

Keele Residential Funding plc

REPORT AND FINANCIAL STATEMENTS

31 July 2015

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 Filer

Andreas Demosthenous appointed 30 January 2015

M McDermott resigned 30 January 2015

REGISTERED OFFICE

Third Floor

1 King's Arms Yard

London,

EC2R 7AF

BANKERS

HSBC Bank Plc

2 Etruria Office Village

Forge Lane

Festival Park

Stoke on Trent

ST1 5RQ.

AUDITORS

Moore Stephens

6 Ridge House

Ridgehouse Drive

Festival Park

Stoke-on-Trent

Staffordshire

ST1 5TL

SECRETARY

Wilmington Trust SP Services (London) Limited

Keele Residential Funding plc

STRATEGIC REPORT

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 2015, the Group achieved total income of £10,971,707 (2014: £10,642,680) and the result for the year after tax, was a loss of £7,917,803 (2014: profit of £45,242,240). The result in the year was negatively affected by a devaluation of the property interests held under a long term lease – see financial report and notes to the accounts.

No dividend was proposed or paid (2014: £nil).

The directors believe that the company's accommodation units will continue to attract student tenants at realistic rents throughout 2016.

The key business risks affecting the company come from:

- Under-occupation of the available accommodation units
- Failure to achieve anticipated rental from the leasehold interest

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

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Cash flow risk

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

Liquidity risk

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

By order of the board



M Filer
Director

24 November 2015

Keele Residential Funding plc

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 July 2015.

DIRECTORS

The following directors have held office during the year:

Wilmington Trust SP Services (London) Limited

M Filer

Andreas Demosthenous appointed 30 January 2015

M McDermott resigned 30 January 2015

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

24 November 2015

Keele Residential Funding plc

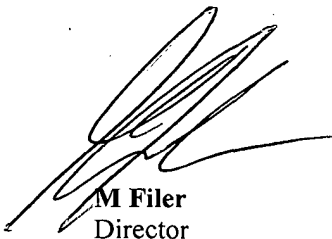
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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



M Filer
Director

24 November 2015

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 2015 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2015 and of the group's result 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 Strategic Report and 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.

Moore Stephens

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

25/11/2015

Keele Residential Funding plc
CONSOLIDATED INCOME STATEMENT
For the year ended 31 July 2015

	Note	2015 Group £	2014 Group £
CONTINUING OPERATIONS			
REVENUE	4	10,971,707	10,642,680
Administrative expenses		(298,097)	(338,475)
(Loss)/gain on investment property revaluation		(9,654,577)	57,297,922
PROFIT FROM OPERATIONS	5	1,019,033	67,602,127
Finance costs	7	(10,726,731)	(11,744,382)
Finance income	8	238,203	212,822
(LOSS)/PROFIT BEFORE TAX		(9,469,495)	56,070,567
Income tax credit/(expense)	9	1,551,692	(10,828,327)
(LOSS)/PROFIT FOR THE YEAR		(7,917,803)	45,242,240
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		(7,917,803)	45,242,240

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 2015

	Note	2015 Group £	2014 Group £
ASSETS			
NON CURRENT ASSETS			
Investment property	11	364,348,870	374,003,447
Other financial assets	14	3,877,662	3,687,340
TOTAL NON CURRENT ASSETS		368,226,532	377,690,787
CURRENT ASSETS			
Trade and other receivables	15	472,990	304,144
Cash and cash equivalents	16	3,634,503	3,658,556
TOTAL CURRENT ASSETS		4,107,493	3,962,700
TOTAL ASSETS		372,334,025	381,653,487
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(420,731)	(598,382)
Obligations under finance lease	18	(332,463)	(224,614)
Other financial liabilities	19	(1,819,527)	(175,748)
TOTAL CURRENT LIABILITIES		(2,572,721)	(998,744)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(111,480,331)	(111,812,794)
Financial liabilities	19	(147,037,568)	(148,129,049)
Deferred tax liability	10	(24,564,494)	(26,116,186)
TOTAL NON CURRENT LIABILITIES		(283,082,393)	(286,058,029)
TOTAL LIABILITIES		(285,655,114)	(287,056,773)
NET ASSETS		86,678,911	94,596,714
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		86,628,911	94,546,714
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		86,678,911	94,596,714
TOTAL EQUITY		86,678,911	94,596,714

Keele Residential Funding plc
COMPANY BALANCE SHEET
At 31 July 2015

	Note	<u>2015</u>	<u>2014</u>
		Company	Company
		£	£
ASSETS			
NON CURRENT ASSETS			
Investment property	11	364,348,870	374,003,447
Investment in Subsidiary	13	2	2
Other financial assets	14	3,877,662	3,687,340
TOTAL NON CURRENT ASSETS		<u>368,226,534</u>	<u>377,690,789</u>
CURRENT ASSETS			
Trade and other receivables	15	472,990	304,144
Cash and cash equivalents	16	3,607,965	3,650,284
TOTAL CURRENT ASSETS		<u>4,080,955</u>	<u>3,954,428</u>
TOTAL ASSETS		<u>372,307,489</u>	<u>381,645,217</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(410,809)	(594,928)
Obligations under finance lease	18	(332,463)	(224,614)
Other financial liabilities	19	(1,819,527)	(175,748)
TOTAL CURRENT LIABILITIES		<u>(2,562,799)</u>	<u>(995,290)</u>
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(111,480,331)	(111,812,794)
Financial liabilities	19	(147,037,568)	(148,129,049)
Deferred tax liability	10	(24,564,494)	(26,116,186)
TOTAL NON CURRENT LIABILITIES		<u>(283,082,393)</u>	<u>(286,058,029)</u>
TOTAL LIABILITIES		<u>(285,645,192)</u>	<u>(287,053,319)</u>
NET ASSETS		<u>86,662,297</u>	<u>94,591,898</u>
EQUITY			
Share capital	21	50,000	50,000
Retained earnings		86,612,297	94,541,898
ISSUED CAPITAL AND RESERVES			
ATTRIBUTABLE TO EQUITY HOLDERS		<u>86,662,297</u>	<u>94,591,898</u>
TOTAL EQUITY		<u>86,662,297</u>	<u>94,591,898</u>

Keele Residential Funding plc

COMPANY BALANCE SHEET

At 31 July 2015

The financial information on pages 7 to 30 was approved by the board of directors and authorised for issue on 24 November 2015 and was signed on its behalf by:



M Filer
Director

Keele Residential Funding plc
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 July 2015

	Note	2015 Group £	2014 Group £
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit for the period		(7,917,803)	45,242,240
<i>Adjustments for:</i>			
Finance costs		10,726,731	11,744,382
Finance income		(238,203)	(212,822)
Loss/(Gain) on investment property revaluation		9,654,577	(57,297,922)
Income tax (credit)/expense		(1,551,692)	10,828,327
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		10,673,610	10,304,205
(Increase)/decrease in trade and other receivables		(158,819)	108,313
(Decrease)/increase in trade and other payables		(177,651)	262,712
CASH GENERATED BY OPERATIONS		10,337,140	10,675,230
Income tax paid		-	-
NET CASH FLOW FROM OPERATING ACTIVITIES		10,337,140	10,675,230
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		37,855	26,867
NET CASH FLOW FROM INVESTING ACTIVITIES		37,855	26,867
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments made on lease and bonds		(10,399,048)	(10,152,744)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(10,399,048)	(10,152,744)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(24,053)	549,353
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,658,556	3,109,203
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	3,634,503	3,658,556

Keele Residential Funding plc
COMPANY CASH FLOW STATEMENT
For the year ended 31 July 2015

	Note	2015	2014
		Company	Company
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit for the period		(7,929,601)	45,250,395
<i>Adjustments for:</i>			
Finance costs		10,726,731	11,724,382
Finance income		(238,203)	(212,822)
Loss/(Gain) on investment property revaluation		9,654,577	(57,297,922)
Income tax (credit)/expense		(1,551,692)	10,828,327
OPERATING PROFIT BEFORE MOVEMENT IN WORKING CAPITAL		10,661,812	10,292,360
(Increase)/decrease in trade and other receivables		(158,819)	108,313
(Decrease)/increase in trade and other payables		(184,119)	263,336
CASH GENERATED BY OPERATIONS		10,318,874	10,664,009
Income tax paid		-	-
NET CASH FLOW FROM OPERATING ACTIVITIES		10,318,874	10,664,009
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		37,855	46,867
NET CASH FLOW FROM INVESTING ACTIVITIES		37,855	46,867
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments made on lease and bonds		(10,399,048)	(10,152,744)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(10,399,048)	(10,152,744)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(42,319)	558,132
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,650,284	3,092,152
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	3,607,965	3,650,284

Keele Residential Funding plc
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 July 2015

GROUP	Note	Share capital	Retained earnings	Total
		<u>£</u>	<u>£</u>	<u>£</u>
Balance as at 31 July 2013		50,000	49,304,474	49,354,474
Total recognised income and expense – profit for the year		<u>-</u>	<u>45,242,240</u>	<u>45,242,240</u>
Balance as at 31 July 2014		50,000	94,546,714	94,596,714
Total recognised income and expense – profit for the year		<u>-</u>	<u>(7,917,803)</u>	<u>(7,917,803)</u>
Balance as at 31 July 2015	21	<u>50,000</u>	<u>86,628,911</u>	<u>86,678,911</u>

COMPANY	Note	Share Capital	Retained earnings	Total
		<u>£</u>	<u>£</u>	<u>£</u>
Balance as at 31 July 2013		50,000	49,291,503	49,341,503
Total recognised income and expense – profit for the year		<u>-</u>	<u>45,250,395</u>	<u>45,250,395</u>
Balance as at 31 July 2014		50,000	94,541,898	94,591,898
Total recognised income and expense – profit for the year		<u>-</u>	<u>(7,929,601)</u>	<u>(7,929,601)</u>
Balance as at 31 July 2015	21	<u>50,000</u>	<u>86,612,297</u>	<u>86,662,297</u>

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

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 those standards in issue but not in force.

The directors consider that none of the EU adopted International Financial Reporting Standards (IFRSs) in issue but not in force at the balance sheet date will have a material impact on these financial statements.

The directors have also considered International Financial Reporting Standards (IFRSs) which have not been endorsed by the EU and which are in issue but not in force at the balance sheet date. IFRS 9 – Financial Instruments imposes changes to the classification and measurement of financial assets and liabilities, however the directors believe that the adoption of this standard will not have a significant impact on these financial statements.

2.2. BASIS OF PREPARATION

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

2.3. GOING CONCERN

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

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 2015

2.4. BASIS OF CONSOLIDATION

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

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

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

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

2.5. REVENUE RECOGNITION

FEE & RENTAL INCOME

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

FINANCE INCOME

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

2.6. 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 2015

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 2015

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.

2.12.4 Derecognition of financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

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 2015 is 3.37% (3.31% 2014) being the predicted breakeven rate on UK Gilt Treasury Stock maturing in 2046. This represents a change in estimation technique as previously the future inflation rate had been estimated as the difference in yield between long dated index linked and fixed interest government gilts. Adopting the same basis the inflation rate would have been calculated at 3.53% and the carrying value of the investment property would have been increased by £8,948,425. The discount factor applied to obtain the present value of the future cash flows so estimated is 3.48% (3.3% 2014) being the average yield on long dated AA rated corporate bonds at 31 July 2015.

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:

	2015 Group £	2014 Group £
<i>Continuing operations:</i>		
Rental income from student accommodation	9,885,749	9,585,004
Fee income from use of residences out of term time	1,085,958	1,057,676
	10,971,707	10,642,680

5. PROFIT FROM OPERATIONS

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

	2015 £	2014 £
(Loss)/gain on investment property revaluation (note 11)	(9,654,577)	57,297,922
<i>Auditors' remuneration</i>		
Audit services	17,500	17,500
Taxation services	4,000	4,000

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

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

6. STAFF COSTS

	2015	2014
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 2015 amounted to £nil (2014 - £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	2015 £	2014 £
Interest on secured bond	6,717,800	7,696,357
Interest on finance leases	3,956,657	3,992,038
Interest on AGL liability	52,274	55,987
	<u>10,726,731</u>	<u>11,744,382</u>

8. FINANCE INCOME

Group	2015 £	2014 £
Interest on cash balances	<u>238,203</u>	<u>212,822</u>

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2015

9. INCOME TAX EXPENSE

Group	2015	2014
	£	£
<i>Recognised in the income statement:</i>		
Current tax	-	-
Deferred tax:		
Origination and reversal of temporary differences	1,551,692	(11,556,320)
Movement in losses and other deductions	-	-
Effect of tax rate change on opening balance	-	727,993
Total deferred tax	1,551,692	(10,828,327)
Total tax expense in income statement	1,551,692	(10,828,327)
<i>Reconciliation of effective tax rate</i>		
	2015	2014
	£	£
Group (loss)/profit before tax	(9,469,495)	56,070,567
Tax using the UK corporation tax rate of 20% (2014:23%)	(1,893,899)	12,896,230
EFFECT OF:		
Deferred tax rate adjustments	-	(727,993)
Other timing differences	519,420	(1,339,910)
Annual allowance on lease premiums paid	(177,213)	-
Total current tax charge and effective rate of tax	(1,551,692)	10,828,327

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2015

10. DEFERRED TAX ASSETS AND (LIABILITIES)

Group & Company

Recognised deferred tax assets and (liabilities)

	2015 £	2014 £
<i>Analysis for financial reporting purposes:</i>		
Deferred tax assets	9,804,393	9,619,274
Deferred tax liabilities	(34,368,887)	(35,735,460)
Net position at the year end	<u>(24,564,494)</u>	<u>(26,116,186)</u>

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

	Assets		Liabilities		Net	
	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £
Assets/(liabilities) at beginning of the year	9,619,274	9,630,661	(35,735,460)	(24,918,520)	(26,116,186)	(15,287,859)
Charge to income statement for the year	185,119	(11,387)	1,366,573	(10,816,940)	1,551,692	(10,828,327)
Assets/(liabilities) at end of the year	<u>9,804,393</u>	<u>9,619,274</u>	<u>(34,368,887)</u>	<u>(35,735,460)</u>	<u>(24,564,494)</u>	<u>(26,116,186)</u>

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
	2015 £	2015 £	2015 £	2015 £	2015 £	2015 £
Tax losses	49,021,966	9,804,393			49,021,966	9,804,393
Revaluations			(171,844,436)	(34,368,887)	(171,844,436)	(34,368,887)
Net tax assets/(liabilities)	<u>49,021,966</u>	<u>9,804,393</u>	<u>(171,844,436)</u>	<u>(34,368,887)</u>	<u>(122,822,470)</u>	<u>(24,564,494)</u>

	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2014 £	2014 £	2014 £	2014 £	2014 £	2014 £
Tax losses	48,096,369	9,619,274			48,096,369	9,619,274
Revaluations			(178,677,299)	(35,735,460)	(178,677,299)	(35,735,460)
Net tax Assets/(liabilities)	<u>48,096,369</u>	<u>9,619,274</u>	<u>(178,677,299)</u>	<u>(35,735,460)</u>	<u>(130,580,930)</u>	<u>(26,116,186)</u>

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

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	2015 Interest in lease £	2014 Interest in lease £
<i>Fair value</i>		
At beginning of year	374,003,447	316,705,525
Decrease in fair value in the year	(9,654,577)	57,297,922
At end of year	<u>364,348,870</u>	<u>374,003,447</u>

The fair value of the Group's investment property at 31 July 2015 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

Group	2015 £	2014 £
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>

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

13. INVESTMENT IN SUBSIDIARY

Company

Detail of the parent company's subsidiary at 31 July 2015 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

	2015 £	2014 £
Long term cash investment	3,877,662	3,687,340

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 & Company

	2015 £	2014 £
<i>Amounts falling due within one year:</i>		
Trade receivables	574,132	413,628
Less: allowance for impairment of receivables	(173,167)	(168,710)
	400,965	244,918
Prepayments and accrued income	72,025	58,172
Social Security and other taxes	-	1,054
	472,990	304,144

16. CASH AND CASH EQUIVALENTS

Group

	2015 £	2014 £
Cash at bank and in hand	3,634,503	3,658,556

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2015

Company	2015	2014
	£	£
Cash at bank and in hand	3,607,965	3,650,284

17. TRADE AND OTHER PAYABLES

Group	2015	2014
	£	£
Trade payables	353,822	547,746
Accruals and deferred income	64,399	50,636
Social Security and other taxes	2,510	-
	420,731	598,382

Company	2015	2014
	£	£
Trade payables	347,933	547,746
Accruals and deferred income	61,368	47,182
Social Security and other taxes	1,508	-
	410,809	594,928

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.

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2015

18.2. FINANCE LEASE LIABILITIES

Group & Company	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2015	2014	2015	2014
The borrowings are repayable as follows:				
	£	£	£	£
No later than 1 year	4,110,596	4,010,338	332,463	224,614
Later than 1 year - not later than 5yrs	17,496,048	17,069,315	2,535,466	2,039,809
Later than 5 years	176,319,706	180,857,035	108,944,865	109,772,985
	197,926,350	201,936,688	111,812,794	112,037,408
Less future financing charges	(86,113,556)	(89,899,280)	-	-
Present value of minimum lease payments	111,812,794	112,037,408	111,812,794	112,037,408
<i>Included in the financial statements as:</i>				
Current borrowings			332,463	224,614
Non-current borrowings			111,480,331	111,812,794
			111,812,794	112,037,408

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

	Current		Non-Current	
	2015	2014	2015	2014
	£	£	£	£
Guaranteed secured bond (see note 19.1)	1,772,860	132,034	145,238,885	146,281,785
Financial Guarantee fee payable to AGL (see note 19.2)	46,667	43,714	1,798,683	1,847,264
	1,819,527	175,748	147,037,568	148,129,049

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.

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

The interest and capital repayments have been spread over the repayment period. At 31 July 2015 the principal outstanding on the new bonds, on a cash-paid basis, was £122,329,126 (2014: £124,515,955).

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

A second charge was also created between the Parent company, Citibank, N.A. and Assured Guaranty (UK) Ltd (AGL), the amount secured being all obligations which the Parent company may at any time have to Citibank (whether on its own account or as trustee for the beneficiaries) or any other beneficiaries under or pursuant to finance documents including those relating to the issue of the above bonds, which shall include without limitation any obligations of the company to AGL which may from time to time arise by way of subrogation

19.2. FINANCIAL GUARANTEE FEE PAYABLE TO AGL

A financial guarantee fee is payable to AGL with regards to the new issued 2.108% guaranteed index linked secured bonds. Payments are made half yearly. The amount is repayable by instalments, which commenced in August 2007 and the final amounts to be repaid in 2047. The above amount in note 19 has been stated at fair value arrived by discounting the future agreed payment using the relevant interest rates applicable at 31 July 2015.

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 2014.

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.

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2015

20.3. CATEGORIES OF FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

GROUP

	Loans and receivables	2015 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	3,634,503	-	3,634,503
Trade and other receivables	472,990	-	472,990
Financial investment	-	3,877,662	3,877,662
	4,107,493	3,877,662	7,985,155

	Loans and receivables	2014 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	3,658,556	-	3,658,556
Trade and other receivables	304,144	-	304,144
Financial investment	-	3,687,340	3,687,340
	3,962,700	3,687,340	7,650,040

FINANCIAL LIABILITIES

GROUP

	Loans and other payables	2015 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(420,731)	-	(420,731)
Guaranteed index linked secured bond	-	(147,011,745)	(147,011,745)
Obligation under finance lease	-	(111,812,794)	(111,812,794)
Financial Guarantee fee payable to AGL	-	(1,845,350)	(1,845,350)
	(420,731)	(260,669,889)	(261,090,620)

	Loans and other payables	2014 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(598,382)	-	(598,382)
Guaranteed index linked secured bond	-	(146,413,819)	(146,413,819)
Obligation under finance lease	-	(112,037,408)	(112,037,408)
Financial Guarantee fee payable to AGL	-	(1,890,978)	(1,890,978)
	(598,382)	(260,342,205)	(260,940,587)

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

20.4. FINANCIAL RISK MANAGEMENT

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

20.4.1. *Market risk*

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

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

20.4.2. *Credit risk*

The Group's significant financial assets are its bank balance and long term cash investment. The credit risk on these funds is limited because the counterparties are required to be banks with a minimum credit rating assigned by international credit rating agencies as prescribed in an accounts agreement with the company. The maximum exposure to credit risk is the bank and long term investment balances of £3,634,503 (2014 - £3,658,556) and £3,877,662 (2014 - £3,687,340) 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 note 2.3 of the significant accounting policies.

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

20.5. UNDRAWN COMMITTED BORROWING FACILITIES

At the year-end the Group had no undrawn committed borrowing facilities (2014: Nil).

20.6. INTEREST RATE EXPOSURE

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

If the RPI were increased by 1 index point then the Group's liability, at the balance sheet date, under the guaranteed index linked secured bond would increase by £608,300. However, the future cash inflows received under the contract with Keele University, accounted for as an investment property, are adjusted likewise to reflect changes to RPI and therefore this risk is managed.

Keele Residential Funding plc

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For the year ended 31 July 2015

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:

	2015		2014	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	3,634,503	3,634,503	3,658,556	3,658,556
Long Term Cash Deposits	3,877,662	3,877,662	3,687,340	3,687,340
Trade and other receivables	472,990	472,990	304,144	304,144
Trade and other payables	(420,731)	(420,731)	(598,382)	(598,382)
Short term borrowings	(2,151,990)	(2,151,990)	(400,362)	(400,362)
Long term borrowings	(258,517,899)	(259,988,016)	(259,941,843)	(261,405,981)
	(253,105,465)	(254,575,582)	(253,290,547)	(254,754,685)

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 2015.

21. SHARE CAPITAL

Authorised A Ordinary
shares of £1 each

Number

At beginning and end of year **50,000**

Allotted, called up and fully paid A
Ordinary shares of £1 each
Number

At beginning and end of year **50,000**

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.

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2015

23. RELATED PARTY TRANSACTIONS

During the year £74,548 (2014: £73,044), inclusive of VAT, was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to Keele Residential Funding plc and £7,302 (2014: £7,155) was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to KRF Management Limited. At the year end a balance of £ Nil (2014: £ Nil) was due to Wilmington Trust SP Services (London) Limited. Wilmington Trust SP Services (London) Limited is a director of Keele Residential Funding plc and Mr Filer is a director of Wilmington Trust SP Services (London) Limited.

24. POST BALANCE SHEET EVENTS

There are no reportable post-balance sheet events.

25. CONTINGENT LIABILITIES

There are no contingent liabilities to report.

26. ULTIMATE CONTROLLING PARTY

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.

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.

27. PARENT COMPANY PROFIT OR LOSS

The directors have elected, in accordance with section 408 of the Companies Act 2006, not to include the company's individual income statement in the annual accounts. The company's deficit for the year was £7,929,601 (2014: profit of £45,250,395)