Registered number: 07336159

UPP (KENT STUDENT ACCOMMODATION II) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 AUGUST 2016

UPP (KENT STUDENT ACCOMMODATION II) LIMITED

COMPANY INFORMATION

Directors	R Bailey-Watts J Benkel S O'Shea J Wakeford R Bienfait
Company secretary	J Benkel
Registered number	07336159
Registered office	40 Gracechurch Street London EC3V 0BT
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor Grant Thornton House 202 Silbury Boulevard Central Milton Keynes MK9 1LW

UPP (KENT STUDENT ACCOMMODATION II) LIMITED

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 AUGUST 2016

Business review

The principal activity of the Company is the development, funding, construction and operation of university accommodation under the University Partnerships Programme.

The project comprises new build of 495 student residential accommodation bedrooms within the University of Kent main campus.

Both the level of business, achieving full occupancy and the year end financial position were in accordance with the directors' expectations. The directors anticipate that the future level of activity will be in accordance with their expectations and consider that the project will yield returns in line with current forecasts.

Toward the end of the financial year, the impact of the referendum decision to leave the European Union (EU) has also been the focus of much attention across the Higher Education (HE) sector. Following the result, the Government has committed to continue current funding arrangements for EU students until the completion of the Article 50 negotiations. At this stage it is unlikely that there will be any significant impact on demand from what is a relatively small proportion of the overall student population (circa 5%). However, the Board remain cognisant of the attendant risks relating to this process and will continue to actively manage these where they arise.

The robust characteristics of this market remain; with strong levels of student demand resulting from greater institutional autonomy and a recognition of the importance of high quality facilities as a central element of improving the experience of students.

Principal risks and uncertainties

Financial risk management objectives and policies

The Company uses various financial instruments including loans, inflation ('RPI') and interest rate ('IR') swaps, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations. All of the Company's financial instruments are of sterling denomination and the Company does not trade in financial instruments or derivatives.

The existence of these financial instruments exposes the Company to a number of financial risks, which are described in more detail below. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Company finances its operations through a mixture of retained profits, related party borrowings and bank borrowings. The Company's exposure to interest rate fluctuations on its bank borrowings is managed by the use of interest swaps which fix variable interest rates for a period of time.

Inflation risk

Growth in rental income is linked to the movement in RPI and the Company manages some of its exposure to this index through the use of an RPI swap.

Liquidity risk

The Company seek to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably.

The maturity of borrowings is set out in note 16 to the financial statements.

Demand risk

The Company is subjected to risks arising from occupancy voids and lack of nominations by the university partners, which can lead to uncertain revenues. This risk is managed by maintaining strong relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income.

Portfolio risk

The assets of the Company are in the student market and reduced student numbers could impact upon financial performance. The Company seeks to mitigate this risk by building excellent long term relationships with its university partner and ensuring up to date in-depth market analysis is completed each year to enable the company to review its strategic position.

Key performance indicators

The following are considered by the Directors to be other indicators of performance of the Company that are not necessarily evident from the financial statements.

	2015/16	2014/15
Applications : Acceptance ratio	5.22:1	5.14:1
Core demand pool (no. of students)	12,786	12,805

The indicators above are directly related to performance of the university partner of the Company and any changes in these statistics may potentially affect the performance of the company and in turn, the economic viability of this Company.

The directors also monitor the occupancy levels of the student accommodation facilities.

	2015/16	2014/15
Average occupancy across the facilities	100.%	100.0%

The target occupancy level is 98-99%, as such the directors are satisfied occupancies noted above exceed tolerable limits for the recovery of credit extended to the Company. In addition, the Company met its loan obligations in the period.

Other financial key performance indicators, such as debt service cover ratio, relate to financial covenants relating to the debt instruments. None of those have been breached during the financial year.

This report was approved by the board on 8 March 2017 and signed on its behalf.

R Bienfait
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 AUGUST 2016

The directors present their annual report and the financial statements for the year ended 31 August 2016.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The FRS applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on page 2.

Going concern

Although the Company's net asset position has significantly deteriorated as a result of the transition to FRS 102, the impact is primarily caused by the recognition of derivative financial instruments at their fair values. These derivative financial instruments are unrealised and are part of hedging arrangements that help to reduce volatility in the Company's cash flows over the duration of the service concession contracts. These derivative financial instruments are on same terms, such as maturity, as the underlying contractual arrangements that contain the risks that these instruments are hedging. The Companyis performing significantly above any default and lock up ratios included within the senior debt arrangements and are highly unlikely to crystallise before their maturity date.

Having reviewed the Company's projected profits and cash flows by reference to a financial model, that included the impact of these financial instruments, the directors consider the Company will be able to settle its debts as they fall due and accordingly the financial statements have been prepared on a going concern basis.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 AUGUST 2016

Results and dividends

The profit for the year, after taxation, amounted to £1,045k *(2015 - £694k)*.

The directors do not propose the payment of a dividend (2015: *£nil)*.

Directors

The directors who served during the year were:

R Bailey-Watts
J Benkel
S O'Shea
J Wakeford (appointed 27 July 2016)
G Behr (resigned 10 May 2016)

The following director was appointed after the year end:

R Bienfait (appointed 11 October 2016)

Disclosure of information to auditor

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

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 8 March 2017 and signed on its behalf.

R Bienfait
Director

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (KENT STUDENT ACCOMMODATION II) LIMITED

We have audited the financial statements of UPP (Kent Student Accommodation II) Limited for the year ended 31 August 2016, which comprise of the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is the applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 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 Ethical Standard 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 Company's affairs as at 31 August 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 those financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (KENT STUDENT ACCOMMODATION II) LIMITED (CONTINUED)

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Grant Thornton UK LLP

Laura Brierley (Senior Statutory Auditor)

for and on behalf of
Grant Thornton UK LLP

Chartered Accountants
Statutory Auditor

Milton Keynes

8 March 2017

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 AUGUST 2016

	Note	2016 £000	*2015* *£000*
Turnover	4	**2,912**	*2,804*
Cost of sales		**(740)**	*(725)*
Gross profit		**2,172**	*2,079*
Administrative expenses		**(316)**	*(269)*
Operating profit	5	**1,856**	*1,810*
Interest receivable and similar income	8	**15**	*14*
Interest payable and similar charges	9	**(693)**	*(939)*
Profit on ordinary activities before tax		**1,178**	*885*
Tax on profit on ordinary activities	10	**(133)**	*(191)*
Profit for the year		**1,045**	*694*

The notes on pages 13 to 35 form part of these financial statements.

The above results all relate to continuing operations.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2016

	Note	2016 £000	*2015 £000*
Profit for the financial year		**1,045**	*694*
Other comprehensive income			
Unrealised surplus on revaluation of tangible assets	11	**2,022**	*-*
Deferred tax on revaluation of tangible fixed asset	18	**(91)**	*34*
Fair value movement of interest rate swap	15	**(4,396)**	*(1,335)*
Deferred tax on fair value movement of interest rate swap	18	**698**	*267*
Other comprehensive income for the year		**(1,767)**	*(1,034)*
Total comprehensive income for the year		**(722)**	*(340)*

The notes on pages 13 to 35 form part of these financial statements.

UPP (KENT STUDENT ACCOMMODATION II) LIMITED
REGISTERED NUMBER: 07336159

BALANCE SHEET
AS AT 31 AUGUST 2016

	Note	2016 £000	2016 £000	2015 £000	2015 £000
Fixed assets					
Tangible fixed assets	11		32,350		30,366
			32,350		30,366
Current assets					
Debtors	12	4,137		2,330	
Cash at bank and in hand	13	2,355		2,179	
		6,492		4,509	
Creditors: amounts falling due within one year	14	(349)		(308)	
Net current assets			6,143		4,201
Total assets less current liabilities			38,493		34,567
Creditors: amounts falling due after more than one year	15		(32,718)		(28,294)
Provisions for liabilities					
Deferred tax	18	(2,184)		(1,960)	
			(2,184)		(1,960)
Net assets			3,591		4,313
Capital and reserves					
Called up share capital	19		241		241
Revaluation reserve	20		8,933		7,012
Cash flow hedge reserve	20		(7,414)		(3,716)
Profit and loss account	20		1,831		776
			3,591		4,313

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 8 March 2017.

R Bienfait
Director

J Benkel
Director

The notes on pages 13 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2016

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 September 2015	241	7,012	(3,716)	776	4,313
Profit for the year	-	-	-	1,045	1,045
Transfer from revaluation reserve	-	-	-	10	10
Surplus on revaluation of tangible fixed asset	-	1,931	-	-	1,931
Total comprehensive income for the year	-	-	(3,698)	-	(3,698)
Transfer to profit and loss account	-	(10)	-	-	(10)
At 31 August 2016	241	8,933	(7,414)	1,831	3,591

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2016 was £10k.

The notes on page 13 to 35 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2015

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 September 2014	241	6,987	(2,649)	73	4,652
Profit for the year	-	-	-	694	694
Transfer from revaluation reserve	-	-	-	9	9
Deferred tax on revaluation of tangible asset	-	34	-	-	34
Total comprehensive income for the year	-	-	(1,067)	-	(1,067)
Transfer to profit and loss account	-	(9)	-	-	(9)
At 31 August 2015	241	7,012	(3,716)	776	4,313

The notes on 13 to 35 form part of these financial statements.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2015 was £9k.

1. General information

UPP (Kent Student Accommodation II) Limited is a private limited company incorporated in England, with company number 07336159. The registered office is 40 Gracechurch Street, London, EC3V 0BT

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of fair value basis for all derivative instruments and revaluation of fixed assets and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

Information on the impact of first-time adoption of FRS 102 is given in note 22.

The Company has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting By Operators, and as a result its tangible fixed assets which meet the definition of service concession arrangements under Section 34 but where the contract was entered into before the date of transition will continue to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.

The Company transitioned from previously extant UK GAAP to FRS 102 as at 1 September 2014 and this is the first period in which the financial statements have been prepared under FRS 102. The transition to FRS 102 has resulted in a number of changes in accounting policies to those used previously. The nature of these changes and their impact on opening equity and loss for the comparative period are explained in note 23.

The financial statements are presented in Sterling (£), which is the Company's functional currency, rounded to the nearest thousand.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

The directors have reviewed the Company's projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Company's finances, contracts and likely future demand trends. After consideration of these projections the directors consider that the Company will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

2.3 Turnover

Rent receivable is recognised on a straight line basis of the amount receivable in respect of the accounting period. Amounts received in advance are included within deferred income.

2. Accounting policies (continued)

2.4 Tangible fixed assets

Tangible fixed assets are stated at valuation, net of depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of the tangible fixed assets, less any residual value, over the expected useful economic lives of the assets concerned once construction is complete. The principal rates of depreciation used for this purpose are:

Assets for use in operating leases - annuity method over the term of the lease

The economic benefit of the principal assets for use in operating leases is the return on assets invested into the financing arrangement with the relevant university. The annuity method takes into account the cost of capital notionally invested in the principal asset. Notional interest calculated using the relevant group's actual weighted cost of capital and depreciation combined will give an approximately constant charge to revenue.

The company has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The movement in fair value is recognised in other comprehensive income and accumulated in equity in a revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged to the Profit and Loss account. A deficit which represents a clear consumption of economic benefits is charged to the Profit and Loss account regardless of any such previous surplus.

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves.

At each reporting date the company assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

2.5 Financial reporting standard 102 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.39 to 11.48A;
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.29;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of UPP Group Holdings Limited as at 31 August 2016 and these financial statements may be obtained from Companies House, Cardiff CF14 3UZ, once they have been filed.

2. Accounting policies (continued)

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Impairment is determined by making an estimate of the likely recoverable value of short term debtors by considering factors such as the credit rating, the aging profile and the historic experience of the respective debtor.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.8 Interest bearing loans and borrowings

Senior debt and subordinated loan notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial liability, or (where appropriate) a shorter year, to the net carrying amount on initial recognition.

Where the financial liability has variable cash flows, such as LIBOR linked interest payments, the estimated cash flows are revisited at each reporting year and the effective rate is adjusted to reflect any changes in estimated LIBOR rates over the term of the financial instrument.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.10 Derivative financial instruments

Derivatives, include inflation and interest rate swaps.

All derivative instruments are initially measured at fair value on the date the contract is entered into and subsequently re-measured to fair value at each reporting date. The gain or loss on re measurement is taken to the profit and loss statement in finance cost or finance income as appropriate, unless they are included in a hedging arrangement.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

2. Accounting policies (continued)

2.11 Finance costs

Financing costs, comprising interest payable on bank loans and subordinated loan notes and the costs incurred in connection with the arrangement of borrowings are recognised in profit or loss using the effective interest method. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument unless the capital instrument is subsequently carried at fair value in which case the initial issue costs are expensed in the profit and loss account.

2.12 Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.13 *Hedge accounting*

The Company applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of floating rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income directly in a cash flow hedge reserve. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss statement.

The gain or loss recognised in other comprehensive income is reclassified to the profit and loss account when the hedge relationship ends at the contract termination date. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

The Company has elected to adopt hedge accounting for all its swaps which meet the qualifying criteria for hedge accounting under Section 12 of FRS 102. It is considered that the criteria to apply hedge accounting for the interest rate swap have been met.

2.14 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Company in independently administered funds.

2. Accounting policies (continued)

2.15 Interest income

Interest income is recognised in the Profit and Loss Account using the effective interest method.

2.16 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Profit and Loss Account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A deferred tax liability is recognised on any tangible fixed assets revaluations. The corresponding movements in deferred tax are recognised in the same component of income as the transaction it relates to.

The company has decided to make the election to be taxed under Regulation 9 in relation to derivative financial instruments and as a result a deferred tax asset or liability is recognised on the carrying value of any derivative instruments. Any deferred tax movements are recognised in other comprehensive income, where hedge accounting is applied for the underlying derivative instrument or in the profit and loss account where hedge accounting is not applied.

Deferred tax is calculated on a non-discounted basis using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference. Group relief is only accounted for to the extent that a formal policy is in place at the reporting period end. Where no policy is in place, current and deferred tax is measured before benefits which may arise from a formal group relief policy.

2. Accounting policies (continued)

2.17 Related party transactions

The Company is a wholly owned subsidiary of UPP Group Holdings Limited and as such the Company has taken advantage of the terms of FRS 102.33.1A not to disclose related party transactions which are eliminated on consolidation.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and assumptions are reviewed on an on-going basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below:

Revaluation of the principal assets

The Company has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The company engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the valuation of the principal assets are further explained in note 11 on page 25. JLL have confirmed that the value of the revalued assets as at 31 August 2016 was £32,350k.

Valuation of RPI and Interest rate swaps

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently re-measured to their fair value at each reporting date. The fair values of the RPI and interest rate swaps are based on market to market valuations adjusted for credit risk. Derivatives valuations are based on estimates of future market interest and inflation rates and will therefore be subject to change. The company has used a third party expert to assist with valuing such instruments. Refer to note 17 for further details.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Presentation of the principal asset

Rent receivable is generated from the Company's interests in university accommodation. These interests fall within the scope of Section 34 of FRS 102. However, due to the transitional relief adopted in relation to service concession arrangements, the Company continues to account for all its principal assets applying the policies under the extant UK GAAP, FRS 5 (Application Note F).

Each year the Company applies judgement in assessing the status of these interests, in accordance with the provisions of FRS 5 (Application Note F), assessing the balance of the significant risks and rewards of ownership of the asset. The appropriate balance sheet treatment of these interests is to treat the asset as a finance receivable asset where the Company does not have the majority of significant risks and rewards. Where it does, the asset is treated as a tangible fixed asset.

The directors consider the balance of the risks and rewards lies with the Company and therefore the assets are treated as tangible fixed asset.

4. Turnover

Turnover represents income, on the basis of accounting policy 2.3, excluding VAT, attributed to the provision of student accommodation.

An analysis of turnover by class of business is as follows:

	2016 £000	*2015 £000*
Provision of student accommodation	2,912	*2,804*
	2,912	*2,804*

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2016 £000	*2015 £000*
Depreciation of tangible fixed assets	37	*34*

During the year, no director received any emoluments *(2015 - £NIL)*.

6. Auditor's remuneration

	2016 £000	*2015 £000*
Fees payable to the Company's auditor for the audit of the Company's financial statements	10	*10*
Fees payable to the Copmany's auditor in respect of non audit services:		
Taxation compliance services	5	*5*
	5	*5*

7. Employees

Staff costs were as follows:

	2016 £000	*2015 £000*
Wages and salaries	139	*139*
Social security costs	17	*18*
Cost of defined contribution scheme	2	*2*
	158	*159*

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the company are considered to be key management personnel. Total remuneration with respect of these individuals is £nil *(2015: £nil)*.

The average monthly number of employees, including the directors, during the year was as follows:

	2016 No.	*2015 No.*
Site Managers	1	*1*
Administration, maintenance and cleaning	4	*4*
	5	*5*

8. Interest receivable

	2016 £000	*2015 £000*
Bank interest receivable	15	*14*
	15	*14*

9. Interest payable and similar charges

	2016 £000	*2015 £000*
Senior debt interest payable	**1,399**	*1,406*
Suborindated loan note interest payable	**398**	*391*
Fair value movement of swaps	**(1,104)**	*(858)*
	693	*939*

Subordinated loan note interest is payable to UPP (Kent Student Accommodation II) Holdings Limited.

10. Taxation

	2016 £000	*2015 £000*
Total current tax	**-**	*-*
Deferred tax		
Current year P&L	**224**	*191*
Adjustment to tax charges in respect of prior years	**(99)**	*-*
Rate difference	**8**	*-*
Total deferred tax	**133**	*191*
Taxation on profit on ordinary activities	**133**	*191*

10. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than *(2015 - higher than)* the standard rate of corporation tax in the UK of 20% *(2015 - 21%)*. The differences are explained below:

	2016	*2015*
	£000	*£000*
Profit on ordinary activities before tax	**1,178**	*884*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 21%)	**236**	*186*
Effects of:		
Adjustment to tax charge in respect of prior years	**(98)**	-
Expenses disallowable for tax purposes	**(19)**	*111*
Rate change	**7**	-
Non-taxable income	**(13)**	-
Movement in deferred tax not recognised	**20**	*(106)*
Total tax charge for the year	**133**	*191*

Factors that may affect future tax charges

The deferred tax has been recognised at a rate of 18% which was substantively enacted in Finance Bill 2015.

There will be a reduction in corporation tax rate from the current 20% rate to 19% from 1 April 2017 and then to 18% from 1 April 2020.

No provision has been made for deferred tax on gains recognised on revaluing property to its market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £69k (2015: £1,647k). At present, it is not envisaged that any tax will become payable in the foreseeable future.

11. Tangible fixed assets

	Assets for use in operating leases £000
Cost or valuation	
At 1 September 2015	**30,400**
Revaluations	**1,950**
At 31 August 2016	**32,350**
At 1 September 2015	**34**
Charge for period on owned assets	**37**
On revalued assets	**(71)**
At 31 August 2016	**-**
Net book value	
At 31 August 2016	**32,350**
At 31 August 2015	*30,366*

11. Tangible fixed assets (continued)

Fixed assets include borrowing costs up to the date of completion of £897k (2015: £897k).

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2016 in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. JLL have confirmed that the value as at that date was £32,350k.

Following an internal review of the assets used in operating leases, the directors have decided to revalue the assets to the value as determined by JLL in 2016.

The critical assumptions made in relation to the valuation are set out below:

	2016
Discount rates	8.25%
Occupancy rates	99%
Long term annual rental growth	3%

Cost or valuation at 31 August 2016 is as follows:

	Assets for use in operating leases £000
At cost	**22,593**
At valuation:	
Revaluation as at 31 August 2016	**9,757**
	32,350

If the assets for use in operating leases had not been included at valuation they would have been included under the historical cost convention as follows:

	2016 £000	*2015 £000*
Cost	**22,593**	*22,593*
Accumulated depreciation	**(117)**	*(90)*
Net book value	**22,476**	*22,503*

12. Debtors

	2016 £000	2015 £000
Due after more than one year		
Deferred tax asset	1,628	929
Derivitive financial instruments	2,471	1,367
	4,099	2,296
Due within one year		
Trade debtors	-	11
Amounts owed by group undertakings	29	20
Prepayments and accrued income	9	3
	4,137	2,330

The amounts owed by group undertakings are repayable on demand and not subject to interest.

13. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	2,355	2,179
	2,355	2,179

14. Creditors: Amounts falling due within one year

	2016 £000	2015 £000
Current installments due on loans	201	161
Trade creditors	15	13
Amounts owed to group undertakings	52	62
Taxation and social security	2	5
Accruals and deferred income	79	67
	349	308

The amounts owed to group undertakings are repayable on demand and not subject to interest.

15. Creditors: Amounts falling due after more than one year

	2016 £000	*2015* *£000*
Secured senior bank debt	**19,792**	*19,829*
Secured subordinated loan notes	**3,884**	*3,821*
Derivitive financial instruments	**9,042**	*4,644*
	32,718	*28,294*

16. Loans

Senior bank debt
The senior debt is provided by the Royal Bank of Scotland and is repayable on 31 August 2041 with principal repayments commencing on 30 November 2011. The interest rate is fixed via a swap at a rate of 3.978% plus a variable margin.

The senior facility above is secured under a debenture deeds. Under the terms of the debenture, the finance provider has security by way of a first legal mortgage over all estates or interests in the leasehold properties and buildings and fixtures on those properties. The finance providers also have security over all other assets of the company by way of fixed and floating charges.

Secured subordinated loan notes
The subordinated loan notes have been provided by UPP (Kent Student Accommodation II) Holdings Limited. The loan notes are subject to the same security as the senior debt facilities but are subordinated to the right of payment of senior debt providers.

The loan notes will be repaid by 2065 and are subject to an effective interest rate of 13.31%.

Analysis of the maturity of loans is given below:

	2016 £000	*2015 £000*
Amounts falling due within one year		
Secured senior bank debt	**201**	*161*
	201	*161*
Amounts falling due 1-2 years		
Secured senior bank debt	**189**	*201*
	189	*201*
Amounts falling due 2-5 years		
Secured senior bank debt	**778**	*623*
	778	*623*
Amounts falling due after more than 5 years		
Secured senior bank debt	**18,825**	*19,006*
Secured subordinated loan notes	**3,884**	*3,821*
	22,709	*22,827*
	23,877	*23,812*

17. Financial instruments

	2016 £000	*2015 £000*
Financial assets		
Financial assets measured at amortised cost	2,384	*2,211*
Derivative financial instruments at fair value through profit and loss	2,471	*1,367*
	4,855	*3,578*
Financial liabilities		
Financial liabilities measured at amortised cost	(23,944)	*(23,886)*
Derivative financial instruments designated as hedges of variable interest rate risk	(9,042)	*4,644*
	(32,986)	*(19,242)*

Financial assets measured at amortised cost comprise trade debtors, amounts owed by group undertakings and cash at bank and in hand.

Financial liabilities measured at amortised cost comprise senior debt, subrdinated loan notes, trade creditors and amounts owed to group undertakings

Derivative financial instruments measured at fair value through the Profit and Loss account and Statement of Comprehensive Income comprise an RPI and an interest rate swap respectively.

RPI swap

To mitigate the risks of inflation movements on future rental income of the Company impacting on the Company's ability to service the senior bank debt, the Company has entered into an RPI swap with the senior bank debt provider. The notional amounts swapped for each year has been determined with reference to a percentage of the net rental income.

The fair value of this derivative instrument has been determined using yield curves derived from quoted RPI rates matching the maturity of the RPI swap. This fair value is based on a mark to market valuation adjusted for credit risk. At the balance sheet date the fair value of this swap was £2,471k asset (2015: £1,367k).

The Company entered into the RPI swap, fixing a portion of the underlying rental income stream to 2.96%. The RPI swap is for a period of 28 years from September 2015 and maturing in May 2043.

The Company does not apply hedge accounting for its derivative instrument as the criteria are not met under section 12 FRS 102. A net gain of £933k arose during the year (2015: £686k) and was recognised in the Profit and Loss account, reflecting the change in fair value of this RPI swap.

17. Financial instruments (continued)

Interest Rate Swap

The Company's exposure to interest rate fluctuations on its bank borrowings is managed by the use of an interest rate swap which fixes variable LIBOR interest rates for the duration of the associated bank debt.

The Company entered into an interest rate swap with the senior debt provider to fix interest at 3.9775%. from September 2011, maturing in August 2065. The swap is based on the principal amount of the underlying senior debt outstanding as at 31 August and 28 February each year.

The fair value of this derivative instrument has been determined using yield curves derived from quoted interest rates matching the maturity of the interest swap. This fair value is based on a mark to market valuation adjusted for credit risk. At the balance sheet date the fair value of this swap was £9,042k liability (2015: £4,644k).

The Company applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A net hedging loss of £3,698k arose during the year (2015: £1,068k) and was recognised in the Statement of Comprehensive Income, reflecting the change in fair value of this interest rate swap.

18. Deferred taxation

	2016 £000	2015 £000
At beginning of year	(1,031)	(1,141)
Charged to the profit or loss	(133)	(191)
Charged to other comprehensive income	607	301
At end of year	**(557)**	**(1,031)**

18. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2016 £000	2015 £000
Revalution of tangible fixed asset	**(1,738)**	*(1,648)*
Deferred tax on fair value of RPI swaps	**(447)**	*(274)*
Deferred tax on fair value of Interest rate swaps	**1,628**	*930*
Other	**-**	*(39)*
	(557)	*(1,031)*

In total deferred tax at the year end amounts to £557k liability (2015 - £1,031k). This is split between £1,628k (2015 - £930k) debtors due more than one year and £2185k (2015 - £1,961k) provisions for liabilities.

19. Share capital

	2016 £000	2015 £000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
241,169 A.Ordinary shares of £1 each	**241**	*241*

20. Reserves

Revaluation reserve

The reserve is used to record the surplus or deficit arising on valuation of the principal asset of the group as well as the deferred tax liability arising on any chargeable gains if the associated property were to be sold at the balance sheet date.

Other reserves

Other reserves comprise of cash flow hedge reserve which includes the fair value movements on the derivities financial instruments and the deferred tax associated with these.

Profit and loss account

The reserve consists of current and prior year profit and loss.

21. Controlling party

The company's immediate parent undertaking is UPP (Kent Student Accommodation II) Holdings Limited.

UPP (Kent Student Accommodation II) Holdings Limited is a wholly owned subsidiary of UPP Group Limited.

UPP Group Holdings Limited is controlled by a 60% stake held by PGGM Vermogensbeheer BV ("PGGM"), a company incorporated in The Netherlands.

It is the directors' opinion that PGGM is the ultimate controlling party.

The smallest group of which the company is a member and for which group accounts are prepared is UPP (Kent Student Accommodation II) Holdings Limited.

The largest group of which the company is a member and for which group accounts are prepared is UPP Group Holdings Limited.

Copies of the accounts can be obtained from Companies House, Cardiff CF14 3UZ, once they have been filed.

22. First time adoption of FRS 102

The Company transitioned to FRS 102 from previously extant UK GAAP as at 1 September 2014. The impact of the transition to FRS 102 is as follows:

Reconciliation of equity at 1 September 2014

	Note	£000
Equity at 1 September 2014 under previous UK GAAP		8,158
Senior debt at amortised cost	3	(4)
Subordinated loan notes at amortised cost	3	421
Fair value of RPI swap	1	510
Fair value of interest rate swap	1	(3,311)
Deferred tax on fair value of swap	2	561
Holiday pay accrual	4	(2)
Deferred tax on revaluation of tangible asset	2	(1,681)
Equity shareholders funds at 1 September 2014 under FRS 102		**4,652**

Reconciliation of equity at 31 August 2015

	Note	£000
Equity at 31 August 2015 under previous UK GAAP		8,211
Senior debt at amortised cost	3	(121)
Subordinated loan notes at amortised cost	3	491
Fair value of RPI swap	1	1,367
Fair value of interest rate swap	1	(4,645)
Deferred tax on fair value of swap		657
Deferred tax on revaluation of tangible asset	2	(1,647)
Equity shareholders funds at 31 August 2015 under FRS 102		**4,313**

Reconciliation of profit and loss account for the year ended 31 August 2015

		£000
Profit for the year under UK GAAP		52
Senior debt at amortised cost	3	(117)
Subordinated loan notes at amortised cost	3	71
Fair value of RPI swap	1	858
Deferred tax on fair value of RPI swap	2	(172)
Holiday pay accrual	4	2
Profit for the year ended 31 August 2015 under FRS 102		**694**

22. First time adoption of FRS 102 (continued)

The following were changes in accounting policies arising from the transition to FRS 102:

1 Derivative financial instruments

The Company was not previously required to recognise the RPI swaps and interest rate swaps on the balance sheet. Instead the effects of these derivative financial instruments were recognised in profit or loss on settlement and any net interest payable was accrued.

Under FRS 102, derivative financial instruments are classified as other financial instruments and are recognised as a financial asset or a financial liability, at fair value, when an entity becomes party to the contractual provisions of the instrument. On the adoption of the requirements of FRS 102 Section 11 and 12, for the RPI swaps, derivative financial assets of £510k have been recognised in the balance sheet at the date of transition, 1 September 2014.

At 31 August 2015, the fair values of the RPI swap was £1,367k. In accordance with the accounting policy in note 2.10, the difference between the fair values has been recognised in the profit and loss account.

On the adoption of the requirements of FRS 102 Section 11 and 12, for the interest rate swaps, derivative financial liabilities of £3,311k have been recognised in the balance sheet at the date of transition, 1 September 2014.

At 31 August 2015, the fair values of the interest rate swap was £4,645k. In accordance with the accounting policy in note 2.13, the difference between the fair values has been recognised in the Statement of Comprehensive Income

2 Deferred tax

Under FRS 102, deferred tax is recognised on a timing difference plus approach, whereas previous UK GAAP required a timing difference approach. Consequently deferred tax has been recognised on all fair value re-measurements and on all fair value adjustments arising on business combinations. There are no adjustments required on business combinations arising prior to transition.

A deferred tax asset of £561k was recognised on 1 September 2014 in relation to the fair value recognition of the RPI and interest rate swaps. The deferred tax asset provision as at 31 August 2015 had increased to £657k.

A deferred tax liability of £1,681k was recognised on 1 September 2014 in relation to the revaluation of the tangible asset. The deferred tax asset provision as at 31 August 2015 had decreased to £1,647k.

22. First time adoption of FRS 102 (continued)

3 Amortised cost for financial liabilities

Under FRS 102, basic financial instruments are measured at amortised cost using the effective interest method, with interest expense recognised on the basis of the effective interest method. Under the previous UK GAAP, UPP had a policy of amortising its long term debt instruments using a 'constant' rate method which resulted in different carrying values for the debt instruments.

Consequently, on adoption of FRS 102, the following adjustments were made to the carrying values of the Company's long term debt instruments as at 1 September 2014:

Senior loan notes - a increase of the liability by £4k on 1 September 2014, and an increase of £121k in year ended August 2015

Subordinated loan notes - a decrease of the liability by £421k at 1 September 2014, with a decrease of £491k in the year ended August 2015.

4 Holiday pay accrual

Prior to the adoption of FRS 102, the Company did not make provision for holiday pay earned but not taken before the year end. FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement.

Consequently an additional accrual of £2k at 1 September 2014 has been made to reflect this. The provision at 31 August 2015 had decreased to £nil and the decrease in provision has been charged to profit and loss in the year ended 31 August 2015.

23. Transitional relief

On transition to FRS 102 from previous UK GAAP, the group has taken advantage of transitional relief as follows:

Service concession arrangements
The Company has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting by operators and as a result it shall account for all its tangible assets which meet the definition of service concession arrangements under Section 34 but where the contract was entered into before the date of transition, using the same accounting policies being applied at the date of transition to FRS 102. This transitional relief applies to all of the Group's principal assets as at 31 August 2016.