Sapphire (Burnley) Nominee Limited

Annual report and financial statements
for the year ended 31 December 2019

Company Registration No 4139738 (England and Wales)

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Sapphire (Burnley) Nominee Limited

Annual report and financial statements
for the year ended 31 December 2019

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Sapphire (Burnley) Nominee Limited

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Management and Administration

Directors
Yves Barthels
Romain Delvert
Jean-Philippe Fiorucci

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Auditor
Ernst & Young LLC
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Sapphire (Burnley) Nominee Limited

Directors' Report
for the year ended 31 December 2019

The Directors have pleasure in presenting their report and the financial statements of Sapphire (Burnley) Nominee Limited (the "Company") for the year ended 31 December 2019.

Principal activity

Sapphire (Burnley) Nominee Limited was incorporated as a private limited company in the United Kingdom on 11 January 2001 under the Companies Act 1985.

The Company's principal activity has continued to be that of holding investment property in the United Kingdom during 2019.

Result and distributions for the year

The result for the year is set out in the Statement of Comprehensive Income on page 7 of the financial statements.

No distributions were proposed, approved or paid during the year (2018: £nil).

Going concern

As at 31 December 2019, the Company had net liabilities of £16,271,453 (2018: net liabilities of £7,662,019). The Directors have made sufficient enquires and completed the going concern review of the Company and have noted the following points:

1) In previous reporting periods, the Company had received written confirmation of support from the Directors of EPISO Holdings 15 Sarl (the immediate parent company) that they would be willing to provide such funds as necessary to the Company to continue in operation. Upon making enquiries, the Company has not received the same written confirmations of support from EPISO Holdings 15 Sarl for the current reporting period.

2) On the 22 May 2018, the Ultimate Parent, European Property Investors Special Opportunities LP, reached the end of its life in accordance with its Limited Partnership Agreement and as a result has now entered in to an orderly liquidation to realize its remaining assets including its investment in the Company. As at the date of approval of these financial statements, it is uncertain whether the company or assets will be sold.

3) The bank loan the Company had in place for the financing of the property matured in April 2020 (note 12). The Company has submitted a request to the lending bank for a 6 month standstill extension of the loan termination date. The option to submit a request to the Lender for the extension of the bank loan repayment date was not available to the Company given that the multiple criteria to submit an extension request were not met by the Company. Discussions remain ongoing with the lending bank, with any such discussions being linked to the sale of the Company or the underlying assets. Interest continues to accrue on this loan whilst discussions continue.

4) As a consequence of the COVID-19 outbreak and the UK government restrictions put in place, delays in collection of rental income from tenants has been seen post year end, resulting in the utilisation of cash reserves to continue to meet the on-going running costs of the Company. Continued delays in rental income collection, alongside the unavailability of new funds, could result in cash reserves being fully depleted.

The directors have concluded that as a result of the above factors that it would be inappropriate for the Financial Statements to be prepared on the going concern basis. The Directors continue to be in close contact with all of the Company's service providers to ensure the continuity of the Company's ongoing operations, assess liquidity, tenant obligations, lending arrangements and the basis for the values and estimates reported in the financial statements and accompanying notes. After making enquiries, the Directors have elected for these financial statements to be prepared on a basis other than going concern.

Sapphire(B urnley) NomineeL imited

Directors' Report
for theye ar ended 31 December 2019(continued)

Directors

The Directors of the Company holding office during the year and through to theda te of this report are:

Y ves Barthels
Jean-Philippe Fiorucci
Romain Delvert

Secretary

Therew as no company secretary in office during the year.

Disclosure of informationt o theau ditors

So far as the Directors at the date of approving this report are aware, there is no relevant audit information, being information needed byt hea uditori n connectionw ith preparing its report, of which the auditor is unaware. The Directorsh ave takena llt he steps theya reob liged to take as Directorsi n order to make themselves awareo f any relevant audit informationa nd toe stablish thatt hea uditor is aware oft hat information.

Subsequent event –C OVID-19

The emergence of the COVID-19 coronavirus in 2020 has had a significant impact on economies and resulted in severe restrictions of movement of people across the United Kingdom. It is likely that this could result in a reduction in the futurev alue of theC ompany's investmentsa nd thisi mpact mayb e material. However, as of the date of approvingt he financials tatements, the Directors areu nablet or eliably measuret he potential impact.

The shopping centre was not subject to any period of closure during the lockdown restrictions imposed by the United Kingdom Government. The Directors are assessing the recoverability of the rental income from the tenants in lightof C OVID-19. TheD irectorsa re unablet or eliably measuret he potential impactt o date.

The Directors continue to be in close contact with all of the Company's service providers to ensure the continuity of the Company's ongoing operations, assess liquidity, tenant obligations, lending arrangements and the basis for the values and estimates reported in the financial statements and accompanying notes. In addition, management are evaluating the impact of a second wave of COVID-19 across the UK could have on the Company.

The Directors havea ssessedt he impact on the financials tatements aso f 31 December 2019 and have concluded COVID-19 to be a non-adjustinge vent.

Appointment ofau ditors

In accordance with s.485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for re-appointment of Ernst &Y oung LLC asa uditor oft he Company.

The accounts have been prepared in accordance with thes pecial provisions oft heC ompanies Act 2006 relating tos mallc ompanies and as such, therei s no need to preparea strategicr eport.

For and onb ehalf of the board

Romain Delvert
Director

31J uly 2020

Sapphire (Burnley) Nominee Limited

Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. In addition, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.* Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for the keeping of proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act. The Directors are also responsible for safeguarding the assets of the Company and hence for taking general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and prevent and detect fraud and other irregularities.

In so far as the Directors are aware:

- there is no relevant information of which the Company's auditors are unaware, and;
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Independent auditor's report to the member of Sapphire (Burnley) Nominee Limited

Opinion

We have audited the financial statements of Sapphire (Burnley) Nominee Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and notes 1 to 18, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – financial statements prepared on a basis other than going concern

We draw attention to note 2 of the financial statements which explains that:

- no further financial support is available from the parent;
- the ultimate parent is currently in liquidation;
- that the external loan expired post yearend; and
- there is current uncertainty around rent collection, which could lead to the full depletion of the cash reserves.

Therefore, the Directors do not consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in note 2. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The directors' report has been prepared in accordance with applicable legal requirements.

Independent auditor's report (continued)
to the member of Sapphire (Burnley) Nominee Limited

Matters on which we are required to report by exception
In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies exemption in preparing the directors' report and from the requirement to prepare a strategic report.

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

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

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

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

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alan Lloyd-Jones (Senior statutory auditor)
For and on behalf of Ernst & Young LLC, Statutory Auditor
Isle of Man
Date: 31 July 2020

Sapphire (Burnley) Nominee Limited

Statement of Comprehensive Income for the year ended 31 December 2019

	Note	2019 £	2018 £
Turnover	4	5,142,491	5,508,489
Property operating expenses		(2,073,173)	(1,948,828)
Total income		**3,069,318**	**3,559,661**
Expenses – continuing operations			
Professional fees and administrative expenses		(323,480)	(425,337)
Asset management fees		(351,718)	(476,078)
Total administrative expenses		**(675,198)**	**(901,415)**
Net operating profit before finance costs		**2,394,120**	**2,658,246**
Interest receivable		340	536
Interest payable and similar charges	6	(2,032,646)	(2,049,099)
Inter-entity receivable balances written off		(39,850)	-
(Loss) / profit on derivative financial instruments at fair value through profit and loss	14	(8,452)	8,452
Net finance expense		**(2,080,608)**	**(2,040,111)**
Change in fair value of investment property	7	(8,829,114)	(21,407,374)
Loss on ordinary activities before taxation		**(8,515,602)**	**(20,789,239)**
Taxation	8	(93,832)	(125,653)
Loss for the financial year & total comprehensive loss		**(8,609,434)**	**(20,914,892)**

As detailed in Note 2 to the financial statements, these financial statements have been prepared on a basis other than going concern.

The notes on pages 11 to 22 form part of these financial statements.

Sapphire (Burnley) Nominee Limited

Balance sheet as at 31 December 2019

	Note	2019 £	2018 £
Fixed assets			
Investment property	2, 7	29,382,754	38,156,702
TOTAL FIXED ASSETS		**29,382,754**	**38,156,702**
Current assets			
Derivative financial instruments	14	-	8,452
Debtors and prepayments	9	1,918,971	2,151,315
Cash & cash equivalents	10	1,086,905	1,362,541
TOTAL CURRENT ASSETS		**3,005,876**	**3,522,308**
Creditors: amounts falling due within one year			
Creditors and accruals	11	(2,973,210)	(3,287,273)
Third party loans	12	(29,336,624)	(1,354,842)
Loans with related entities	13	(16,350,249)	(15,362,924)
TOTAL CURRENT LIABILITIES		**(48,660,083)**	**(20,005,039)**
NET CURRENT LIABILITIES		**(45,654,207)**	**(16,482,731)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**(16,271,453)**	**21,673,971**
Creditors: amounts falling due after more than one year			
Third party loans	12	-	(29,335,990)
TOTAL LONG TERM LIABILITIES		**-**	**(29,335,990)**
NET LIABILITIES		**(16,271,453)**	**(7,662,019)**
Capital and reserves			
Share capital	16	14,482,723	14,482,723
Retained losses		(30,754,176)	(22,144,742)
SHAREHOLDER'S DEFICIT		**(16,271,453)**	**(7,662,019)**

These financial statements have been prepared in accordance with the special provisions applicable to companies subjectt ot he smallc ompanies'r egime.

The notes on pages 11 to 22 form part of thesefi nancial statements.

The financial statementsw ere approved by theB oard of Directors on 31 July 2020

Romain Delvert
Director
Sapphire (Burnley)N ominee Limited
Company number 4139738

Sapphire (Burnley) Nominee Limited

Statement of Changes in Equity
for the year ended 31 December 2019

	Called up Share capital	Profit and loss account	Total
	£	£	£
Balance at 1 January 2018	**14,482,723**	**(1,229,850)**	**13,252,873**
Total comprehensive loss for the year	-	(20,914,892)	(20,914,892)
Balance at 31 December 2018	**14,482,723**	**(22,144,742)**	**(7,662,019)**
Total comprehensive loss for the year	-	(8,609,434)	(8,609,434)
Balance at 31 December 2019	**14,482,723**	**(30,754,176)**	**(16,271,453)**

The notes on pages 11 to 22 form part of these financial statements.

Sapphire (Burnley) Nominee Limited

Cash Flow Statement
for the year ended 31 December 2019

	Note	2019 £	2018 £
Net cash inflow from operating activities	15	**2,578,352**	**3,400,535**
Cash flows from investing activities			
Capital expenditure	7	(43,236)	(1,916,203)
Capitalised lease professional fee expenditure		(31,993)	(60,013)
Net cash outflows used by investing activities		**(75,229)**	**(1,976,216)**
Cash flows generated from financing activities			
Shareholder loans received	13	-	542,769
Bank loans repaid	12	(1,463,000)	(553,129)
Payment of loan arrangement fees		(16,227)	(208,698)
Interest paid and similar charges		(1,296,365)	(967,048)
Payment of Hedge Cap Premium		-	(16,742)
Interest received		340	536
Net cash flows used by financing activities		**(2,775,252)**	**(1,202,312)**
Taxation paid		(3,507)	(329,279)
Net decrease in cash and cash equivalents		**(275,636)**	**(107,272)**
Cash and cash equivalents at beginning of period		1,362,541	1,469,813
Cash and cash equivalents at end of period		**1,086,905**	**1,362,541**
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		1,086,905	1,362,541
Cash and cash equivalents		**1,086,905**	**1,362,541**

The notes on pages 11 to 22 form part of these financial statements.

Sapphire (Burnley) Nominee Limited

Notes to the financial statements for the year ended 31 December 2019

1 **CORPORATE INFORMATION**

Sapphire (Burnley) Nominee Limited was incorporated as a private limited company in the United Kingdom on 11 January 2001 under the Companies Act 1985.

Prior to 24 November 2010, the Company was dormant and had no trading activity.

In August 2010, the parent of the Company, Sapphire Retail Fund Limited (dissolved 30 August 2017), and the Company were placed into administration. Sapphire Retail Fund Limited (dissolved 30 August 2017) assigned the beneficial interest of Charter Walk Shopping Centre in Burnley together with loans payable to various external financiers to the Company. The assignment took place on 24 November 2010, when the principal activity of the Company changed to that of holding investment property in the United Kingdom.

The Company was run by the administrators until 22 March 2011; following this the Company refinanced the property held as per note 12.

The Company's principal activity has continued to be that of holding investment property in the United Kingdom during 2019.

2 **SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year.

Basis of preparation
The Company's financial statements have been prepared on a basis other than going concern in compliance with FRS 102 as it applies to the financial statements of the Company for the year ended 31 December 2019.

Assets and liabilities are recognised in the financial statements where, as a result of past transactions or events, the Company has rights or other access to future economic benefits controlled by the Company, or obligations to transfer economic benefits.

The functional currency of the Company is considered to be Pounds Sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in Pounds Sterling.

Going concern
As at 31 December 2019, the Company had net liabilities of £16,271,453 (2018: net liabilities of £7,662,019). The Directors have made sufficient enquires and completed the going concern review of the Company and have noted the following points:

1) In previous reporting periods, the Company had received written confirmation of support from the Directors of EPISO Holdings 15 Sarl *(the immediate parent company)* that they would be willing to provide such funds as necessary to the Company to continue in operation. Upon making enquiries, the Company has not received the same written confirmations of support from EPISO Holdings 15 Sarl for the current reporting period.

2) On the 22 May 2018, the Ultimate Parent, European Property Investors Special Opportunities LP, reached the end of its life in accordance with its Limited Partnership Agreement and as a result has now entered in to an orderly liquidation to realize its remaining assets including its investment in the Company. As at the date of approval of these financial statements, it is uncertain whether the company or assets will be sold.

2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Going concern (continued)

3) The bank loan the Company had in place for the financing of the property matured in April 2020 (note 12). The Company has submitted a request to the lending bank for a 6 month standstill extension of the loan termination date. The option to submit a request to the Lender for the extension of the bank loan repayment date was not available to the Company given that the multiple criteria to submit an extension request were not met by the Company. Discussions remain ongoing with the lending bank, with any such discussions being linked to the sale of the Company or the underlying assets. Interest continues to accrue on this loan whilst discussions continue.

4) As a consequence of the COVID-19 outbreak and the UK government restrictions put in place, delays in collection of rental income from tenants has been seen post year end, resulting in the utilisation of cash reserves to continue to meet the on-going running costs of the Company. Continued delays in rental income collection, alongside the unavailability of new funds, could result in cash reserves being fully depleted.

The directors have concluded that as a result of the above factors that it would be inappropriate for the Financial Statements to be prepared on the going concern basis. The Directors continue to be in close contact with all of the Company's service providers to ensure the continuity of the Company's ongoing operations, assess liquidity, tenant obligations, lending arrangements and the basis for the values and estimates reported in the financial statements and accompanying notes. After making enquiries, the Directors have elected for these financial statements to be prepared on a basis other than going concern.

Investment property
Investment property is measured at cost in initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal fees and other transaction costs. Any initial and direct professional fees incurred in negotiating and arranging the tenant operating leases are included within the carrying value of investment properties and recognised as an expense on a straight-line basis over the term of the relevant lease that cannot be cancelled by the tenant.

Investment properties for which fair value can be measured reliably without undue costs or effort on an ongoing basis are measured at fair value annually with any change recognised in the Statement of Comprehensive Income.

Financial instruments
Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities
All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial assets or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the Balance Sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Financial assets and liabilities (continued)

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest rate method:

(a) Returns to the holder are (i) a fixed amount; or (ii) a fixed rate of return over the life of the instrument; or (iii) a variable return that, throughout the life of the instrument is equal to a single referenced quoted or observable interest rate; or (iv) some combination of such fixed rate and variable rates, providing that both rates are positive.
(b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
(c) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in relevant taxation or law.
(d) There are no conditional returns or repayment provisions except for the variable rate of return described in (a) and prepayment provisions described in (c).

Debt instruments that are classified as payable or receivable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset or, c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Equity instruments
Equity instruments issued by the Company are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iii) Derivative financial instruments
The Company uses derivative financial instruments to reduce exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. 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.

Cash and cash equivalents
Cash and cash equivalents in the Balance Sheet comprise cash at banks and short term deposits with an original maturity date of three months or less.

2 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Short-term debtors and creditors
Debtors and creditors receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income.

Government grants
Government grants are recognised as deferred income and amortised to the Statement of Comprehensive Income on a systematic basis in accordance with the expected useful life of the assets to which the grant relates to.

Taxation
The charge for taxation is based on the profit for the year as adjusted for disallowable items.

The Company is liable to tax on net rental income derived from investment property located in the United Kingdom at the basic rate of 20% under the Non Resident Landlords Scheme.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination is less/(more) than the value at which it is recognised, a deferred tax liability/(asset) is recognised for the additional tax that will be paid/(avoided) in respect of that difference. Similarly, a deferred tax asset/(liability) is recognised for the additional tax that will be avoided/(paid) because of a difference between the value at which a liability is recognised and the amount that will be assessed for tax. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to the sale of the asset.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease and is included in the financial statements net of VAT. Rental income excludes service charges and other costs directly recoverable from tenants. Surrender premiums received in the period from tenants vacating the property before the end of the lease are included within turnover. Service and management charge revenue is recognised on a gross basis in the accounting period in which the services are rendered.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Investment properties

The preparation of the financial statements requires management to make estimates affecting the reported amounts of assets and liabilities, of revenues and expenses and of gains and losses. As described in note 7, the Company's investment properties are stated at estimated fair value, based on an annual appraisal.

The valuation of the Company's property is inherently subjective due to the number of factors including the individual nature of the property, its location and the expectation of future rentals. As a result, the valuations placed on the property are subject to a degree of uncertainty and are made on the basis of assumptions that may not prove to be accurate particularly in years of volatility or low transaction flow in the market. The estimated market value may differ from the price at which the Company's assets could be sold at a particular time, since actual selling prices are negotiated between willing buyers and sellers. As a result, if the assumptions prove to be false, actual results of operations and realisation of net assets could differ from the estimates set forth in these financial statements, and the difference could be significant.

4 TURNOVER

An analysis of the Company's turnover is as follows:

	2019 £	2018 £
Rental income	3,996,542	4,471,261
Service charge income	1,095,976	990,815
Grant income	49,973	46,413
Total income	**5,142,491**	**5,508,489**

5 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	2019 £	2018 £
Audit fees	12,790	14,698

There were no non-audit services provided to the Company by the auditors during the period therefore no further disclosures are required.

No Director received any remuneration in respect of services rendered to the company during the year (2018: £nil). All Directors are also directors of fellow subsidiary undertakings within the group. The Directors' remuneration for the year is borne by these other undertakings.

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £	2018 £
Amortisation of bank loan fees	105,380	65,277
Bank loan interest charges	966,650	956,705
Loan interest charges	940,150	987,324
Bank and finance charges	20,477	39,435
Other fees	(11)	358
Total interest payable and similar charges	**2,032,646**	**2,049,099**

7 INVESTMENT PROPERTY

	2019 £	2018 £
Cost brought forward	86,465,137	84,497,100
Additions	43,236	1,916,203
Capitalised lease professional fees	11,930	51,834
Cost as at 31 December	**86,520,303**	**86,465,137**
Change in market value brought forward	(48,308,435)	(26,901,061)
Change in market value during the year	(7,711,868)	(20,064,076)
Market value as at 31 December	**30,500,000**	**39,500,000**
Less: lease incentives included in debtors (note 9)	(1,117,246)	(1,343,298)
Fair value for financial reporting purposes as at 31 December	**29,382,754**	**38,156,702**

Notes to the financial statements (continued) for the year ended 31 December 2019

7 INVESTMENT PROPERTY (continued)

The investment property was revalued to fair value at 31 December 2019, based on a valuation undertaken by the Directors.

As set out in note 4, property rental income earned during the year was £3,996,542 (2018: £4,471,261). No contingent rents have been recognised as income in the current year.

The valuation of the investment property is reduced by the total of the unamortised lease incentive debtor balances.

Basis of valuation
No account has been taken of any discount or premium that may be negotiated in the market if the property was to be marketed. The Market Value is based upon the Scope of Work and Valuation Assumptions below, and has been primarily derived using comparable recent market transactions on arm's length terms.

The valuation has been prepared on the basis of "Market Value", which is defined as:
"The estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion".

The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date. No adjustment has been made to this figure for any expenses of acquisition or realisation – nor for taxation which might arise in the event of a disposal. No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charge. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

Where appropriate, the valuer has regarded the shop fronts of retail and showroom accommodation as forming an integral part of the building. Landlord's fixtures such as lifts, escalators, central heating and other normal service installations have been treated as an integral part of the building and are included within our valuations. Process plant and machinery, tenants' fixtures and specialist trade fittings have been excluded from the valuations.

Sapphire (Burnley) Nominee Limited

Notes to the financial statements (continued)
for the year ended 31 December 2019

8 **TAXATION**

With effect 12 September 2011, the Company changed its place of domicile, and therefore its country of tax residence, to Luxembourg. Accordingly, the Company is liable to tax on net rental income derived from investment property located in the United Kingdom at the basic rate of 20% under the Non Resident Landlords Scheme.

The reconciliation between taxable profit or loss at the prevailing rate and the charge per the profit and loss account is as follows:

	2019 £	2018 £
Loss before tax for the year	**(8,515,602)**	**(20,789,239)**
Adjust for:		
- revaluation of investment property	8,829,114	21,407,374
- other disallowable items	138,454	27,047
- interest income	(341)	(536)
Taxable result for the year	**451,625**	**644,646**
UK Income Tax at 20%	90,325	128,929
Luxembourg Tax	3,507	(3,276)
Tax charge for the profit and loss account	**93,832**	**125,653**

9 **DEBTORS AND PREPAYMENTS**

	2019 £	2018 £
Rental and service charge income receivable	134,903	58,407
Other debtors	1,740,482	1,944,121
Inter-entity balances receivable	1	39,851
Prepayments	41,527	42,316
Recoverable VAT	2,058	3,406
Income tax receivable	-	63,214
Total debtors and prepayments	**1,918,971**	**2,151,315**

10 **CASH & CASH EQUIVALENTS**

	2019 £	2018 £
Unrestricted cash		
Cash at bank	1,086,905	1,362,541
Total cash & cash equivalents	**1,086,905**	**1,362,541**

11 CREDITORS AND ACCRUALS

	2019 £	2018 £
Trade creditors	305,651	169,871
Sundry creditors and accruals	138,665	205,134
Deferred government grant	653,614	703,587
Deferred rental income	577,087	569,920
Deferred service charge income	203,570	201,153
Loan interest payable to related parties	620,150	987,324
Bank loan interest payable	164,988	171,058
VAT liability	282,374	279,226
Income tax payable	27,111	-
Total creditors and accruals	**2,973,210**	**3,287,273**

12 THIRD PARTY LOANS

	2019 £	2018 £
Due to Deutsche Pfandbriefbank AG	29,371,253	30,834,253
Less: finance costs on bank loan	(34,629)	(143,421)
Total third party loans	**29,336,624**	**30,690,832**

An analysis of the third party creditors at 31 December 2019 is as follows:

	Less than 1 year £	1 to 2 years £	2 to 5 years £	Total £
Bank loan	29,371,253	-	-	29,371,253
Finance costs	(34,629)	-	-	(34,629)
	29,336,624	-	-	29,336,624

On 16 June 2011 the Company jointly entered into an interest bearing acquisition loan with Deutsche Pfandbriefbank AG for the purposes of financing the acquisition of the investment property and associated costs. Other parties to the loan agreement are Sapphire (Harlow) Nominee Limited and Sapphire QAC Holding Senc. (collectively the "Borrowers").

The total loan facility available to the Company totals £34,137,931. As at 31 December 2019, an amount of £29,371,253 (2018: £30,834,253) has been drawn under the Facility Agreement.

The bank loan matured in April 2020. The Company has submitted a request to the lending bank for a 6 month standstill extension of the loan termination date (see note 18).

Interest is payable on the loan at a variable rate of LIBOR plus a margin of 2.40% per annum. The Company has entered into an interest rate cap transaction on 27 July 2018 to hedge £26,451,365 of the loan (see note 14).

Payment of accrued interest is required to be made at each quarterly interest payment date, together with partial repayments of principal.

12 THIRD PARTY LOANS (continued)

The bank holds a charge securing all assets of the Company. The Borrowers must ensure at all times the interest cover is at least 155% against projected rental income for the next four rental quarters. Additionally, the borrowers must ensure that the loan to value does not exceed 75%. The managers review the loan covenants on a quarterly basis to ensure the information is fully disclosed to the banks and to monitor the covenant positions. At 31 December 2019, the Borrowers have complied with the covenants on the loan. The LTV covenant is 65.36% against the requirement of 75% and the ICR covenant is 261.33% against the requirement of 155%.

13 LOANS WITH RELATED ENTITIES

In March 2011, an interest-bearing loan was made available to the Company from EPISO Holding 15 Sarl. As at 31 December 2019, a balance of £13,148,080 (2018: £12,171,679) is repayable. Interest is charged at 15% per annum on the loan. The loan was due to expire on 31 December 2019, however subsequent to the year-end, the termination date has been extended to 31 December 2021 (see note 18) at which time all outstanding principle and accrued interest shall be due and payable in full. Either party may terminate the loan at any time before 31 December 2021 by giving 10 days' notice to the other party. Under the terms of the loan agreement between the Company and EPISO Holding 15 Sarl, the Company is able to capitalise into the loan principle all interest amounts that remain outstanding for more than 12 months.

In April 2011, an interest-bearing working capital loan was made available to the Company from EPISO Holding 15 Sarl of £72,828, which has been fully drawn. As at 31 December 2019, a balance of £157,169 (2018: £146,245) is repayable. Interest is charged at 15% per annum on the loan. The loan was due to expire on 31 December 2019, however subsequent to the year-end, the termination date has been extended to 31 December 2021 (see note 18), at which time all outstanding principle and accrued interest shall be due and payable in full. Either party may terminate the loan at any time before 31 December 2021 by giving 10 days' notice to the other party. Under the terms of the loan agreement between the Company and EPISO Holding 15 Sarl, the Company is able to capitalise into the loan principle all interest amounts that remain outstanding for more than 12 months.

During 2017, interest free loans in the sum of £795,000 were made available to the Company from EPISO Holding 15 Sarl. A further £1,150,000 was drawn down during the year ended 31 December 2017 and an additional £1,100,000 was drawn down during the year ended 31 December 2018. As at 31 December 2019, a balance of £3,045,000 (2018: £3,045,000) is payable. The loan was due to expire on 31 December 2019, however subsequent to the year-end, the termination date has been extended to 31 December 2021 (see note 18).

At 31 December the loan balance payable to related entities is as follows:

	2019 £	2018 £
EPISO Holding 15 Sarl	16,350,249	15,362,924
Total related party loans	**16,350,249**	**15,362,924**

14 DERIVATIVE FINANCIAL INSTRUMENTS

The carrying value of the derivative financial instruments which are measured at fair value through profit or loss

	2019 £	2018 £
Interest rate caps	-	8,452

Interest rate caps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The Company had entered into interest rate cap agreements to initially hedge £26,451,365 of the loan provided by Deutsche Pfandbriefbank AG, to give a capped LIBOR rate per annum on this element.

The cap contract started on 27 July 2018. The cap terminated on 28 April 2020.

The interest rate cap contract is measured at fair value through profit or loss. A loss of £8,452 (2018: profit of £8,452), was recognised in the Statement of Comprehensive Income during the year.

15 CASH FLOW STATEMENT

Reconciliation of loss for the financial period to cash generated by operations:

	2019 £	2018 £
Loss on ordinary activities before tax	(8,515,602)	(20,789,239)
Adjustment for:		
Decrease in fair value movement of investment property	8,829,114	21,407,374
Interest payable and similar charges	2,032,657	2,049,099
Change in fair value of derivative financial instrument	8,452	(8,452)
Bank interest received	(340)	(536)
Net amortisation of tenant incentives	226,053	60,663
Amortisation of capitalised new lease professional fees	20,063	8,179
Inter-entity balances written off	39,850	-
Operating cash flow before movement in working capital	**2,640,247**	**2,727,088**
(Increase)/decrease in debtors	(96,773)	124,431
Increase in creditors	34,878	549,016
Net cash inflow from operating activities	**2,578,352**	**3,400,535**

16 SHARE CAPITAL

	2019 £	2018 £
Allotted called up and full paid share capital		
14,482,723 ordinary shares of £1 each	14,482,723	14,482,723

17 PARENT UNDERTAKING AND CONTROLLING PARTY

In March 2011, the entire issued share capital of the Company was acquired by EPISO Holding 15 Sarl, a company resident and incorporated in Luxembourg. The ultimate parent undertaking and controlling party of the Company is considered to be European Property Investors Special Opportunities LP, an English Limited Partnership. The smallest and largest group in which the company is consolidated is that headed by European Property Investors Special Opportunities LP.

During the year the company entered into transactions, in the ordinary course of business, with other related parties. Refer to note 13 'Loans with Related Entities' for details of these transactions.

18 SUBSEQUENT EVENTS

1) The emergence of the COVID-19 coronavirus in 2020 has had a significant impact on economies and resulted in severe restrictions of movement of people across the United Kingdom. It is likely that this could result in a reduction in the future value of the Company's investments and this impact may be material. However, as of the date of approving the financial statements, the Directors are unable to reliably measure the potential impact.

   The shopping centre was not subject to a period of closure following the lockdown restrictions imposed by the United Kingdom Government. The Directors are assessing the recoverability of the rental income from the tenants in light of COVID-19. The Directors are unable to reliably measure the potential impact to date.

   The Directors continue to be in close contact with all of the Company's service providers to ensure the continuity of the Company's ongoing operations, assess liquidity, tenant obligations, lending arrangements and the basis for the values and estimates reported in the financial statements and accompanying notes. In addition, management are evaluating the impact of a second wave of COVID-19 across the UK could have on the Company.

   The Directors have assessed the impact on the financial statements as of 31 December 2019 and have concluded COVID-19 to be a non-adjusting event.

2) The bank loan with Deutsche Pfandbriefbank AG (note 12) matured in April 2020. The Company submitted a request to the lending bank in April 2020 for a 6 month standstill extension of the loan termination date. As at the date of signing these financial statements discussions remain ongoing with the lending bank, with any such discussions being linked to the sale of the Company or the underlying assets.

3) The loans with related entities (note 13) matured on 31 December 2019. On 04 June 2020 the Company entered into a number of loan extension agreements with EPISO Holding 15 Sarl to extend the maturity date to 31 December 2021. The provisions of the original loan agreements remain in full force, including that either party may terminate the loan at any time before 31 December 2021 by giving 10 days' notice to the other party.