided against the investment properties as management have calculated the recoverable amount to be in excess of carrying value. An impairment provision of £123,404 has been made against the 2006 trade receivables.

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

Classification of leases

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

Valuation of investment property

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

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

19 POST BALANCE SHEET EVENTS

The company and its advisers have been considering revisions to the scope of the company's operations and its funding

The directors anticipate that shortly after the finalisation of these financial statements the company will implement the following arrangements, which are conditional upon each other

- 1 Approach the holders of the company's existing listed bond, seeking an early repayment of the principal and accrued interest. The existing bond does not include terms for early repayment. However, the directors anticipate that the company will need to pay a premium of a currently undetermined amount to achieve the prepayment,
- 2 Enter into an agreement with Keele University for two further leases of student accommodation properties, the first, of additional land to enable new student accommodation to be constructed for the benefit of the company (the "Supplemental Lease") and with a term expiring at the same time as the existing lease of student accommodation held by the company, and the second, with a term commencing on expiry of the Supplemental Lease and the existing lease and continuing to 31 July 2047, to include the land let by both leases
- 3 Launch a new bond, to be listed on the London Stock Exchange, for a term expiring in 2047 and for an amount which reflects the additional future income available to the company from the revised lease arrangements noted above

Since none of these arrangements were in place or were certain of being undertaken at the time these financial statements were approved and authorised for issue, the financial statements for the year ended 31 July 2006 do not reflect either the costs or the benefits of the arrangements

20 CONTINGENT LIABILITY

Success fees totalling £1,600,000 are payable to certain parties upon the successful refinancing as detailed in note 19. Due to the uncertain outcome of the above arrangements these success fees have not been accrued in the financial statements for the year ended 31 July 2006

21 ULTIMATE CONTROLLING PARTY

The parent company is KRF Holdings Limited. Copies of the consolidated accounts can be obtained from Companies House Cardiff

Operational control is deemed to be held by Financial Security Assurance (UK) Limited, a company registered in England and Wales

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

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

22 PRIOR YEAR ADJUSTMENT

An error has been identified in the treatment of licence fee income. The company has been recognising licence fee income on the basis of a calendar year (January to December). The licence fees, however, relate to academic years (August to July).

An error has also been identified in relation to deferred tax liabilities in which a timing difference was treated as a permanent difference.

These errors relate to the UK GAAP financial statements and originate before the date of transition to IFRS (1 August 2004).

Therefore a prior year adjustment has been booked to the UK GAAP accounts for the years ended 31 July 2004 and 2005, prior to conversion to IFRS. Note 23 shows the effect of transition to IFRS by reconciling the restated UK GAAP financial statements to the IFRS financial statements.

The following tables show the effect of the prior year adjustment on the UK GAAP balance sheets at 1 August 2004 and 31 July 2005 and on the UK GAAP profit and loss account for the year ended 31 July 2005.

(Note: The UK GAAP balance sheets and profit and loss account have been shown in IFRS format for comparability with note 23.)

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

22 PRIOR YEAR ADJUSTMENT (continued)

UK GAAP balance sheet at 1 August 2004	As previously stated	Adjustment for licence fees and deferred tax	As restated and shown in note 23
	£	£	£
ASSETS			
NON-CURRENT ASSETS			
Investment properties	47,100,477	-	47,100,477
Deferred tax asset	4,024,327	(2,084,494)	1,939,833
TOTAL NON-CURRENT ASSETS	51,124,804	(2,084,494)	49,040,310
CURRENT ASSETS			
Trade and other receivables	1,555,853	-	1,555,853
Cash and cash equivalents	4,066,791	-	4,066,791
TOTAL CURRENT ASSETS	5,622,644	-	5,622,644
TOTAL ASSETS	56,747,448	(2,084,494)	54,662,954
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	(491,224)	329,994	(161,230)
Financial liabilities	-	-	-
TOTAL CURRENT LIABILITIES	(491,224)	329,994	(161,230)
NON-CURRENT LIABILITIES			
Financial liabilities	(63,978,796)	-	(63,978,796)
TOTAL NON-CURRENT LIABILITIES	(63,978,796)	-	(63,978,796)
TOTAL LIABILITIES	(64,470,020)	329,994	(64,140,026)
NET LIABILITIES	(7,722,572)	(1,754,500)	(9,477,072)
EQUITY			
Share capital	50,000	-	50,000
Retained earnings (brought forward)	(6,279,075)	(1,754,500)	(8,033,575)
Retained earnings (current year)	(1,493,497)	-	(1,493,497)
TOTAL EQUITY	(7,722,572)	(1,754,500)	(9,477,072)

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

22 PRIOR YEAR ADJUSTMENT (continued)

UK GAAP balance sheet at 31 July 2005	As previously stated	Adjustment for licence fees and deferred tax	As restated and shown in note 23
	£	£	£
ASSETS			
NON-CURRENT ASSETS			
Investment properties	45,253,401	-	45,253,401
Deferred tax asset	4,355,675	(1,802,878)	2,552,797
TOTAL NON-CURRENT ASSETS	49,609,076	(1,802,878)	47,806,198
CURRENT ASSETS			
Trade and other receivables	1,602,246	-	1,602,246
Cash and cash equivalents	6,407,598	-	6,407,598
TOTAL CURRENT ASSETS	8,009,844	-	8,009,844
TOTAL ASSETS	57,618,920	(1,802,878)	55,816,042
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	(2,901,990)	329,994	(2,571,996)
Financial liabilities	(60,857)	-	(60,857)
TOTAL CURRENT LIABILITIES	(2,962,847)	329,994	(2,632,853)
NON-CURRENT LIABILITIES			
Financial liabilities	(64,085,437)	-	(64,085,437)
TOTAL NON-CURRENT LIABILITIES	(64,085,437)	-	(64,085,437)
TOTAL LIABILITIES	(67,048,284)	329,994	(66,718,290)
NET LIABILITIES	(9,429,364)	(1,472,884)	(10,902,248)
EQUITY			
Share capital	50,000	-	50,000
Retained earnings (brought forward)	(7,772,572)	(1,754,500)	(9,527,072)
Retained earnings (current year)	(1,706,792)	281,616	(1,425,176)
TOTAL EQUITY	(9,429,364)	(1,472,884)	(10,902,248)

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

22 PRIOR YEAR ADJUSTMENT (continued)

UK GAAP profit and loss account for the year ended 31 July 2005	As previously stated	Adjustment for licence fees and deferred tax	As restated and shown in note 23
	£	£	£
REVENUE	7,787,599	-	7,787,599
Administrative expenses	(5,339,023)	-	(5,339,023)
Gain/(loss) on investment property revaluations	-	-	-
	<hr/>	<hr/>	<hr/>
PROFIT FROM OPERATIONS	2,448,576	-	2,448,576
Finance costs	(4,796,478)	-	(4,796,478)
Finance income	309,762	-	309,762
	<hr/>	<hr/>	<hr/>
LOSS BEFORE TAX	(2,038,140)	-	(2,038,140)
Income tax expense	331,348	281,616	612,964
	<hr/>	<hr/>	<hr/>
LOSS FOR THE YEAR	(1,706,792)	281,616	(1,425,176)
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Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

23 EXPLANATION OF TRANSITION TO IFRS

As stated in the accounting policies, these are the company's first financial statements prepared in accordance with Adopted IFRSs

The accounting policies have been applied in preparing the financial statements for the year ended 31 July 2006, the comparative information presented in these financial statements for the year ended 31 July 2005 and in the preparation of an opening IFRS balance sheet at 1 August 2004 (the company's date of transition)

In preparing its opening IFRS balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables

Keele Residential Funding plc (formerly Owengate Keele plc)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2006

23 EXPLANATION OF TRANSITION TO IFRS (continued)
RECONCILIATION OF EQUITY

As at 1 August 2004	UK GAAP as previously reported, restated for prior year adjustment (note 22) and presented in IFRS format	IAS 12 adjustment	IAS 17 adjustment	IAS 40 adjustment	Restated under IFRS
	£	£	£	£	£
ASSETS					
NON CURRENT ASSETS					
Investment property	47,100,477	-	59,184,585	11,714,938	118,000,000
Deferred tax asset	1,939,833	(1,939,833)	-	-	-
TOTAL NON CURRENT ASSETS	49,040,310	(1,939,833)	59,184,585	11,714,938	118,000,000
CURRENT ASSETS					
Trade and other receivables	1,555,853	-	-	-	1,555,853
Cash and cash equivalents	4,066,791	-	-	-	4,066,791
TOTAL CURRENT ASSETS	5,622,644	-	-	-	5,622,644
TOTAL ASSETS	54,662,954	(1,939,833)	59,184,585	11,714,938	123,622,644
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	(161,230)	-	-	-	(161,230)
Financial liabilities	-	-	(381,758)	-	(381,758)
TOTAL CURRENT LIABILITIES	(161,230)	-	(381,758)	-	(542,988)
NON CURRENT LIABILITIES					
Financial liabilities	(63,978,796)	-	(58,802,827)	-	(122,781,623)
Deferred tax liability	-	(1,574,649)	-	-	(1,574,649)
TOTAL NON CURRENT LIABILITIES	(63,978,796)	(1,574,649)	(58,802,827)	-	(124,356,272)
TOTAL LIABILITIES	(64,140,026)	(1,574,649)	(59,184,585)	-	(124,899,260)
NET LIABILITIES	(9,477,072)	(3,514,482)	-	11,714,938	(1,276,616)
EQUITY					
Share capital	50,000	-	-	-	50,000
Retained earnings	(9,527,072)	(3,514,482)	-	11,714,938	(1,326,616)
ISSUED CAPITAL & RESERVES ATTRIBUTABLE TO EQUITY HOLDERS	(9,477,072)	(3,514,482)	-	11,714,938	(1,276,616)
TOTAL EQUITY	(9,477,072)	(3,514,482)	-	11,714,938	(1,276,616)

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

23 EXPLANATION OF TRANSITION TO IFRS (continued) RECONCILIATION OF EQUITY

As at 31 July 2005	UK GAAP as previously reported, restated for prior year adjustment (note 22) and presented in IFRS format £	IAS 12 adjustment £	IAS 17 adjustment £	IAS 40 adjustment £	Restated under IFRS £
ASSETS					
NON CURRENT ASSETS					
Investment property	45,253,401	-	59,184,585	21,662,014	126,100,000
Deferred tax asset	2,552,797	(2,552,797)	-	-	-
TOTAL NON CURRENT ASSETS	47,806,198	(2,552,797)	59,184,585	21,662,014	126,100,000
CURRENT ASSETS					
Trade and other receivables	1,602,246	-	-	-	1,602,246
Cash and cash equivalents	6,407,598	-	-	-	6,407,598
TOTAL CURRENT ASSETS	8,009,844	-	-	-	8,009,844
TOTAL ASSETS	55,816,042	(2,552,797)	59,184,585	21,662,014	134,109,844
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	(2,571,996)	-	-	-	(2,571,996)
Financial liabilities	(60,857)	-	(477,826)	-	(538,683)
TOTAL CURRENT LIABILITIES	(2,632,853)	-	(477,826)	-	(3,110,679)
NON CURRENT LIABILITIES					
Financial liabilities	(64,085,437)	-	(58,325,001)	-	(122,410,438)
Deferred tax liability	-	(3,723,033)	-	-	(3,723,033)
TOTAL NON CURRENT LIABILITIES	(64,085,437)	(3,723,033)	(58,325,001)	-	(126,133,471)
TOTAL LIABILITIES	(66,718,290)	(3,723,033)	(58,802,827)	-	(129,244,150)
NET LIABILITIES	(10,902,248)	(6,275,830)	381,758	21,662,014	4,865,694
EQUITY					
Share capital	50,000	-	-	-	50,000
Retained earnings (brought forward)	(9,527,072)	(3,514,482)	-	11,714,938	(1,326,616)
Retained earnings (current year)	(1,425,176)	(2,761,348)	381,758	9,947,076	6,142,310
ISSUED CAPITAL & RESERVES ATTRIBUTABLE TO EQUITY HOLDERS	(10,902,248)	(6,275,830)	381,758	21,662,014	4,865,694

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

TOTAL EQUITY	(10,902,248)	(6,275,830)	381,758	21,662,014	4,865,694
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23 EXPLANATION OF TRANSITION TO IFRS (continued) RECONCILIATION OF PROFIT

For the year ended 31 July 2005	UK GAAP as previously reported, restated for prior year adjustment (note 22) and presented in IFRS format £	IAS 12 adjustmen t	IAS 17 adjustmen t	IAS 40 adjustmen t	Restated under IFRS
		£	£	£	£
CONTINUING OPERATIONS					
REVENUE	7,787,599	-	-	-	7,787,599
Administrative expenses	(5,339,023)	-	3,135,926	1,847,076	(356,021)
Gain/(loss) on investment property revaluations	-	-	-	8,100,000	8,100,000
PROFIT FROM OPERATIONS	2,448,576	-	3,135,926	9,947,076	15,531,578
Finance costs	(4,796,478)	-	(2,754,168)	-	(7,550,646)
Finance income	309,762	-	-	-	309,762
(LOSS)/PROFIT BEFORE TAX	(2,038,140)	-	381,758	9,947,076	8,290,694
Income tax expenses	612,964	(2,761,348)	-	-	(2,148,384)
(LOSS)/PROFIT FOR THE YEAR	(1,425,176)	(2,761,348)	381,758	9,947,076	6,142,310
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	(1,425,176)	(2,761,348)	381,758	9,947,076	6,142,310

RECONCILIATION OF CASH FLOW

With the exception of reclassification, there are no material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

23 EXPLANATION OF TRANSITION TO IFRS (continued) EXPLANATION OF IFRS ADJUSTMENTS

A summary of the significant differences between UK GAAP and IFRS and the impact to the company is as follows

- a) **Presentation of financial results and information** The format of the IFRS financial statements has been prepared in accordance with IAS 1 "Presentation of financial statements", which differs from its UK equivalent. In particular there is greater flexibility on the presentation of information in the primary statements. Certain headings are mandatory but IFRS allows companies to adopt other headings in accordance with the nature of their business.
- b) **Income taxes – IAS 12** The IFRS 1 adjustment for taxation relates to the requirement in International Accounting Standard 12 (IAS 12) to recognise a deferred tax liability on revaluation gains irrespective of whether there are plans to sell the asset or whether roll over relief is available. The revaluation gains are created under IAS 40 (see below). The treatment under UK GAAP (Financial Reporting Standard 19 (FRS 19)) is to only recognise such liabilities if there is a positive intention to dispose of the asset and thus crystallise a gain.
- c) **Leases – IAS 17** Under UK GAAP, Statement of Standard Accounting Practice 21 (SSAP 21) treated the lease of the investment property as an operating lease. Under IFRS, International Accounting Standard 17 (IAS 17) sets out the criteria for judging whether a lease is operating or financing in nature.

IAS 17 also requires leases of land and buildings to be split so that the lease of the land and the lease of the building are assessed and treated separately.

The directors have worked through the guidance in IAS 17 and have concluded that the lease of the building is financing in nature. An assessment of the land value has concluded this to be immaterial and therefore no adjustment has been made to split this land element out from the building lease.

Therefore the IFRS 1 adjustment relates to the recognition on the balance sheet of the lease liability for the finance lease on the building. The operating lease charge under UK GAAP has been reversed.

Keele Residential Funding plc (formerly Owengate Keele plc)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2006

23 EXPLANATION OF TRANSITION TO IFRS (continued) EXPLANATION OF IFRS ADJUSTMENTS

- d) **Investment property – IAS 40** Under UK GAAP, Statement of Standard Accounting Practice 19 (SSAP 19) requires investment properties to be valued at open market value each year. The investment properties should not be depreciated. Any revaluation gain is posted to a revaluation reserve. Revaluation losses are charged initially to the revaluation reserve with any excess being charged to the profit and loss account.

In the accounting periods ended 31 July 2005 the company did not follow the rules of SSAP 19 and instead held investment properties on the balance sheet at cost. Annual depreciation was charged to the profit and loss account. A qualified audit opinion was issued on these historic accounts.

Under IFRS, International Accounting Standard 40 (IAS 40) permits two accounting treatments:

- **Cost model**
Investment properties are held at cost and subject to annual depreciation in accordance with IAS 16.
- **Fair value model**
Investment properties are held at fair value and are not depreciated. Gains and losses from changes in fair value are recognised in the income statement in the period in which it arises.

On adoption of IFRS the company has elected to adopt the fair value model. Consequently the IFRS 1 adjustment relates to the reversal of depreciation charges and the recognition of fair values at each balance sheet date.