Registered Number 112018

LINKS HEALTHCARE REIT LIMITED

Annual Report and Consolidated Financial Statements

For the year ended 31 December 2018

LINKS HEALTHCARE REIT LIMITED

Contents

Corporate information

DIRECTOR

Richard Gough (appoined on 08 June 2018 and resigned on 30 September 2018)
Alexandra Nethercott-Parkes (resigned on 08 June 2018)
Gavin Carruthers (appointed on 30 September 2018 and resigned on 1 March 2019)
Deeya Jugurnauth (appointed on 30 September 2018)
Nick Bland (appointed on 14 February 2018 and resigned on 30 September 2018)
Tim Hutchins (appointed 1 March 2019)
Gary Wilder
Marc Harris
Sunil Masson

REGISTERED OFFICE

Up to 29 September 2018
St Paul's Gate
New Street
St Helier
Jersey JE4 8ZB
Channel Islands

As from 30 September 2018
4th Floor, St Paul's Gate
22 -24 New Street,
St Helier
Jersey JE1 4TR
Channel Islands

INDEPENDENT AUDITOR

Deloitte LLP
Chartered Accountants
Gaspé House
66-72 Esplanade
St Helier
JE2 3QT
Jersey

ADMINISTRATOR, REGISTRAR AND COMPANY SECRETARY

Up to 29 September 2018
Deutsche International Corporate Services Limited
St Paul's Gate
New Street
St Helier,
Jersey JE4 8ZB
Channel Islands

As from 30 September 2018
Vistra Secretaries Limited
4th Floor, St Paul's Gate
22 -24 New Street,
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Jersey JE1 4TR
Channel Islands

INVESTMENT ADVISER

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37 - 38 Margaret Street,
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United Kingdom

LEGAL ADVISORS

Mourant Ozannes
22 Grenville Street,
St Helier,
Jersey,
JE4 8PX,
Channel Islands

Norton Rose LLP
3 More London Riverside,
London
SE1 2AQ

Report of the Directors
For the year ended 31 December 2018

The Directors present their report and the audited consolidated financial statements of Links Healthcare REIT Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The Company was incorporated on 6 December 2012 as a public company under the Companies (Jersey) Law 1991, with registered number 112018. The registered office of the Company is outlined on page 1.

The Company primarily invests in Permitted Investments, as described in the Offering Memorandum dated 7 March 2013. The Company has been authorised by the Jersey Financial Services Commission to operate as a collective investment fund pursuant to the Collective Investment Funds (Jersey) Law 1988 as amended (the CIF Law). The Company is also listed on the Channel Islands Stock Exchange.

In March 2013, the Company entered into a Share Purchase Agreement with Links Midco Limited for the acquisition by the Company of the entire called up share capital of Links Bidco S.à.r.l., which holds an indirect interest in a property portfolio.

RESULTS

The results for the year are set out on page 8.

DIRECTORS

The Directors of the Company during the year and, unless otherwise indicated, up to the date on which the financial statements were approved are shown on page 1.

COMPANY SECRETARY

The Group Secretary of the Company during the year and, unless otherwise indicated, up to the date on which the financial statements were approved, is shown on page 1.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Pursuant to the Companies (Jersey) Law 1991, as amended (the "Law"), the Group is required to prepare financial statements for each financial year. The Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements are required by Law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that year.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITOR

The auditor, Deloitte LLP, has been auditor during the year and has expressed its willingness to be re-appointed.

BY ORDER OF THE BOARD

Director Marc Harris

Date: 29 April 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LINKS HEALTHCARE REIT LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Links REIT Healthcare REIT Limited (the 'parent company') and its subsidiaries (the 'group'):

- **give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and**
- **have been properly prepared in accordance with Companies (Jersey) Law, 1991.**

We have audited the financial statements which comprise:

- the consolidated statement of comprehensive income;
- the consolidated statement of financial position;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as issued by the International Accounting Standards Board.

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 Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed entities, 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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Investment property valuation • Impact of IFRS 9 adoption Within this report, any new key audit matters are identified with ⓐ and any key audit matters which are the same as the prior year identified with ⓑ.
Materiality	The materiality that we used for the group financial statements was £4,445,000 which was determined on the basis of Net Assets.
Scoping	Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement'.
Significant changes in our approach	There were no significant changes in our audit approach from the prior year.

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 group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Investment property valuation	
Key audit matter description	The investment property valuation of £1,237,650 (2017: £1,132,900) is a key audit matter as the valuations are judgemental in nature and are subject to numerous inputs which are used in the valuation models. Given that Links REIT Healthcare holds investment properties, this balance is significant as the value of the property and gain on property impacts the entity's balance sheet and profit. The accounting policy around the investment property has been disclosed in the financial statements in note 1 and 11. The main judgements around the valuation is the initial yield assumed across the properties. On top of this there are judgements around the inputs involved in the valuation of the properties such as the rental cover - being the rent from Spire Healthcare (the tenant at all hospitals in the portfolio) and the degree to which it is covered by profits generated by Spire from its occupation. The yield of 4.5% has applied across the portfolio in light of the rent realignment deed mentioned above. We highlight the impact of a rent realignment deed which allows the rents to be redistributed across the portfolio in line with operating performance in upcoming years. We note that any adjustment in rents in the future as a result of this deed could have a material impact on the valuations of the individual properties but is unlikely to have a material impact on the value of the portfolio.
How the scope of our audit responded to the key audit matter	We obtained assurance over the appropriateness of judgements applied in determining the fair value by: • Assessing the design and implementation of controls around the investment property valuation including management's challenge and review of the valuations conducted by Knight Frank. • Engaging our Deloitte Real Estate Specialist team to challenge the independent valuer around the inputs and assumptions that formed the basis of their valuation. With the involvement of DRE we challenged the reasonableness of the valuations using their market research and knowledge of the UK Private Healthcare market. With the involvement of DRE we also assessed the reasonableness of the yields applied against market research. • Assessing other available market information to identify any contradictory evidence. • Agreeing the key inputs to legal agreements including tying the rental figures used to the rental lease agreements. • Assessing the competency and independence of Knight Frank in their role as external valuers, ensuring the individuals involved are RICS approved and that there are no conditions in the letter of engagement which would compromise independence. • We also considered the impact of Brexit on the valuation of Investment property in our challenge of the valuation report prepared by Knight Frank
Key observations	The valuation of the property portfolio falls within the reasonable range against comparable market evidence.

Impact of IFRS 9 adoption	
Key audit matter description	The Group's investment properties are financed through a mix of debt and equity. Included in the debt agreements are the requirements to hedge the floating interest rate exposures through interest rate swaps (IRS) and cash flow hedge accounting is applied. In the current year, there was a swap fair value movement of £5.516m (2017: £6.552m). The transition to IFRS 9 has lead to two key impacts; 1. A transition adjustment on date of adoption of IFRS 9 (1 January 2018) due to the change in value of financial assets and liabilities between IAS 39 and IFRS 9; and 2. Changes to the requirements for hedge accounting whereby the effectiveness assessment now depends predominantly on the economic relationship between hedged item and hedging instrument. This requires updated hedge documentation under IFRS 9 for hedge accounting to be applied and a change in methodology for assessing effectiveness of the hedge. The accounting policy around the hedge accounting and effectiveness is disclosed in note 1 and 12 of the financial statements. We highlight the transition adjustment of £9,573m, which relates to the requirement under IFRS 9 to recognise a gain or loss if there is a non-substantial modification of an asset or liability. Under IAS 39 the group had a policy of not recognising a gain or loss as a result of a non-substantial modification. Interest rate swaps on the loan have been designated as hedging instruments at fair value as per the accounting policy disclosed in the financial statements. The Group use a third party, JC Rathbones, to assess the effectiveness of the hedging instruments and uses counterparty valuations as well as considering the valuation performed by third party independent specialists JC Rathbones. Further details are included within note 25 to the financial statements.
How the scope of our audit responded to the key audit matter	In order to address the key audit matter, we: • Have evaluated the design and implementation of the controls around reviewing the financial instrument valuation and determining hedge effectiveness. • Reviewed the IFRS 9 impact memo prepared for the entity and recalculated the impacts under the transition to IFRS 9.

	• Engaged our internal financial instruments specialists to perform an independent hedge effectiveness assessment and an independent valuation of the derivate instruments as at the reporting date. • Reviewed the updated hedge documentation under IFRS 9 to assess compliance with the standard. • Reviewed the disclosures in the financial statements for compliance with IFRS.
Key observations	The adoption of hedge accounting is appropriate as the derivatives meet the requirements under IFRS 9 as hedging instruments. The values adopted at year-end and disclosures in the financial statements are deemed appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group Materiality	£4,445,000 (2017: £4,085,000)
Basis for determining materiality	We generally apply materiality based on net assets, but as this entity is a subsidiary of KWASA Global Jersey, we were required by the parent auditors to limit our materiality to £4.445m. Materiality equates to 0.9% of net assets.
Rationale for the benchmark applied	Net assets represent the residual value of the shareholder's interest. As an investment property company, the main focus is to generate long-term capital value for the shareholder from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality.

We agreed with those charged with governance that we would report to them all audit differences in excess of £222,250 (2017: £204,250) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to Those Charged With Governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our scoping has been tailored by assessing the risks of material mistatement for the company. Links Healthcare REIT holds Links Bidco Sarl which holds the Property Companies. These Property Companies manage each of the 12 properties in the Links Portfolio (100% of the portfolio). Links Bidco Sarl (Bidco) is seen as a component for audit purposes and component auditors in Luxembourg have been used.

We issued our instructions to the component auditor outlining the key areas of focus for us at group level and the key timelines and reporting requirements. The significant balances to be tested by the component auditors were Revenue and Deferred Income and Borrowings. 100% of each of the aforemenitoned balances was tested.

There was frequent oversight of compenent auditor work through regular catch up calls in which any delays or audit issues were discussed. We also reviewed the consolidation workings to assure that the consolidation is reasonable at the group level. As part of the supervision of component auditor work, they shared their files with us enabling us to review the component audit file directly.

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 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 respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, 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 on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company, or proper 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.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. 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.

Theo Brennand FCA
For and on behalf of Deloitte LLP
Jersey

29 April 2019

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Notes	2018 '£000	2017 '£000
Revenue	5	57,371	55,268
Administrative expenses	6	(6,042)	(5,944)
Fair value movement on investment properties	11	104,750	93,300
Operating profit		156,079	142,624
Finance cost	7	(41,783)	(38,605)
Profit for the year before tax		114,296	104,019
Income tax expense	8	(431)	(80)
Profit for the year		113,865	103,939
Profit attributable to equity holders		113,865	103,939
Other comprehensive income	18	5,516	6,552
Total comprehensive profit for the year		119,381	110,491
Attributable to equity holders		119,381	110,491

All items dealt with in arriving at the total comprehensive income for the year ended 31 December 2018 related to continuing operations.

LINKS HEALTHCARE REIT LIMITED

Consolidated statement of financial position
As at 31 December 2018

	Notes	2018 '£000	2017 '£000
ASSETS			
Non-current assets			
Investment properties	11	1,237,650	1,132,900
Total non-current assets		1,237,650	1,132,900
Current assets			
Trade and other receivables	13	2,842	2,256
Cash and cash equivalents	14	4,907	4,860
Total current assets		7,749	7,116
Total assets		1,245,399	1,140,016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Group			
Called up share capital	18	1	1
Share premium	18	5,470	5,470
Legal reserve	18	14	14
Cash flow hedging reserve	18	(3,315)	(8,831)
Accumulated profit		492,268	378,182
Total equity attributable to equity holders of the Group		494,438	374,836
Non-current liabilities			
Loan payable	15	731,321	740,498
Intercompany payable		450	160
Derivative financial instruments	12	5,700	12,088
Total non-current liabilities		737,471	752,746
Current liabilities			
Other payables	16	13,490	12,434
Total current liabilities		13,490	12,434
Total equity		1,245,399	1,140,016

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 29 April 2019.

Registered Number 112018

Marc Harris
Director

The notes on pages 11 to 30 form an integral part of these consolidated financial statements

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Share capital * '£000	Share premium '£000	Legal reserve '£000	Cash flow hedging reserve '£000	Accumulated profit '£000	Total equity '£000
Balance at 1 January 2018	1	5,470	14	(8,831)	378,182	374,836
Adjustment on adoption of IFRS 9	-	-	-	-	9,573	9,573
Adjusted balance at 1 January 2018	1	5,470	14	(8,831)	387,755	384,409
Net profit for the year	-	-	-	-	113,865	113,865
Swap fair value movement	-	-	-	5,516	-	5,516
Dividends paid **	-	-	-	-	(9,352)	(9,352)
Balance at 31 December 2018	1	5,470	14	(3,315)	492,268	494,438

	Share capital * '£000	Share premium '£000	Legal reserve '£000	Cash flow hedging reserve '£000	Accumulated profit '£000	Total equity '£000
Balance at 1 January 2017	-	500	14	(15,383)	283,393	268,524
Issue of shares	1	4,970	-	-	-	4,971
Net profit for the year	-	-	-	-	103,939	103,939
Swap fair value movement	-	-	-	6,552	-	6,552
Dividends paid **	-	-	-	-	(9,150)	(9,150)
Balance at 31 December 2017	1	5,470	14	(8,831)	378,182	374,836

* The share capital amounts to £547.14 (2017: £547.14) (note 18).
** The total dividend paid per share for the year ended 31 December 2018 is £170.92 (2017: £167.23).

Consolidated statement of cash flows
For the year ended 31 December 2018

	Notes	2018 '£000	2017 '£000
Cash flow from operating activities			
Cash generated from operations	20	55,462	49,481
Income tax paid		(274)	-
Net cash flows from operating activities		55,188	49,481
Cash flows from financing activities			
Increase in intercompany payable		290	-
Interest paid		(41,197)	(37,787)
Loan repayment		(4,882)	(2,435)
Dividend paid		(9,352)	(9,150)
Net cash flows used in financing activities		(55,141)	(49,372)
Net increase in cash and cash equivalents		47	109
Cash and cash equivalents at beginning of the year		4,860	4,751
Cash and cash equivalents at the end of the year	14	4,907	4,860

For the year ended 31 December 2018, the following non-cash transaction occurred that is not shown on the cash flow statements:

In the year ended 31 December 2018, the intercompany balance between Links Healthcare REIT Limited and Links Holdings LP amounted to £374,864 (2017: £160,121) and the intercompany balance between Links Healthcare REIT Limited and Links Holdings (GP) Limited amounted to £20,000 (2017: £nil).

For the year ended 31 December 2017, the following non-cash transactions occurred that are not shown on the cash flow statements.

On 18 December 2017, the interest free loan of £3,022,329 payable by Links Bidco S.à.r.l. to Links Holdings LP was increased by £1,948,078 and the interest bearing loan of £211,426,618 payable by Links Bidco S.à.r.l. to Links Holdings LP was reduced by the same amount. No cash movement was involved.

On 18 December 2017, Links Holdings LP subscribed to £4,970,407 of share capital in the Company and a corresponding intercompany balance receivable from Links Holdings LP to the Company was created.

On the same day, the Company contributed £4,970,407 to the capital account of Links Bidco S.à.r.l. and a corresponding intercompany balance payable from the Company to Links Bidco S.à.r.l..

Both the amount receivable from Links Holdings LP and the amount payable to Links Bidco S.à.r.l were netted off and the interest free loan of £4,970,407 payable by Links Bidco S.à.r.l. to Links Holdings LP as of 18 December 2017 was terminated.

1. Accounting policies

General information
Links Healthcare REIT Limited (the "Company") was incorporated on 6 December 2012 as a public company under the Companies (Jersey) Law 1991, with registered number 112018. Up to 29 September 2018, the registered office of the Company was St Paul's Gate, New Street, St Helier, Jersey, JE4 8ZB, Channel Islands . As from 30 September 2018, the registered office is 4th Floor, St Paul's Gate, 22-24 New Street, St Helier, Jersey, JE1 4TR, Channel Islands.

The Company primarily invests in Permitted Investments, as described in the Offering Memorandum dated 7 March 2013. The Company has been authorised by the Jersey Financial Services Commission to operate as a collective investment fund pursuant to the Collective Investment Funds (Jersey) Law 1988 as amended (the CIF Law). The Company is also listed on The International Stock Exchange.

In March 2013, the Company entered into a Share Purchase Agreement with Links Midco Limited for the acquisition by the Company of the entire share capital of Links Bidco S.à.r.l., which holds an indirect interest in a property portfolio.

Basis of preparation
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"), IFRIC interpretations and the Companies (Jersey) Law 1991.

These financial statements have been prepared under the historic cost convention as modified by the revaluation of properties and derivatives.

Under Article 105(11) of the Companies (Jersey) Law 1991 the Directors of a holding company need not prepare separate financial statements (i.e. company only financial statements) if consolidated financial statements for the company are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the Company have not passed a resolution requiring separate financial statements and, in the Directors' opinion, the Company meets the definition of a holding company. As permitted by the law, the Directors have elected not to prepare separate accounts.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the year the assumptions changed. The Directors believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Statement of comprehensive income and statement of cash flows
The Group has elected to present all items of income and expense recognised in a year in a single statement of comprehensive income and presents its expenses by function.

The Group reports cash flows from operating activities using the indirect method. Interest paid is presented within financing cashflows. The acquisitions of investment properties are disclosed as cash flows under investing activities because this most appropriately reflects the Group's business activities.

Changes in accounting policy and disclosures
(a) New standards, amendments and interpretations issued and effective for the financial year beginning 1 January 2018

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting year that begins on or after 1 January 2018. The new standards issued during the year are not deemed to have any impact on the Group except for IFRS 9 which has impacted valuation and disclosures of financial instruments.

Note 25 provides an explanation for the transition from IAS 39 to IFRS 9. The Company elected not to restate the comparatives on initial applicaion of IFRS 9.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted

The following new and amended standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods and are expected to be relevant to the Group.

Standard / interpretation	Content	Applicable for financial years on/after
IFRS 16	Leases	01/01/2019
Amendments to IFRS 9	Amendments to IFRS 9: Financial instruments on prepayment features with negative compensation and modifications of financial liabilities	01/01/2019 (subject to EU adoption)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture	deferred
IAS 12	Annual Improvements to IFRS Standards 2015-2017 Cycle - Income Taxes	01/01/2019
IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle - Borrowing costs	01/01/2019
Amendments to IAS 1 and IAS 8	Definition of Material	01/01/2020
Amendments to IFRS 3	Definition of a business	01/01/2020

1. Accounting policies (continued)

Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted (continued).

The Group's assessment of the impact of these new standards and interpretations are set out below:

Amendments to IFRS 9
The amendments allow companies to measure particular prepayable financial assets with so-called negative compensation at amortised cost or at fair value through other comprehensive income if a specified condition is met—instead of at fair value through profit or loss.

Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract".

The final amendments also contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The IASB clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount.

The Directors do not expect that the adoption of the amendments to IFRS 9 will have a material impact on the financial statements of the Company in future periods.

Amendments to IFRS 10 and IAS 28 sale or contribution of Assets between an Investor and its Associate or Joint Venture
The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The Company is yet to determine the impact of adopting the amendments.

IAS 12 Income Taxes
The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

The Company is yet to determine the impact of adopting the amendments.

IAS 23 Borrowing Costs
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Company is yet to determine the impact of adopting the amendments.

Amendments to IAS 1 and IAS 8
The changes in Definition of Material (Amendments to IAS 1 and IAS 8) all relate to a revised definition of 'material' which is quoted below from the final amendments:

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

1. Accounting policies (continued)

Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2018 and not early adopted (continued).

Amendments to IAS 1 and IAS 8 (continued)

Three new aspects of the new definition should especially be noted:
'Obscuring. The existing definition only focused on omitting or misstating information, however, the Board concluded that obscuring material information

with information that can be omitted can have a similar effect. Although the term obscuring is new in the definition, it was already part of IAS 1 (IAS 1.30A).

Could reasonably be expected to influence. The existing definition referred to 'could influence' which the Board felt might be understood as requiring too much information as almost anything 'could' influence the decisions of some users even if the possibility is remote.

'Primary users. The existing definition referred only to 'users' which again the Board feared might be understood too broadly as requiring to consider all possible users of financial statements when deciding what information to disclose.

The amendments stress especially five ways material information can be obscured:
- if the language regarding a material item, transaction or other event is vague or unclear;
- if information regarding a material item, transaction or other event is scattered in different places in the financial statements;
- if dissimilar items, transactions or other events are inappropriately aggregated;
- if similar items, transactions or other events are inappropriately disaggregated; and
- if material information is hidden by immaterial information to the extent that it becomes unclear what information is material.

The amendments are effective for annual reporting periods beginning on or after 1 January 2020, however, earlier application is permitted. The Company is yet to determine the impact of adopting the amendments.

Amendments to IFRS 3
The post-implementation review of IFRS 3 Business Combinations revealed that entities have difficulties when determining whether they have acquired a business or a group of assets. As the accounting requirements for goodwill, acquisition costs and deferred tax differ on the acquisition of a business and on the acquisition of a group of assets, the IASB decided to issue narrow scope amendments aimed at resolving the difficulties that arise when an entity is determining whether it has acquired a business or a group of assets.

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. They:
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period. Earlier application is permitted. The Company is yet to determine the impact of adopting the amendments.

Based on management's assessment, the Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Company in future periods.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

1. Accounting policies (continued)

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:
• power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
• exposure, or rights, to variable returns from its involvement with the investee, and
• the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee including:
• the contractual arrangement with the other vote holders of the investee
• rights arising from other contractual arrangements
• the Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Company gains control until the date the Group ceases to control the subsidiary.

For acquisitions meeting the definition of a business, the acquisition method of accounting is used. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs in relation to business combination are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

For acquisitions not meeting the definition of a business, the Group allocates the cost between the individual identifiable assets and liabilities in the Group based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill. There were no acquisition during the current financial year.

The financial statements incorporate the results of the Company's subsidiaries. The accounting policies of subsidiaries has been aligned with the policies adopted by the Group. All the Group companies have 31 December as their year end.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Going concern
The Group's business activities are set out in the 'Principal activities' section of the Report of the Directors on page 2.

The Group has made profits of £113,865,000 (year ended 31 December 2017: £103,939,000) in the year ended 31 December 2018 and has positive net assets of £494,438,000 (2017: £374,836,000).

Additionally, revenue is secured through property leases which have unexpired term of 25 years.

The Directors are of the belief that the Group is expected to continue to generate positive cash flows from its operating activities on its own account for a period of at least twelve months from the date of signing of the financial statements bearing in mind the assets of the subsidiaries of the Group. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least twelve months from the date of signing of the financial statements and retain its ability to remain within bank covenants and repay its debts as and when these are due. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiaries operate (the 'functional currency'). The consolidated financial statements are presented in pound sterling ('£000'), which is the functional currency of the Group's subsidiaries and the presentation currency of the Group.

1. Accounting policies (continued)

Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income for the year.

Revenue recognition

Revenue includes rental income from properties. Rental income from operating leases is recognised in revenue on a straight line basis over the lease term. When the Group provides incentives to its tenants, the cost of the incentives are recognised over the lease term, on a straight line basis, as a reduction of rental income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented net in the consolidated statement of comprehensive income within finance costs and finance income respectively.

Dividends

Dividend distributions to the shareholders are recognised in the Group's financial statements in the year in which the dividends are approved.

Interest

Interest income and expenses are recognised within 'finance income' and 'finance costs' respectively in the statement of comprehensive income using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

Expenses

Expenses include legal, accounting, auditing, asset management, investment management, trustee fees and other fees. They are recognised as expenses in the statement of comprehensive income in the year in which they are incurred (on an accruals basis).

Investment property

Investment properties comprise land and buildings which are held for long term rental yields or for capital appreciation or both in accordance with IAS 40 'Investment Property.' Land and buildings are shown at their fair value at the year end with fair value movement posted through the statement of comprehensive income.

Subsequent costs are included in the investment property's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

The investment properties are not depreciated.

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Cash and cash equivalents

Cash and cash equivalents are also classified as loans and receivables. Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Financial instruments

i. Recognition and initial measurement

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

1. Accounting policies (continued)
Financial instruments (continued)

ii. Classification and subsequent measurement
Financial assets - Policy applicable from 1 January 2018
a. Classification
From 1 January 2018, the Group classifies its financial assets in the following measurement category:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

For the purposes of assessment whether cash flows are solely payments of principal and interest, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

b. Subsequent measurement
Debt instruments
The Group classifies its debt instrument at amortised cost. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in 'finance income' using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses on financial assets are presented as separate line item in the consolidated statement of comprehensive income.

Financial assets - Policy applicable before 1 January 2018
The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

a. Classification
There has been no change in the Group's classification of financial assets into FVTPL and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

b. Subsequent measurement
Financial assets at FVTPL
Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

1. Accounting policies (continued)
Financial instruments (continued)

ii. Classification and subsequent measurement (continued)
Financial assets - Policy applicable before 1 January 2018 (continued)
Loans and receivables
Loans and receivables include trade and other receivables and cash and cash equivalents. These 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.

Financial liabilities - Classification and subsequent measurement
Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading, it is a derivative or it is designated as at FVTPL.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'finance costs' line item in the consolidated statement of comprehensive income.

Other financial liabilities, including bank borrowings and trade and other payables, are subsequently measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant 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.

iii. Derecognition
Financial assets
The Group 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liability
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

iv. Impairment
Policy applicable from 1 January 2018
The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss, including tenants' deposits and trade and other receivables. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

For trade and other receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

1. Accounting policies (continued)
Financial instruments (continued)

iv. Impairment (continued)
Policy applicable from 1 January 2018 (continued)
Trade and other receivables are written off when there is no reasonable expectation of recovery.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of comprehensive income.

Policy applicable before 1 January 2018
The Group assesses at each financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired (an incurred loss model). If there is objective evidence (such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in the consolidated statement of comprehensive income.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

Derivative financial instruments and hedge accounting
Policy applicable from 1 January 2018
The Group uses interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are recognised as financial assets when the fair value is positive and as liabilities when the fair value is negative. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

For the purpose of hedge accounting, the Group designates certain derivatives as either:
- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

As at reporting period, the Group designated its derivatives as cash flow hedges.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:
- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Before 1 January 2018, hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:
- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (i.e. it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured.
- The hedge remains highly effective on each date tested, effectiveness is tested annually.

The Group applies hedge accounting if the qualifying criteria stated above were met.

1. Accounting policies (continued)
Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)
Policy applicable before 1 January 2018

Cash flow hedges
The effective portion of gains and losses on derivatives used to manage cash flow interest rate risk (such as floating to fixed interest rate swaps) are also recognised in other comprehensive income and accumulated for in the cash flow hedge reserve. However, if the Group closes out its position early, the cumulative gains and losses recognised in other comprehensive income are frozen and reclassified from the cash flow hedging reserves to the income statement using the effective interest method. The ineffective portion of gains and losses on derivatives used to manage cash flow interest rate risk are recognised in the income statement within finance expense or finance income.

Share capital
Shares are classified as equity when there is no obligation to transfer cash or other assets.

Current tax
The tax expense for the year comprises current tax. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the year end date. The current tax charge is the minimum required tax provision from Luxembourg.

Revenues, expenses and assets are recognised net of the amount of sales tax, except for receivables and payables that are stated with the amount of sales tax included. The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Stamp duty payable on the direct acquisition of investment property is capitalised as part of the property's acquisition costs.

Fair value
Fair value is defined as 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 (i.e. an exit price). The fair value of financial instruments is always determined on the basis of the listed price on an active market (mark to market) or, if this is not possible, on the basis of industry standard valuation models (mark to matrix or mark to model).

Financial instruments valued using observable market prices
If a quoted market price in an active market is available for an instrument, the fair value is calculated based on the market price.

Financial instruments valued using a valuation technique
In the absence of a quoted market price in an active market, management uses industry standard models to make its best estimate of the price that the market would set for that financial instrument. In order to make these estimations, various techniques are employed, including extrapolation from observable market data and observation of similar financial instruments with similar characteristics. Wherever possible, valuation parameters for each product are based on prices directly observable in active markets or that can be derived from directly observable market prices.

Fair value hierarchy
The Company applies the following fair value hierarchy that prioritises the inputs to valuation techniques used in measuring fair value. The hierarchy establishes three categories for valuing financial instruments, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Level 1 - Unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date.

Level 2 - Quoted prices in markets that are not active, quoted prices for similar assets or liabilities, recent market transactions, inputs other than quoted market prices for the asset or liability that are observable either directly or indirectly for substantially the full term, and inputs to valuation techniques that are derived principally from or corroborated by observable market data through correlation or other statistical means for substantially the full term of the asset or liability.

Level 3 - Inputs to the pricing or valuation techniques that are significant to the overall fair value measurement of the asset or liability are unobservable.

2. Financial risk management

Financial risk factors

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk (including currency risk, interest rate risk and other price risk)

Vistra Secretaries Limited who provides secretarial and administration services to the Group, have their own business risk assessment which the Directors utilise for the purposes of the Group. These policies are described below.

The Directors of the Group review and agree policies for managing its risk exposure. The primary objectives of the financial risk management function are to establish appropriate risk limits, and then ensure that exposure to risks stays within these limits. The Group's financial assets and financial liabilities comprise cash and cash equivalents, trade and other receivables and trade and other payables that arise directly from its operations.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Derivative financial instruments
- Trade and other receivables
- Cash and cash equivalents
- Other payables
- Loan payable

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, and arises principally from the Group's receivables from tenants and cash and cash equivalents held at banks.

The Group's maximum exposure to credit risk by class of financial asset is as follows:-

	2018	2017
	'£000	'£000
Trade and other receivables	2,807	2,256
Cash and cash equivalents	4,907	4,860
	7,714	7,116

The Group has £nil (2017: £nil) receivable from its tenants. The Group has policies in place to ensure that rental contracts are entered into only with lessees with an appropriate credit history.

The fair value of cash and cash equivalents at 31 December 2018 approximates the carrying value. Further details regarding cash and cash equivalents can be found in note 14. In the period cash risk was mitigated by holding cash and cash equivalents with several different reputable financial institutions. As at 31 December 2018, cash balances were held with Deutsche Bank AG and Standard Chartered Bank. Refer to note 14 for credit ratings of these banking institutions.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's position.

The Group's liquidity position is monitored and reviewed on a quarterly basis by the Directors. The amounts disclosed in the below tables are the contractual undiscounted cash flows.

The maturity analysis of financial instruments at 31 December 2018 and 31 December 2017 are as follows:

2018	Within one year	From one to two years	From two to five years	Later than 5 years	Total
	'£000	'£000	'£000	'£000	'£000
Assets					
Trade and other receivables	2,807	-	-	-	2,807
Cash and cash equivalents	4,907	-	-	-	4,907
	7,714	-	-	-	7,714
Liabilities					
Loan payable	-	-	731,321	-	731,321
Other payables	13,490	-	-	-	13,490
Derivative financial instruments	-	-	5,700	-	5,700
Intercompany payables	-	-	450	-	450
	13,490	-	737,471	-	750,961

2. Financial risk management (continued)

Liquidity risk (continued)

2017	Within one year '£000	From one to two years '£000	From two to five years '£000	Later than 5 years '£000	Total '£000
Assets					
Trade and other receivables	2,256	-	-	-	2,256
Cash and cash equivalents	4,860	-	-	-	4,860
	7,116	-	-	-	7,116
Liabilities					
Loan payable	-	-	740,498	-	740,498
Other payables	12,434	-	-	-	12,434
Derivative financial instruments	-	-	12,088	-	12,088
Intercompany payables	-	-	160	-	160
	12,434	-	752,746	-	765,180

Out of the £731,321,000 (2017: £740,498,000) loan payable, the Group's loan with the lenders mentioned in note 15 for an amount of £529,160,000 (2017: £533,455,000) is repayable on 31 December 2020 and secured by a charge over the Group's investment properties which are disclosed in note 11. The Directors expect that upon maturity of the bank loan, further finance will be negotiated until the properties are sold.

Market risk
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group's market risk arises from open positions in interest bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

IFRS 7 requires disclosure of sensitivity analysis for each type of market risk to which the entity is exposed at the reporting date showing how profit or loss and equity would have been affected by changing the relevant risk variables that were reasonably possible at that date.

As discussed below, the Group does not have significant exposure to price risk or cashflow and fair value interest rate risk and therefore no sensitivity analysis for those risks has been disclosed.

a) Foreign exchange risk
The Group is exposed to foreign currency risk due to the retranslation of some assets and liabilities denominated in foreign currency however the exposure is not significant as its subsidiaries, though domiciled in Luxembourg, use the pound sterling (£) as their functional currency.

b) Price risk
The Group is exposed to property price and property rental risk which are not financial instruments. The Group is not exposed to market risk with respect to financial instruments as it does not hold any marketable equity securities.

c) Cash flow and fair value interest rate risk
The Group is exposed to cash flow risk in relation to interest payable on the bank loan amounting to £529,160,000 (2017: £533,455,000) with Standard Chartered Bank. The loan is repayable in four years and carries a floating interest rate as described in note 15.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping all of those borrowings from floating rates to fixed rates. Currently, the Group has contracts with an aggregate nominal value of £540,000,000 (2017: £540,000,000) split between Standard Chartered Bank for £205,659,260 (2017: £205,659,260), DBS Bank Ltd for £93,600,000 (2017: £93,600,000), Sumitomo Mitsui Banking Corporation for £120,370,370 (2017: £120,370,370) and Oversea-Chinese Banking Corporation for £120,370,370 (2017: £120,370,370). The previous contract of £540,000,000 was entered on 31 December 2015 solely with Standard Chartered Bank. During March 2016, the contract was amended and was split between the four counterparties mentioned above. The Group pays fixed interest at a rate of 1.5987% for years up until 2020 and receive floating interest at 3 months GBP Libor.

The interest rate swaps settle on a quarterly basis for floating and fixed rate interest respectively. The Group will settle the difference between the fixed and floating interest rate on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges as from December 2015 in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings.

All trade and other receivables and payables are interest-free and have settlement dates within one year.

Capital management
The Group considers its capital to comprise its ordinary share capital, share premium and its accumulated retained earnings. Refer to note 18.

The Directors' objective when managing capital is to safeguard the Group's ability to continue as a going concern in the short and long term in order to provide returns for the shareholders and benefits for other stakeholders. There are no external regulatory requirements imposed on the Group with regards to capital management.

3. Segmental analysis

The Group's operations are carried out in Jersey and Luxembourg. The results and net assets of the Company and Group are derived from its investment in commercial investment properties situated in United Kingdom. The Company does not trade its debt or equity instruments in a public market and it is not in the process of filing its consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. Therefore, segmental analysis has not been presented.

4. Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Judgements

Fair value of investment properties

In determining the fair value of investment properties under IAS 40 there is a degree of uncertainty and judgement involved. The Group uses external professional valuers to determine relevant amounts. The Directors have reviewed the valuations and assumptions applied and have concluded that they are reasonable.

The Directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the residual value and useful lives of investment properties. The details of the valuation are disclosed on note 11.

(b) Estimates

Fair value of derivative instruments

The Group determines the fair value of financial instruments that are not quoted, using valuation techniques. Those techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows. In that regard, the derived fair value estimates cannot always be substantiated by comparison with independent markets and, in many cases, may not be capable of being realised immediately.

The methods and assumptions applied to the fair value of the derivative financial instruments are disclosed in note 12.

5. Revenue

	2018 '£000	2017 '£000
Rental income	57,371	55,268

6. Administrative expenses

	2018 '£000	2017 '£000
Direct operating expenses arising from investment property that generated rental income during the year:		
Investment deed fee*	(5,400)	(5,400)
Investment advisor fee	(100)	(100)
Other operating expenses:		
Administrative fees	(24)	(34)
Legal and professional fees	(228)	(182)
Trustee fees	(144)	(135)
Audit fees	(59)	(57)
Sundry expenses	(81)	(26)
Bank charges	(6)	(10)
	(6,042)	(5,944)

During the year, non-audit fees amounting to £126,762 (2017: £147,879) was payable to Deloitte and included in legal and professional fees.

*The investment fee is calculated on a quarterly basis on the outstanding loan principal amount at a rate of 1% (2017: 1%) per annum.

7. Finance cost

	2018 '£000	2017 '£000
Interest on bank loan	(14,335)	(9,361)
Interest rate swap	(4,125)	(5,489)
Interest on intercompany loan	(23,323)	(23,755)
	(41,783)	(38,605)

8. Income tax expense

The Company is tax exempt. Links Bidco S.à.r.l. and other Luxembourg subsidiaries are subject to the Luxembourg general tax regulations applicable to all commercial companies registered in Luxembourg.

Analysis of tax charge in the year

	2018 '£000	2017 '£000
Minimum current tax - Luxembourg companies	431	80
Total tax charge for the year	431	80

8. Income tax expense (continued)

Factors affecting the tax charge for the year

The Group has elected to be treated as a REIT (Real Estate Investment Trust) with effect from 15 March 2013. The REIT rules exempt the profits of the Group's UK property rental business from corporation tax. Gains on UK properties are also exempt from tax, provided they are not held for trading or sold in the three years after completion of development. The Group is otherwise subject to tax in its relevant jurisdictions.

As a REIT, the Group is required to pay Property Income Distributions equal to at least 90% of the Group's exempted net income. To remain as a REIT, there are a number of conditions to be met in respect of the principal company of the Group, Links Bidco S.à.r.l.'s qualifying activity and its balance of business. The Group met these conditions.

The tax charge in the year relates primarily to the legal minimum Luxembourg tax provision for 2018 and 2017 for the Luxembourg entities and withholding tax on the partners income distributions.

9. Directors and employees

The Company has no employees. Refer to related party note (note 17) for details of corporate services fees paid to Deutsche International Corporate Services Limited and Vistra Secretaries Limited.

10. Subsidiaries

The following table details the subsidiaries owned by the parent company and included in these consolidated financial statements.

Subsidiary undertakings	Ownership	Holding %	Country of incorporation	Activity
Links Bidco S.à.r.l.	Direct	100	Luxembourg	Holding company
Links Bidco S.à.r.l. Propco 1	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 2	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 3	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 4	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 5	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 6	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 7	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 9	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 10	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 11	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 12	Indirect	100	Luxembourg	Property holding
Links Bidco S.à.r.l. Propco 13	Indirect	100	Luxembourg	Property holding
Links Property 9 Limited	Indirect	100	England	Dormant

On 29 June 2016, the Company incorporated a new wholly owned subsidiary in Luxembourg namely Propco 13. On 31 August 2016, Links Bidco Sarl sold all its shares in Propco 8 to the Spire Group and thereby acquired 100% shareholding in Spire Property 9 Limited which was renamed as Links Property 9 Limited.

Links Bidco S.à.r.l.

The entire share capital of Links Bidco S.à.r.l. ("Bidco") was purchased from Links Midco Limited through a sale and purchase agreement in March 2013.

Bidco has been incorporated on 3 December 2012 for an unlimited duration as a société a responsabilité limitée with registration number B 173566. The company was established as a special purpose vehicle (the "SPV"). The company is subject to the Law of 10 August 1915 on Commercial Companies, as subsequently amended, as well as by its articles of association.

The company receives rental income on behalf of the Propcos from underlying investment properties located in the United Kingdom.

11. Investment properties

2018	Cost '£000	Accumulated Fair Value Gains '£000	Fair Value '£000
Opening balance	719,526	413,374	1,132,900
Fair value movement during the year	-	104,750	104,750
Balance as at 31 December 2018	719,526	518,124	1,237,650

2017	Cost '£000	Accumulated Fair Value Gains '£000	Fair Value '£000
Opening balance	719,526	320,074	1,039,600
Fair value movement during the year	-	93,300	93,300
Balance as at 31 December 2017	719,526	413,374	1,132,900

Fair value of investment property

On an annual basis, the Group engages external, independent and qualified valuers to determine the fair value of the investment properties. As at 30 October 2018, fair value of the investment properties have been determined by Knight Frank LLP using Royal International Chartered Surveyors ("RICS") valuation. Knight Frank LLP also issued an opinion stating that the valuation of 30 October 2018 is still appropriate for 31 December 2018.

The different levels have been defined as follows:

• Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
• Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (Level 2).
• Inputs for the asset or liability that are not based on observable market data (Level 3).

The external valuations of the investment properties have been carried out using the comparative investment method and the investment properties have been classified as level 3. The valuation is based on a collation and analysis of appropriate comparable investment transactions. Such transactions were then applied to the investment properties by taking into account the size, location, terms, covenant and other material factors.

The Directors are aware that the expected UK departure from the European Union ("Brexit") may have a potential impact on the Company and its activities. It has been noted that the Lease guarantor, Spire Healthcare is monitoring closely the legal and political developments in the process towards Brexit. A Brexit working group has been established which has undertaken comprehensive planning to prepare for the operational and economic arrangements that can reasonably be expected following a no-deal Brexit. Knight Frank, also noted in in their valuation report dated 30th October 2018, "The EU's policy of freedom of movement and mutual recognition of professional qualifications within the EU means that health and social care professionals currently working within the UK have come from other EU countries. It is widely acknowledged that the NHS is currently struggling to recruit and retain permanent staff. Until the UK extracts itself from its obligations under EU treaties, the policy on freedom of movement remains unchanged" and in their update note dated 7th January 2019 also add that "Brexit negotiations both within the UK parliament and with the EU negotiating parties as well as the Bank of England's continued base rate policy, has meant that demand for long term annuity grade healthcare trading assets with long term leases has remained constant".

The Directors will continue to monitor developments as the process and detail of the exit of the UK from the EU progresses to unfold.

Details of the Group's investment properties and information about the fair value hierarchy (assuming 6.79% cost of acquisition) as at 31 December 2018 and 2017 are as follow:

2018 Subsidiary	Hospital	% of ownership	Level 1 '£000	Level 2 '£000	Level 3 '£000	2018 '£000
Links Bidco S.à.r.l. Propco 1	Bristol, Glen	100%	-	-	133,050	133,050
Links Bidco S.à.r.l. Propco 2	Bushey	100%	-	-	199,200	199,200
Links Bidco S.à.r.l. Propco 3	Edinburgh	100%	-	-	127,450	127,450
Links Bidco S.à.r.l. Propco 4	Gatwick	100%	-	-	91,150	91,150
Links Bidco S.à.r.l. Propco 5	Leeds	100%	-	-	132,350	132,350
Links Bidco S.à.r.l. Propco 6	Leicester	100%	-	-	93,150	93,150
Links Bidco S.à.r.l. Propco 7	Little Aston	100%	-	-	72,850	72,850
Links Bidco S.à.r.l. Propco 9	Portsmouth	100%	-	-	95,050	95,050
Links Bidco S.à.r.l. Propco 10	Roding	100%	-	-	92,600	92,600
Links Bidco S.à.r.l. Propco 11	Southampton	100%	-	-	145,700	145,700
Links Bidco S.à.r.l. Propco 12	Tunbridge Wells	100%	-	-	18,350	18,350
Links Bidco S.à.r.l. Propco 13	Wirral	100%	-	-	36,750	36,750
			-	-	1,237,650	1,237,650

Knight Frank considered the rent realignment deed in its valuations. This enables the rent to be redistributed across the portfolio without affecting the total rent payable by the tenant. In the current year the same initial yield (4.5%) has been applied to all properties as all considered prime, rather than adjusting differentiating the yields for operating performance of attributed to individual each property. If the rents are adjusted as permitted by the deed this could have a material an impact on the value of the individual properties. It is expected that the rent alignment notice will be served by the Landlords to the Tenant take place before 17 July 2019, with the rent realignment itself expected to take effect at the next rent review date for the Portfolio properties, being 17 January 2020.

11. Investment properties (continued)

2017 Subsidiary	Hospital	% of ownership	Level 1 '£000	Level 2 '£000	Level 3 '£000	2017 '£000
Links Bidco S.à.r.l. Propco 1	Bristol, Glen	100%	-	-	128,800	128,800
Links Bidco S.à.r.l. Propco 2	Bushey	100%	-	-	192,800	192,800
Links Bidco S.à.r.l. Propco 3	Edinburgh	100%	-	-	110,500	110,500
Links Bidco S.à.r.l. Propco 4	Gatwick	100%	-	-	75,600	75,600
Links Bidco S.à.r.l. Propco 5	Leeds	100%	-	-	128,100	128,100
Links Bidco S.à.r.l. Propco 6	Leicester	100%	-	-	81,150	81,150
Links Bidco S.à.r.l. Propco 7	Little Aston	100%	-	-	63,450	63,450
Links Bidco S.à.r.l. Propco 9	Portsmouth	100%	-	-	82,800	82,800
Links Bidco S.à.r.l. Propco 10	Roding	100%	-	-	80,700	80,700
Links Bidco S.à.r.l. Propco 11	Southampton	100%	-	-	141,000	141,000
Links Bidco S.à.r.l. Propco 12	Tunbridge Wells	100%	-	-	16,000	16,000
Links Bidco S.à.r.l. Propco 13	Wirral	100%	-	-	32,000	32,000
			-	-	1,132,900	1,132,900

There were no transfers between levels during the year.

Information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value as at 31 December 2018 '£000	Unobservable inputs	Type/Category	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Bristol, Glen	133,050	Initial yield	Strong performer with wide range of services and/or dominant player in the local market	4.50% (2017: 4.50%)	The higher the initial yield the lower the fair value
Bushey	199,200	Initial yield	Strong performer with wide range of services and/or dominant player in the local market	4.50% (2017: 4.50%)	The higher the initial yield the lower the fair value
Edinburgh	127,450	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value
Gatwick	91,150	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.25%)	The higher the initial yield the lower the fair value
Leeds	132,350	Initial yield	Strong performer with wide range of services and/or dominant player in the local market	4.50% (2017: 4.50%)	The higher the initial yield the lower the fair value
Leicester	93,150	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value
Little Aston	72,850	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value
Portsmouth	95,050	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value
Roding	92,600	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value
Southampton	145,700	Initial yield	Strong performer with wide range of services and/or dominant player in the local market	4.50% (2017: 4.50%)	The higher the initial yield the lower the fair value
Tunbridge Wells	18,350	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value
Wirral	36,750	Initial yield	Well established business but with some constraints in growing the business	4.50% (2017: 5.00%)	The higher the initial yield the lower the fair value

11. Investment properties (continued)

Investment properties pledged as security
Investment properties with a market value of £1,237,650,000 (2017: £1,132,900,000) have been pledged to secure borrowings of the Group (note 15). The investment properties have been pledged as security for bank loans under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

12. Derivative financial instruments

	2018 '£000	2017 '£000
Derivatives designated and effective as hedging instrument carried at fair value		
Interest rate swap valuation	(5,700)	(12,088)
	(5,700)	(12,088)
Movement in derivative designated as hedging instruments		
Opening balance	(12,088)	(19,948)
Movement for the year	6,388	7,860
Closing balance	(5,700)	(12,088)
Movement in cash flow hedging reserve		
Opening balance	(8,831)	(15,383)
Movement for the year	5,516	6,552
Closing balance	(3,315)	(8,831)

The Group is not netting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements.

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings by swapping all of those borrowings from floating rates to fixed rates. Currently, the Group has contracts with an aggregate nominal value of £540,000,000 (2017: £540,000,000) split between Standard Chartered Bank for £205,659,260 (2017: £205,659,260), DBS Bank Ltd for £93,600,000 (2017: £93,600,000), Sumitomo Mitsui Banking Corporation for £120,370,370 (2017: £120,370,370) and Oversea-Chinese Banking Corporation for £120,370,370 (2017: £120,370,370). The previous contract of £540,000,000 was entered on 31 December 2015 solely with Standard Chartered Bank. During March 2016, the contract was amended and was split between the four counterparties mentioned above. The Group pays fixed interest at a rate of 1.5987% for years up until 2020 and receive floating interest at 3 months GBP Libor.

The interest rate swaps settle on a quarterly basis for floating and fixed rate interest. The Group will settle the difference between the fixed and floating interest rate on a net basis. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings.

The fair values of the derivative financial instruments are determined by the holder of the instrument calculated based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non optional derivatives. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. These valuation techniques maximise the use of observable market data, such as Bank of England's Limited Price Indexation. Accordingly, the fair valuation of the swaps is deemed to be Level 2.

13. Trade and other receivables

	2018 '£000	2017 '£000
Amounts falling due within one year:		
Other debtors and prepayments	1,062	896
Intercompany receivable	1,780	1,360
	2,842	2,256

14. Cash and cash equivalents

	2018 '£000	2017 '£000
Deutsche Bank AG	7	644
Standard Chartered Bank	4,900	4,216
RBS International	-	-
	4,907	4,860

The following table is a summary of the banking institutions' credit rating per Moody's Credit Rating Agent as at reporting date:

Banking institution	2018	2017
Deutsche Bank AG	A3	A3
Standard Chartered Bank	A1	A1
RBS International	Baa2	-

Deutsche International Corporate Services Limited and Deutsche Bank Luxembourg S.A. are subsidiaries of Deutsche Bank AG.

15. Loan payable

	2018 '£000	2017 '£000
Bank loan	529,160	533,455
Intercompany loan:		
Interest bearing loan	202,161	207,043
	731,321	740,498
The loan payable is split as follows:		
Current	-	-
Long term	731,321	740,498
	731,321	740,498

On 14 January 2013, the Group entered into a bridging Senior Loan Term Facility Agreement with Standard Chartered Bank with a total commitment of £405,000,000. The loan was assigned to the different Links Propcos on 15 March 2013 with a maturity date of 17 July 2018 with an interest at a margin of 1.85% per annum, Libor and any mandatory cost. On 19 April 2013, the Group entered into a Senior Term Loan Facility Agreement of £405,000,000 to take out a new loan and repay the bridging facility. The maturity date of this Senior Term Loan Facility was 30 April 2018. On 31 December 2015, The Group entered into a new facility agreement pursuant to which the facility amount was increased to £540,000,000 with a maturity date of 31 December 2020. On 31 March 2016, there was a syndication of the loan and new lenders (together "the lenders") acceded to the facility. The amount of £540,000,000 was split between Standard Chartered Bank for £115,000,000 (2017: £115,000,000), DBS Bank Ltd for £130,000,000 (2017: £130,000,000), Sumitomo Mitsui Banking Corporation for £130,000,000 (2017: £130,000,000), Oversea-Chinese Banking Corporation Limited for £130,000,000 (2017: £130,000,000) and Sumitomo Mitsui Trust Bank Limited for £35,000,000 (2017: £35,000,000).

The loan is secured against the investment properties and shall be repaid in full on the Termination date. The Group pays accrued interest on the loan on each interest payment date at a rate of Margin of 1% + LIBOR. Accrued interest that remain unpaid as at the interest payment date are capitalised. There have been no breaches in borrowing covenants in the year.

On 17 January 2013, the Group entered into an Interest Bearing Loan Agreement with Links Holdings LP for an amount of £228,031,659. The loan has a maturity date of 31 December 2020. The loan bears interest of a margin of 11.50% per annum less an applicable margin. The applicable margin was 17.46bps up to 15 March 2013 and 15.42bps after 15 March 2013. The applicable margin changed to 16.23bps as from 1 January 2016 and to 26.00bps as from 1 January 2017. The applicable margin remained at 26.00bps as from 1 January 2018. The loan is repayable at any time at the option of the Group. On 29 October 2013, the Group entered into another agreement to increase the interest bearing loan by £4,978,070. This additional loan bears the same conditions. On 31 December 2015, £18,630,857 of the loan was repaid following the refinancing of the bank loan. On 31 March 2016, a further £3,779,191 was repaid while there was an increase of £1,166,862 to the loan on 31 August 2016. On 30 December 2016, a further £339,925 of the loan was repaid. On 18 December 2017, the loan was reduced by £1,948,078 and a further £2,435,103 on 29 December 2017. Refer to note 17 for related party transactions.

On 17 January 2013, the Group entered into an Interest Free Loan Agreement with Links Holdings LP for an amount of £74,899,696. The loan has a maturity date of 17 January 2113. The loan does not bear any interest. On 29 October 2013, the Group entered into another agreement to increase the interest free loan by £25,021,930. The whole of the interest free loan was repaid on 31 December 2015 following the financing of the bank loan. On 31 August 2016, an additional amount of £4,940,119 was contracted as an interest free loan and on 30 December 2016, £1,917,790 was repaid. On 18 December 2017, as part of Bidco's recapitalisation exercise, the whole amount was reduced to nil. On 31 December 2018 the loan amount was £nil (2017: £nil).

Based on the director's assessment the accounting for certain modifications and exchanges of financial liabilities measured at amortised cost changed on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 Financial Instruments. In preparing its opening for the statement of financial position, the Company has adjusted amounts reported previously in the loan notes in accordance with IAS 39. An explanation of how the transition from IAS 39 to IFRS 9 has affected the Company's statement of financial position is set out in note 25.

15. Loan payable (continued)

During the year, interest of £14,391,602 (2017: £9,330,271) accrued on the loan of which £2,310,685 relates to the calculation of EIR after adopting IFRS 9 while the amount of £9,112,690 (2017: £7,197,004) was paid by the Group. The unpaid interest of £5,278,912 (2017: £2,133,267) has been capitalised to the loan amount.

The Company refinanced its bank borrowings on 31st December 2015 when it had a policy of not recognising a gain or loss as a result of a non-substantial modification under IAS 39. Under IFRS 9, a gain or loss should be recognised at the time of such non-substantial modification (and this change in accounting policy will need to be applied retrospectively). As at 1 January 2018, the SCB loan includes refinancing gain and refinancing costs as part of the net loan balance. The carrying amount of bank borrowings under IAS 39 on 1 January 2018 is £533,454,684. Based on the director's assessment, under IFRS 9, the carrying amount of the bank borrowings on 1 January 2018 would have been £523,881,350. Therefore, at the date of initial application of IFRS 9 (1 January 2018), the Company adjusted the carrying amount of bank borrowings to £523,881,350 and recognised the corresponding adjustment of £9,573,334 in opening retaining earnings for the financial year 2018.

During the year ended 31 December 2018, there was a repayment of £4,882,128 (2017: £2,435,103) of the intercompany loan with Links Holdings LP.

16. Other payables

	2018 '£000	2017 '£000
Current liabilities:		
Rent received in advance	11,902	11,492
Other payables	1,588	942
	13,490	12,434

Rent received in advance include £11,901,654 (2017: £11,491,989) of quarterly rents received in advance. The fair value of other payables approximates their carrying value above.

17. Related party transactions
Transactions during the year between the Group and the related parties are shown below:

Up to 29 September 2018, Deutsche International Corporate Services Limited acted as administrator to the Company. Deutsche International Corporate Services Limited was a related party by virtue of common directors in certain of the underlying subsidiary companies in the Group. Following its acquisition of Deutsche International Corporate Services Limited on 30 September 2018, Vistra Secretaries Limited was appointed as administrator to the Company. During the year fees of £24,200 (2017: £34,000) were payable in respect of corporate services provided to the Group, including the provision of directors. Vistra Secretaries Limited is a related party by virtue of common directors in certain of the underlying subsidiary companies in the Group.

Up to 11 August 2018, Deutsche Bank Luxembourg S.A. provided corporate services to the Group and its Luxembourg subsidiaries, including the provision of directors. Deutsche Bank Luxembourg S.A. was a related party by virtue of common directors to the Luxembourg subsidiary companies. Following its acquisition of Deutsche Bank Luxembourg S.A. on 12 August 2018, Vistra (Luxembourg) Sàrl. was appointed as administrator to the Company. Vistra (Luxembourg) Sàrl. is a related party by virtue of common directors to the Luxembourg subsidiary companies. During the year fees of £143,635 (2017: £135,488) were paid in respect of corporate services provided to the Group and its Luxembourg subsidiaries, including the provision of directors. The fees are included under trustee fees in note 6.

During the year interest of £27,086,661 (2017: £23,794,797) was paid to Links Holdings LP in respect of interest on loan received. Interest expense for the year is shown as interest on intercompany loan in note 7, which amounted to £23,323,000 (2017: £23,755,000).

During the year dividends of £9,352,000 (2017: £9,150,000) were paid to Links Holdings LP as disclosed in the Statement of Changes in Equity. Out of 9,352,000 the £1,870,394 (2017: £1,830,006) related to withholding tax.

During the year investment deed fees of £5,400,000 (2017: £5,400,000) were paid to Kwasa Global (Jersey) Limited in respect of investment deeds provided to the Group and its Luxembourg subsidiaries. Refer to note 6.

As disclosed in note 14 to the financial statements the Group also holds bank accounts with Deutsche Bank International Limited and Deutsche Bank Luxembourg S.A. which are both subsidiaries of Deutsche Bank AG.

Significant balances outstanding between the related parties in the group are shown below.

At 31 December 2018, loans from Links Holdings LP were held for £202,161,309 (2017: £207,043,437) as disclosed in note 15.

17. Related party transactions (continued)
At 31 December 2018, the intercompany payable to Links Holdings LP by the Group amounted to £450,000 (2017: £160,000) as disclosed in the Consolidated Statement of Financial Position. The amount due to Links Holdings LP is interest free and repayable on demand.

None of the above balances are secured. All of the above transactions are made on terms equivalent to those that prevail in arm's length transactions.

18. Called up share capital and share premium

(a) Called up share capital

Summary at 31 December:

	2018	2017
	£	£
Opening share capital	547.14	50.10
Share capital issued	-	497.04
Closing share capital at 31 December	547.14	547.14

The authorised share capital consists of 100,000 shares of £0.01 each. As at 31 December 2018, 54,714 (2017: 54,714) shares were issued amounting to £547.14 (2017: £547.14).

(b) Share premium

Summary at 31 December:

	2018	2017
	'£000	'£000
Opening share capital	5,470	500
Share capital issued	-	4,970
Closing share capital at 31 December	5,470	5,470

(c) Legal reserve

Summary at 31 December:

	2018	2017
	'£000	'£000
Opening legal reserve	14	14
Allocation of legal reserve	-	-
Closing share capital at 31 December	14	14

Further to the shareholder's meeting held during 2014, it was decided to allocate the maximum allowable legal reserve of 10% of the subscribed capital from the profit for the period ended 31 December 2013.

(d) Cash flow hedging reserve

Summary at 31 December:

	2018	2017
	'£000	'£000
Opening cash flow hedging reserve	(8,831)	(15,383)
Swap fair value movement	5,516	6,552
Opening cash flow hedging reserve	(3,315)	(8,831)

The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of the derivative financial instruments (such as floating to fixed interest rate swaps) used in cash flow hedge pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

19. Operating leases

The Group as lessor
The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	2018	2017
	'£000	'£000
Not later than one year	58,693	56,673
Later than one year but not later than five years	234,772	226,847
Later than five years	1,113,561	1,132,680
Total	1,407,026	1,416,200

Notes to the financial statements (Continued)
For the year ended 31 December 2018

20. Cash generated from operations

	2018 '£000	2017 '£000
Profit before tax	114,296	104,019
Adjustments for:		
Finance costs	41,783	38,605
Fair value movement on investment properties	(104,750)	(93,300)
Changes in working capital		
Increase in other receivables	3,431	(75)
Increase in other payables	702	232
Net cash generated from operations	55,462	49,481

21. Directors' remuneration
No emoluments were granted to the Directors during the year ended 31 December 2018 (2017: £nil).

22. Contingent liabilities
There were no contingent liabilities for the Group and its operations as at 31 December 2018. Refer to note 11 for details of "Investment properties pledged as security" for the Standard Chartered loan facility.

23. Non-controlling interest
There were no non-controlling interest for the Group as at 31 December 2018 as all the subsidiaries are 100% owned.

24. Post balance sheet events
There are no material post balance sheet events up to the date of approval of these financial statements.

25. Controlling party
The ultimate controlling party is the Employees Provident Fund, of Bangunan KWSP, Jalan Raja Laut, 50350, Kuala Lumpur, Malaysia.

25. Explanation of transition from IAS 39 to IFRS 9
As stated in note 1, these are the Group's first financial statements prepared in accordance with IFRS 9.
The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2018.
The last financial statements under IAS 39 were for the year ended 31 December 2017 and the date of transition to IFRS 9 was therefore 1 January 2018. As a consequence of adopting IFRS 9, the bank borrowings has changed to comply with the accounting policy.

In preparing the opening bank borrowings balance in the consolidated statement of financial position and the Consolidated statement of changes in net assets attributable to the Partners for the year ended 31 December 2017, the Group has adjusted amounts reported previously in the financial statements prepared in accordance with IAS 39. An explanation of how the transition from IAS 39 to IFRS 9 has affected the Group's Consolidated statement of financial position and the consolidated statement of changes in net assets attributable to the Partners is set out in the table below.

Under IAS 39, the refinancing gain and refinancing costs as part of the net loan balance of the SCB loan and the carrying amount of bank borrowings at 1 January 2018 amounted to £533,454,684. Based on the IFRS 9 assessment performed by the Directors, the carrying amount of the bank borrowings at 1 January 2018 amounted to £523,881,350. Thus, the carrying amount of bank borrowings at 1 January 2018 was adjusted to £523,881,350 and £9,573,334 was recorded within the retained earnings at 1 January 2018.

As from financial year 2018, the effective interest rate on the loan will be higher and hence the interest expense will increase.

	1 January 2018 IAS 39 '£000	Adjustment '£000	1 January 2018 IFRS 9 '£000
Consolidated statement of financial position			
Non-current liabilities			
Bank borrowings	533,455	(9,573)	523,882
Consolidated statement of changes in net assets attributable to the Partners			
Accumulated profit	-	9,573	9,573