

Keele Residential Funding plc

REPORT AND FINANCIAL STATEMENTS

31 July 2018

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30/11/2018
COMPANIES HOUSE

Company Registration No. 03840096 (England & Wales)

Keele Residential Funding plc

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Keele Residential Funding plc

DIRECTORS AND ADVISORS

DIRECTORS

Wilmington Trust SP Services (London) Limited
Daniel Wynne
Andreas Demosthenous – Resigned 1 March 2018
Eileen Hughes – Appointed 1 March 2018

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 LLP
150 Aldersgate Street
London
EC1A 4AB

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 2018, the Group achieved total income of £11,569,021 (2017: £11,240,388) and the result for the year after tax, was a loss of (£8,989,782) (2017: £17,820,299 profit). The result in the year was negatively affected by a devaluation of the property interests held under a long term lease of £8,265,271 (2017: gain of £19,752,834) – see financial report and notes to the accounts. The effect of this and other movements is to reduce the balance sheet net assets from £128,984,971 to £119,995,189 as at 31 July 2018. Cash at bank and in hand was £3,675,676 as at 31 July 2018 compared with £3,664,330 at the previous year end.

No dividend was proposed or paid (2017: £nil).

The directors believe that the company's accommodation units will continue to attract student tenants at realistic rents throughout 2019. Average occupancy of total accommodation units during the year 2018 was 99.1%.

The key business risks affecting the company come from:

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

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

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Cash flow risk

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

Liquidity risk

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

By order of the board



D Wynne
Director

November 2018

Keele Residential Funding plc

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 July 2018.

DIRECTORS

The following directors have held office during the year:

Wilmington Trust SP Services (London) Limited
Andreas Demosthenous – resigned 1 March 2018
Daniel Wynne
Eileen Hughes – Appointed 1 March 2018

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 LLP, Chartered Accountants, as auditors will be put to the members at the Annual General Meeting.

By order of the board



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

November 2018

Keele Residential Funding plc

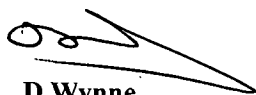
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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.



D Wynne
Director

November 20

Keele Residential Funding plc

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

Opinion

We have audited the financial statements of Keele Residential Funding Plc (the “parent company”) and its subsidiary (collectively the “group”) for the year ended 31 July 2018 which comprise the consolidated income statement, consolidated balance sheet, company balance sheet, consolidated cashflow statement, company cashflow statement, consolidated statements of changes in equity, company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and the parent company’s affairs as at 31 July 2018 and of the group’s loss 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.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Keele Residential Funding plc

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

Carrying amount of investment property

The risk

The group calculates the carrying value of the investment property at fair value. Annual valuations for its investment property are prepared by the group using the present value of expected cash flows. The key estimates used in this calculation are the discount rate and inflation rate determined at each reporting date. The discount rate applied to future cash flows is based on the average yield on long dated AA rated corporate bonds and the estimate of future inflation is the difference in yield between long dated index linked and fixed interest government gilts.

Our response

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

Further, we considered whether these rates had been applied correctly in calculating the present value of the future cash flows.

Our application of materiality

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

Based on our professional judgement we determined materiality for these group financial statements to be £4.071m being 1% of gross assets. Given the nature of the group and the types of transactions undertaken we considered gross assets to be an appropriate benchmark on which to base materiality.

We agreed to report to the Audit Committee any misstatements identified during our audit above £200k.

An overview of the scope of our audit

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

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

Other information

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

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

We have nothing to report in this regard.

Keele Residential Funding plc

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

As explained more fully in the directors' responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Keele Residential Funding plc

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

Other matters which we are required to address

We, Moore Stephens LLP (London), were appointed by the board of directors on 1 October 2018. Previously Moore Stephens (Stoke) were appointed by the Audit Committee in respect of the financial year ended 2007, following a tender process. Moore Stephens LLP (London) and Moore Stephens (Stoke) are separate legal entities, but are both members of the Moore Stephens International Limited network.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm within the network is 11 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group and we remain independent of the group in conducting our audit.

Use of our report

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.

Kelly Sheppard

Kelly Sheppard, *Senior Statutory Auditor*
For and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street
London
EC1A 4AB

29 November 2018

Keele Residential Funding plc
CONSOLIDATED INCOME STATEMENT
For the year ended 31 July 2018

	Note	2018	2017
		Group	Group
		£	£
CONTINUING OPERATIONS			
REVENUE	4	11,569,021	11,240,388
Administrative expenses		(383,233)	(333,863)
(Loss)/Gain on investment property revaluation		(8,265,271)	19,752,834
PROFIT FROM OPERATIONS	5	2,920,517	30,659,359
Finance costs	7	(13,648,818)	(10,911,168)
Finance income	8	261,992	248,351
(LOSS)/PROFIT BEFORE TAX		(10,466,309)	19,996,542
Income tax credit/(expense)	9	1,476,527	(2,176,243)
(LOSS)/PROFIT FOR THE YEAR		(8,989,782)	17,820,299
TOTAL COMPREHENSIVE INCOME		(8,989,782)	17,820,299
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE PARENT		(8,989,782)	17,820,299

No separate Statement of Other Comprehensive Income has been presented as the Group has no items of other Comprehensive Income.

Keele Residential Funding plc

REGISTERED NUMBER: 03840096

CONSOLIDATED BALANCE SHEET

At 31 July 2018

	Note	2018 Group £	2017 Group £
ASSETS			
NON CURRENT ASSETS			
Investment property	11	401,455,040	409,720,311
Other financial assets	14	4,502,900	4,284,213
TOTAL NON CURRENT ASSETS		405,957,940	414,004,524
CURRENT ASSETS			
Trade and other receivables	15	264,563	242,272
Cash and cash equivalents	16	3,675,676	3,664,330
TOTAL CURRENT ASSETS		3,940,239	3,906,602
TOTAL ASSETS		409,898,179	417,911,126
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(178,260)	(68,473)
Obligations under finance lease	18	(694,003)	(566,882)
Other financial liabilities	19	(470,694)	(61,347)
TOTAL CURRENT LIABILITIES		(1,342,957)	(696,702)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(109,772,985)	(110,466,988)
Financial liabilities	19	(150,767,827)	(148,266,717)
Deferred tax liability	10	(28,019,221)	(29,495,748)
TOTAL NON CURRENT LIABILITIES		(288,560,033)	(288,229,453)
TOTAL LIABILITIES		(289,902,990)	(288,926,155)
NET ASSETS		119,995,189	128,984,971
EQUITY			
Share capital	22	50,000	50,000
Retained earnings	23	119,945,189	128,934,971
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		119,995,189	128,984,971
TOTAL EQUITY		119,995,189	128,984,971

Keele Residential Funding plc

COMPANY BALANCE SHEET

At 31 July 2018

	Note	2018 Company £	2017 Company £
ASSETS			
NON CURRENT ASSETS			
Investment property	11	401,455,040	409,720,311
Investment in Subsidiary	13	2	2
Other financial assets	14	4,502,900	4,284,213
TOTAL NON CURRENT ASSETS		405,957,942	414,004,526
CURRENT ASSETS			
Trade and other receivables	15	264,563	242,272
Cash and cash equivalents	16	3,627,548	3,639,469
TOTAL CURRENT ASSETS		3,892,111	3,881,741
TOTAL ASSETS		409,850,053	417,886,267
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	17	(163,716)	(64,402)
Obligations under finance lease	18	(694,003)	(566,882)
Other financial liabilities	19	(470,694)	(61,347)
TOTAL CURRENT LIABILITIES		(1,328,413)	(692,631)
NON CURRENT LIABILITIES			
Obligation under finance lease	18	(109,772,985)	(110,466,988)
Financial liabilities	19	(150,767,827)	(148,266,717)
Deferred tax liability	10	(28,019,221)	(29,495,748)
TOTAL NON CURRENT LIABILITIES		(288,560,033)	(288,229,453)
TOTAL LIABILITIES		(289,888,446)	(288,922,084)
NET ASSETS		119,961,607	128,964,183
EQUITY			
Share capital	22	50,000	50,000
Retained earnings	23	119,911,607	128,914,183
ISSUED CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS		119,961,607	128,964,183
TOTAL EQUITY		119,961,607	128,964,183

Keele Residential Funding plc

COMPANY BALANCE SHEET

At 31 July 2018

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 loss for the year was (£9,002,576) (2017: profit of £17,808,090).

The financial information on pages 9 to 32 was approved by the board of directors and authorised for issue on November 2018 and was signed on its behalf by:


D Wynne
Director

Keele Residential Funding plc
CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 July 2018

	Note	2018	2017
		Group	Group
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(8,989,782)	17,820,299
<i>Adjustments for:</i>			
Finance costs		13,648,818	10,911,168
Finance income		(261,992)	(248,351)
Loss/(Gain) on investment property revaluation		8,265,271	(19,752,834)
Income tax (credit)/expense		(1,476,527)	2,176,243
		11,185,788	10,906,525
(Increase)/decrease in trade and other receivables		(22,291)	24,873
Increase in trade and other payables		109,787	10,896
CASH GENERATED BY OPERATIONS		11,273,284	10,942,294
Income tax paid		-	-
NET CASH FLOW FROM OPERATING ACTIVITIES		11,273,284	10,942,294
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		45,160	40,284
NET CASH FLOW FROM INVESTING ACTIVITIES		45,160	40,284
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments made on lease		(4,515,753)	(4,395,332)
Payment made on bonds		(6,791,345)	(6,435,969)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(11,307,098)	(10,831,301)
NET INCREASE IN CASH AND CASH EQUIVALENTS		11,346	151,277
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,664,330	3,513,053
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	3,675,676	3,664,330

Keele Residential Funding plc
COMPANY CASH FLOW STATEMENT
For the year ended 31 July 2018

	Note	2018	2017
		Company	Company
		£	£
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit for the year		(9,002,576)	17,808,090
<i>Adjustments for:</i>			
Finance costs		13,648,818	10,911,168
Finance income		(261,992)	(248,351)
Loss/(gain) on investment property revaluation		8,265,271	(19,752,834)
Income tax (credit)/expense		(1,476,527)	2,176,243
		11,172,994	10,894,316
(Increase)/decrease in trade and other receivables		(22,291)	24,873
Increase in trade and other payables		99,314	10,873
CASH GENERATED BY OPERATIONS		11,250,017	10,930,062
Income tax paid		-	-
NET CASH FLOW FROM OPERATING ACTIVITIES		11,250,017	10,930,062
CASH FLOWS FROM INVESTING ACTIVITIES			
Finance income		45,160	40,284
NET CASH FLOW FROM INVESTING ACTIVITIES		45,160	40,284
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments made on lease		(4,515,753)	(4,395,332)
Payment made on bonds		(6,791,345)	(6,435,969)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		(11,307,098)	(10,831,301)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(11,921)	139,045
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		3,639,469	3,500,424
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	16	3,627,548	3,639,469

Keele Residential Funding plc

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 July 2018

GROUP	Note	Share Capital	Retained Earnings	Total
		£	£	£
Balance as at 31 July 2016		50,000	111,114,672	111,164,672
Total comprehensive income for the year		-	17,820,299	17,820,299
Balance as at 31 July 2017		50,000	128,934,971	128,984,971
Total comprehensive income for the year		-	(8,989,782)	(8,989,782)
Balance as at 31 July 2018	22	50,000	119,945,189	119,995,189

COMPANY	Note	Share Capital	Retained Earnings	Total
		£	£	£
Balance as at 31 July 2016		50,000	111,106,093	111,156,093
Total comprehensive income for the year		-	17,808,090	17,808,090
Balance as at 31 July 2017		50,000	128,914,183	128,964,183
Total comprehensive income for the year		-	(9,002,576)	(9,002,576)
Balance as at 31 July 2018	22	50,000	119,911,607	119,961,607

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

1. GENERAL INFORMATION

Keele Residential Funding plc and its subsidiary are incorporated and domiciled in England and Wales. The company is a public company limited by shares. The functional and presentational currency is pounds sterling.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1. STATEMENT OF COMPLIANCE

The financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU with the exception of those standards in issue but not in force. None of the new standards and amendments to standards that are mandatory for the first time for the financial year commencing 1 August 2017 affected any of the amounts recognised in the current period or any prior period.

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

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

IFRS 15 – Revenue from Contracts with Customers which is effective for accounting periods beginning on or after 1 January 2018 was endorsed by the EU on 22 September 2016 and replaces IAS 18 – Revenue and IAS 11 – Construction Contracts.

IFRS 16 – Leases which is effective for accounting periods beginning on or after 1 January 2019 was endorsed by the EU on 31 October 2017 sets out principles for the recognition, measurement, presentation and disclosure of leases. The standard eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration which is effective for accounting periods beginning on or after 1 January 2018 was endorsed by the EU on 28 March 2018

While the details of the Group's revenue policy will change as a result of adopting IFRS 15, the directors' preliminary analysis indicates that the adoption of the standard will not impact on revenue recognition to any significant extent. The directors consider that none of the other EU adopted International Financial Reporting Standards (IFRSs) in issue but not in force at the balance sheet date will have a material impact on these financial statements.

New IFRSs not yet endorsed by the EU

The directors have also considered International Financial Reporting Standards (IFRSs) which have not been endorsed by the EU and which are in issue but not in force at the balance sheet date IFRS 17 – Insurance Contracts, and IFRIC 23 – Uncertainty Over Income Tax Treatments become effective for accounting periods to July 2022 and July 2020 respectively. The directors believe that the adoption of the aforementioned standards and interpretations will not have a significant impact on these financial statements.

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

2.2. BASIS OF PREPARATION

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

2.3. GOING CONCERN

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

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

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

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

2.4. BASIS OF CONSOLIDATION

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

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

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

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

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.

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

2.6. SEGMENTS

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

2.7. FINANCE COSTS

Net financing costs comprise interest payable and other borrowing costs.

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

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

2.8. INVESTMENT PROPERTY

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

2.9. OBLIGATION UNDER FINANCE LEASE

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

2.10. GUARANTEED INDEX LINKED SECURED BOND

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

2.11. IMPAIRMENT OF ASSETS OTHER THAN GOODWILL

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

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

Calculation of recoverable amount

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

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

2.12. TAXATION

Current taxation

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

Deferred taxation

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

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

Tax charge for the period

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

2.13. FINANCIAL ASSETS

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

2.13.1. Held-to-maturity investments

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

2.13.2. Loans and receivables

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

2.13.3. Effective interest rate method

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

2.13.4. Derecognition of financial assets

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

2.14 FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS ISSUED BY THE GROUP

2.14.1. Classification as debt or equity

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

2.14.2. Equity instruments

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

2.14.3. Financial liabilities

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

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

2.14.4. Derecognition of financial liabilities

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The directors do not believe that they have had to make any significant judgements in relation to accounting policies in preparing these financial statements. Critical accounting estimates made by the Group that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial year are:

3.1. Valuation of investment property

The Group determines annual valuations for its investment property on the basis of the present value of expected future cash flows. These future cash flows are subject to inflation. The estimate of inflation used at 31 July 2018 is 3.35% (2017: 3.35%) being the difference in yield between long dated index linked and fixed interest government gilts at this date. The discount factor applied to obtain the present value of the future cash flows so estimated is 2.65% (2017: 2.49%) being the average yield on long dated AA rated corporate bonds at 31 July 2018. An increase in the discount factor relative to the inflation factor as applied to the property valuation has caused a £8,265,271 decrease in the property valuation. In future year's conditions may change resulting in changes to value being required.

Keele Residential Funding plc

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For the year ended 31 July 2018

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:

	2018 Group £	2017 Group £
<i>Continuing operations:</i>		
Rental income from student accommodation	10,424,352	10,123,572
Fee income from use of residences out of term time	1,144,669	1,116,816
	<u>11,569,021</u>	<u>11,240,388</u>

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

5. PROFIT FROM OPERATIONS

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

	2018 £	2017 £
(Loss)/gain on investment property revaluation (note 11)	(8,265,271)	19,752,834
<i>Auditors' remuneration</i>		
Audit services	25,000	20,000
Prior periods taxation services	<u>1,765</u>	<u>-</u>

During the year no other non-audit fees were paid to the Auditors of the Group.

6. STAFF COSTS

Group & Company

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

	2018	2017
Head office and administration	<u>2</u>	<u>2</u>

Staff remuneration in the year ended 31 July 2018 amounted to £nil (2017 - £nil)

Key management and directors' remuneration

The key management of the Group and company comprises the directors only. Their remuneration is paid by Wilmington Trust SP Services (London) Limited. KRF Residential Plc pays Wilmington Trust SP Services (London) Limited for corporate services as disclosed in note 25 of the Financial Statements.

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For the year ended 31 July 2018

7. FINANCE COSTS

Group	2018 £	2017 £
Interest on secured bond	9,654,040	6,981,911
Interest on finance leases	3,948,871	3,890,942
Interest on AGL liability	45,907	38,315
	13,648,818	10,911,168

8. FINANCE INCOME

Group	2018 £	2017 £
Interest on cash balances	261,992	248,351

9. INCOME TAX EXPENSE

Group	2018 £	2017 £
<i>Recognised in the income statement:</i>		
Current tax	-	-
Deferred tax:		
Origination and reversal of temporary differences	1,476,527	(3,693,993)
Effect of tax rate change on opening balance	-	1,517,750
Total deferred tax	1,476,527	(2,176,243)
Total tax credit /(expense) in income statement	1,476,527	(2,176,243)
<i>Reconciliation of effective tax rate</i>		
	2018 £	2017 £
Group profit before tax	(10,466,309)	19,996,542
Tax using the UK corporation tax rate of 19% (2017:19.67%)	1,988,600	(3,933,320)
EFFECT OF:		
Deferred tax rate adjustments	-	1,517,750
Other timing differences	(619,780)	327,146
Annual allowance on lease premiums paid	107,707	(87,819)
Total current tax charge and effective rate of tax	1,476,527	(2,176,243)

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2018

10. DEFERRED TAX ASSETS AND (LIABILITIES)

Group & Company

Recognised deferred tax assets and (liabilities)	2018	2017
	£	£
<i>Analysis for financial reporting purposes:</i>		
Deferred tax assets	9,055,690	8,446,381
Deferred tax liabilities	(37,074,911)	(37,942,129)
Net position at the year end	<u>(28,019,221)</u>	<u>(29,495,748)</u>

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

	Assets		Liabilities		Net	
	2018	2017	2018	2017	2018	2017
	£	£	£	£	£	£
Assets/(liabilities) at beginning of the year	8,446,381	8,751,164	(37,942,129)	(36,070,669)	(29,495,748)	(27,319,505)
(Credit)/charge to income statement for the year	609,309	(304,783)	867,218	(1,871,460)	1,476,527	(2,176,243)
Assets/(liabilities) at end of the year	<u>9,055,690</u>	<u>8,446,381</u>	<u>(37,074,911)</u>	<u>(37,942,129)</u>	<u>(28,019,221)</u>	<u>(29,495,748)</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
	2018	2018	2018	2018	2018	2018
	£	£	£	£	£	£
Tax losses	53,268,766	9,055,690			53,268,766	9,055,690
Revaluations			(218,087,712)	(37,074,911)	(218,087,712)	(37,074,911)
Net tax Assets/(liabilities)	<u>53,268,766</u>	<u>9,055,690</u>	<u>(218,087,712)</u>	<u>(37,074,911)</u>	<u>(164,818,946)</u>	<u>(28,019,221)</u>
	Assets		Liabilities		Net	
	Gross amount	Tax amount	Gross amount	Tax amount	Gross amount	Tax amount
	2017	2017	2017	2017	2017	2017
	£	£	£	£	£	£
Tax losses	49,684,594	8,446,381			49,684,594	8,446,381
Revaluations			(223,189,001)	(37,942,129)	(223,189,001)	(37,942,129)
Net tax Assets/(liabilities)	<u>49,684,594</u>	<u>8,446,381</u>	<u>(223,189,001)</u>	<u>(37,942,129)</u>	<u>(173,504,407)</u>	<u>(29,495,748)</u>

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

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	2018 Interest in lease £	2017 Interest in lease £
<i>Fair value</i>		
At beginning of year	409,720,311	389,967,477
(Reduction)/increase in fair value in the year	(8,265,271)	19,752,834
At end of year	401,455,040	409,720,311

The fair value of the Group's investment property at 31 July 2018 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. This asset is categorised under level 3.

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	2018 £	2017 £
Cost		
Balance at the beginning and end of the year	591,832	591,832
Accumulated impairment losses		
Balance at the beginning and end of the year	(591,832)	(591,832)
Carrying amount		
Balance at the beginning and end of the year	-	-

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

13. INVESTMENT IN SUBSIDIARY

Company

Detail of the parent company's subsidiary at 31 July 2018 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 registered office of KRF Management Limited is Third Floor, 1 King's Arms Yard, London, EC2 7AF.

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	2018 £	2017 £
Long term cash investment	<u>4,502,900</u>	<u>4,284,213</u>

Under the terms of the lease arrangements with the University of Keele, a portion of the premium due under the leases is deferred to be paid in 2029. The long term cash investment is a guaranteed investment contract which will return the required amount at the due date.

15. TRADE AND OTHER RECEIVABLES

Group & Company	2018 £	2017 £
<i>Amounts falling due within one year:</i>		
Trade receivables	874,968	726,230
Less: allowance for impairment of receivables	<u>(699,974)</u>	<u>(580,984)</u>
	174,994	145,246
Prepayments and accrued income	89,569	97,026
Social Security and other taxes	-	-
	<u>264,563</u>	<u>242,272</u>

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2018

16. CASH AND CASH EQUIVALENTS

Group	2018	2017
	£	£
Cash at bank and in hand	<u>3,675,676</u>	<u>3,664,330</u>

Company	2018	2017
	£	£
Cash at bank and in hand	<u>3,627,548</u>	<u>3,639,469</u>

17. TRADE AND OTHER PAYABLES

Group	2018	2017
	£	£
Trade payables	98,391	-
Accruals and deferred income	77,409	66,084
Social Security and other taxes	2,460	2,389
	<u>178,260</u>	<u>68,473</u>

Company	2018	2017
	£	£
Trade payables	87,359	-
Accruals and deferred income	74,373	63,048
Social Security and other taxes	1,984	1,354
	<u>163,716</u>	<u>64,402</u>

Keele Residential Funding plc
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 July 2018

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	
	2018	2017	2018	2017
The borrowings are repayable as follows:	£	£	£	£
No later than 1 year	4,426,662	4,318,695	694,003	566,881
Later than 1 year - not later than 5yrs	18,841,330	18,381,785	4,191,758	3,610,224
Later than 5 years	162,015,705	166,901,912	105,581,227	106,856,765
	185,283,697	189,602,392	110,466,988	111,033,870
Less future financing charges	(74,816,709)	(78,568,522)	-	-
Present value of minimum lease payments	110,466,988	111,033,870	110,466,988	111,033,870
<i>Included in the financial statements as:</i>				
Current borrowings			694,003	566,882
Non-current borrowings			109,772,985	110,466,988
			110,466,988	111,033,870

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	
	2018	2017	2018	2017
	£	£	£	£
Guaranteed secured bond (see note 19.1)	443,463	-	149,119,509	146,599,913
Financial Guarantee fee payable to AGL (see note 19.2)	27,231	61,347	1,648,318	1,666,804
	470,694	61,347	150,767,827	148,266,717

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

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. 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 2018 the principal outstanding on the new bonds, on a cash-paid basis, was £115,243,578 (2017: £117,695,686). This liability is categorised as level 2.

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 2018.

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 over the life of the contracts. 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 2017.

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
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20.3. CATEGORIES OF FINANCIAL INSTRUMENTS

FINANCIAL ASSETS

GROUP

	Loans and receivables	2018 Held for maturity investments	Total
	£	£	£
Cash at bank and in hand	3,675,676	-	3,675,676
Trade and other receivables	264,563	-	264,563
Financial investment	-	4,502,900	4,502,900
	3,940,239	4,502,900	8,443,139

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

FINANCIAL LIABILITIES

GROUP

	Loans and other payables	2018 Financial liabilities held at amortised cost	Total
	£	£	£
Trade and other payables	(178,260)	-	(178,260)
Guaranteed index linked secured bond	-	(149,562,972)	(149,562,972)
Obligation under finance lease	-	(110,466,988)	(110,466,988)
Financial Guarantee fee payable to AGL	-	(1,675,549)	(1,675,549)
	(178,260)	(261,705,509)	(261,883,769)

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

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 £3,675,676 (2017 - £3,664,330) and £4,502,900 (2017 - £4,284,213) 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 (2017: 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 £573,066 (2017 - £585,259). 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.

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20.7. FAIR VALUE OF BORROWINGS AND CASH AND CASH EQUIVALENT

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

	2018		2017	
	Book value	Fair value	Book value	Fair value
	£	£	£	£
Cash at bank and in hand	3,675,676	3,675,676	3,664,330	3,664,330
Long Term Cash Deposits	4,502,900	4,502,900	4,284,213	4,284,213
Trade and other receivables	264,563	264,563	242,272	242,272
Trade and other payables	(178,260)	(178,260)	(68,473)	(68,473)
Short term borrowings	(1,164,697)	(1,164,697)	(628,229)	(628,229)
Long term borrowings	(260,540,812)	(363,896,336)	(258,733,705)	(357,739,074)
	(253,440,630)	(356,796,154)	(251,239,592)	(350,244,961)

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 2018.

Guaranteed index linked secured bonds, included long term borrowings have been valued using published bond price indices at 31 July 2018

21. NOTE SUPPORTING CASH FLOW STATEMENT

Non-cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions set out below.

	Finance lease liabilities	Financial liabilities
	£	£
	(Note 18.2)	(Note 19)
At 1 August 2017	111,033,870	148,328,064
Cash flows	(4,515,753)	(6,789,490)
Non cash flows:		
Finance cost	3,948,871	9,699,947
Fair value changes	-	-
At 31 July 2018	110,466,988	151,238,521

Keele Residential Funding plc

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

22. 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.

23. RESERVES

Retained earnings records all current and prior period retained profits and losses

24. CAPITAL COMMITMENTS

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

25. RELATED PARTY TRANSACTIONS

During the year £79,465 (2017: £76,547), inclusive of VAT, was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to Keele Residential Funding plc and £9,364 (2017: £9,024) was charged by Wilmington Trust SP Services (London) Limited for corporate services provided to KRF Management Limited. At the year-end a balance of £4,717 (2017: £ Nil) was due to Wilmington Trust SP Services (London) Limited. Wilmington Trust SP Services (London) Limited is a director of Keele Residential Funding plc and Mr Wynne is a director of Wilmington Trust SP Services (London) Limited.

26. POST BALANCE SHEET EVENTS

There are no reportable post-balance sheet events.

27. CONTINGENT LIABILITIES

There are no contingent liabilities to report.

28. 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.