

Keele Residential Funding plc

REPORT AND FINANCIAL STATEMENTS

31 July 2013

Company Registration No 03840096 (England & Wales)

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Keele Residential Funding plc

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Keele Residential Funding plc

DIRECTORS AND ADVISORS

DIRECTORS

Wilmington Trust SP Services (London) Limited

M McDermott

M Filer

REGISTERED OFFICE

Third Floor

1 King's Arms Yard

London,

EC2R 7AF

BANKERS

Citibank N A

Citibank House

336 Strand

London

WC2R 1HB

AUDITORS

Moore Stephens

6 Ridge House

Ridgehouse Drive

Festival Park

Stoke-on-Trent

Staffordshire

ST1 5TL

SECRETARY

Wilmington Trust SP Services (London) Limited

Keele Residential Funding plc

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 July 2013

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 2013, the Group achieved total income of £10,451,347 (2012 £9,535,870) and the result for the year after tax, was a profit of £6,774,216 (2012 £25,904,986) 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 (2012 £nil)

The directors believe that the company's accommodation units will continue to attract student tenants at realistic rents throughout 2014

The key business risks affecting the company come from

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

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

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Cash flow risk

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

Liquidity risk

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

Keele Residential Funding plc

DIRECTORS' REPORT

DIRECTORS

The following directors have held office during the year

Wilmington Trust SP Services (London) Limited
M McDermott
M Filer

POLICY ON PAYMENT OF CREDITORS

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

GOING CONCERN

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

AUDIT INFORMATION

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

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

AUDITORS

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

By order of the board



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

20 November 2013

Keele Residential Funding plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with 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 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



M McDermott
Director

20 November 2013

Keele Residential Funding plc

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KEELE RESIDENTIAL FUNDING PLC

We have audited the financial statements of Keele Residential Funding plc for the year ended 31 July 2013 which are set out on pages 7 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with 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.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 July 2013 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Keele Residential Funding plc

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KEELE RESIDENTIAL FUNDING PLC

Matters on which we are required to report by exception

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



Ashley M Conway (Senior Statutory Auditor)

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

27 / 11 / 2013

Keele Residential Funding plc
CONSOLIDATED INCOME STATEMENT
For the year ended 31 July 2013

	Note	<u>2013</u> Group £	<u>2012</u> Group £
CONTINUING OPERATIONS			
REVENUE	4	10,451,347	9,535,870
Administrative expenses		(459,695)	(276,902)
Gain on investment property revaluation		9,384,568	38,696,245
PROFIT FROM OPERATIONS	5	19,376,220	47,955,213
Finance costs	7	(12,136,731)	(15,106,563)
Finance income	8	178,391	178,030
PROFIT BEFORE TAX		7,417,880	33,026,680
Income tax expense	9	(643,664)	(7,121,694)
PROFIT FOR THE YEAR		6,774,216	25,904,986
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		6,774,216	25,904,986

No separate Statement of Other Comprehensive Income has been presented as all such gains and losses have been dealt with in the Income Statement

Keele Residential Funding plc
CONSOLIDATED BALANCE SHEET
At 31 July 2013

	Note	2013 Group £	2012 Group £
ASSETS			
NON CURRENT ASSETS			
Investment property	11	316,705,525	307,320,957
Financial assets	14	3,510,164	3,339,690
TOTAL NON CURRENT ASSETS		320,215,689	310,660,647
CURRENT ASSETS			
Trade and other receivables	15	403,679	141,223
Cash and cash equivalents	16	3,109,203	3,002,622
TOTAL CURRENT ASSETS		3,512,882	3,143,845
TOTAL ASSETS		323,728,571	313,804,492
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(335,670)	(135,438)
Obligations under finance lease	18	(122,657)	(26,339)
Financial liabilities	19	(40,533)	(48,457)
TOTAL CURRENT LIABILITIES		(498,860)	(210,234)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(112,037,408)	(112,160,065)
Financial liabilities	19	(146,549,970)	(144,209,740)
Deferred tax liability	10	(15,287,859)	(14,644,195)
TOTAL NON CURRENT LIABILITIES		(273,875,237)	(271,014,000)
TOTAL LIABILITIES		(274,374,097)	(271,224,234)
NET ASSETS		49,354,474	42,580,258
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		49,304,474	42,530,258
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		49,354,474	42,580,258
TOTAL EQUITY		49,354,474	42,580,258

Keele Residential Funding plc

COMPANY BALANCE SHEET

At 31 July 2013

	Note	2013 Company £	2012 Company £
ASSETS			
NON CURRENT ASSETS			
Investment property	11	316,705,525	307,320,957
Investment in Subsidiary	13	2	2
Financial assets	14	3,510,164	3,339,690
TOTAL NON CURRENT ASSETS		320,215,691	310,660,649
CURRENT ASSETS			
Trade and other receivables	15	403,679	141,223
Cash and cash equivalents	16	3,092,152	2,971,538
TOTAL CURRENT ASSETS		3,495,831	3,112,761
TOTAL ASSETS		323,711,522	313,773,410
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(331,592)	(125,988)
Obligations under finance lease	18	(122,657)	(26,339)
Financial liabilities	19	(40,533)	(48,457)
TOTAL CURRENT LIABILITIES		(494,782)	(200,784)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(112,037,408)	(112,160,065)
Financial liabilities	19	(146,549,970)	(144,209,740)
Deferred tax liability	10	(15,287,859)	(14,644,195)
TOTAL NON CURRENT LIABILITIES		(273,875,237)	(271,014,000)
TOTAL LIABILITIES		(274,370,019)	(271,214,784)
NET ASSETS		49,341,503	42,558,626
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		49,291,503	42,508,626
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		49,341,503	42,558,626
TOTAL EQUITY		49,341,503	42,558,626

Keele Residential Funding plc
COMPANY BALANCE SHEET
At 31 July 2013

The financial information on pages 7 to 30 was approved by the board of directors and authorised for issue on 20 November 2013 and was signed on its behalf by



M McDermott
Director

Keele Residential Funding plc

CASHFLOW STATEMENTS

For the year ended 31 July 2013

	Note	2013	2012
		Group	Group
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		6,774,216	25,904,986
<i>Adjustments for</i>			
Finance costs		12,136,731	15,106,563
Finance income		(178,391)	(178,030)
Gain on investment property revaluation		(9,384,568)	(38,696,245)
Income tax expense		643,664	7,121,694
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		9,991,652	9,258,968
(Increase)/decrease in trade and other receivables		(262,456)	223,620
Increase in trade and other payables		200,232	1,038
CASH GENERATED BY OPERATIONS		9,929,428	9,483,626
Income tax paid		-	-
NET CASH FLOW FROM OPERATING ACTIVITIES		9,929,428	9,483,626
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		7,917	15,407
NET CASH FLOW FROM INVESTING ACTIVITIES		7,917	15,407
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments due on lease and bonds		(9,830,764)	(9,494,662)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(9,830,764)	(9,494,662)
NET INCREASE IN CASH AND CASH EQUIVALENTS		106,581	4,371
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,002,622	2,998,251
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	3,109,203	3,002,622

Keele Residential Funding plc

CASHFLOW STATEMENTS

For the year ended 31 July 2013

	Note	2013	2012
		Company	Company
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		6,782,877	25,904,497
<i>Adjustments for</i>			
Finance costs		12,116,731	15,106,563
Finance income		(178,391)	(178,030)
Gain on investment property revaluation		(9,384,568)	(38,696,245)
Income tax expense		643,664	7,121,694
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		9,980,313	9,248,479
(Increase)/decrease in trade and other receivables		(262,456)	223,620
Increase/(decrease) in trade and other payables		205,604	(4,541)
CASH GENERATED BY OPERATIONS		9,923,461	9,467,558
Income tax paid		-	-
NET CASH FLOW FROM OPERATING ACTIVITIES		9,923,461	9,467,558
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		27,917	25,407
NET CASH FLOW FROM INVESTING ACTIVITIES		27,917	25,407
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments due on lease and bonds		(9,830,764)	(9,494,662)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(9,830,764)	(9,494,662)
NET INCREASE IN CASH AND CASH EQUIVALENTS		120,614	(1,697)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,971,538	2,973,235
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	3,092,152	2,971,538

Keele Residential Funding plc
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 July 2013

GROUP	Note	Share capital	Retained earnings	Total
		£	£	£
Balance as at 31 July 2011		50,000	16,625,272	16,675,272
Total recognised income and expense – profit for the year		-	25,904,986	25,904,986
Balance as at 31 July 2012		50,000	42,530,258	42,580,258
Total recognised income and expense – profit for the year		-	6,774,216	6,774,216
Balance as at 31 July 2013	21	50,000	49,304,474	49,354,474

COMPANY	Note	Share Capital	Retained earnings	Total
		£	£	£
Balance as at 31 July 2011		50,000	16,604,129	16,654,129
Total recognised income and expense – profit for the year		-	25,904,497	25,904,497
Balance as at 31 July 2012		50,000	42,508,626	42,558,626
Total recognised income and expense – profit for the year		-	6,782,877	6,782,877
Balance as at 31 July 2013	21	50,000	49,291,503	49,341,503

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2013

1. GENERAL INFORMATION

Keele Residential Funding plc and its subsidiary are incorporated and operate in the United Kingdom. The company is a public company limited by shares.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. STATEMENT OF COMPLIANCE

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

- IFRS 10 (Consolidated Financial Statements) – effective for annual periods beginning on or after 1 January 2014
- IFRS 13 (Fair Value Measurement) – effective for annual periods beginning on or after 1 January 2013

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

2.2. BASIS OF PREPARATION

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

2.3. GOING CONCERN

The directors have reviewed the Group's current and projected cash flows by reference to a financial model covering accounting periods up to 31 July 2047.

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

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

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

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2013

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.

FINANCE INCOME

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

2.6. FINANCE COSTS

Net financing costs comprise interest payable and other borrowing costs.

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

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

2.7. INVESTMENT PROPERTY

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

2.8. OBLIGATION UNDER FINANCE LEASE

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

2.9. GUARANTEED INDEX LINKED SECURED BOND

As a financial liability other than at fair value through profit or loss, the Group's guaranteed index linked secured bond liability is measured on an amortised cost basis using the effective interest rate method.

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2013

2.10. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

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

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

Calculation of recoverable amount

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

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

2.11. TAXATION

Current taxation

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Tax charge for the period

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

2.12. FINANCIAL ASSETS

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

2.12.1. Held-to-maturity investments

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

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2013

2.12.2. Loans and receivables

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

2.12.3. Effective interest rate method

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

2.13. FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

2.13.1. Classification as debt or equity

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

2.13.2. Equity instruments

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

2.13.3. Financial liabilities

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

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

2.13.4. Derecognition of financial liabilities

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The 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 2013 is 3.32% 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 4.33% being the average yield on long dated AA rated corporate bonds at 31 July 2013. A higher increase in the inflation factor applied to the property valuation relative to the discount factor has caused a £9,384,568 increase in the property

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2013

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.

4. REVENUE

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

	2013 Group £	2012 Group £
<i>Continuing operations</i>		
Rental income from student accommodation	9,425,383	8,557,047
Fee income from use of residences out of term time	1,025,964	978,823
	<u>10,451,347</u>	<u>9,535,870</u>

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

	2013 Company £	2012 Company £
<i>Continuing operations</i>		
Rental income from student accommodation	9,425,383	8,557,047
Fee income from use of residences out of term time	1,025,964	978,823
Management charges	60,248	57,281
	<u>10,511,595</u>	<u>9,593,151</u>

5. PROFIT FROM OPERATIONS

Group profit for the year has been arrived at after charging

	2013 £	2012 £
Gain on investment property revaluations (note 11)	9,384,568	38,696,245
<i>Auditors' remuneration</i>		
Audit services	17,500	17,750
Taxation services	4,000	3,800
	<u>21,500</u>	<u>21,550</u>

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

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6. STAFF COSTS

	2013	2012
Group & Company		
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 2013 amounted to £nil (2012 - £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.

7. FINANCE COSTS

Group	2013 £	2012 £
Interest on secured bond	8,097,146	11,105,553
Interest on finance leases	3,981,194	3,951,953
Interest on AGL liability	58,391	49,057
	<u>12,136,731</u>	<u>15,106,563</u>

8. FINANCE INCOME

Group	2013 £	2012 £
Interest on cash balances	<u>178,391</u>	<u>178,030</u>

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9. INCOME TAX EXPENSE

Group	2013	2012
	£	£
<i>Recognised in the income statement</i>		
Current tax	-	-
Deferred tax		
Origination and reversal of temporary differences	(1,942,559)	(9,482,616)
Movement in losses and other deductions	662,191	1,492,942
Effect of tax rate change on opening balance	636,704	867,980
Total deferred tax	(643,664)	(7,121,694)
Total tax expense in income statement	<u>(643,664)</u>	<u>(7,121,694)</u>
<i>Reconciliation of effective tax rate</i>		
	2013	2012
	£	£
Group profit before tax	<u>7,417,880</u>	<u>33,026,680</u>
Tax using the UK corporation tax rate of 23% (2012 24%)	1,706,112	7,926,403
EFFECT OF:		
Deferred tax rate adjustments	(636,704)	(867,980)
Other timing differences	(221,949)	275,927
Annual allowance on lease premiums paid	(203,795)	(212,656)
Total current tax charge and effective rate of tax	<u>643,664</u>	<u>7,121,694</u>

10. DEFERRED TAX ASSETS AND (LIABILITIES)

Group & Company

Recognised deferred tax assets and (liabilities)

	2013	2012
	£	£
<i>Analysis for financial reporting purposes</i>		
Deferred tax assets	9,630,661	9,885,676
Deferred tax liabilities	(24,918,520)	(24,529,871)
Net position at the year end	<u>(15,287,859)</u>	<u>(14,644,195)</u>

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

	Assets		Liabilities		Net	
	2013	2012	2013	2012	2013	2012
	£	£	£	£	£	£
Assets/(liability) at beginning of the year	9,885,676	9,487,439	(24,529,871)	(17,009,940)	(14,644,195)	(7,522,501)
Charge to income statement for the year	(255,015)	398,237	(388,649)	(7,519,931)	(643,664)	(7,121,694)
Assets/(liability) at end of the year	9,630,661	9,885,676	(24,918,520)	(24,529,871)	(15,287,859)	(14,644,195)

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2013	2013	2013	2013	2013	2013
	£	£	£	£	£	£
Tax losses	45,860,292	9,630,661			45,860,292	9,630,661
Revaluations			(118,659,620)	(24,918,520)	(118,659,620)	(24,918,520)
Net tax assets/(liabilities)	45,860,292	9,630,661	(118,659,620)	(24,918,520)	(72,799,328)	(15,287,859)

	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2012	2012	2012	2012	2012	2012
	£	£	£	£	£	£
Tax losses	42,981,200	9,885,676			42,981,200	9,885,676
Revaluations			(106,651,613)	(24,529,871)	(106,651,613)	(24,529,871)
Net tax assets/(liabilities)	42,981,200	9,885,676	(106,651,613)	(24,529,871)	(63,670,413)	(14,644,195)

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

11. INVESTMENT PROPERTY

Group & Company	2013 Interest in lease £	2012 Interest in lease £
<i>Fair value</i>		
At beginning of year	307,320,957	268,624,712
Increase in fair value in the year	9,384,568	38,696,245
At end of year	316,705,525	307,320,957

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The fair value of the Group's investment property at 31 July 2013 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

	2013 £	2012 £
Cost		
Balance at the beginning and end of the year	<u>591,832</u>	<u>591,832</u>
Accumulated impairment losses		
Balance at the beginning and end of the year	<u>(591,832)</u>	<u>(591,832)</u>
Carrying amount		
Balance at the beginning and end of the year	<u>-</u>	<u>-</u>

13. INVESTMENT IN SUBSIDIARY

Company

Detail of the parent company's subsidiary at 31 July 2013 is as follows

Name of the company	Principal activity	Place of incorporation	Proportion of shares acquired	Proportion of voting rights	Cost of acquisition £
KRF Management Limited	Management Services	England & Wales	100%	100%	587,500

The acquisition cost was fully impaired in the accounts to 31st July 2007. The nominal value of the acquired shared capital of £2 is included as a non-current asset in the Company balance sheet. This is eliminated on consolidation.

14. OTHER FINANCIAL ASSETS

Group & Company	2013 £	2012 £
Long term cash investment	<u>3,510,164</u>	<u>3,339,690</u>

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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	2013	2012
	£	£
<i>Amounts falling due within one year</i>		
Trade receivables	154,013	221,736
Less: allowance for impairment of receivables	(73,505)	(109,277)
	80,508	112,459
Prepayments and accrued income	323,171	28,764
	403,679	141,223

Company	2013	2012
	£	£
<i>Amounts falling due within one year</i>		
Trade receivables	154,013	221,736
Less: provision for impairment of receivables	(73,505)	(109,277)
	80,508	112,459
Prepayments and accrued income	323,171	28,764
	403,679	141,223

16. CASH AND CASH EQUIVALENTS

Group	2013	2012
	£	£
Cash at bank and in hand	3,109,203	3,002,622

Company	2013	2012
	£	£
Cash at bank and in hand	3,092,152	2,971,538

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17. TRADE AND OTHER PAYABLES

Group	2013 £	2012 £
Trade payables	100,439	92,164
Accruals and deferred income	231,742	39,464
Social Security and other taxes	3,489	3,810
	335,670	135,438

Company	2013 £	2012 £
Trade payables	100,439	92,164
Accruals and deferred income	228,707	31,883
Social Security and other taxes	2,446	1,941
	331,592	125,988

18. OBLIGATIONS UNDER FINANCE LEASE

18.1. LEASING ARRANGEMENTS

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

18.2. FINANCE LEASE LIABILITIES

Group & Company	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2013	2012	2013	2012
	£	£	£	£
The borrowings are repayable as follows				
No later than 1 year	3,912,525	3,817,097	122,657	26,339
Later than 1 year and not later than 5 years	16,652,990	16,246,820	1,570,420	1,126,195
Later than 5 years	185,283,698	189,602,393	110,466,988	111,033,870
	205,849,213	209,666,310	112,160,065	112,186,404
Less future financing charges	(93,689,148)	(97,479,906)	-	-
Present value of minimum lease payments	112,160,065	112,186,404	112,160,065	112,186,404
<i>Included in the financial statements as:</i>				
Current borrowings			122,657	26,339
Non-current borrowings			112,037,408	112,160,065
			112,160,065	112,186,404

Keele Residential Funding plc
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For the year ended 31 July 2013

18.3. FAIR VALUE

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

19. FINANCIAL LIABILITIES

Group & Company

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

	<i>Current</i>		<i>Non-Current</i>	
	2013	2012	2013	2012
	£	£	£	£
Guaranteed secured bond (see note 19.1)	-	-	144,658,000	142,287,731
Financial Guarantee fee payable to AGL (see note 19.2)	40,533	48,457	1,891,970	1,922,009
	<u>40,533</u>	<u>48,457</u>	<u>146,549,970</u>	<u>144,209,740</u>

19.1. GUARANTEED INDEX LINKED SECURED BOND

During July 2007 the Parent company recalled the previous fixed rate bonds and issued new 2 108% guaranteed index linked secured bonds. Interest and principle payments are made half yearly, thereby limiting the company's exposure to interest rate risk. The principal is repayable by instalments, which commenced in January 2008, in accordance with the issue documents, the final amounts to be repaid in 2047. The interest and capital repayments have been spread over the repayment period. At 31 July 2013 the principal outstanding on the new bonds, on a cash-paid basis, was £126,617,566 (2012: £128,639,455).

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 has been stated at fair value arrived by discounting the future agreed payment using the relevant interest rates applicable at 31 July 2013.

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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 2012

20.2. SIGNIFICANT ACCOUNTING POLICIES

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

20.3. CATEGORIES OF FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

GROUP

	Loans and receivables	2013 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	3,109,203	-	3,109,203
Trade and other receivables	403,679	-	403,679
Financial investment	-	3,510,164	3,510,164
	3,512,882	3,510,164	7,023,046

	Loans and receivables	2012 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	3,002,622	-	3,002,622
Trade and other receivables	141,223	-	141,223
Financial investment	-	3,339,690	3,339,690
	3,143,845	3,339,690	6,483,535

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FINANCIAL LIABILITIES

GROUP

	Loans and other payables	2013 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(335,670)	-	(335,670)
Guaranteed index linked secured bond	-	(144,658,000)	(144,658,000)
Obligation under finance lease	-	(112,160,065)	(112,160,065)
Financial Guarantee fee payable to AGL	-	(1,932,503)	(1,932,503)
	(335,670)	(258,750,568)	(259,086,238)

	Loans and other payables	2012 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(135,438)	-	(135,438)
Guaranteed index linked secured bond	-	(142,287,731)	(142,287,731)
Obligation under finance lease	-	(112,186,404)	(112,186,404)
Financial Guarantee fee payable to AGL	-	(1,970,466)	(1,970,466)
	(135,438)	(256,444,601)	(256,580,039)

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 – see note 24. The maximum exposure to credit risk is the bank and long term investment balances of

Keele Residential Funding plc
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£3,109,203 (2012 - £3,002,622) and £3,510,164 (2012 - £3,339,690) respectively No collateral is held

20.4.3 Liquidity risk

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

The maturity analysis of financial liabilities is given in note 18 and note 19.

20.5. UNDRAWN COMMITTED BORROWING FACILITIES

At the year-end the Group had no undrawn committed borrowing facilities (2012 Nil)

20.6. INTEREST RATE EXPOSURE

The interest rate exposure of the Group is as follows

	2013		Total
	Fixed rate	Floating rate	
	£	£	£
Borrowings	-	(258,750,568)	(258,750,568)
Cash and cash equivalents	-	3,109,203	3,109,203
Long term cash deposits	3,510,164	-	3,510,164
	<u>3,510,164</u>	<u>(255,641,365)</u>	<u>(252,131,201)</u>

	2012		Total
	Fixed rate	Floating rate	
	£	£	£
Borrowings	-	(256,444,601)	(256,444,601)
Cash and cash equivalents	-	3,002,622	3,002,622
Long term cash deposits	3,339,690	-	3,339,690
	<u>3,339,690</u>	<u>(253,441,979)</u>	<u>(250,102,289)</u>

20.7. FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENTS

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

	2013		2012	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	3,109,203	3,109,203	3,002,622	3,002,622
Long Term Cash Deposits	3,510,164	3,510,164	3,339,690	3,339,690
Trade and other receivables	403,679	403,679	141,223	141,223
Trade and other payables	(335,670)	(335,670)	(135,438)	(135,438)
Short term borrowings	(163,190)	(163,190)	(74,796)	(74,796)
Long term borrowings	<u>(258,587,378)</u>	<u>(258,587,378)</u>	<u>(256,369,805)</u>	<u>(256,369,805)</u>
	<u>(252,063,192)</u>	<u>(252,063,192)</u>	<u>(250,096,504)</u>	<u>(250,096,504)</u>

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

Short-term borrowings, cash and deposits approximate to book value due to their short maturities. For bank and other loans, carrying fixed rates of interest, included within long term borrowings, the repayments which the company is committed to make have been discounted at the relevant interest rates applicable at 31 July 2013

21. SHARE CAPITAL

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

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

22. CAPITAL COMMITMENTS

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

23. RELATED PARTY TRANSACTIONS

During the year £71,069 (2012 £69,710), inclusive of VAT, was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to Keele Residential Funding plc. At the year end a balance of £35,569 (2012 £35,044) was due to Wilmington Trust SP Services (London) Limited. Wilmington Trust SP Services (London) Limited is a director of Keele Residential Funding plc and Mr McDermott and Mr Filer are directors of Wilmington Trust SP Services (London) Limited

24. POST BALANCE SHEET EVENTS

Due to Citibank failing to adhere to the rating covenant in the Accounts Agreement with Keele Residential Funding Plc, HSBC are replacing Citibank as the day-to-day account bank. This process is expected to be completed during November 2013. Citibank will be retained as bond and security trustee and will also continue as principal paying agent in respect of the bond issue

25. CONTINGENT LIABILITIES

There are no contingent liabilities to report

26. ULTIMATE CONTROLLING PARTY

Keele Residential Funding plc's Parent company is KRF Holdings Limited. Copies of the KRF Holdings Limited consolidated accounts can be obtained from Companies House Cardiff

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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.