Registered number: 09212619

# EMPIRIC INVESTMENTS (TWO) LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2018

EMPIRIC INVESTMENTS (TWO) LIMITED

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | T L Attlee<br>L Fennah |
| **Registered number** | 09212619 |
| **Registered office** | 6th Floor Swan House<br>17-19 Stratford Place<br>London<br>England<br>W1C 1BQ |
| **Independent auditor** | BDO LLP<br>Statutory Auditor<br>55 Baker Street<br>Marylebone<br>London<br>England<br>W1U 7EU |

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## GROUP STRATEGIC REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2018

### Introduction

The directors have reviewed the activities of the Group for the year and the position as at 31 December 2018 and consider them to be satisfactory.

### Business review

The trading results for the year to 31 December 2018 and the Group's financial position as at 31 December 2018 are shown in the attached financial statements. The Group has made a loss during the year of £0.16m *(year ended 31 December 2017: £3.26m - profit).*

### Principal risks and uncertainties

The Group's property performance will depend on general property and investment market conditions. An adverse change in the Group's property valuations may lead to the Group breaching its banking covenants. Market conditions may also negatively impact on the revenues earned from the property assets. To mitigate this risk the Group's assets are located in multiple, prime locations, diversifying the risk of adverse changes to the Property Portfolio. The Group continually manages its activities so as to always operate within its banking covenant limits and constantly monitors its margins. Further, with international students paying in advance, the Group maintains substantial cash balances on account. The characteristics of the student property sector in recent years have demonstrated considerable robustness underpinned by a significant and beneficial supply and demand imbalance.

Rental income and property values may be adversely affected by an increased supply of student accommodation, failure to collect rents, increasing costs or any deterioration in the quality of the properties in the property portfolio. The Group owned a diversified portfolio of 12 properties at 31 December 2018 *(31 December 2017: 12)*, of which all are operational and are managed by reputable property management companies. Therefore, the group is not unduly exposed to any one student market nor is it reliant on only one property manager. The management of the property portfolio is overseen by the group's Operations Director who liaises with the property managers to ensure rental income is collected on time (usually in advance at the start of an academic year), that the properties are well maintained and the desired level of customer service is provided.

### Financial key performance indicators

The Group's management produce comparisons of actual income and expense against forecasted income and expense and analyse any fluctuation.

The Group has achieved gross rents of £10.39m in the year ended 31 December 2018 *(year ended 31 December 2017: £9.96m)* and a gross profit margin of 55.9% *(year ended 31 December 2017: 64.4%)* with an occupancy level of 94% *(year ended 31 December 2017: 81%).*

The Group has seen an decrease in property valuation of £2.78m equating to a 1.73% fall on the prior year *(year ended 31 December 2017: 0.2% fall).*

**Key drivers**

The underlying fundamentals of Empiric's market in premium student accommodation are solid: increasing demand coupled with a supply shortage. In addition, since the introduction of university fees, students have come to expect better university services, higher-quality facilities and appropriate accommodation.

Notwithstanding the introduction of tuition fees, the number of students studying in the UK has continued on a growth trend. In particular, the number of international students is growing significantly. It is international students, together with students studying beyond their first year as undergraduates, which comprises our target market.

With the recent removal of the cap on UK/EU student admissions, universities need to expand to meet student growth and are struggling to cope with the consequent demand for accommodation, creating opportunities for the private sector. However, the construction of new beds has been matched by the increase in student numbers and, hence the chronic undersupply remains unchanged. Over the past year, competition has increased as more investors enter the student accommodation market. It is a sign of confidence in the improving economy and demonstrates a greater understanding of opportunities in the sector.

This report was approved by the board on 28 June 2019 and signed on its behalf.

**L Fennah**
Director

## DIRECTORS' REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the audited financial statements of the Group for year ended 31 December 2018.

**Directors' responsibilities statement**

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated 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 IFRS. 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group's financial statements 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 Group 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 the Group 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Results and dividends**

The loss for the year, after taxation, amounted to £156,088 *(year ended 31 December 2017: profit £3,257,097).*

During the year a dividend of £4,520,000 was paid to the immediate parent company, Empiric Investment Holdings (Two) Limited *(year ended 31 December 2017: £nil)*, which was settled through the intercompany balances.

**Directors**

The directors who served during the year were:

T L Attlee
L Fennah

None of the directors held any disclosable beneficial interests in the Group at 31 December 2018, or at any time during the year *(year ended 31 December 2017: £nil).*

**Future developments**

The 12 operational assets within Empiric Investments (Two) Limited have now reached operational maturity and no major works have been committed within the commencing 12 month period.

## 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 the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the 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 and the Group's auditor is aware of that information.

## Post balance sheet events

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

## Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 28 June 2019 and signed on its behalf.

**L Fennah**
Director

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMPIRIC INVESTMENTS (TWO) LIMITED

### Opinion

We have audited the financial statements of Empiric Investments (Two) Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMPIRIC INVESTMENTS (TWO) LIMITED (CONTINUED)

**Other information**

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

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

We have nothing to report in this regard.

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

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

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

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

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMPIRIC INVESTMENTS (TWO) LIMITED (CONTINUED)

**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 Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 at the Financial Reporting Council's website at:
https://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.

BDO LLP

Charles Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor

London, United Kingdom

Date: 28 June 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Note | Year ended 31 December 2018 £ | *Year ended 31 December 2017 £* |
|---|---|---|---|
| Revenue | 4 | **10,388,668** | *9,960,099* |
| Property expenses | | **(4,586,199)** | *(3,541,703)* |
| **Gross profit** | | **5,802,469** | *6,418,396* |
| Administrative expenses | | **(289,842)** | *(158,405)* |
| Change in fair value of investment property | 5 | **(2,783,582)** | *(257,665)* |
| **Operating profit** | | **2,729,045** | *6,002,326* |
| Finance costs | 8 | **(2,885,133)** | *(2,745,229)* |
| **Total comprehensive (loss) / income for the year** | | **(156,088)** | *3,257,097* |

The notes on pages 16 to 43 form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018

| | Note | | 31 December 2018 £ | | *31 December 2017 £* |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investment property | 12 | | **158,141,632** | | *161,031,632* |
| | | | **158,141,632** | | *161,031,632* |
| **Current assets** | | | | | |
| Trade and other receivables | 13 | **3,667,777** | | *4,076,385* | |
| Cash and cash equivalents | 14 | **409,663** | | *7,371,570* | |
| | | **4,077,440** | | *11,447,955* | |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **(79,201,845)** | | *(84,889,591)* | |
| **Net current liabilities** | | | **(75,124,405)** | | *(73,441,636)* |
| **Total assets less current liabilities** | | | **83,017,227** | | *87,589,996* |
| **Non-current liabilities** | | | | | |
| Bank borrowings | 16/17 | | **(69,967,800)** | | *(69,864,481)* |
| **Net assets** | | | **13,049,427** | | *17,725,515* |
| **Equity** | | | | | |
| Called up share capital | 18 | | **1** | | *1* |
| Retained earnings | 19 | | **13,049,426** | | *17,725,514* |
| | | | **13,049,427** | | *17,725,515* |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 June 2019.

**L Fennah**
Director

The notes on pages 16 to 43 form part of these financial statements.

## COMPANY STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018

| | Note | | 31 December 2018 £ | | *31 December 2017 £* |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Investments in subsidiaries | 11 | | **12** | | *12* |
| | | | **12** | | *12* |
| **Current assets** | | | | | |
| Trade and other receivables | 13 | **141,305,602** | | *70,544,474* | |
| Cash and cash equivalents | 14 | **409,663** | | *7,371,570* | |
| | | **141,715,265** | | *77,916,044* | |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **(71,482,419)** | | *(13,574,435)* | |
| **Net current assets** | | | **70,232,846** | | *64,341,609* |
| **Total assets less current liabilities** | | | **70,232,858** | | *64,341,621* |
| **Non-current liabilities** | | | | | |
| Bank borrowings | 16/17 | | **(69,967,800)** | | *(69,864,481)* |
| **Net asset / (liabilities)** | | | **265,058** | | *(5,522,860)* |
| **Equity** | | | | | |
| Called up share capital | 18 | | **1** | | *1* |
| Retained earnings | 19 | | **265,057** | | *(5,522,861)* |
| | | | **265,058** | | *(5,522,860)* |

The Company made a profit of £10,307,918 in the year ended 31 December 2018 (*year ended 31 December 2017: loss of £2,774,556*).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 June 2019.

**L Fennah**
Director

The notes on pages 16 to 43 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Called up share capital | Retained earnings | Total equity |
|---|---|---|---|
| | £ | £ | £ |
| **At 1 January 2017** | 1 | 14,468,417 | 14,468,418 |
| **Comprehensive income for the year** | | | |
| Profit for the year | - | 3,257,097 | 3,257,097 |
| **At 31 December 2017** | 1 | 17,725,514 | 17,725,515 |
| **At 1 January 2018** | 1 | 17,725,514 | 17,725,515 |
| **Comprehensive income for the year** | | | |
| Loss for the year | - | (156,088) | (156,088) |
| Dividend distribution | - | (4,520,000) | (4,520,000) |
| **At 31 December 2018** | 1 | 13,049,426 | 13,049,427 |

The notes on pages 16 to 43 form part of these financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Called up share capital | Retained earnings | Total equity |
|---|---|---|---|
| | £ | £ | £ |
| **At 1 January 2017** | 1 | (2,748,305) | (2,748,304) |
| **Comprehensive income for the year** | | | |
| Loss for the year | - | (2,774,556) | (2,774,556) |
| **At 31 December 2017** | 1 | (5,522,861) | (5,522,860) |
| | | | |
| **At 1 January 2018** | 1 | (5,522,861) | (5,522,860) |
| **Comprehensive income for the year** | | | |
| Profit for the year | - | 10,307,918 | 10,307,918 |
| Dividend distribution | | (4,520,000) | (4,520,000) |
| **At 31 December 2018** | 1 | 265,057 | 265,058 |

The notes on pages 16 to 43 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Year ended 31 December 2018 £ | *Year ended 31 December 2017 £* |
|---|---|---|
| **Cash flows from operating activities** | | |
| (Loss) / profit for the financial year | **(156,088)** | *3,257,097* |
| **Adjustments for:** | | |
| Finance costs | **2,885,133** | *2,745,229* |
| Decrease in trade and other receivables | **395,138** | *1,137,366* |
| (Decrease) / increase in trade and other payables | **(64,515)** | *1,560,373* |
| Change in fair value of investment properties | **2,783,582** | *257,665* |
| **Net cash generated from operating activities** | **5,843,250** | *8,957,730* |
| **Cash flows from investing activities** | | |
| Disposal / (purchase) of investment property | **106,418** | *(2,944,297)* |
| **Net cash from investing activities** | **106,418** | *(2,944,297)* |
| **Cash flows from financing activities** | | |
| Received from group undertakings | **13,470** | *(70,617,746)* |
| Payments to group undertakings | **(10,143,231)** | *68,266,636* |
| Finance costs | **(2,642,670)** | *(2,642,670)* |
| Loan arrangement fees | **(139,144)** | *(356,715)* |
| Bank borrowings advanced | **-** | *5,800,000* |
| **Net cash used in financing activities** | **(12,911,575)** | *449,505* |
| **Net (decrease) / increase in cash and cash equivalents** | **(6,961,907)** | *6,462,938* |
| Cash and cash equivalents at beginning of year | **7,371,570** | *908,632* |
| **Cash and cash equivalents at the end of year** | **409,663** | *7,371,570* |

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2018

**Cash and cash equivalents at the end of year comprise:**

| | | |
|---|---|---|
| Bank and cash balances | **409,663** | *7,371,570* |
| | **409,663** | *7,371,570* |

The notes on pages 16 to 43 form part of these financial statements.

## COMPANY STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Year ended 31 December 2018 £ | *Year ended 31 December 2017 £* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the financial year | **10,307,918** | *(2,774,556)* |
| **Adjustments for:** | | |
| Finance costs | **2,877,633** | *2,745,229* |
| Decrease in receivables | **131,644** | *10,200* |
| Increase in payables | **3,906** | *2,083* |
| Dividend received | **(13,210,000)** | *2,083* |
| **Net cash generated from operating activities** | **111,101** | *(17,044)* |
| **Cash flows from financing activities** | | |
| Received from group undertakings | **71,114,078** | *3,689,567* |
| Payments to group undertakings | **(75,412,772)** | *(10,200)* |
| Finance costs | **(2,642,670)** | *(2,642,670)* |
| Loan arrangement fees | **(131,644)** | *(356,715)* |
| Bank borrowings advanced | **-** | *5,800,000* |
| **Net cash used in financing activities** | **(7,073,008)** | *6,479,982* |
| **Net (decrease) / increase in cash and cash equivalents** | **(6,961,907)** | *6,462,938* |
| Cash and cash equivalents at beginning of year | 7,371,570 | *908,632* |
| **Cash and cash equivalents at the end of year** | 409,663 | *7,371,570* |

The notes on pages 16 to 41 form part of these financial statements.

## 1. General information

The company is a private company limited by shares, which is incorporated and registered in England and Wales (Company number: 09212619). The address of its registered office is 6th Floor Swan House, 17-19 Stratford Place, London, W1C 1BQ.

## 2. Accounting policies

### 2.1 Basis of preparation of financial statements

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.

The Group's financial statements have been prepared on a historical cost basis, except for investment property and derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in Sterling which is also the Group's functional currency.

**Changes in accounting policies**

*New Standards, Interpretations and Amendments Effective from 1 January 2018*

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15).

Details of the impact these two standards have had are given in Note 2.16.

Details of the other new standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early are also given in Note 2.17.

## 2. Accounting policies (continued)

### 2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Empiric Investments (Two) Limited and its subsidiaries for the year to 31 December 2018. Acquisitions of entities from fellow group undertakings are considered common control transactions and are outside the scope of IFRS 3 Business Combinations unless the acquisitions are considered as asset purchases. In the instance that an entity is acquired with the intention to re sell then the Group measures it in accordance with IFRS 5.

Acquisitions that meet the definition of common control transactions under IFRS and are not required to be accounted for using the purchase method. In the previous financial accounting period, the Group incorporated the results and Statement of Financial Position of such acquired entities retrospectively using predecessor cost as if the entities had always been within the Group. As a result, the corresponding results for the previous period reflects the combined results of these entities even though the transaction did not occur at the start of that financial period.

The year end date for all subsidiary undertakings within the Group is 31 December 2018 and the accounting policies applied are consistent throughout the Group.

All intra group transactions and balances are eliminated on consolidation.

### 2.3 Going concern

The consolidated financial statements have been prepared on a going concern basis.

The directors have considered the financial position of the Group in preparing these financial statements and note that it has net current liabilities of £75,124,406 at 31 December 2018 *(31 December 2017: £73,441,636)*.

The directors have obtained a letter of support from its ultimate parent company, Empiric Student Property PLC, indicating its current intention to support the company by ensuring that the intercompany indebtedness in respect of entities within the Empiric Student Property PLC group will not be called for repayment unless the company has the funds and working capital to do so. On the basis of the projections of the company and the wider Empiric Student Property PLC group, the directors believe that it is appropriate to assume that the support will be forthcoming and therefore have prepared these financial statements on a going concern basis.

### 2.4 Revenue

The Group is the lessor in operating leases. Rental income arising from leases on investment property is accounted for on a straight line basis over the lease term and is included in gross rental income in the Consolidated statement of comprehensive income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the term on the same basis as the lease income.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Consolidated statement of comprehensive income when the right to receive them arises.

## 2. Accounting policies (continued)

### 2.5 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

### 2.6 Investment property

Investment property comprises property that is held to earn rentals or for capital appreciation, or both, and property under development rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is measured initially at cost including transaction costs and is included in the financial statements upon unconditional exchange. Transaction costs include transfer taxes and professional fees for legal services to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the Consolidated statement of comprehensive income.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The investment property is derecognised upon unconditional exchange. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Consolidated statement of comprehensive income in the period of retirement or disposal.

### 2.7 Forward funded developments

Under the terms of certain funding agreements, the Group commits to pay the total fixed price construction cost to the developer upon entering into the agreement. As construction costs are incurred, funds are released subject to the authorisation of the Company that has contracted the development, along with the appropriate monitoring surveyor certification.

During the period between initial investment in a forward funded agreement and the practical completion date, the Company typically earns licence fee income. This is payable by the developer to the Company once the development is complete. Under IFRS, such licence fees are deducted from the cost of the investment and are shown as a receivable until settled. Any economic benefit of the licence fee is reflected within the Statement of Comprehensive Income as a movement in the fair value of investment property.

### 2.8 Rent and other receivables

Rent and other receivables are recognised at their original invoiced value net of VAT. A provision is made when there is objective evidence that the company will not be able to recover balances in full.

## 2. Accounting policies (continued)

### 2.9 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.

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

### 2.10 Financial instruments

The Group recognises financial instruments when it becomes a party to the contractual arrangements of the instrument. Financial instruments are derecognised when they are discharged or when the contractual terms expire. The Group's accounting policies in respect of financial instruments transactions are explained below:

**Financial assets**

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

**Fair value through profit or loss**

This category comprises only in-the-money derivatives. They are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

**Amortised cost**

These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

## 2. Accounting policies (continued)

### 2.10 Financial instruments (continued)

**Amortised cost (continued)**

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12-month expected credit losses along with gross interest income are recognised. For those where the credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the Statement of Comprehensive Income (operating profit).

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and – for the purpose of the Statement of Cash Flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the Statement of Financial Position.

**Financial liabilities**

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Other than financial liabilities in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

**Fair value through profit or loss**

This category comprises only out-of-the-money. They are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

## 2. Accounting policies (continued)

### 2.10 Financial instruments (continued)

**Other financial liabilities**

Other financial liabilities include the following items:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

### 2.11 Taxation

Taxation on the profit and loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Taxation is recognised in the Consolidated statement of comprehensive income, except that a charge 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.

Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates enacted at the balance sheet date.

### 2.12 Segmental information

The directors are of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in student and commercial letting's.

## 2. Accounting policies (continued)

### 2.13 Finance costs

Finance costs are charged to the Consolidated statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

### 2.14 Operating leases: Group as lessee

Rentals paid under operating leases are charged to the Consolidated statement of comprehensive income on a variable basis over the lease term, based on the contingent annual lease obligations under the lease.

### 2.15 Interest income

Interest income is recognised in the Consolidated statement of comprehensive income using the effective interest method.

### 2.16 New standards issued and effective from 1 January 2018

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts and Customers

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. As a result of the transition there was no requirement to make any retrospective amendments and the changes are not expected to significantly affect the current of future periods.

**IFRS 9**

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement and has had the following effect on the Group.

- Management has reviewed the requirements of IFRS 9. The Group's principal financial assets comprise interest rate derivatives which will continue to be measured at fair value, and trade receivables, which will continue to be measure at amortised cost. The following change has been identified:

    - The Group has applied the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost (such as trade and other receivables). This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount of provisions. To measure expected credit losses the Group considered the probability of a default occurring over the contractual life of its trade receivables. This resulted in no change in impairment provisions so there is no retrospective adjustment.

## 2. Accounting policies (continued)

### 2.17 Accounting standards and interpretations issued but not yet effective

At the date of authorisation of these financial statements, the following accounting standards had been issued which are not yet applicable to the Group:

**IFRS 16 – Leases**

*As Lessee*
The Group's lease commitment for head office space will be brought onto the Statement of Financial Position together with the corresponding asset. The expected impact has been quantified and will not be material to the Group as the entire lease commitment is variable.

*As Lessor*
The Group's accounting for lessors will not materially change as the Group only operates operating leases.

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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Fair valuation of investment property

The market value of investment property is determined, by real estate experts, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques and the principles of IFRS 13.

The valuations have been prepared in accordance with the RICS Valuation - Professional Standards January 2014 ("the Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths, and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 12 to these financial statements.

for properties under development the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion.

(b) Operating lease contracts - the Group as lessor

The Company has acquired investment properties which have commercial property leases in place with tenants. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

## 4. Revenue

Group

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

| | **Year ended 31 December 2018 £** | *Year ended 31 December 2017 £* |
|---|---|---|
| Student rental income | **10,279,573** | *9,850,400* |
| Commercial income | **109,095** | *109,699* |
| | **10,388,668** | *9,960,099* |

All turnover arose within the United Kingdom.

## 5. Operating profit

Group

The operating profit is stated after (charging):

| | **Year ended 31 December 2018 £** | *Year ended 31 December 2017 £* |
|---|---|---|
| Change in fair value of investment properties | **(2,783,582)** | *(257,665)* |

## 6. Auditors information

The fee payable to the auditor in respect of the audit of these financial statements amounted to £4,000 *(year ended 31 December 2017: £4,000).*

Fees paid to the Company auditor, BDO LLP, and its associates for services other than the statutory audit of the Company are not disclosed in Empiric Investments (Two) Limited's financial statements since the consolidated financial statements of Empiric Student Property PLC are required to disclose non-audit fees on a consolidated basis.

## 7. Employees

The Company has no employees other than the directors, who did not receive any remuneration *(year ended 31 December 2017: £nil).*

## 8. Finance costs

Group

| | Year ended 31 December 2018 £ | Year ended 31 December 2017 £ |
|---|---|---|
| Interest expense on bank borrowings | **2,642,670** | *2,642,670* |
| Amortisation of loan transactions costs | **103,319** | *102,559* |
| Other finance costs | **139,144** | - |
| | **2,885,133** | *2,745,229* |

## 9. Taxation

| | Year ended 31 December 2018 £ | Year ended 31 December 2017 £ |
|---|---|---|
| **Total current tax** | - | - |
| **Deferred tax** | | |
| **Total deferred tax** | - | - |
| **Taxation on profit on ordinary activities** | - | - |

## 9. Taxation (continued)

**Factors affecting tax charge for the year**

The tax assessed for the year is lower than *(year ended 31 December 2017: lower than)* the standard rate of corporation tax in the UK of 19% *(year ended 31 December 2017: 19.25%)*. The differences are explained below:

| | **Year ended 31 December 2018 £** | *Year ended 31 December 2017 £* |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | **(156,088)** | *3,257,097* |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% *(year ended 31 December 2017: 19.25%)* | **(29,657)** | *626,991* |
| **Effects of:** | | |
| Exempt property rental profit in the year | **(499,223)** | *(676,591)* |
| Exempt property revaluations in the year | **528,880** | *49,600* |
| **Total tax charge for the year** | **-** | *-* |

**Factors that may affect future tax charges**

There were no factors that may affect future tax charges.

## 9. Taxation (continued)

The Group's ultimate parent company is Empiric Student Property PLC which became a REIT on 1 July 2014 and as a result it, and all of its wholly owned subsidiaries do not pay UK corporation tax on the profits and gains from its qualifying property rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains from the Group continue to be subject to corporation tax as normal. In order to achieve and retain group REIT status, several conditions have to be met on entry to the regime and on an ongoing basis, including as follows:

(i) at the start of each accounting period, the assets of the property rental business (plus any cash and certain readily realisable investments) must be at least 75% of the total value of the Group's assets;

(ii) at least 75% of the Group's total profits must arise from the tax exempt property rental business; and

(iii) at least 90% of the tax exempt profit of the property rental business (excluding gains) of the accounting period should be distributed.

In addition, full exemption on profits of the property rental business will not be available if the profit financing cost ratio in respect of the property rental business is less than 1.25.

The Group and the Company met all of the relevant REIT conditions for the accounting period, and accordingly no deferred or actual corporation tax liability rises.

The directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business.

## 10. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The profit after tax of the parent Company for the year was £10,307,918 *(year ended 31 December 2017: loss £2,774,556).*

## 11. Fixed asset investments

**Direct subsidiary undertakings**

The following were subsidiary undertakings of the Company:

| Name | Class of shares | Holding | Principal activity |
|---|---|---|---|
| Empiric (Alwyn Court) Limited | Ordinary | 100% | Property investment |
| Empiric (Northgate House) Limited | Ordinary | 100% | Property investment |
| Empiric (Hatfield CP) Limited | Ordinary | 100% | Property investment |
| Empiric (Exeter DCL) Limited | Ordinary | 100% | Property investment |
| Empiric (Leeds Algernon) Limited | Ordinary | 100% | Property investment |
| Empiric (London Camberwell) Limited | Ordinary | 100% | Property investment |
| Empiric (Glasgow Ballet School) Limited | Ordinary | 100% | Property investment |
| Empiric (Leeds St Mark's) Limited | Ordinary | 100% | Property investment |
| Empiric (Newcastle Metrovick) Limited | Ordinary | 100% | Property investment |
| Empiric (Bath James House) Limited | Ordinary | 100% | Property investment |
| Empiric (Bath JSW) Limited | Ordinary | 100% | Property investment |
| Empiric (Cardiff Wndsr House) Limited | Ordinary | 100% | Property investment |

**Indirect Subsidiary undertakings**

The following were subsidiary undertakings of the Company:

| Name | Class of shares | Holding | Principal activity |
|---|---|---|---|
| Empiric (Wndsr House) Leasing Limited | Ordinary | 100% | Property leasing |

The registered office of all subsidiaries are the same as that of the Company, being 6th Floor, Swan House, 17-19 Stratford Place, London, W1C 1BQ.

## 11. Fixed asset investments (continued)

**Company**

| | Investments in subsidiary companies £ |
|---|---|
| **Cost** | |
| At 1 January 2018 | 12 |
| At 31 December 2018 | 12 |

## 12. Investment property

### Group

| | Freehold investment property £ | Long term leasehold investment property £ | Total £ |
|---|---|---|---|
| **Valuation** | | | |
| At 1 January 2018 | **144,670,000** | **16,361,632** | **161,031,632** |
| Additions at cost | **(116,969)** | **10,551** | **(106,418)** |
| Change in fair value of investment properties | **(3,643,031)** | **859,449** | **(2,783,582)** |
| **At 31 December 2018** | **140,910,000** | **17,231,632** | **158,141,632** |

In accordance with IAS 40, the carrying value of the investment property is its fair value as determined by external valuers.

The valuation has been conducted by CBRE Limited, as external valuers, and has been prepared at 31 December 2018, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors ("RICS"), on the basis of market value. This value has been incorporated into the financial statements.

The independent valuation of the property asset uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on the asset over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuation. In adverse conditions, the reappraisal can lead to a reduction in the property value and a loss in net asset value.

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards, as: "The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

At 31 December 2018, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal.

The additions at cost line includes an accrual balance from the prior year that was subsequently not paid out and so is showing as a credit balance. There are also some non-cash movements included here that are deemed immaterial.

## 12. Investment property (continued)

**Fair value hierarchy**

The following table provides the fair value measurement hierarchy for investment property.

Date of valuation - 31 December 2018

| | Quoted price in active markets (Level 1) £ | Significant observable inputs (Level 2) £ | Significant unobservable inputs (Level 3) £ | Total £ |
|---|---|---|---|---|
| **Assets measured at fair value:** | | | | |
| **Group** | | | | |
| **31 December 2018** | | | | |
| Student properties | - | - | **156,521,632** | **156,521,632** |
| Commercial properties | - | - | **1,620,000** | **1,620,000** |
| | - | - | **158,141,632** | **158,141,632** |
| **Group** | | | | |
| **31 December 2017** | | | | |
| Student properties | - | - | *159,381,632* | *159,381,632* |
| Commercial properties | - | - | *1,650,000* | *1,650,000* |
| | - | - | *161,031,632* | *161,031,632* |

| | 31 December 2018 £ | *31 December 2017 £* |
|---|---|---|
| Value per independent valuation report | **157,940,000** | *160,830,000* |
| Add: Head leases | **201,632** | *201,632* |
| **Fair value per Group Statement of Financial Position** | **158,141,632** | *161,031,632* |

## 12. Investment property (continued)

There have been no transfers between Level 1 and Level 2 during the year, nor have there been any transfers between Level 2 and Level 3 during the year.

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards, as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining fair values. The valuation technique for student properties uses discounted cash flow with the following inputs:

(a) Unobservable input: Rental income
The rent at which space could be let in the market conditions prevailing at the date of valuation.
Range £118 per week - £347 per week *(year ended 31 December 2017: £125 per week - £347 per week).*

(b) Unobservable input: Rental growth
The estimates average increase in rent based on both market estimations and contractual arrangements.
Assumed growth of 1.5% used in valuations *(year ended 31 December 2017: 1.5%).*

(c) Unobservable input: Net initial yield
The net initial yield is defined as the initial gross rental income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase.
Range: 4.75% - 6.00% *(year ended 31 December 2017: 5.00 – 6.10%).*

(d) Unobservable input: Physical condition of the property

## 12. Investment property (continued)

(e) Unobservable input: Planning consent
No planning enquiries undertaken for any of the development properties *(year ended 31 December 2017: None).*

(f) Sensitivities of measurement of significant unobservable inputs
As set out in the significant accounting estimates and judgements the Group's portfolio valuation is open to judgments and is inherently subjective by nature.

As a result the following sensitivity analysis has been prepared.

| | -3% Shift in Gross Income £ | +3% Shift in Gross Income £ | -0.25% Shift in Yield £ | +0.25% Shift in Yield £ |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| Increase / (decrease) in the fair value of investment properties | **(6,190,000)** | **6,110,000** | **7,600,000** | **(6,990,000)** |
| **31 December 2017** | | | | |
| Increase/(decrease) in the fair value of investment properties | *(6,190,000)* | *6,190,000* | *7,670,000* | *(7,020,000)* |

(g) The key assumptions for the commercial properties are net initial yield, current rent and rental growth. A movement of 3% *(31 December 2017: 3%)* in passing rent or 0.25% *(year ended 31 December 2017: 0.25%)* in the net initial yield will not have a material impact on the financial statements.

## 13. Trade and other receivables

| | Group 31 December 2018 £ | *Group 31 December 2017 £* | Company 31 December 2018 £ | *Company 31 December 2017 £* |
|---|---|---|---|---|
| **Due within one year** | | | | |
| Trade receivables | **204,867** | *63,697* | - | - |
| Amounts owed by group undertakings | **357,689** | *371,159* | **139,546,235** | *68,653,463* |
| Other receivables | **870,455** | *1,327,888* | - | - |
| Prepayments | **2,234,766** | *2,313,641* | **1,759,367** | *1,891,011* |
| | **3,667,777** | *4,076,385* | **141,305,602** | *70,544,474* |

The directors consider that the carrying value of trade and other receivables approximates to their fair value.

At 31 December 2018, there were no material trade receivables overdue at the year end, and no aged analysis of trade receivables has been included. The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped together based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the year end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonable possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

The Company applies the expected credit losses approach to amounts due from Group undertakings. These amounts are interest free and repayable on demand; however, as these amounts are primarily utilised to pay for the property acquisition and therefore are considered to not be immediately recoverable, they are deemed to be categorised as stage 3. The expected credit losses are based on management's assessment of the Group undertaking's ability to repay the funds.

The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the underlying companies, property value sensitivities alongside the potential sale values of the properties, cash flow projections arising from the underlying properties and the ability to hold the assets to ensure recovery of the amounts due from Group undertakings. Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

## 14. Cash and cash equivalents

The amounts disclosed in the Consolidated statement of cash flows as cash and cash equivalents are in respect of the following amounts shown in the Consolidated statement of financial position.

| | **Group 31 December 2018 £** | *Group 31 December 2017 £* | **Company 31 December 2018 £** | *Company 31 December 2017 £* |
|---|---|---|---|---|
| Bank and cash balances | **409,663** | *7,371,570* | **409,663** | *7,371,570* |
| | **409,663** | *7,371,570* | **409,663** | *7,371,570* |

## 15. Trade and other payables: Amounts falling due within one year

| | **Group 31 December 2018 £** | *Group 31 December 2017 £* | **Company 31 December 2018 £** | *Company 31 December 2017 £* |
|---|---|---|---|---|
| Trade creditors | **424,857** | *148,928* | - | - |
| Amounts owed to group undertakings | **72,982,865** | *78,606,096* | **71,476,419** | *13,572,341* |
| Other creditors | **263,328** | *690,289* | - | - |
| Accruals and deferred income | **5,530,795** | *5,444,278* | **6,000** | *2,094* |
| | **79,201,845** | *84,889,591* | **71,482,419** | *13,574,435* |

At 31 December 2018, there was Group deferred rental income of £5,180,538 *(31 December 2017: £4,754,441)* which was rental income that had been received that relates to future periods.

The Directors consider that the carrying value of trade and other payables approximate to their fair value.

## 16. Trade and other payables: Amounts falling due after more than one year

| | **Group 31 December 2018 £** | *Group 31 December 2017 £* | **Company 31 December 2018 £** | *Company 31 December 2017 £* |
|---|---|---|---|---|
| Bank borrowings | **69,967,800** | *69,864,481* | **69,864,481** | *69,864,481* |
| | **69,967,800** | *69,864,481* | **69,864,481** | *69,864,481* |

## 17. Bank borrowings

A summary of the drawn and undrawn bank borrowings in the year is shown below:

**Group**

| | Bank borrowings drawn £ | Bank borrowings undrawn £ | Total £ |
|---|---|---|---|
| At 1 January 2018 | 71,100,000 | - | 71,100,000 |
| Bank borrowings drawn in the year | - | - | - |
| Bank borrowings available but not drawn in the year | - | - | - |
| Bank borrowings repaid in the year | - | - | - |
| **At 31 December 2018** | 71,100,000 | - | 71,100,000 |

The average term to maturity of the Group's debt at 31 December 2018 was 10.0 years *(31 December 2017: 13.0 years)*.

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. These assets have a fair value of £158,141,632 at 31 December 2018 *(31 December 2017: £161,031,632)*.

Any associated fees in arranging the bank borrowings unamortised as at the year end are offset against amounts drawn on the facilities as shown in the table below:

## 17. Bank borrowings (continued)

| | **Group 31 December 2018 £** | *Group 31 December 2017 £* |
|---|---|---|
| Balance brought forward | **71,100,000** | *65,300,000* |
| Total bank borrowings drawn in the year | - | *5,800,000* |
| Total bank borrowings repaid in the year | - | - |
| **Bank borrowings drawn: due in more than one year** | **71,100,000** | *71,100,000* |
| Less: unamortised costs | **(1,132,200)** | *(1,235,519)* |
| **Non-current liabilities: Bank borrowings** | **69,967,800** | *69,864,481* |

| | **Group 31 December 2018 £** | *Group 31 December 2017 £* |
|---|---|---|
| **Maturity of bank borrowings** | | |
| Repayable between 1 and 2 years | - | - |
| Repayable between 2 and 5 years | - | - |
| Repayable in over 5 years | **71,100,000** | *71,100,000* |
| **Non-current liabilities: Bank borrowings** | **71,100,000** | *71,100,000* |

The Group's facilities have an interest charge which is payable quarterly. The facility interest charge is based on a margin above three months LIBOR.

## 18. Share capital

Group and company

| | 31 December 2018 £ | *31 December 2017 £* |
|---|---|---|
| **Shares classified as equity** | | |
| **Allotted, called up and fully paid** | | |
| 1 Ordinary share of £1 | 1 | *1* |

Nominal value of share capital subscribed for.

## 19. Reserves

**Retained earnings**

All other net gains and losses which are not recognised elsewhere.

## 20. Contingent liabilities

There were no contingent liabilities at 31 December 2018 *(31 December 2017: £nil).*

## 21. Commitments under operating leases

At 31 December 2018 the Group had future minimum lease receivables under non-cancellable operating leases as follows:

| | **Group 31 December 2018 £** | *Group 31 December 2017 £* |
|---|---|---|
| Not later than 1 year | **8,028,498** | *6,496,802* |
| Later than 1 year and not later than 5 years | **1,915,150** | *434,000* |
| Later than 5 years | **1,370,835** | *1,612,877* |
| | **11,314,483** | *8,543,679* |

## 22. Related party transactions

### Key management personnel

Key management personnel are considered to comprise the board of directors.

There were no related party transactions in the year other than as disclosed with fellow group undertakings.

## 23. Post balance sheet events

There are no events subsequent to the reporting date, that the Group is aware of, that would have a material impact on the financial statements for the reporting period.

## 24. Financial risk management

The Group's principal financial assets and liabilities are those which arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are shown in the financial statements.

**Risk management**

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk.

The Board of Directors oversees the management of these risks.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(a) Market risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with the interest rate derivatives (swap and cap) entered into to mitigate interest rate risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risks from both its leasing activities and financing activities, including deposits with banks and financial institutions.

The Group has established a credit policy under which each new tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

The Group's review includes external ratings, when available, and in some cases bank references.

The Group determines concentrations of credit risk by monthly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "B" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in Note 13.

(i) Tenant receivables

Tenant receivables, primarily tenant rentals, are presented in the Consolidated statement of financial position net of allowances for doubtful receivables and are monitored on a case by case basis. Credit risk is primary managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. At 31 December 2018 trade receivables past due amounted to £181,677 *(31 December 2017: £28,567)*.

**24. Financial risk management (continued)**

(ii) Credit risk related to financial instruments and cash deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short term deposits and current account cash balances are limited because the counterparties are banks, who are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

(c) Liquidity risk

Liquidity risk arises from the Group's management of working capital and going forward, the finance charges and principal repayments on any borrowings, of which currently there are none. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

## 24. Financial risk management (continued)

(c) Liquidity risk (continued)

The following table sets out the contracted obligations (representing the undiscounted contractual cash flows) of the financial liabilities.

| | Less than 3 months £ | 3 to 12 months £ | 1 to 5 years £ | > 5years £ | Total £ |
|---|---|---|---|---|---|
| **Group** **31 December 2018** | | | | | |
| Bank borrowings and interest | **660,668** | **1,982,002** | **10,570,680** | **84,472,763** | **97,686,113** |
| Trade and other payables | **6,218,980** | **-** | **-** | **-** | **6,218,980** |
| | **6,879,648** | **1,982,002** | **10,570,680** | **84,472,763** | **103,905,093** |
| **Group** **31 December 2017** | | | | | |
| Bank borrowings and interest | *660,668* | *1,982,002* | *10,570,680* | *92,276,339* | *105,489,689* |
| Trade and other payables | *6,283,495* | *-* | *-* | *-* | *6,283,495* |
| | *6,944,163* | *1,982,002* | *10,570,680* | *92,276,339* | *111,773,184* |
| **Company** **31 December 2018** | | | | | |
| Bank borrowings and interest | **660,668** | **1,982,002** | **10,570,680** | **84,472,763** | **97,686,113** |
| Trade and other payables | **6,000** | **-** | **-** | **-** | **6,000** |
| | **666,668** | **1,982,002** | **10,570,680** | **84,472,763** | **97,692,113** |
| **Company** **30 December 2017** | | | | | |
| Bank borrowings and interest | *660,668* | *1,982,002* | *10,570,680* | *92,276,339* | *105,489,689* |
| Trade and other payables | *2,094* | *-* | *-* | *-* | *2,094* |
| | *662,762* | *1,982,002* | *10,570,680* | *92,276,339* | *105,491,783* |

## 25. Controlling party

The immediate parent company is Empiric Investments Holding (Two) Limited.

At 31 December 2018 Empiric Student Property PLC has ultimate control of the Company and is registered in England and Wales.

The head of the largest group for which consolidated financial statements are prepared and of which the Company is a member is Empiric Student Property PLC. The Company is included within these group financial statements which are publicly available.

## 26. Capital management

The primary objective of the Group's capital management is to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Board of Directors monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for shareholders.

Capital consists of ordinary shares, other capital reserves and retained earnings.