The Office Group Properties Limited

Report and Financial Statements

Year Ended

31 December 2018

Company Number 07355616

The Office Group Properties Limited

Company Information

Directors	O Olsen G Kataky C Green M Green
Registered number	07355616
Registered office	The Smiths Building 179 Great Portland Street London W1W 5PL
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

The Office Group Properties Limited

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The Office Group Properties Limited

Strategic Report
for the Year Ended 31 December 2018

Introduction

The directors present their strategic report together with the financial statements for the year ended 31 December 2018.

Business overview

The Office Group Properties Limited is an indirect subsidiary of Cheetah Holdco Limited, the indirect parent of the trading entities hereafter referred to as The Office Group (TOG). On 6 July 2017, a majority shareholding was acquired in Cheetah Holdco Limited by Blackstone Real Estate Partners Europe V.

The Office Group (TOG) is London's leading flexible office provider. The market for flexible work space continues to enjoy rapid expansion driven by a combination of technological, economic and behavioural changes. London is at the forefront on this growth, with flexible workspaces now accounting for nearly 5% of total central London office space.

During the year, the Company acquired a further 6 buildings bringing the total number of sites to 26 representing over 1.1m sqft. The Company owns the freehold or long leasehold to 5 of the 26 buildings. The lease commitments have a weighted average unexpired term of 17 years providing a robust and growing income stream for some years to come.

Strategy

TOG's objective is to exploit the market shift across all sizes of business towards more flexible and design-led working environments. The consistent high occupancy, growing revenue and speed of fill up of new buildings indicate the increasing demand for shorter tenure space, in turn challenging the standard form of lease for traditional occupiers. This trend extends to some of the largest businesses in the world which are now demanding shorter-term, and more flexible solutions to their space requirements. Clients also see this flexibility and focus on design as an important element in attracting and retaining high calibre staff. The consensus from leading real estate agents is that over time 20-30% of the overall office market will be made up of flexible workspace.

Results and Dividends

The business performed well during the year with strong mature building occupancy and three new buildings opened during the year which are now fully let. Tintagel House, in Vauxhall, opened at the start of the year after a 2 year extension and comprehensive refurbishment. TOG's largest building to date, at just under 100,000 sqft, it has performed exceptionally well since opening, finishing the year fully occupied and achieving license fees ahead of budget. Revenue grew by £7.1m (9.4%) to £82.4m due to a combination of the 3 new buildings opened in 2018 and the first full year of trading. The closure of Euston Square in 2017 which was subject to a compulsory purchase order by HS2 resulting in a reduction of £4.6m.

Profit from operations decreased by £6m to £31.4m. Excluding the revaluation; and the impact of pre-opening losses of assets under development in 2018, operating profit increased by £1m.

The Company continues to have a significant proportion of its portfolio in development. As these buildings are delivered over the next 12-18 months, the business' trading performance will continue its upward trajectory.

The Directors do not recommend payment of a dividend (2017 - £Nil).

Future

As at the year end, the Company has 9 buildings in development bringing the total number of buildings to 26.

The Company's footprint continues to grow across Central London and the UK with a diverse mix of individually designed buildings.

The demand for TOG's market leading offering continues to increase with Group occupancy of over 95% at the year end. The Group continues to innovate to ensure the offering remains market leading as TOG seeks to selectively acquire the best buildings within the UK and internationally.

Economic Downturn

A significant portion of the Company's costs are fixed which creates a risk to profitability if either occupancy or license fee rates fall. The Company monitors occupancy and license fee rates on a weekly basis. TOG's mixed portfolio of freeholds and leaseholds helps to mitigate this risk to an extent as its EBITDA margins are higher than would otherwise be possible with a pure leasehold model, reducing the exposure to falls in income.

The risk is further mitigated by its aspiration to provide a viable long-term home for businesses as well as its emphasis on central London, the largest flexible office market in the world.

Britain's decision to leave the EU has not had any adverse impact on the business to date. In fact, the Group has found that the economic uncertainty created has increased demand for flexible workspace by clients wishing to avoid long term lease commitments. The Group continues to monitor the situation closely to gauge the effect on the business, the sector and the UK economy.

Client Retention

The majority of clients are bound to commitments of a maximum of 12 months. The Company manages this risk by having a policy of not over-committing to licensing more than 20% of an individual building to one client, having a proactive and early renewals process and staggering the exit of larger clients over several months. The Company is increasingly offering longer term commitments to larger clients, further mitigating the risk of losing clients.

Business Interruption

There is a risk that the business could be adversely affected by major external events which could result in TOG being unable to carry out its business for a sustained period. The Company has business continuity plans and procedures in place and benefits from the growing diversity of its portfolio across London.

Regulatory Risk

The Directors ensure the Company complies with, and where possible is ahead of current regulations. As a matter of policy, the Company compliance checks all clients against leading databases and conducts annual independent audits of clients' files, going further than is currently recommended as industry best practice. Another key area of focus is the requirement to comply with increasing health and safety as well as environmental regulations. This is one of the factors driving the development of the flexible office market due to the increasing administrative burden it forces on small businesses.

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

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C Green
Director

Date: 17 MAY 2019

Directors' Report
for the Year Ended 31 December 2018

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

Principal activity

The principal activity of the Company is that of a provider of flexible office space and related services.

The directors were pleased with the performance of the buildings. The Office Group Properties Limited traded well throughout 2018, maintaining strong occupancy and license fee levels. The Directors believe that the Company will continue to maintain good occupancy levels for the foreseeable future.

Further details of the Company's performance as part of the risk group is given in the group accounts of Cheetah Holdco Limited.

Directors

The directors who served during the year were:

O Olsen
G Kataky
C Green
M Green

Results and dividends

The directors did not declare a dividend in the year (2017 - £Nil).

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The company has net current liabilities of £143m (2017 - £136m) and net assets of £92m (2017 - £65m) which includes intercompany debt of £167m (2017 - £164m) of which £155m is payable to The Office Group Midco Limited, the direct parent of the company. The Office Group Midco Limited financed the capital expenditure in the company by way of external debt. The directors of The Office Group Midco Limited do not intend to call for repayment of the intercompany debt for a period of at least 12 months from the date of this report. The directors, having made appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the company's accounts. In adopting the going concern basis for preparing the financial statements, the directors have considered the entity's principal risks and uncertainties and business review as set out in the strategic report.

Disclosure of information to auditor

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

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

Auditor

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

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

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C Green
Director

Date: 17 MAY 2019

Independent Auditor's Report to the Members of The Office Group Properties Limited

Opinion

We have audited the financial statements of The Office Group Properties Ltd. ("the company") for the year ended 31 December 2018 which comprise the Statement of Profit and Loss and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.
In our opinion the financial statements:

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to Britain exiting the European Union on our audit

Uncertainties related to the effect of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effect are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Directors' report

The directors are responsible for the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

P Barron

Paul Barron (senior statutory auditor)
For and on behalf of KPMG LLP, statutory auditor
Chartered Accountants
15 Canada Square, London, E14 5GL

Date: 20/05/19

The Office Group Properties Limited

Statement of Profit and Loss and Other Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue		**82,381**	75,288
Administrative expenses		**(71,814)**	(56,133)
Other operating income	20	**2,246**	-
Gain on revaluation of investment property	9	**18,611**	18,263
EBITDA		**36,526**	43,193
Depreciation and amortisation		**(5,102)**	(5,775)
Operating profit	7	**31,424**	37,418
Interest receivable and similar income		**31**	18
Interest payable and similar charges	6	**(1,376)**	(1,306)
Profit before tax		**30,079**	36,130
Tax on profit	8	**(3,047)**	(4,610)
Profit for the financial year		**27,032**	31,520
Other comprehensive income		**-**	-
Total comprehensive income for the year		**27,032**	31,520

All activities arise from continuing operations.

The notes on pages 12 to 28 form part of these financial statements.

The Office Group Properties Limited
Registered number: 07355616

Balance sheet
as at 31 December 2018

	Note		2018 £000		2017 £000
Non-current assets					
Property, plant and equipment	9		**314,560**		264,263
Investments	10		**160**		205
			314,720		264,468
Current assets					
Debtors	11	**59,046**		47,843	
Cash and cash equivalents		**16,503**		11,286	
		75,549		59,129	
Creditors: amounts falling due within one year	12	**(218,465)**		(194,826)	
Net current liabilities			**(142,916)**		(135,697)
Total assets less current liabilities			**171,804**		128,771
Creditors: amounts falling due after more than one year	13		**(41,166)**		(29,124)
Other interest bearing loans and borrowings	14		**(24,338)**		(23,814)
			106,300		75,833
Provisions for liabilities					
Deferred taxation	15		**(14,172)**		(10,737)
Net assets			**92,128**		65,096
Capital and reserves					
Share capital	16		**1**		1
Retained earnings			**92,127**		65,095
			92,128		65,096

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

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C Green
Director

Date: 17 MAY 2019 -

The notes on pages 12 to 28 form part of these financial statements.

Statement of Changes in Equity
for the Year Ended 31 December 2018

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	1	33,575	33,576
Comprehensive income for the year			
Profit for the year	-	31,520	31,520
Balance at 31 December 2017	1	65,095	65,096
Comprehensive income for the year			
Profit for the year	-	27,032	27,032
Balance at 31 December 2018	1	92,127	92,128

The notes on pages 12 to 28 form part of these financial statements.

1. General information

The Office Group Properties Limited is a private company, limited by shares, registered in England and Wales. The company's registered number and registered office address can be found on the Company Information page.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements and Financial Reporting Standard 101 Reduced Disclosure Framework. The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The presentation currency used is Pound Sterling and amounts have been presented in round thousands ("£'000s").

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
  - paragraph 79(a)(iv) of IAS 1;
  - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2. Accounting policies (continued)

2.1 Basis of preparation of financial statements (continued)

New effective standards:

- IFRS 9: Financial Instruments (effective 1 January 2018)

The company does not consider the adoption of IFRS 9 to have a significant effect on the classification and measurement of financial assets and financial liabilities.

- IFRS 15: Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, replacing IAS 18 Revenue. The company has adopted IFRS 15 with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018).

The company considers the current basis of revenue recognition to remain appropriate because the accounting policies support the recognition of revenue in line with the performance obligations identified under IFRS 15. Licence fee revenue is recognised when the performance obligation of providing the space to the licensee for occupation is fulfilled. Other service revenue is recognised in the month that the service was delivered. Rent receivable is spread on a straight-line basis over the period of the lease. Therefore the company considers that the initial application of IFRS 15 has no significant change or impact on the company's accounting policies applied on its financial statements.

New and not yet effective standards:

- IFRS 16: Leases (effective 1 January 2019).

IFRS 16 was released in January 2016 and replaces IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard requires all leases (excluding short term and leases of low value items) to be recognised as an asset on the balance sheet, with a corresponding lease liability. Lessees will be required to separately recognise the interest expense on the lease liability and depreciation expense of the right-of-use asset. The directors are currently evaluating the impact of the adoption of this standard on future periods on the treatment of the company's short leasehold properties which are currently being accounted for as operating leases under IAS 17.

2.2 Property, plant and equipment

Property, plant and equipment is initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Fixtures and Fittings	- 20% on cost
Short leasehold properties	- over the period of the lease

2. Accounting policies (continued)

2.3 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax arising as a consequence of investment property carried at fair value is calculated on the basis that the gain/(loss) will be recovered through a sale of the property in line with the Group's business model which is to generate value in the form of capital appreciation.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

2.4 Leasing commitments

The Company recognises ground rents payable on long leasehold properties held as investment properties as finance leases. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the lease term and the corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company ('an operating lease'), the total rents payable are charged to the statement of profit and loss and other comprehensive income on a straight line basis over the lease term.

Lease incentives on short leasehold properties are recognised as a reduction of the rental expense over the lease term on a straight line basis. A rent accrual is recognised for the difference between the lease expense and the amount invoiced.

2.5 Judgements and key areas of estimation uncertainty

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires the Company's directors to exercise judgment in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

2. Accounting policies (continued)

2.6 Going concern

The company has net current liabilities of £143m (2017 - £136m) and net assets of £92m (2017 - £65m) which includes intercompany debt of £167m (2017 - £164m) of which £155m is payable to The Office Group Midco Limited, the direct parent of the company. The Office Group Midco Limited financed the capital expenditure in the company by way of external debt. The directors of The Office Group Midco Limited do not intend to call for repayment of the intercompany debt for a period of at least 12 months from the date of this report. The directors, having made appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for a period of at least 12 months from the date of this report. For this reason they continue to adopt the going concern basis in preparing the company's accounts. In adopting the going concern basis for preparing the financial statements, the directors have considered the entity's principal risks and uncertainties and business review as set out in the strategic report.

2.7 Investment property

Investment property comprises completed property that is held to earn rentals or for capital appreciation or both. Property held under a lease is classified as investment property when it is held to earn rentals or for capital appreciation or both, rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes, professional fees for legal services and other costs incurred in order to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

Investment property under construction is initially measured at cost including transaction costs. Subsequent to initial recognition, investment property under construction is stated at fair value less any costs payable in order to complete.

The fair value is determined by a professional internal valuer. The valuations have been prepared in accordance with the RICS Valuations - Professional Standards January 2017 ("the Red Book"). Factors effecting the valuation include current market conditions, annual rentals, lease lengths and location.

Additions to properties include costs of a capital nature only. Expenditure is classified as capital when it results in identifiable future economic benefits which are expected to accrue to the Company. All other property expenditure is written-off in the statement of profit or loss and other comprehensive income as incurred. Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the statement of profit or loss and other comprehensive income in the year of retirement or disposal.

2.8 Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are carried at cost less any provision for losses arising on impairment.

2. Accounting policies (continued)

2.9 Financial assets

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity.

2.10 Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers e.g. trade receivables, but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairments.

Loss allowances for trade debtors and contract assets are measured at an amount equal to lifetime expected credit losses (ECLs), i.e. the ECLs that result from all possible default events over the expected life of the asset. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information. The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

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

2.11 Financial liabilities

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

2.12 Fair value through profit and loss

Financial liabilities are classified as fair value through profit or loss where the liability is either held for trading or is designated as held at fair value through profit or loss on initial recognition. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. The company does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

2. Accounting policies (continued)

2.13 Other financial liabilties

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.
- Loans from group companies are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method. The difference between the fair value of the loan on initial recognition and the amount of the proceeds is credited directly to equity as a capital contribution.

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.15 Revenue

Revenue comprises rent and license fees in relation to the provision of office space, as well as ancillary charges for additional services including telephone, IT, other support services and meeting rooms. Revenue is recognised exclusive of VAT on an accruals basis.

Licence fee revenue and IT are billed monthly in advance and recognised when the performance obligations of providing the space and IT access to the licensee are fulfilled. Revenue is recognised over time as the services are provided. For the provision of other ancillary charges and meeting rooms, revenue is recognised at a point in time, as and when the performance obligation of providing the service or meeting room to the customer has been fulfilled. Rent receivable is spread on a straight-line basis over the period of the lease. When the billing profile is not uniform this results in a balance of accrued or deferred income at each reporting date until the licence term is complete.

The directors are of the opinion that the company is engaged in a single segment, being the investment in and operation of flexible workspaces in the UK only. This has been assessed in accordance with IFRS 15.

2.16 Borrowing costs

Interest incurred on group borrowings used to fund the construction or production of an asset that necessarily takes a substantial amount of time to get ready for intended use are capitalised as part of the cost of that asset, net of interest received on cash drawn down yet to be expended. The Company does not incur any other interest costs that qualify for capitalisation.

Other interest payable is recognised in the profit or loss as it accrues, using the effective interest method.

3. Critical accounting estimates and judgements

The Company makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Fair value measurement

The fair value measurement of the Company's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

- Level 1: Quoted prices in active markets for identical items (unadjusted)
- Level 2: Observable direct or indirect inputs other than Level 1 inputs
- Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Company measures investment property at fair value using level 3 unobservable inputs.

Fair valuation of investment property

The market value of investment property is determined, by either an internal or external real estate valuation expert, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation expert used the recognised valuation techniques and the principles of both IAS 40 and IFRS 13.

The valuations have been prepared in accordance with the Royal Institute of Chartered Surveyors Valuation - Professional Standards January 2017 ("the Red Book"). Factors reflected include current market conditions, annual rentals and location.

No critical accounting judgements are identified.

4. Employees

There were no employee costs for the year ended 31 December 2018 nor for the year ended 31 December 2017 as these costs are borne by The Office Group Islington Limited, a fellow group entity.

5. Directors' remuneration

	2018 £000	2017 £000
Wages and salaries	**1,600**	1,976
Social security contributions and similar taxes	**302**	322
Pension costs	**40**	28
	1,942	2,326

The aggregate of remuneration of the highest paid director was £632,000 (2017 - £671,000), including pension contributions of £15,000 (2017 - £15,000).

6. Interest payable and similar charges

	2018 £000	2017 £000
Finance lease interest	**1,376**	1,306

7. Profit before taxation

The profit before taxation is stated after charging:

	2018 £000	2017 £000
Depreciation of tangible fixed assets	**5,102**	5,775
Auditors' remuneration	**40**	32
Operating lease expense	**34,764**	25,005

8. Taxation

	2018 £000	2017 £000
Analysis of tax expense		
Current tax on profits for the year	-	1,352
Adjustments in respect of previous periods	(388)	(14)
	(388)	1,338
Total current tax	(388)	1,338
Deferred tax		
Adjustments to prior periods	(481)	52
Changes to tax rates	-	3,220
Orgination and reversal of timing differences	3,916	-
Total deferred tax	3,435	3,272
Total tax expense in statement of profit and loss and other comprehensive income	3,047	4,610

Factors affecting tax charge for the year

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

	2018 £000	2017 £000
Profit on ordinary activities before tax	30,079	36,130
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 19.25%)	5,715	6,955
Effects of:		
Expenses not deductible for tax purposes	1,083	1,271
Adjustments to tax charge in respect of prior periods	(869)	38
Short term timing difference leading to an increase in taxation	1,207	995
Other timing differences leading to a decrease in taxation	(1,667)	(1,421)
Income not taxable for tax purposes	(4,335)	(3,967)
Capital gains	2,868	2,461
Group relief unpaid	(955)	(1,722)
Total tax charge for the year	3,047	4,610

8. Taxation (continued)

Factors that may affect future tax charges

A reduction in the UK Corporation Tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. A deferred tax rate of 17% has been applied to the unrealised gains on the investment properties as the directors do not intend to sell the property and realise the gains in the foreseeable future.

9. Property, plant and equipment

	Investment property £000	Short-term leasehold property £000	Fixtures and fittings £000	Assets under construction £000	Total £000
Cost					
At 1 January 2018	**124,390**	**43,890**	**10,833**	**93,479**	**272,592**
Additions	**7,266**	**17,108**	**2,559**	**9,854**	**36,787**
Transfers between classes	**53,308**	**-**	**-**	**(53,308)**	**-**
Revaluations	**18,611**	**-**	**-**	**-**	**18,611**
At 31 December 2018	**203,575**	**60,998**	**13,392**	**50,025**	**327,990**
Depreciation					
At 1 January 2018	**-**	**4,180**	**4,148**	**-**	**8,328**
Charge for the year	**-**	**2,545**	**2,557**	**-**	**5,102**
At 31 December 2018	**-**	**6,725**	**6,705**	**-**	**13,430**
Net book value					
At 31 December 2018	**203,575**	**54,273**	**6,687**	**50,025**	**314,560**
At 31 December 2017	124,390	39,710	6,684	93,479	264,263

9. Property, plant and equipment (continued)

The difference between the historical cost amount and balance sheet amount of investment property is £72,137,000 (2017 - £53,526,000).

The investment properties were revalued at 31 December 2018 by C Green MRICS, a director of the company and chartered surveyor. There are currently no obligations to purchase, construct, or develop the investment properties.

During the year £17,089,000 (2017 - £9,151,000) was recognised in the statement of profit and loss and other comprehensive income in relation to rental income from the investment properties. Direct operating expenses, including repairs and maintenance, arising from investment property that generated rental income amounted to £3,273,000 (2017 - £2,334,000).

At 31 December 2018, there were no restrictions on the realisability of investment property or the remittance of income and proceeds of disposal (2017 - none).

As at the year end, the company had £Nil capital commitments (2017 - £Nil),

10. Investments

	Shares in and loans receivable from group undertakings
	£000
Cost	
At 1 January 2018	**205**
Repayment of loan investment	**(45)**
At 31 December 2018	**160**
Net book value	
At 31 December 2018	**160**
At 31 December 2017	205

On 14 February 2018 the company acquired the minority shareholding in TOG Fitness Limited, at which point it became a wholly owned subsidiary. TOG Fitness Limited repaid a portion of its loan due to the company resulting in a reduction of £45,000 in the investment.

10. Investments (continued)

The Company's investments at the Balance Sheet date in the share capital of companies include the following:

Subsidiaries

EOP DL Limited
Nature of business: Flexible office provider

Class of shares:	% holding
Ordinary	100.00

TOG Fitness Limited
Nature of business: Fitness provider

Class of shares:	% holding
Ordinary	100.00

Creative Debuts Limited (a)
Nature of business: Artwork sale and rental

Class of shares:	% holding
Ordinary	51.20

All of the Company's subsidiary investments are held directly.

Joint venture

At period end the Company held a 50% interest in the following joint venture:

Name	**Country of Incorporation**	**% ownership**	**Principal activity**
The Station Office Network LLP	England and Wales	50	Flexible office provider

All subsidiaries and joint venture have the same registered office as the Company, 179-185 Great Portland Street, London, W1W 5PL.

(a) The company sold its investment in Creative Debuts Limited on 31 January 2019.

The Office Group Properties Limited, an indirect subsidiary of the company, has a 50% interest in the capital of The Station Office Network LLP, a Limited Liability Partnership registered in the United Kingdom.

	Aggregate of share capital and reserves £000	**Profit £000**
The Station Office Network LLP	**8,236**	**3,094**

11. Debtors

	2018 £000	2017 £000
Trade debtors	**1,434**	659
Amounts owed by group undertakings	**31,759**	26,161
Other debtors	**13,622**	14,676
Prepayments and accrued income	**12,231**	6,347
	59,046	47,843

All of the amounts owed by group undertakings are repayable on demand.

12. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Trade creditors	**198**	2,069
Amounts owed to group undertakings	**177,899**	166,583
Amounts owed to joint venture	**988**	627
Corporation tax	**120**	516
Other taxation and social security	**3**	21
Finance leases	**767**	767
Other creditors	**25,694**	15,064
Accruals and deferred income	**12,796**	9,179
	218,465	194,826

All of the amounts owed to group undertakings are repayable on demand.

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

	2018 £000	2017 £000
Other creditors	**41,166**	29,124

Other creditors falling due after more than one year relate to the non-current portion of the rent free accrual.

	2018 £000	2017 £000
Maturity of debt:		
Within one year	**1,865**	1,443
Between 1-5 years	**13,342**	8,665
Over 5 years	**25,959**	19,016
	41,166	29,124

14. Other interest bearing loans and borrowings

	2018 £000	2017 £000
Non current borrowings		
Finance leases	**24,338**	23,814

Finance leases relate to future ground rents payable on long leasehold assets discounted to present value.

The future lease payments are due as follows:

	Minimum lease payments £000	Interest £000	Present value £000
2018			
Not later than one year	**808**	41	767
Between one year and five years	**3,136**	319	2,817
Later than five years	**116,246**	94,725	21,521
	120,190	95,085	25,105

14. Other interest bearing loans and borrowings (continued)

	Minimum lease payments £000	Interest £000	Present value £000
2017			
Not later than one year	**808**	41	767
Between one year and five years	**3,232**	330	2,902
Later than five years	**116,958**	96,046	20,912
	120,998	96,417	24,581

Leasing agreements

	Non-cancellable operating leases 2018 £000	2017 £000
Within one year	**26,350**	24,759
Between one and five years	**153,611**	157,389
In more than five years	**557,167**	385,854
	737,128	568,002

15. Deferred taxation

	2018 £000	2017 £000
At beginning of year	**(10,737)**	(10,737)
Charged to profit or loss	**(3,435)**	-
At end of year	**(14,172)**	(10,737)

15. Deferred taxation (continued)

The provision for deferred taxation is made up as follows:

	2018 £000	2017 £000
Accelerated capital allowances	**(3,850)**	(3,254)
Capital gains	**(10,322)**	(7,757)
Loan relationship asset	**-**	274
	(14,172)	(10,737)

16. Share capital

	2018 £000	2017 £000
Allotted, called up and fully paid		
1,000 (2017 - 1,000) Ordinary shares of £1.00 each	**1**	1

17. Ultimate parent company and control

The Company is a subsidiary undertaking of Cheetah-Wild Holdco Limited which is the ultimate parent Company incorporated in Jersey.

The largest Group in which the results of the company are consolidated is that headed by Cheetah Holdco Limited, registered in the United Kingdom. The smallest Group in which the Company is consolidated is that headed by The Office Group Midco Limited registered in the United Kingdom.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. Copies of the Group financial statements of Cheetah Holdco Limited will be available on request from the company's registered office, 35 Great St Helen's, London, United Kingdom, EC3A 6AP. Copies of the Group financial statements of The Office Group Midco Limited will be available on request from the company's registered office, 175-189 Great Portland Street, London, W1W 5PL.

18. Contingent liabilities

The assets of The Office Group Properties Limited have been pledged as security for the group bank loans held by The Office Group Holdings Limited and TOG UK Mezzco Limited. At 31 December 2018, the total group bank loan was £343,651,000 (2017 - £194,102,000).

19. Related party transactions

Included within creditors is a working capital balance of £987,589 (2017 - £627,320) owed to The Station Office Network LLP and £360,269 (2017: £669,607) of expenses were incurred by the partnership on behalf of the company in the year. The company holds a 50% interest in the partnership.

On 14 February 2018 the company acquired the minority shareholding in TOG Fitness Limited, at which point it became a wholly owned subsidiary. During the period it was partially owned, expenses of £13,338 (2017 - £81,678) were incurred on behalf of TOG Fitness Limited and the company received income of £589 (2017 - £5,000).

The company sold its 51% interest in Creative Debuts on 31 January 2019. During 2017, the company purchased loan notes issued by Creative Debuts limited amounting to £55,152, which remain outstanding at 31 December 2018. Interest accrued in the year amounted to £11,471 (2017 - £8,139) and this remains unpaid at the year end. The company paid expenses of £11,116 (2017 - £77,371) on behalf of Creative Debuts Limited and received income of £6,250 (2017 - £3,750). At the accounting date, £28,930 (2017 - £10,630) was due from Creative Debuts to the company.

20. Events after the reporting date

In 2017 the company's leasehold interest in Euston Square was subject to a compulsory purchase order in relation to the High Speed Rail Bill. The company received some compensation for this loss of business in 2019 amounting to £2m which represents 90% of the undisputed claim amount. This was treated as an adjusting post-balance sheet event and an amount of £2.2m representing 100% of the undisputed element was recorded in other income in 2018, being the value considered reliably measurable and certain to be recovered as at year end date. The company expects to receive further compensation however a reliable estimate is unable to be determined, therefore a contingent asset is not recognised at the year end date.

On 31 January 2019, the company sold its 51% interest in Creative Debuts Ltd. Creative Debuts has not been disclosed as a discontinued operation on the basis of its financial insignificance to the company.