

VIRTUS IMH Limited

Report and financial statements

Year Ended

31 December 2019

Registered number: 08035414



VIRTUS IMH Limited

Report and financial statements for the year ended 31 December 2019

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Country of incorporation of parent company

United Kingdom

Legal form

Limited Company

Principal place of business of Company

United Kingdom

Directors

Daryl Robert Leslie Seaton
Neil David Cresswell
Jonathan Allen King
Bruno Lopez
Nelson Lim Yueh Hua
Nicholas Toh Lik Hau

VIRTUS IMH Limited

**Report and financial statements
for the year ended 31 December 2019**

Registered office

Kent House, 14-17 Market Place, London W1W 8AJ

Company number

08035414

Auditor

KPMG LLP, 2 Forbury Place, 33 Forbury Road, Reading, RG1 3AD

VIRTUS IMH Limited

Strategic report for the year ended 31 December 2019

Strategic report

The directors present their annual report and the audited financial statements for VIRTUS IMH Limited ('the Company') for the year end 31 December 2019. The results of the Company are consolidated into VIRTUS Holdco Limited (the "Group") and the principal business of the Group is the provision of co-location services within the data centres to customers.

Principal activities and future developments

During the year ended 31 December 2019 the Company's principal activity was to act as a holding company of data centre owning and operating companies within the VIRTUS Group. However, following the refinancing by the Group of its existing SN1 bank facility in April 2020, it is the intention of the directors to liquidate the Company following the settlement of the remaining net assets. The directors have therefore not prepared the financial statements on a going concern basis. The effect of this is explained in note 1.

Business review

The directors are satisfied with the performance of the Company during the year.

Key performance indicators ("KPIs")

As the purpose of the Company is to support other Group entities, it is the opinion of the directors that, other than those set out in the profit and loss account for the year, there are no key performance indicators for the Company whose disclosure is necessary for an understanding of the development, performance or position of the business.

Financial result

The financial results of the Company are summarised below:

- Profit before tax for the financial year was £15k (2018: loss of £117k)
- Profit for financial year was £15k (2018: loss of £117k)
- Net assets at the financial year end were £8.3m (2018: £8.3m)

VIRTUS IMH Limited

Strategic report for the year ended 31 December 2019 (continued)

Financial instruments and Risks

The financial risks of the Company are integrated with the financial risks of the VIRTUS Group and are not managed separately. Financial risks facing the VIRTUS Group are monitored through a process of regular assessment and review by the Management Team of an Enterprise Risk Matrix (ERM) which is then presented to the Audit and Risk Management Committee (ARMC). Key Financial risks and their mitigants are set out below:

- External and contingent liabilities are managed through insurance where appropriate.
- Interest rate risk is managed through hedging via an interest rate cap on our Senior Secured Finance Facility as at the year end. As a result of this, the exposure to interest rate fluctuations on its long-term borrowing has been materially mitigated.
- Liquidity risk is managed through detailed cash-flow management and forecasting undertaken by the Finance team to ensure the Company has access to adequate financial resources to meet its ongoing needs.
- Customer renewal risk – As the business and external third-party debt has grown, the risk of significant customer churn impacting the Company's banking covenant levels grows. This risk is managed by taking a prudent approach to debt financing balanced with support from the Company's shareholder, STT GDC Pte Ltd, and pro-actively managing customer relationships in the estate well in advance of any renewals.

Principal risks and uncertainties

The Directors consider the risk profile of the Company to be closely aligned to that of the overall Group as the financing profile is dependent on the overall business funding requirements, therefore the Group strategy towards risk and uncertainty is presented below.

The principal risks and uncertainties of the Company are integrated with the principal risks of the VIRTUS Group and are not managed separately. Key risks faced by the VIRTUS Group are monitored through a process of regular assessment and review by the Group's Management Team, incorporated in the ERM and presented to the ARMC.

- Strategic risks are also regularly considered in an increasingly competitive marketplace. These risks are mitigated where possible by entering into long term contracts with customers and negotiating pre-let agreements to underpin all or part of each business case before construction commences on a particular site.
- Operational risks to the business could come from a critical infrastructure (power or cooling) outage or security breach. Preventative measures to combat the risk of failure in this area is a primary focus for the Company - such an event would risk damage to the external credibility of the business and, depending on the severity, could threaten the performance and potentially the ongoing viability of the Company. This risk could arise from a number of factors, which are both within, and outside of the business' direct control, ranging from human error to equipment failure to a deliberate act of sabotage. The Company has a robust process driven response to these risks through adherence to externally accredited operating procedures and certifications combined with rigorous application of these policies.
- Uncertainty around COVID-19 presents risks to the Group's business performance. Although the business has thus far seen little evidence to suggest this is the case, it is possible that the impact of COVID-19 and any resulting economic downturn could have an adverse impact on the Group's plans and projections. While customer demand might be impacted, this risk is mitigated by the critical nature of our services, as well as the proportion of well-established global cloud services providers in our customer portfolio.
- Uncertainty around final settlement arrangements between the UK and the European Union post-Brexit may also potentially impact customer demand; however, this risk is mitigated by manifested growth in the digital economy. On the supply side, the impact of uncertainty and exchange rate fluctuations is mitigated by entering into fixed price design and build contracts for construction of new data centres.

VIRTUS IMH Limited

Report of the directors for the year ended 31 December 2019

The directors present their report together with the audited financial statements of VIRTUS IMH Limited for the year ended 31 December 2019.

Directors

The directors of the Company throughout the year were:

Daryl Robert Leslie Seaton
Neil Cresswell
Jonathan Allen King
Bruno Lopez
Nelson Lim Yueh Hua
Nicholas Toh Lik Hau

Proposed dividend

No dividend was paid or declared during the year (2018: nil).

Political and charitable contributions

The Company did not make any political or charitable donations, nor incurred any political expenditure during the year (2018: 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards), including FRS 101 "Reduced Disclosure Framework" ("FRS 101") and applicable law.

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 (as explained in note 1, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

VIRTUS IMH Limited

Report of the directors for the year ended 31 December 2019 (continued)

Directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under the Companies Act 2006 section 487(2) KPMG LLP will be automatically re-appointed as auditor by the end of the next appointment period after these financial statements are sent to the members, unless the members exercise their rights under the Companies Act 2006 to prevent their re-appointment.

Approval

This directors' report was approved by order of the Board on

1/7/

2020.



D R L Seaton
Director

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF VIRTUS IMH LIMITED

Opinion

We have audited the financial statements of VIRTUS IMH Limited ("the company") for the year ended 31 December 2019 which comprise the balance sheet as at 31 December 2019, and the profit and loss account and comprehensive income, and the statement of changes in equity for the year then ended and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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.

Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 1 to the financial statements, which explains that the financial statements have not been prepared on the going concern basis for the reason set out in that note.

Our opinion is not modified in respect of this matter.

Strategic report and directors' report

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

Our responsibility is to read the strategic report and 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 strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have 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 3, 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.

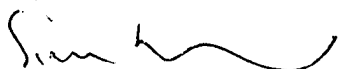
Auditor's responsibilities

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.



Simon Baxter (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
2 Forbury Place
33 Forbury Road
Reading
RG1 3AD
2 July 2020

VIRTUS IMH Limited

Profit and loss account and comprehensive income for the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Management fee income	3	5,179	5,862
Impairment on related party receivables		5	(122)
Other operating expenses		(79)	(79)
Operating profit		<u>5,105</u>	<u>5,661</u>
Finance expense	6	(4,995)	(5,702)
Movement in fair value of interest rate derivative	10	(95)	(76)
Finance costs		<u>(5,090)</u>	<u>(5,778)</u>
Profit/(loss) before tax		<u>15</u>	<u>(117)</u>
Tax expense	7	-	-
Total comprehensive income/(loss)		<u><u>15</u></u>	<u><u>(117)</u></u>

The notes on pages 11 to 26 form part of these financial statements.

VIRTUS IMH Limited

Balance sheet at 31 December 2019

Company number 08035414

	Note	31 December 2019 £'000	31 December 2018 £'000
Fixed assets			
Investments	8	9,980	9,980
Current assets			
Debtors (including £116,714k (2018: £121,854k) due after more than one year)	10	116,738	121,973
Cash at bank and in hand	9	2,860	2,627
		<u>119,598</u>	<u>124,600</u>
Creditors - amounts falling due within one year	11	<u>(34,881)</u>	<u>(46,622)</u>
Net current assets		<u>84,717</u>	<u>77,978</u>
Total assets less current liabilities		<u>94,697</u>	<u>87,958</u>
Creditors: amounts falling due after more than one year	12	<u>(86,360)</u>	<u>(79,636)</u>
Net assets		<u>8,337</u>	<u>8,322</u>
Capital and reserves			
Called up share capital	13	-	-
Share premium account	13	9,980	9,980
Profit and loss account		(1,643)	(1,658)
Total shareholders' funds		<u>8,337</u>	<u>8,322</u>

The financial statements on pages 8 to 26 were approved and authorised for issue by the Board of Directors on 1/1/2020 and were signed on its behalf by:

D R L Seaton
Director

The notes on pages 11 to 26 form part of these financial statements.

VIRTUS IMH Limited

Statement of changes in equity for the year ended 31 December 2019

	Called up share capital	Share premium	Profit / and Loss account	Total Shareholders' Funds
	£'000	£'000	£'000	£'000
1 January 2018	-	9,980	(1,541)	8,439
Total comprehensive loss for the year	-	-	(117)	(117)
31 December 2018	-	9,980	(1,658)	8,322
1 January 2019	-	9,980	(1,658)	8,322
Total comprehensive income for the year	-	-	15	15
31 December 2019	-	9,980	(1,643)	8,337

The notes on pages 11 to 26 form part of these financial statements.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019

1. Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The principal accounting policies adopted in the preparation of the financial statements are set out below.

The presentation currency used is pounds sterling and amounts have been presented in round thousands ("£000s").

Disclosure exemptions adopted

In preparing these financial statements the company has taken advantage of disclosure exemptions conferred by FRS 101. Therefore, these financial statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding revenue;
- certain disclosures regarding the company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; and
- disclosure of related party transactions with other wholly owned members of the group headed by VIRTUS Holdco Limited.

In addition, and in accordance with FRS 101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of VIRTUS Holdco Limited. These financial statements do not include certain disclosures in respect of:

- IFRS 2 Share Based Payments in respect of group settled share-based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

Exemption from preparing group accounts

The Company has elected to utilise the exemption provided in Section 400 of the Companies Act 2006 and has not prepared Group financial statements. The financial statements of VIRTUS IMH Limited are consolidated in the financial statements of VIRTUS Holdco Limited, a company registered in the United Kingdom, see note 15.

These financial statements therefore present information about the company as an individual undertaking and not about its group.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (continued)

1. Accounting policies (continued)

Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial assets and financial liabilities which are stated at fair value.

Going concern

At 31 December 2019 the Company is in a net asset position of £8.3m (2018: £8.3m) and a net current asset position of £84.7m (2018: £77.8.0m). However, after excluding current assets not expected to be realised within one year the Company has net current liabilities of £32.0m as of 31 December 2019.

Following the refinancing by the Group of its existing SN1 bank facility in April 2020, it is the intention of the directors to liquidate the Company following the settlement of the remaining net assets, they have not prepared the financial statements on a going concern basis.

Changes in significant accounting policies

The Company initially applied IFRS 16 Leases from 1 January 2019. The adoption of IFRS 16 did not have an impact on the Company's financial statements. A number of other new standards are also effective from 1 January 2019, but they do not impact the Company's financial statements.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (*continued*)

1. Accounting policies (*continued*)

Financial instruments

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at FVTPL

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income (FVOCI) are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (continued)

1. Accounting policies (continued)

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model and how those risks are managed;
- how managers of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior period, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets.

Financial assets that are held-for-trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

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

Subsequent measurement gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (*continued*)

1. Accounting policies (*continued*)

Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

Loss allowances of the Company are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from default events that are possible within the 12 months after the reporting date (or for a shorter period if the expected life of the instrument is less than 12 months); or
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument or contract asset.

The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Simplified approach

The Company applies the simplified approach to provide for ECLs for financial assets at amortised costs.

The simplified approach requires the loss allowance to be measured at an amount equal to lifetime ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

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. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cashflows to repay the amounts subject to write off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with Company's procedures for recovery of amounts due.

Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (continued)

1. Accounting policies (continued)

Cash and cash equivalents

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

Investments in subsidiaries

Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of the elements of control.

Investments in subsidiaries are held at cost less impairment, if any. Carrying values of subsidiaries are assessed against the higher of their value in use, or fair values less cost to sell. Where the carrying value is determined to be higher than the appropriate valuation an impairment is recognised to reduce the carrying value.

Financial liabilities

Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense is recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Company classifies its financial liabilities into one category based on the purpose for which the liability was acquired.

Financial liabilities at amortised cost

Financial liabilities at amortised cost include the following items:

- Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

The Company's ordinary shares are classified as equity instruments.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 *(continued)*

1. Accounting policies *(continued)*

Revenue from contracts with customers – Management fee income

The Company applies IFRS15 Revenue from Contracts with Customers. The standard establishes a five-step model governing revenue recognition. The five-step model requires the Company to (i) identify the contract with the customer, (ii) identify each of the performance obligations included in the contract, (iii) determine the amount of consideration in the contract, (iv) allocate the consideration to each of the identified performance obligations and (v) recognise revenue as each performance obligation is satisfied.

The Company provides a wide range of operations and functional services to its subsidiaries. The Company provides these services as principal under contractually binding intra-group agreements where fees are charged based on allocation of costs.

The Company applies the practical expedient of IFRS 15 and does not disclose information about remaining performance obligations as it has a right to consideration that corresponds directly with the value of the service provided to the customer.

Finance costs

Any finance costs that are separately identifiable and directly attributable to the acquisition or construction of an asset that takes a period of time to complete are capitalised as part of the cost of the asset. All other finance costs are expensed in the period in which they relate. Finance costs consist of interest and other costs that an entity incurs in connection with bank and other borrowings. Interest expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit impaired, then the calculation of interest income reverts to the gross basis.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (*continued*)

1. Accounting policies (*continued*)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for:

- the initial recognition of goodwill;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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

Deferred tax assets are recognised for the unused tax losses, unused tax credits and deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

2. Critical accounting estimates, judgements and assumptions

The Company makes certain estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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. Actual results 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.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 *(continued)*

2. Critical accounting estimates, judgements and assumptions *(continued)*

Judgements

(a) Impairment of investment in subsidiaries

An investment in a subsidiary is impaired if the carrying amount exceeds its recoverable amount. The determination of whether an investment in a subsidiary is impaired requires the exercise of management judgement.

3. Management fee income

	2019 £ '000	2018 £ '000
Finance costs recharges	5,095	5,778
Administrative costs recharges	84	84
Total revenue from contracts with customers	<u>5,179</u>	<u>5,862</u>

4. Auditor's remuneration

The auditor's remuneration is borne by the parent entity. Auditor's remuneration for the audit of the Company for the year ended 31 December 2019 is £3,900 (2018: £7,500).

All auditor's remuneration in the current period and the prior period related to provision of audit services.

5. Employee benefit expense

The Company has no employees (2018: nil).

The directors are paid by other VIRTUS group entities. Based on relative proportions of directors' time spent on individual affairs of the Company and its subsidiaries, £1,089k (2018: £2,181k) has been allocated to the Company.

	2019 £ '000	2018 £ '000
Wages and salaries	244	409
Pension	4	7
LTIP and share-based payment expense	839	1,765
	<u>1,087</u>	<u>2,181</u>
Remuneration of the highest paid director	841	1,507
Directors who are members of pension schemes	2	2

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (*continued*)

6. Finance expenses

Recognised in profit and loss

	2019 £ '000	2018 £ '000
Finance expense		
Interest on bank loans	4,283	4,906
Amortisation on loan arrangement fees	712	796
	<u>4,995</u>	<u>5,702</u>
Total finance expenses		

7. Taxation

Income tax expense

	2019 £ '000	2018 £ '000
Current tax	-	-

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements.

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profits for the year are as follows:

	2019 £ '000	2018 £ '000
Profit/(Loss) before tax	15	(117)
Profit at the standard rate of corporation tax in the UK of 19% (2018 – 19%)	3	(22)
Effects of:		
Non-deductible expenses	(1)	23
Deferred tax not recognised	-	(15)
Corporate interest restrictions	7	11
Current year losses for which no deferred tax asset is recognised	(14)	3
Group relief	5	-
	<u>-</u>	<u>-</u>

VIRTUS IMH Limited

Notes forming part of the company financial statements
for the year ended 31 December 2019 (*continued*)

7. Taxation

Deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2019 £ '000	2018 £ '000
Tax losses	161	167
Corporate interest restrictions	24	18
Other deductible temporary differences	64	77
	<u>249</u>	<u>262</u>

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised because of uncertainty regarding the timing of future taxable profits against which the Company can utilise the benefits.

8. Investments

	2019 £ '000	2018 £ '000
Investments in subsidiaries	<u>9,980</u>	<u>9,980</u>

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (continued)

8. Investments (continued)

As at 31 December 2019, the principal subsidiaries held directly or indirectly by the Company, were as follows:

Name	Name of immediate parent	Country of incorporation and principal place of business	Proportion of ownership of interest at 31 December		Nature of company
			2019	2018	
VIRTUS (Enfield) LLP – indirect investment	EJS Limited	England	100%	100%	Owner of LONDON1 (Enfield) data centre
Enfield DC Service Company Limited indirect investment	VIRTUS (Enfield) LLP	England	100%	100%	Data centre operator and manager
VIRTUS Hayes Limited	VIRTUS IMH Limited	England	100%	100%	Owner of LONDON2 (Hayes) data centre
VIRTUS Enfield (Data Centres) Limited	VIRTUS IMH Limited	England	100%	100%	Data centre operator and manager
EJS Limited – indirect investment	EJH Limited	Jersey	100%	100%	Intermediate holding company
EJH Limited – indirect investment	VIRTUS Enfield (Data Centres) Limited	Jersey	100%	100%	Intermediate holding company

The registered address of the subsidiaries incorporated in England is Kent House, 14-17 Market Place, London W1W 8AJ. The registered address of the subsidiaries incorporated in Jersey is 11-15 Seaton Place St Helier, Jersey JE4 0QH.

9. Cash at bank and in hand

	2019 £ '000	2018 £ '000
Cash at bank and in hand	2,860	2,627

VIRTUS IMH Limited

Notes forming part of the company financial statements
for the year ended 31 December 2019 (*continued*)

10. Debtors

	2019 £ '000	2018 £ '000
Amounts owed by group undertakings	116,714	121,854
Other debtors	24	96
Prepayments	-	23
	<u>116,738</u>	<u>121,973</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. However, they are not expected to be settled within 12 months at the balance sheet date. The amounts are stated after provisions for impairment of £117k (2018: £122k)

Other debtors include derivative financial instruments.

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Company entered into interest rate caps. Interest rate caps have been taken out in respect of each loan drawn to cap the rate to which 3-month LIBOR can rise and are co-terminus with the initial term of the loan. The strike rate for the Company as at the period end was 1.5% (2018: 1.5%).

Any movements in the mark to market valuation of the derivatives are taken to the Company's profit and loss account and comprehensive income.

	2019 £ '000	2018 £ '000
Balance at 1 January	96	135
Additions	-	37
Fair value adjustment	(95)	(76)
Balance as at 31 December	<u>1</u>	<u>96</u>

VIRTUS IMH Limited

Notes forming part of the company financial statements
for the year ended 31 December 2019 (*continued*)

10. Debtors (continued)

Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

	Date of valuation	Total	Quoted process in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	£ '000	£ '000	£ '000	£ '000	£ '000
Asset measured at fair value:					
Interest rate derivatives	31 December 2019	1	-	-	1
Interest rate derivatives	31 December 2018	96	-	-	96

The fair value of these contracts is recorded in the Company statement of financial position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these cash flows at the prevailing market rates as at the period end.

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

11. Creditors - amounts falling due within one year

	2019 £ '000	2018 £ '000
Amounts owed to group undertakings	34,864	46,585
Other creditors	17	35
Accruals	-	2
	<u>34,881</u>	<u>46,622</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (*continued*)

12. Creditors: amounts falling due after more than one year

Creditors falling due after more than one year relate to bank loans, which are denominated in sterling and are repayable by November 2021. The interest rate is 3.95% to 5.50% plus LIBOR (2018: 5.50% plus LIBOR).

	2019 £ '000	2018 £ '000
Bank loans - Secured	87,641	81,582
Less: Arrangement fees	(1,281)	(1,946)
	<u>86,360</u>	<u>79,636</u>

The Company is a fully owned subsidiary of the Group headed by VIRTUS Holdco Limited. The borrowings of the Group are secured by a fixed charge over the Group's total assets. As such the total assets of the Company are subject to this charge.

The Company has been compliant with all of the financial covenants of the above facilities as applicable throughout the period covered by these financial statements.

In April 2020 the Group completed a refinancing of its SN1 bank facility, to which these loans relate. The maturity date of the existing debt has consequently been extended to March 2025. Further details of the refinancing are provided in note 14.

13. Called up share capital and share premium

	2019 Number	Authorised 2019 £	2018 Number	2018 £
Ordinary shares of 100p each	Unlimited	Unlimited	Unlimited	Unlimited

	2019 Number	Issued and fully paid 2019		2018 Number	2018	
		Share Capital £'000	Share Premium £'000		Share capital £000	Share Premium £'000
Ordinary shares of 100p each						
At 1 January and 31 December	6	-	9,980	6	-	9,980

VIRTUS IMH Limited

Notes forming part of the company financial statements for the year ended 31 December 2019 (*continued*)

14. Subsequent events

Funding events during 2020

During the period between 1 January and 15 April 2020 the Group drew a further £16.4m from its existing SN1 bank facility.

On 16 April 2020 the Group completed the refinancing and upsizing of the existing SN1 bank facility, increasing the total size of this facility from £245.0m to £411.7m. This additional funding is intended to support the development of the LONDON9 and LONDON10 sites at Slough, in addition to refinancing the existing debt for LONDON1-4 to an extended maturity date of March 2025.

The Company considers all of the above funding events to be non-adjusting subsequent.

15. Immediate parent company and control

The immediate parent company is VIRTUS Data Centres Properties Limited, which is registered in England and Wales. The ultimate parent company and controlling party is Temasek Holdings (Private) Limited, which is incorporated in the Republic of Singapore.

The largest group of undertakings for which group accounts are prepared and of which the company is part is the group headed by Temasek Holdings (Private) Limited. Group financial statements for Temasek Holdings (Private) Limited are not available to the public. Summary financial statements are available from: www.temasek.com.sg/en/our-financials/group-financials.html.

The smallest such group is the group headed by Virtus Holdco Limited which is incorporated in England. Copies of these group accounts can be obtained from Kent House, 14-17 Market Place, London W1W 8AJ.