

Company Registration No. 03898254

Cambian Heritage II Limited
Annual Report and Financial Statements
For the year ended 31 December 2017

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Cambian Heritage II Limited

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Cambian Heritage II Limited

Officers and professional advisers

Directors

MS Asaria
AM Carrie
A Kang

Company secretary

C Aphorpe (appointed 3 March 2017)
F Jardine (resigned 3 March 2017)

Registered office

The Waterfront
4th Floor, Waterfront Building
Hammersmith Embankment
Chancellors Road
London
W6 9RU

Solicitors

Trowers & Hamlins LLP
3 Bunhill Row
London
EC1Y 8YZ

Auditor

Deloitte LLP
Statutory Auditor
London
United Kingdom
EC4A 3BZ

Cambian Heritage II Limited

Strategic report

The Directors present the Strategic report for Cambian Heritage II Limited ("the Company") together with the audited financial statements for the year ended 31 December 2017.

Principal activities

The Company's principal activity is the generation of capital growth through development of and investment in, fit for purpose, well designed, high quality properties used in the childcare sector.

Business review

The profit and loss account of the Company is set out on page 9.

The Company's Key Performance Indicators ("KPIs") are net assets and profit before tax.

Movement in the KPIs in the year were as follows:

	2017	2016	Movement
Net assets	197,474,875	198,896,646	-0.1%
Loss before tax	(25,504)	(45,229,580)	-99.9%

Non-financial KPIs are not material for the company as they are reviewed on a Group basis.

In prior year, Cambian Heritage II Limited disposed of a number of properties as part of a wider corporate reorganisation within the Cambian Group. An impairment charge of £12.6m was incurred on the properties sold, and a further £45.0m impairment was required on other properties. An impairment review was carried in 2017 and it was determined that no further impairment of investment property was required (see note 9). Following an impairment of a site in one of its wholly owned subsidiaries, an impairment of £6.8m in fixed asset investments was required in 2017.

During the year the Company commenced construction projects to provide extra capacity in three of its sites. These were partly completed as at year end.

Administrative expenses for the year have increased as a result of a management fee of £6.3m (2016: £nil) from its fellow subsidiary Cambian Group Holdings Limited, based on its share of group central costs. For these reasons, the company made a small loss before tax in current year.

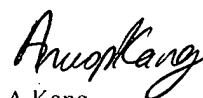
Business risks and strategy

There is a going concern risk because the Company holds a portfolio of freehold assets which are subject to fluctuations in the UK real estate market which will affect the value of the real estate assets that the Company holds.

There is a going concern risk because Cambian Heritage II Limited has large intergroup balances which could negatively impact going concern. This risk is mitigated through the assurance that for at least twelve months from the date of approval of these financial statements, that they will not seek repayment of the amounts currently due.

The Company is a wholly-owned subsidiary of the immediate parent company Cambian Heritage I Limited. The ultimate holding company is Cambian Group Plc, which is listed on the London Stock Exchange. Details of the Group's business risks and strategy can be reviewed in the Annual Report which is available on the Group's website. Further information on control is provided in note 19.

Approved by the Board of Directors and signed on behalf of the Board by:



A Kang
Director

27 April 2018

Cambian Heritage II Limited

Directors' report

The Directors present their annual report on the affairs of the Company, together with the audited financial statements for the year ended 31 December 2017.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a minimum of twelve months after signing. Although the Company made a loss before tax of £25,504 (2016: £45,229,580), its intermediate holding company, Cambian Group Holdings Limited, has confirmed that it will continue to provide financial support to the Company for at least twelve months from the date of approval of these financial statements. Thus, they continue to adopt the going concern basis in preparing the annual financial statements. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further details regarding the adoption of the going concern basis can be found in Note 2 of the financial statements.

Future developments

Cambian Heritage II Limited intends to continue its activities in the development of and investment in, fit for purpose, well designed, high quality properties used in the childcare sector. Further details of the Group's future plans can be found in the Group's annual report which can be obtained as set out in note 19.

Financial risk management objectives and policies

Credit risk

The Company's principal financial assets are bank balances, intergroup debtors and investments. Cash is only deposited with major financial institutions. Credit risk is considered to be insignificant.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group, of which the Company is a member, uses a mixture of cash balances and agreed bank facilities. The Group prepares and monitors a cash flow forecast which reflects known commitments and ensures financial instruments are arranged as necessary to facilitate the requirements.

Post balance sheet events

There have been no significant events after the balance sheet date in the current year.

Dividends

The Directors do not recommend the payment of a dividend (2016: £nil).

Directors

The Directors, who served during the year were as follows:

MS Asaria

AM Carrie

A Kang (appointed 12 July 2017)

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors which were made during the year and remain in force at the date of this report.

Cambian Heritage II Limited

Directors' report (continued)

Auditor

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements are being made for them to be deemed reappointed as auditor under s487 of the Companies Act 2006 unless the members exercise their statutory rights to prevent reappointment.

Approved by the Board of Directors and signed on its behalf by:



A Kang
Director
27 April 2018

Cambian Heritage II Limited

Directors' responsibilities statement

The Directors are responsible for preparing the annual 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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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; and
- 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.

Cambian Heritage II Limited

Independent auditor's report to the members of Cambian Heritage II Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Cambian Heritage II Limited (the 'company') which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity;
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 company 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 other 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 opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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 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.

We have nothing to report in respect of these matters.

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.

Cambian Heritage II Limited

Independent auditor's report to the members of Cambian Heritage II Limited (continued)

Other information (continued)

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 respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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 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 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 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 financial statements.

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

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.

Report on other legal and regulatory requirements

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.

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


Cambian Heritage II Limited
Independent auditor's report to the members of Cambian Heritage II Limited (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

A handwritten signature in black ink, reading 'Mark Beddy'.

Mark Beddy FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 April 2018

Cambian Heritage II Limited

Profit and loss account For the year ended 31 December 2017

	Note	2017 £	2016 £
Turnover	4	12,047,044	15,425,591
Administrative expenses		(8,594,466)	(4,572,849)
Operating profit	5	3,452,578	10,852,742
Interest receivable and similar income	6	3,294,589	1,496,790
Impairment of investment property	10	-	(57,578,704)
Impairment of investments	11	(6,772,623)	-
Interest payable and similar charges	7	(48)	(408)
Loss before taxation		(25,504)	(45,229,580)
Tax on loss	8	(1,396,267)	(3,281,683)
Loss after taxation		(1,421,771)	(48,511,263)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There was no comprehensive income other than that passing through the profit and loss account in either year. Accordingly no separate Statement of comprehensive income has been prepared.

The notes on pages 12 to 23 form an integral part of these financial statements.

Cambian Heritage II Limited

Balance sheet

As at 31 December 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	9	1,642,747	204,342
Investment property	10	127,630,192	129,711,731
Investments	11	2,150,544	8,923,167
		<u>131,423,483</u>	<u>138,839,240</u>
Current assets			
Debtors	12	68,373,609	64,021,306
Cash at bank and in hand		15,208	11,958
		<u>68,388,817</u>	<u>64,033,264</u>
Creditors: Amounts falling due within one year	13	<u>(1,706,203)</u>	<u>(3,437,376)</u>
Net current assets		<u>66,682,614</u>	<u>61,595,888</u>
Total assets less current liabilities		<u>198,106,097</u>	<u>200,435,128</u>
Provision for liability	14	<u>(631,222)</u>	<u>(538,482)</u>
Net assets		<u>197,474,875</u>	<u>198,896,646</u>
Capital and reserves			
Called up share capital	16	4,650,100	4,650,100
Share premium account		105,580,100	105,580,100
Revaluation reserve	17	77,986,699	80,034,071
Profit and loss account		9,257,976	8,632,375
Shareholders' funds		<u>197,474,875</u>	<u>198,896,646</u>

The notes on pages 12 to 23 form an integral part of these financial statements.

The financial statements of Cambian Heritage II Limited (registered number 03898254) were approved by the Board of Directors and authorised for issue on 27 April 2018.

Signed on behalf of the Board of Directors by:



A Kang
Director
27 April 2017

Cambian Heritage II Limited

Statement of changes in equity As at 31 December 2017

	Called up share capital £	Share premium account £	Revaluation reserve £	Profit and loss account £	Total £
Balance at 1 January 2016	4,650,100	105,580,100	102,368,598	34,809,111	247,407,909
Loss for the year and total comprehensive loss	-	-	-	(48,511,263)	(48,511,263)
Transfer from revaluation reserve	-	-	(22,334,527)	22,334,527	-
Balance at 31 December 2016	4,650,100	105,580,100	80,034,071	8,632,375	198,896,646
Loss for the year and total comprehensive loss	-	-	-	(1,421,771)	(1,421,771)
Transfer from revaluation reserve	-	-	(2,047,372)	2,047,372	-
Balance at 31 December 2017	4,650,100	105,580,100	77,986,699	9,257,976	197,474,875

The notes on pages 12 to 23 form an integral part of these financial statements.

Cambian Heritage II Limited

Notes to the financial statements For the year ended 31 December 2017

1. General information

Cambian Heritage II Limited is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on page 2.

These financial statements are presented in pound sterling because that is the currency of the primary economic environment in which the Company operates.

The Company is included in the consolidated financial statements of Cambian Group plc, a company incorporated in the United Kingdom. Accordingly the Company has taken advantage of the exemption given in s400 of the Companies Act 2006 from preparing and delivering Group financial statements. The financial statements present the results of the Company as an individual entity and not the results of the Group.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the Company has applied FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

Adoption of new and revised Standards

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 7	Disclosure initiative
Annual Improvements to IFRSs: 2014-16 Cycle (Dec 2016)	Annual Improvements to IFRSs: 2014-16 Cycle – IFRS 1 and IAS 28 Amendments

2. Significant accounting policies

Basis of accounting

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, share-based payment, non-current assets held for sale, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been given in the group financial statements of Cambian Group plc. The group financial statements of Cambian Group plc are available to the public and can be obtained as set out in note 19.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

2. Significant accounting policies (continued)

Basis of accounting (continued)

Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Going concern

The Directors have, at the time of signing the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for a minimum of twelve months after signing. Although the Company made a loss of £1.4m (2016: £48.5m loss), its intermediate holding company, Cambian Group Holdings Limited, has confirmed that it will continue to provide financial support to the Company for at least twelve months from the date of approval of these financial statements. Accordingly, they have adopted the going concern basis of accounting in preparing the financial statements. The Directors have considered the Company's cash flow forecasts and profit projections and are satisfied that the Company should be able to operate within its current facilities. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Turnover

Turnover for the provision of rental services is recognised on a straight-line basis over the period of the lease.

Investments

Fixed asset investments are held at cost less any provision for impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life, as follows:

Leasehold improvements	5 years
Fixtures fittings & equipment	3-5 years

Assets in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. No depreciation is charged on assets under construction until the assets are ready for use.

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

2. Significant accounting policies (continued)

Investment property

Investment property which is property held to earn rentals comprise significant portions of freehold and leasehold buildings used in the education sector that are held for long-term rental yields and/or for capital appreciation

Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful lives of 50 years. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in profit or loss when the changes arise.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Interest expense is recognised immediately in profit or loss.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account 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 company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases 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 recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

2. Significant accounting policies (continued)

Deferred tax (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs. All financial assets, other than cash and cash equivalents, are classified as "loans and receivables".

Loans and receivables

Trade debtors, 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.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade debtors, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade debtors, where the carrying amount is reduced through the use of an allowance account. When a trade debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cambian Heritage II Limited

Notes to the financial statements (continued) **For the year ended 31 December 2017**

2. Significant accounting policies (continued)

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when 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.

Financial liabilities and equity

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

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 Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are classified as other financial liabilities.

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 period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

There were no critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies.

Key source of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

3. Critical accounting judgements and key sources of estimation uncertainty (continued)

Carrying value of investment property

Determining whether investment property is impaired requires an estimation of the value in use, and if required, estimation of the fair value less costs of disposal. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the property, plant and equipment, and a suitable discount rate in order to calculate present value. Key assumptions are detailed in note 10.

4. Turnover

	2017 £	2016 £
Turnover	<u>12,047,044</u>	<u>15,425,591</u>

Turnover arises from operating lease rentals of investment property owned by Cambian Heritage II Limited.

5. Operating profit/(loss)

	2017 £	2016 £
Operating profit/(loss) is stated after charging:		
Depreciation of tangible fixed assets	57,204	82,804
Depreciation of investment property	2,142,728	5,063,678
Management fee	6,266,473	-
Fees payable to the Company's auditor for: - the audit of the annual financial statements	<u>120,064</u>	<u>7,548</u>

The average monthly number of employees (Directors are not included, and disclosed in the Director's report) during the year was nil (2016: nil). As a result there are no staff costs charged to the profit and loss account in current and prior year.

There were no Directors' emoluments in the current or previous year. The Directors were remunerated through other Group companies.

6. Interest receivable and similar income

	2017 £	2016 £
Interest receivable from Group undertakings	<u>3,294,589</u>	<u>1,496,790</u>

The interest receivable from Group undertakings is accrued and received at a rate of 5% on fixed balances (2016: 5%), whilst other trading balances do not attract interest.

7. Interest payable and similar charges

	2017 £	2016 £
Bank charges	<u>48</u>	<u>408</u>

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

8. Taxation

	2017 £	2016 £
UK Corporation tax		
Current tax on loss for the year	1,602,396	3,193,698
Adjustment in respect of previous years	(298,869)	231,485
Total current tax	<u>1,303,527</u>	<u>3,425,183</u>
Deferred tax (note 15)		
Origination and reversal of timing differences	92,740	(143,500)
Total tax charge on loss	<u>1,396,267</u>	<u>3,281,683</u>

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK applied to profit/(loss) before tax. The differences are explained below.

	2017 £	2016 £
Loss before tax	<u>(25,504)</u>	<u>(45,229,580)</u>
Tax on loss at standard UK corporation tax rate of 19.3% (2016: 20.0%)	<u>(4,909)</u>	<u>(9,045,916)</u>
Effects of:		
Expenses not deductible for tax purposes	1,303,216	2,519,606
Capital allowances in excess of depreciation	(101,937)	(270,534)
Ineligible fixed asset difference	498,766	9,847,042
Adjustments to tax charge in respect of previous years	(298,869)	231,485
Total tax charge for the year	<u>1,396,267</u>	<u>3,281,683</u>

Corporation tax is calculated at 19.3% (2016: 20.0%) of the estimated taxable profit for the year.

In July 2015, the UK Government announced a reduction in the main rate of UK corporation tax to 19% with effect from 1 April 2017, and a subsequent 1% reduction to 18% with effect from 1 April 2020. These rate changes were substantively enacted on 18 November 2015.

In March 2016, the UK Government announced a further reduction in the main rate of UK corporation tax to 17% with effect from 1 April 2020. This rate change was substantively enacted on 6 September 2016.

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

9. Tangible fixed assets

	Fixtures, fittings and equipment £	Asset under construction £	Total £
Cost			
At 1 January 2017	608,420	-	608,420
Additions	-	1,495,609	1,495,609
At 31 December 2017	608,420	1,495,609	2,104,029
Depreciation			
At 1 January 2017	404,078	-	404,078
Charge for the year	57,204	-	57,204
At 31 December 2017	461,282	-	461,282
Net book value			
At 31 December 2017	147,148	1,495,609	1,642,747
At 31 December 2016	204,342	-	204,342

10. Investment property

	2017 £	2016 £
Cost		
At 1 January 2017	221,418,639	251,703,635
Additions	121,500	3,071,705
Disposals	(62,500)	(33,357,778)
Transfer	-	1,077
At 31 December 2017	221,477,639	221,418,639
Depreciation		
At 1 January 2017	91,706,908	31,012,390
Charge for the year	2,142,728	5,063,678
Disposals	-	57,578,704
At 31 December 2017	93,847,447	91,706,908
Net book value		
At 31 December 2017	127,630,192	129,711,731
At 31 December 2016	129,711,731	220,691,245

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

10. Investment property (continued)

During the year, Cambian Heritage II Limited received £12,047,044 (2016: £15,425,591) from operating lease rentals of investment property.

During the year the Group carried out a review of the recoverable amount of its investment property throughout the business. The recoverable amount, which is the higher of fair value less cost of disposal and the value in use, has been determined initially based on value in use calculations. These calculations use cash flow projections for operational assets at the balance sheet date based on the contractual cash flows of its leasing arrangements for up to 4 years. Cash flows beyond this year are extrapolated using growth rates, which do not exceed the expected long-term economic growth rate.

The key assumptions for the value in use calculations are those regarding discount rates and long-term growth rates. Contractual cash flows are based on leasing agreements with fellow group companies. The company has assumed a growth rate of 3% into perpetuity when assessing its future cash flows. Management estimates discount rates using pre-tax rates that reflect the market assessment of the time value of money as at each balance sheet date, adjusted for the risks specific to the Group.

The discount rate used in measuring value in use was 8.5% (2016: 7.9%) per annum.

No indications of impairment in the valuation of investment property were identified as part of this impairment review. No impairment was required (2016: £57,578,704 impairment).

Fair value of investment property is £199.9m (2016: £187.6m). Fair value is based on an internal valuation, by a qualified Chartered Surveyor with the necessary experience of over 15 years in dealing with this type of property in the United Kingdom in order to undertake this valuation assessment. A separate external valuation was not performed.

11. Fixed asset investments

	2017 £	2016 £
Cost		
At 1 January	126,972,167	126,686,013
Additions	-	286,154
At 31 December	126,972,167	126,972,167
Impairment		
At 1 January 2017	118,049,000	118,049,000
Impairment	6,772,623	-
At 31 December 2017	124,821,623	118,049,000
Net book value		
At 31 December 2017	2,150,544	8,923,167
At 31 December 2016	8,923,167	8,923,167

The impairment in 2017 relates to Cambian Heritage II's investment in one of its wholly owned subsidiaries. Please see the Strategic report on page 2 for further information.

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

11. Fixed asset investments (continued)

The Company holds investments in the following companies:

Company	Country of registration or incorporation	Principal activity	Class of share	% held
Cambian Developments II Limited	Jersey	Trading	Ordinary	100%
Cambian Properties II Limited	Jersey	Dormant	Ordinary	100%

The registered address for both of the entities listed above is 9 Burrard Street St Helier Jersey JE4 5UE

12. Debtors

	2017 £	2016 £
Amounts owed by Group undertakings	68,371,932	64,019,848
Other debtors	1,677	1,458
	<u>68,373,609</u>	<u>64,021,306</u>

The interest receivable from Group undertakings is accrued and received at a rate of 5% on fixed balances, whilst other trading balances do not attract interest. Amounts due from Group undertakings are repayable on demand. Interest of £3,294,589 (2016: £1,496,790) has been received in the year.

13. Creditors – amounts falling due within one year

	2017 £	2016 £
Trade creditors	-	244,412
Other creditors	853	1,008
Corporation tax	1,584,031	3,175,333
Accruals and deferred income	121,319	16,623
	<u>1,706,203</u>	<u>3,437,376</u>

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

14. Provision for liabilities

	2017 £	2016 £
Deferred tax (note 15)	631,222	538,482

15. Deferred tax

	2017 £	2016 £
Balance at 1 January	538,482	681,982
Charge/(credit) for year	92,740	(143,500)
Balance at 31 December	631,222	538,482

The deferred tax liability is made up as follows:

	2017 £	2016 £
Accelerated capital allowances	631,222	538,482

The deferred tax liability is recognised as a provision for liability (note 13).

16. Called up share capital

	2017 £	2016 £
Allotted, called up and fully paid – 4,650,100 (2016: 4,650,100) ordinary shares of £1 each		
Balance at 1 January	4,650,100	4,650,100
Issued during the year	-	-
Balance at 31 December	4,650,100	4,650,100

Cambian Heritage II Limited

Notes to the financial statements (continued) For the year ended 31 December 2017

17. Revaluation reserve

The revaluation reserve was established because, prior to the company adopting FRS 101 as its accounting framework, Cambian Heritage II Limited's accounting policy was to report its land and buildings at fair value based on periodic external revaluations, rather than at cost less accumulated depreciation. The change in value of the land and buildings was credited to the revaluation reserve. Depreciation is being charged on the revalued amount of land and buildings. The portion of depreciation associated with the revaluation uplift is allocated against the revaluation reserve.

18. Operating lease arrangements

Operating leases relate to investment property owned by the Company with lease terms of 35 years. Total future minimum lease receivables under non-cancellable operating leases are as follows:

	Land and buildings 2017 £	Land and buildings 2016 £
- within one year	12,047,044	11,696,159
- between one and five years	48,188,175	46,784,636
- more than five years	255,808,394	260,053,823
	<u>316,043,613</u>	<u>318,534,618</u>

19. Control

The immediate parent Company is Cambian Heritage I Limited. The ultimate parent Company and controlling party and the smallest and largest group into which the financial statements of the Company are consolidated is Cambian Group Plc a Company incorporated in the United Kingdom whose registered address is 4th Floor, Waterfront Building, Hammersmith Embankment, W6 9RU. Consolidated financial statements are available on request from this address.