

138 STUDENT LIVING JAMAICA LIMITED
FINANCIAL STATEMENTS
30 SEPTEMBER 2018

138 STUDENT LIVING JAMAICA LIMITED

FINANCIAL STATEMENTS

30 SEPTEMBER 2018

I N D E X

	<u>PAGE</u>
Independent Auditors' Report to the Members	1- 4
<u>FINANCIAL STATEMENTS</u>	
Consolidated Statement of Profit or Loss and Other Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Statement of Profit or Loss and Other Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Statement of Cash Flows	12
Notes to the Financial Statements	13-43



Tel: (876) 926-1616/7, 926-4421
Fax: (876) 926-7580
www.bdo.com.jm

Chartered Accountants
26 Beechwood Avenue
P.O. Box 351
Kingston 5, Jamaica

Page 1

INDEPENDENT AUDITORS' REPORT

To the Members of
138 Student Living Jamaica Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of 138 Student Living Jamaica Limited and its subsidiary (the group) and the financial statements of 138 Student Living Jamaica Limited standing alone (the company) set out on pages 5 to 43, which comprise the group and the company's statement of financial position at 30 September 2018, and the group and company's statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as at 30 September 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Jamaican Companies Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Valuation of Financial Asset - Service Concession Rights Classified as Available-For-Sale

[see note 13 to the consolidated financial statements for management's related accounting policies and disclosures]

Financial asset - service concession rights is carried at fair value, based on triennial valuation by a professional qualified valuator and in the intervening periods by the directors. For the year ended 30 September 2018, the valuation was done by Allison Pitter & Company, with a resulting fair value of \$6.6B for 138 Student Living Limited and \$1.3B for 138 SL Restoration Limited. The surplus or deficit is taken to other comprehensive income.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
138 Student Living Jamaica Limited

Key audit matter and how our audit addressed it**Valuation of Financial Asset - Service Concession Rights Classified as Available-For-Sale**

Allison Pitter & Company uses an investments approach via a discounted cash flow as its valuation methodology. The projected net income and a discounted cash flow of those likely net income are taken account of, along with various assumptions. The magnitude and materiality of this balance, the complexity of the models used the use of management assumptions and the potential for misstatement from the use of inappropriate yields caused us to focus on this balance.

How our audit addressed the Key audit matter

- 1) We assessed Allison Pitter & Company valuation techniques by using our own internal valuation consultants, who examined the basis and assumptions and analysed the results in details to assess reasonableness of the fair value amount obtained.
- 2) We assessed the work of valuation specialist engaged by management and its production of a valuation report. As well as, evaluate the valuator's qualifications to determine that there was possession of sound reputation, independence and the necessary skills and/or knowledge to estimate the fair value.
- 3) We obtained an understanding of the nature of the work performed by the specialist, the objective and the scope as well as understanding and assessing the methods and assumptions used thus determining the appropriateness of the valuation method used to estimate the fair value.
- 4) We recalculated the amounts disclosed for fair value of the group's and the company's financial asset-service concession rights for mathematical accuracy.
- 5) We further checked that the required disclosures were done in the financial statements, as well as the appropriateness of the reporting of the transactions.

Other Information

Management is responsible for the other information. The other information comprises the Annual Report but does not include the consolidated and stand-alone financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements, or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
138 Student Living Jamaica Limited

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the group's and 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 management either intends to liquidate the group and the company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's and the company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
138 Student Living Jamaica Limited

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act, in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Raynold McFarlane.



Chartered Accountants

24 December 2018

138 STUDENT LIVING JAMAICA LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
YEAR ENDED 30 SEPTEMBER 2018

	<u>Note</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
REVENUE:			
Income	6	780,743	573,541
Other operating income	7	<u>53,661</u>	<u>28,062</u>
		<u>834,404</u>	<u>601,603</u>
EXPENSES:			
Administrative and other expenses	8	<u>(519,142)</u>	<u>(271,935)</u>
PROFIT FROM OPERATION		315,262	329,668
Finance costs	10	<u>(406,390)</u>	<u>(309,911)</u>
(LOSS)/PROFIT BEFORE TAXATION		(91,128)	19,757
Taxation	11	<u>74,877</u>	<u>50,322</u>
NET (LOSS)/PROFIT FOR THE YEAR		(16,251)	70,079
OTHER COMPREHENSIVE INCOME:			
Item that will or may not be reclassified to profit or loss -			
Change in fair value of financial asset - service concession rights	13	<u>595,248</u>	<u>623,553</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>578,997</u>	<u>693,632</u>
(LOSS)/PROFIT PER STOCK UNIT	12	<u>(\$ 0.04)</u>	<u>\$ 0.17</u>

138 STUDENT LIVING JAMAICA LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 SEPTEMBER 2018

	<u>Note</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
ASSETS			
NON-CURRENT ASSETS:			
Financial asset -service concession rights	13	7,940,000	7,250,000
Deferred tax assets	14	176,201	101,324
Other asset		<u>2,630</u>	<u>1,395</u>
		<u>8,118,831</u>	<u>7,352,719</u>
CURRENT ASSETS:			
Receivables	16	330,571	163,614
Taxation recoverable		20,426	14,319
Short term deposits	17	339,724	484,509
Cash and cash equivalents	18	<u>33,019</u>	<u>15,169</u>
		<u>723,740</u>	<u>677,611</u>
		<u>8,842,571</u>	<u>8,030,330</u>
<u>EQUITY AND LIABILITIES</u>			
<u>EQUITY:</u>			
Share capital	19	721,153	721,153
Fair value reserve	20	2,550,018	1,954,770
Retained earnings		<u>81,262</u>	<u>97,513</u>
		<u>3,352,433</u>	<u>2,773,436</u>
NON-CURRENT LIABILITIES:			
Long term loans	22	4,701,613	4,376,907
Redeemable preference shares	19	<u>172,642</u>	<u>172,642</u>
		<u>4,874,255</u>	<u>4,549,549</u>
CURRENT LIABILITIES:			
Payables	23	615,883	437,929
Short term borrowings	24	<u>-</u>	<u>269,416</u>
		<u>615,883</u>	<u>707,345</u>
		<u>8,842,571</u>	<u>8,030,330</u>

Approved for issue by the Board of Directors on 24 December 2018 and signed on its behalf by:



Richard Byles Chairman



Sharon Donaldson-Levine Director

138 STUDENT LIVING JAMAICA LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 SEPTEMBER 2018

	<u>Share Capital \$'000</u>	<u>Fair Value Reserve \$'000</u>	<u>Retained Earnings \$'000</u>	<u>Total \$'000</u>
BALANCE 1 OCTOBER 2016	<u>721,153</u>	<u>1,331,217</u>	<u>27,434</u>	<u>2,079,804</u>
TOTAL COMPREHENSIVE INCOME				
Net profit			70,079	70,079
OTHER COMPREHENSIVE INCOME				
Change in fair value of financial asset - service concession rights	<u>-</u>	<u>623,553</u>	<u>-</u>	<u>623,553</u>
	<u>-</u>	<u>623,553</u>	<u>70,079</u>	<u>693,632</u>
BALANCE AT 30 SEPTEMBER 2017	<u>721,153</u>	<u>1,954,770</u>	<u>97,513</u>	<u>2,773,436</u>
TOTAL COMPREHENSIVE INCOME				
Net loss	-	-	(16,251)	(16,251)
OTHER COMPREHENSIVE INCOME				
Change in fair value of financial asset - service concession rights	<u>-</u>	<u>595,248</u>	<u>-</u>	<u>595,248</u>
	<u>-</u>	<u>595,248</u>	<u>(16,251)</u>	<u>578,997</u>
BALANCE AT 30 SEPTEMBER 2018	<u>721,153</u>	<u>2,550,018</u>	<u>81,262</u>	<u>3,352,433</u>

138 STUDENT LIVING JAMAICA LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 30 SEPTEMBER 2018

	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)/profit	(16,251)	70,079
Items not affecting cash resources:		
Effect of foreign exchange gain	(3,506)	(1,258)
Deferred taxation	(74,877)	(50,322)
Interest income	(18,499)	(18,238)
Interest expense	<u>406,390</u>	<u>309,911</u>
	293,257	310,172
Changes in operating assets and liabilities:		
Other asset	(1,235)	(759)
Receivables	(165,245)	(20,330)
Taxation recoverable	(6,107)	(5,968)
Payables	<u>167,483</u>	<u>6,510</u>
Cash provided by operating activities	<u>288,153</u>	<u>289,625</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to financial asset - service concession rights	(94,752)	(2,236,447)
Construction in progress	-	674,676
Short term deposits	148,301	(42,895)
Interest received	16,651	13,109
Interest paid	<u>(395,922)</u>	<u>(271,482)</u>
Cash used in investing activities	<u>(325,722)</u>	<u>(1,863,039)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term borrowings	-	269,416
Loans received	324,706	2,486,218
Loans repaid	<u>(269,416)</u>	<u>(1,205,414)</u>
Cash provided by financing activities	<u>55,290</u>	<u>1,550,220</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	17,721	(23,194)
Exchange gain on foreign cash balance	129	386
Cash and cash equivalents at beginning of year	<u>15,169</u>	<u>37,977</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 18)	<u>33,019</u>	<u>15,169</u>

138 STUDENT LIVING JAMAICA LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
YEAR ENDED 30 SEPTEMBER 2018

	<u>Note</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
REVENUE:			
Income	6	595,946	499,489
Other operating income	7	<u>49,598</u>	<u>29,370</u>
		645,544	528,859
EXPENSES:			
Administrative and expenses	8	<u>(368,173)</u>	<u>(243,194)</u>
PROFIT FROM OPERATION		277,371	285,665
Finance costs	10	<u>(286,830)</u>	<u>(286,796)</u>
LOSS BEFORE TAXATION		<u>(9,459)</u>	<u>(1,131)</u>
Taxation	11	<u>42,660</u>	<u>39,431</u>
NET PROFIT FOR THE YEAR		33,201	38,300
OTHER COMPREHENSIVE INCOME:			
Item that will or may not be reclassified to profit or loss -			
Change in fair value of financial asset - service concession rights		<u>936,874</u>	<u>728,586</u>
TOTAL COMPREHENSIVE INCOME		<u>970,075</u>	<u>766,886</u>

138 STUDENT LIVING JAMAICA LIMITED

STATEMENT OF FINANCIAL POSITION

30 SEPTEMBER 2018

	<u>Note</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
ASSETS			
NON-CURRENT ASSETS:			
Financial asset - service concession rights	13	6,625,000	5,625,000
Deferred tax assets	14	129,488	86,828
Investment in subsidiary	15	466,000	466,000
Other asset		<u>1,226</u>	<u>387</u>
		<u>7,221,714</u>	<u>6,178,215</u>
CURRENT ASSETS:			
Receivables	16	496,718	174,671
Taxation recoverable		18,881	13,681
Short term deposits	17	286,307	417,616
Cash and cash equivalents	18	<u>24,115</u>	<u>5,587</u>
		<u>826,021</u>	<u>611,555</u>
		<u>8,047,735</u>	<u>6,789,770</u>
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	19	721,153	721,153
Fair value reserve	20	2,815,545	1,878,671
Reserve	21	466,000	466,000
Retained earnings		<u>99,176</u>	<u>65,975</u>
		<u>4,101,874</u>	<u>3,131,799</u>
NON-CURRENT LIABILITIES:			
Long term loans	22	3,280,613	2,955,907
Redeemable preference shares	19	<u>172,642</u>	<u>172,642</u>
		<u>3,453,255</u>	<u>3,128,549</u>
CURRENT LIABILITIES:			
Payables	23	492,606	260,006
Short term borrowings	24	<u>-</u>	<u>269,416</u>
		<u>492,606</u>	<u>529,422</u>
		<u>8,047,735</u>	<u>6,789,770</u>

Approved for issue by the Board of Directors on 24 December 2018 and signed on its behalf by:



Richard Byles Chairman



Sharon Donaldson-Levine Director

138 STUDENT LIVING JAMAICA LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 30 SEPTEMBER 2018

	<u>Share Capital \$'000</u>	<u>Fair Value Reserve \$'000</u>	<u>Reserve \$'000</u>	<u>Retained Earnings \$'000</u>	<u>Total \$'000</u>
BALANCE 1 OCTOBER 2016	<u>721,153</u>	<u>1,150,085</u>	<u>466,000</u>	<u>27,675</u>	<u>2,364,913</u>
TOTAL COMPREHENSIVE INCOME					
Net profit	-	-	-	38,300	38,300
OTHER COMPREHENSIVE INCOME					
Change in fair value of financial asset - service concession rights	<u>-</u>	<u>728,586</u>	<u>-</u>	<u>-</u>	<u>728,586</u>
	<u>-</u>	<u>728,586</u>	<u>-</u>	<u>38,300</u>	<u>766,886</u>
BALANCE AT 30 SEPTEMBER 2017	<u>721,153</u>	<u>1,878,671</u>	<u>466,000</u>	<u>65,975</u>	<u>3,131,799</u>
TOTAL COMPREHENSIVE INCOME					
Net profit	-	-	-	33,201	33,201
OTHER COMPREHENSIVE INCOME					
Change in fair value of financial asset - service concession rights	<u>-</u>	<u>936,874</u>	<u>-</u>	<u>-</u>	<u>936,874</u>
	<u>-</u>	<u>936,874</u>	<u>-</u>	<u>33,201</u>	<u>970,075</u>
BALANCE AT 30 SEPTEMBER 2018	<u>721,153</u>	<u>2,815,545</u>	<u>466,000</u>	<u>99,176</u>	<u>4,101,874</u>

138 STUDENT LIVING JAMAICA LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED 30 SEPTEMBER 2018

	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	33,201	38,300
Items not affecting cash resources:		
Effect of foreign exchange gain	(2,318)	(1,470)
Deferred taxation	(42,660)	(39,431)
Interest income	(17,107)	(17,468)
Interest expense	<u>286,830</u>	<u>286,796</u>
	257,946	266,727
Changes in operating assets and liabilities:		
Other asset	(839)	(387)
Receivables	(320,447)	(7,252)
Taxation recoverable	(5,200)	(5,567)
Payables	<u>227,524</u>	<u>(126,261)</u>
Cash provided by operating activities	<u>158,984</u>	<u>127,260</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	15,381	12,517
Financial asset - service concession rights	(63,126)	(996,414)
Construction in progress	-	496,206
Interest paid	(281,757)	(271,482)
Short term deposits	<u>133,311</u>	<u>2,755</u>
Cash used in investing activities	<u>(196,191)</u>	<u>(756,418)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term borrowings	-	269,416
Long term loans	432,003	1,533,000
Loans repaid	<u>(376,713)</u>	<u>(1,205,414)</u>
Cash provided by financing activities	<u>55,290</u>	<u>597,002</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	18,083	(32,156)
Exchange gain on foreign cash balance	445	364
Cash and cash equivalents at beginning of year	<u>5,587</u>	<u>37,379</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 18)	<u><u>24,115</u></u>	<u><u>5,587</u></u>

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

1. IDENTIFICATION AND PRINCIPAL ACTIVITIES:

- (a) 138 Student Living Jamaica Limited (138 SL) is a limited liability company. The company is incorporated in Jamaica, on 15 August 2014, and is domiciled in Jamaica. The registered office of the company is located at 2 Castries Drive, University of the West Indies, Mona Campus, Kingston 7, St. Andrew.
- (b) The company is established to construct and rent living facilities at the University of the West Indies under a 65 years Concession Agreement granted by the University of the West Indies (UWI).

The terms of the Concession Agreement requires the company to design, finance, construct and operate 1,584 units of student accommodation in 3 development phases in not more than 48 months.

This agreement was initially established between K Limited and the University of the West Indies on 3 July 2014. In a Deed of Novation between University of the West Indies, K Limited and 138 Student Living Jamaica Limited dated 13 November 2014, the rights and obligations set out in the Concession Agreement were transferred to 138 Student Living Jamaica Limited.

- (c) The company, (138 SL), is a public listed company and was listed on the Jamaica Stock Exchange on 18 December 2014.
- (d) The company has a 100% subsidiary, 138 SL Restoration Limited, a limited liability company, incorporated and domiciled in Jamaica and which has a 30 years Concession Agreement and may be extended for a further five (5) years. The concession was granted by the University of the West Indies, Mona, for the restoration and reconstruction of certain traditional Halls up to 722 units.

The company and its subsidiary are referred to as “the Group”.

2. REPORTING CURRENCY:

Items included in the financial statements of the group are measured using the currency of the primary economic environment in which the group operates (‘the functional currency’). These financial statements are presented in Jamaican dollars, which is considered the group’s functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES:

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented. Where necessary, prior year comparatives have been restated and reclassified to conform to current year presentation. Amounts are rounded to the nearest thousand, unless otherwise stated.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by revaluation of financial asset - services concession rights. They are also prepared in accordance with requirements of the Jamaican Companies Act.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

New, revised and amended standards and interpretations that became effective during the year

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The group has assessed the relevance of all such new standards, interpretations and amendments and has concluded that the following new standards, interpretations and amendments are relevant to its operations.

Amendments to IAS 7, 'Statement of Cash Flows' (effective for accounting periods beginning on or after 1 January 2017), requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

Amendment to IAS 12, 'Income Taxes' (effective for accounting periods beginning on or after 1 January 2017). The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The amendments confirm that a temporary difference exists whenever the carrying amount of an asset is less than its tax base at the end of the reporting period, an entity can assume that it will recover an amount higher than the carrying amount of an asset to estimate its future taxable profit, where the tax law restricts the source of taxable profits against which particular types of deferred tax assets can be recovered, the recoverability of the deferred tax assets can only be assessed in combination with other deferred tax assets of the same type and that tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets.

The amendments did not result in any significant impact on the group's financial statements.

138 STUDENT LIVING JAMAICA LIMITED**NOTES TO THE FINANCIAL STATEMENTS****30 SEPTEMBER 2018****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(a) Basis of preparation (cont'd)****New standards, amendments and interpretations not yet effective and not early adopted**

The following new standards, amendments and interpretation, which are not yet effective and have not been adopted early in these financial statements will or may have an effect on the group's future financial statements.

IFRS 9 Financial Instruments

The group is required to adopt IFRS 9, *Financial Instruments* from 1 January 2018. The standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* and sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on preliminary assessment, the group does not believe that the new classification requirements will have a material impact on its accounting for accounts receivable, loans and investments in debt securities that are managed on a fair value basis. However, the group is still in the process of its assessment and the final impact has not yet been determined.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- (i) 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- (ii) Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The management has not yet completed their assessment of the financial impact which this standard will have on the financial statements on adoption.

138 STUDENT LIVING JAMAICA LIMITED**NOTES TO THE FINANCIAL STATEMENTS****30 SEPTEMBER 2018****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(b) Basis of preparation (cont'd)**

New standards, amendments and interpretations not yet effective and not early adopted (cont'd)

IFRS 15 Revenue from Contracts with Customers

The group is required to adopt IFRS 15, *Revenue from Contracts with Customers* from 1 January 2018. The standard established a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13, *Customer Loyalty Programmes*.

The group will apply a five-step model to determine when to recognize revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

Management has not yet completed its assessment and the financial impact has not yet been determined.

IFRS 16 Leases

Adoption of IFRS 16 will result in the group recognising right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the group does not recognise related assets or liabilities, and instead spreads the lease payments on a straight-line basis over the lease term, disclosing in its annual financial statements the total commitment.

The group is not as advanced in its implementation of IFRS 16 as it is for IFRS 15, but in the last 6 months the Board has decided it will apply the modified retrospective in IFRS 16, and therefore will only recognise leases on balance sheet as at 1 January 2019. In addition, it has decided to measure right-of-use assets by reference to the measurement of the lease liability on that date. This will ensure there is no immediate impact to net assets on that date.

At 30 September 2018 operating lease commitments amounted to \$121m, which is not expected to be materially different to the anticipated position on 30 September 2019 or the amount which is expected to be disclosed at 30 September 2018. Assuming the group's lease commitments remain at this level, the effect of discounting those commitments is anticipated to result in right-of-use assets and lease liabilities of approximately \$94m being recognised on 1 January 2019. However, further work still needs to be carried out to determine whether and when extension and termination options are likely to be exercised, which will result in actual liability recognised being higher than this.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(a) Basis of preparation (cont'd)

New standards, amendments and interpretation not yet effective and not early adopted (cont'd)

IFRIC 23, 'Uncertainty over income tax treatments', (effective for annual period beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes', are applied where there is uncertainty over income tax treatments. The IFRIC had clarified previously that IAS 12, not IAS 37 'Provisions, contingent liabilities and contingent assets', applies to accounting for uncertain income tax treatments. IFRIC 23 explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The adoption of this standard is not expected to have a significant impact on the group.

(b) Basis of consolidation

Where the company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the company and its subsidiary ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

(c) Foreign currency translation

Foreign currency transactions pertaining to rental income were accounted for at a fixed exchange rate of JA\$130 to US\$1 was used.

All other foreign currency transactions are accounted for at the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated to Jamaican dollars using the closing rate as at the reporting date.

Exchange differences arising from the settlement of transactions at rates different from those at the dates of the transactions and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in profit or loss.

138 STUDENT LIVING JAMAICA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2018

3. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D):**

(d) **Provisions**

Provisions are recognized when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

(e) **Impairment of non-current assets**

Other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the greater of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows.

(f) **Current and deferred income taxes**

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because taxable profits exclude items that are taxable or deductible in other years, and items that are never taxable or deductible. The group's liability for current tax is calculated at tax rates that have been enacted at the reporting date.

Deferred tax is the tax that is expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

138 STUDENT LIVING JAMAICA LIMITED**NOTES TO THE FINANCIAL STATEMENTS****30 SEPTEMBER 2018****3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):****(g) Revenue recognition**

Revenue from the provision of rental services is measured at the fair value of the consideration received or receivable.

Subsequent to completion of construction, interest income is recognised in the income statement for all interest bearing instruments on an accrual basis unless collectability is doubtful.

(h) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity in another entity.

Financial assets**(i) Classification**

The group classifies its financial assets as loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The group's loans and receivables comprise trade and other receivables, short term deposits and cash and cash equivalents.

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short term deposits with original maturity of 90 days or less.

Available-for-sale

Available-for-sale are financial asset - service concession rights derived from service concession agreements and are not quoted in an active market.

The terms of the concession agreements requires the company to design, finance, construct and operate 2,306 units for student accommodation. Under the first Concession Agreement UWI has guaranteed a minimum of 90% occupancy of available rooms in any 51 weeks period for as long as the Concession Agreement is in place, which is currently estimated to be a minimum of thirty (30) years and a maximum of sixty-five (65) years.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(h) Financial instruments (cont'd)

Financial assets (cont'd)

(i) Classification (cont'd)

Available-for-sale (cont'd)

Under the second Concession Agreement UWI has guaranteed a minimum of 90% occupancy of available rooms for 38 weeks and 51 weeks respectively for 650 rooms and 72 rooms of the 722 rooms to be developed under this concession for as long as the Concession Agreement is in place, which is currently estimated to be thirty (30) years to a maximum of thirty- five (35) years.

Under both concessions, the units will be returned to UWI at the end of the term of the sub-lease free of cost. The duration of the lease is equal to the duration of the Concession Agreement

The service concession rights as described above has been classified as a financial asset.

Financial asset - service concession rights is carried at fair value, based on triennial valuations by a professionally qualified valuer and the intervening periods by the directors. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve.

(ii) Recognition and Measurement

Regular purchases and sales of financial assets classified as loans and receivables are recognized on the trade-date - the date on which the group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in note 3(e).

Financial liabilities

The group's financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method. At the reporting date, the following items were classified as financial liabilities: trade payables, short term borrowings, redeemable preference shares and long term loans.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(i) Receivables

Receivables are carried at original lease agreement amount. Other receivables are stated at amortised cost.

(j) Trade and other payables

Trade and other payables are stated at amortised cost.

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares are recognised as a deduction from equity.

(l) Investment in subsidiary

Investment by the company in subsidiary is stated at cost.

(m) Preference shares

Preference shares are classified as a liability if it is redeemable on a specific date or at the option of the stockholders, or if dividends are not discretionary. Dividends thereon are recognised as interest in construction in progress and in the profit or loss upon completion of construction. The Group's redeemable preference shares are redeemable on specific dates, and bear entitlements to distributions that are cumulative and not at the discretion of the directors. Accordingly, they are presented as financial liability.

(n) Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost.

Borrowing costs incurred for the construction of the qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Investment income earned on the temporary investment of qualifying assets is deducted from borrowing costs eligible for capitalisation.

(o) Dividend distribution

Dividend distribution to the group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. In the case of interim dividends, this is recognised when declared by the directors.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

(p) **Segment reporting**

An operating segment is a component of the company that engages in business activities from which it may earn revenues and new expenses; whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available. The CODM has been identified as The Board of Directors in particular the executive members, who make strategic decisions.

Based on the information presented to and reviewed by the CODM, the entire operations of the company are considered as one operating segment.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES:

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

(a) **Critical judgements in applying the group's accounting policies**

In the process of applying the group's accounting policies relating to recognition of the obligation of the University of the West Indies (UWI), as Grantor, in respect of its guarantee of 90% occupancy of the housing unit provided under the Concession Agreement, management has sought legal opinion on whether occupancy by groups and students other than 'Students' as defined in the Concession Agreement, ought to be included in measuring the extent to which the occupancy guarantee has been satisfied.

The legal opinion indicates that groups and students not included in the definition of 'Students' and which were sourced by the group independently of UWI should not be included in the calculation. Management has proceeded in recognizing revenue related to the 90% occupancy guarantee on that basis. UWI has not conclusively acquiesced to that position and so management has considered it prudent to make a 50% provision of the sum in question.

(b) **Key sources of estimation uncertainty**

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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:

(i) **Fair value estimation**

A number of assets and liabilities included in the group's financial statements require measurement at, and/or disclosure of fair value.

138 STUDENT LIVING JAMAICA LIMITED**NOTES TO THE FINANCIAL STATEMENTS****30 SEPTEMBER 2018****4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):****(b) Key sources of estimation uncertainty (cont'd)****(i) Fair value estimation (cont'd)**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price is used to determine fair value where an active market (such as a recognized stock exchange) exists as it is the best evidence of the fair value of a financial instrument.

The fair value measurement of the group'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 categorized into different levels based on how observable the inputs used in the valuation technique are.

The standard requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

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

The classification of an item into the above level 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 group measures financial instruments at fair value -

The fair value of financial instruments that are not traded in an active market are deemed to be determined as follows:

- (i) The face value, less any estimated credit adjustment, for financial assets and liabilities with a maturity of less than one year are estimated to approximate their fair values. These financial assets and liabilities include cash and bank balances, receivables, payables, redeemable preference shares and short term loan.
- (ii) The carrying value for financial asset - service concession rights is based on fair value using a revenue base approach.

138 STUDENT LIVING JAMAICA LIMITED**NOTES TO THE FINANCIAL STATEMENTS****30 SEPTEMBER 2018****4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (CONT'D):****(b) Key sources of estimation uncertainty (cont'd)****(i) Fair value estimation (cont'd)**

The carrying value of long term liabilities approximates their fair values, as these loans are carried at amortised cost reflecting their contractual obligations and the interest rates are reflective of current market rates for similar transactions.

(ii) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognizes liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were originally recorded, such differences will impact income tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT:

The group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price, and
- Liquidity risk

In common with all other businesses, the group's activities expose it to a variety of risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks to minimize potential adverse effects on the financial performance of the group and the methods used to measure them.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(a) Principal financial instruments

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

- Receivables
- Cash and cash equivalents
- Short term deposits
- Payables

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(a) Principal financial instruments

- Short term borrowings
- Long term loans
- Redeemable preference shares
- Financial asset - service concession rights

(b) Financial instruments by category

Financial assets

	<u>Loans and Receivables</u>			
	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Receivables	110,625	139,036	310,753	132,181
Short term deposits	339,724	484,509	286,307	417,616
Cash and cash equivalents	<u>32,465</u>	<u>15,169</u>	<u>23,561</u>	<u>5,587</u>
	<u>482,814</u>	<u>638,714</u>	<u>620,621</u>	<u>555,384</u>

	<u>Available-for-sale</u>			
	<u>Level 2</u>			
	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Financial asset - service concession rights	7,940,000	7,250,000	6,625,000	5,625,000
Total financial assets	<u>8,315,257</u>	<u>7,888,714</u>	<u>7,138,064</u>	<u>6,180,384</u>

	<u>Financial liabilities at amortised cost</u>			
	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Short term borrowings	-	269,416	-	269,416
Payables	450,580	359,041	427,361	179,598
Long term loans	4,701,613	4,376,907	3,280,613	2,955,907
Redeemable preference shares	<u>172,642</u>	<u>172,642</u>	<u>172,642</u>	<u>172,642</u>
Total financial liabilities	<u>5,324,835</u>	<u>5,178,006</u>	<u>3,880,616</u>	<u>3,577,563</u>

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(c) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, short term deposits, receivables, payables, short term borrowings and long term loans.

Due to their short-term nature, the carrying value of cash and cash equivalents, short term deposits, receivables, short term borrowings, long term loans and payables balances approximate their fair value.

(d) Financial risk factors

The Board of Directors has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The Board provides policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investments of excess liquidity.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Market risk

Market risk arises from the company's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

Currency risk arises from US\$ foreign currency cash and cash equivalents. The group manages this risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The group further manages this risk by maximizing foreign currency earnings and holding net foreign currency assets.

138 STUDENT LIVING JAMAICA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2018

5. **FINANCIAL RISK MANAGEMENT (CONT'D):**

(d) **Financial risk factors (cont'd)**

(i) **Market risk (cont'd)**

Currency risk (cont'd)

Concentration of currency risk

The table below summarises the exposure to Jamaican dollar equivalents foreign currency risk at 30 September 2018.

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At 30 September 2018				
Financial assets:				
Cash and cash equivalents	15,583	11,219	12,682	1,691
Short term deposits	<u>42,653</u>	<u>12,554</u>	<u>40,373</u>	<u>10,365</u>
Total financial assets	<u>58,236</u>	<u>23,773</u>	<u>53,055</u>	<u>12,056</u>
Net financial position	<u>58,236</u>	<u>23,773</u>	<u>53,055</u>	<u>12,056</u>

Foreign currency sensitivity

The following table indicates the sensitivity of profit before taxation to changes in foreign exchange rates. The change in currency rate below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents outstanding foreign currency denominated cash and bank and short term borrowings accounts adjusts their translation at the year-end for 4% (2017 - 6%) depreciation and a 2% (2017 - 2%) appreciation of the Jamaican dollar against the various currencies. The changes below would have no impact on other components of equity.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(d) Financial risk factors (cont'd)

(i) Market risk (cont'd)

Foreign currency sensitivity (cont'd)

<u>The Group and the Company</u>				
<u>Currency</u>	<u>% Change in Currency Rate 2018</u>	<u>Effect on Profit before Taxation 2018 \$'000</u>	<u>% Change in Currency Rate 2017</u>	<u>Effect on Profit before Taxation 2017 \$'000</u>
USD	+2	(1,165)	+2	(475)
USD	<u>-4</u>	<u>2,329</u>	<u>-6</u>	<u>1,426</u>

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The group does not have a significant exposure and as such, market price fluctuations are not expected to have a material effect on the net results or stockholders' equity.

Cash flow and fair value interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Floating rate instruments expose the group to cash flow interest rate risk, whereas fixed rate instruments expose the group to fair value interest rate risk.

The group's short term deposits are due to mature within 12 months of the reporting date, while the group's long term loan are repriced within 6 months of the reporting date.

Interest rate sensitivity

There is no significant exposure to interest rate risk on short term investments, as these deposits have a short term to maturity and are constantly reinvested at current market rates. There is no significant exposure on the long term loan within the short term.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(d) Financial risk factors (cont'd)

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk arises from trade receivables, short term deposits and bank balances.

Receivables

Revenue transactions in respect of the group's primary operations are settled in cash. For its operations done on a credit basis, the group has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

Cash and bank balances

Cash transactions are limited to high credit quality financial institutions. The group has policies that limit the amount of credit exposure to any one financial institution.

Maximum exposure to credit risk

The maximum exposure to credit risk is equal to the carrying amount of receivables, short term deposits and cash and bank balances in the statement of financial position.

Receivables that are past due but not impaired

As at 30 September 2018, receivables of \$236,825,000 (2017 - \$59,316,000) were past due but not impaired. These relate to independent customers for whom there is no recent history of default.

Receivables that are past due and impaired

As of 30 September 2018, the group and the company had receivables that were impaired. The amount of the provision was of \$28,121,000 (2017 - \$8,316,000).

A specific provision was adopted for impaired receivables and included in expenses in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(iii) Liquidity risk

Liquidity risk is the risk that the group will be unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(d) Financial risk factors (cont'd)

(iii) Liquidity risk (cont'd)

Liquidity risk management process

The group's liquidity management process, as carried out within the group and monitored by the Finance Department, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis.
- (ii) Maintaining a portfolio of short term deposits balances that can easily be liquidated as protection against any unforeseen interruption to cash flow.
- (iii) Maintaining committed lines of credit.
- (iv) Optimising cash returns on investments.

Cash flows of financial liabilities

The maturity profile of the group's financial liabilities, based on contractual undiscounted payments, is as follows:

	The Group			
	Within 1 Year \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
30 September 2018				
Payables	450,580	-	-	450,580
Long term loans	468,670	2,589,861	4,045,668	7,104,199
Redeemable preference shares	<u>15,737</u>	<u>62,946</u>	<u>566,058</u>	<u>644,741</u>
Total financial liabilities (contractual maturity dates)	<u><u>934,987</u></u>	<u><u>2,652,807</u></u>	<u><u>4,611,726</u></u>	<u><u>8,199,520</u></u>
30 September 2017				
Payables	359,041	-	-	359,041
Short term borrowings	277,480	-	-	277,480
Long term loans	566,659	3,201,216	5,700,967	9,468,842
Redeemable preference shares	<u>-</u>	<u>78,683</u>	<u>566,058</u>	<u>644,741</u>
Total financial liabilities (contractual maturity dates)	<u><u>1,203,180</u></u>	<u><u>3,279,899</u></u>	<u><u>6,267,025</u></u>	<u><u>10,750,104</u></u>

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

5. FINANCIAL RISK MANAGEMENT (CONT'D):

(d) Financial risk factors (cont'd)

(iii) Liquidity risk (cont'd)

Cash flows of financial liabilities (cont'd)

	The Company			
	Within 1 Year \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
30 September 2018				
Payables	427,361	-	-	427,361
Long term loans	392,380	1,670,501	2,551,796	4,614,677
Redeemable preference shares	<u>15,737</u>	<u>62,946</u>	<u>566,058</u>	<u>644,741</u>
Total financial liabilities (contrac- tual maturity dates)	<u>835,478</u>	<u>1,733,447</u>	<u>3,117,854</u>	<u>5,686,779</u>
30 September 2017				
Payables	181,120	-	-	181,120
Short term borrowings	277,480	-	-	277,480
Long term loans	399,200	2,363,921	4,193,836	6,956,957
Redeemable preference shares	<u>-</u>	<u>78,683</u>	<u>566,058</u>	<u>644,741</u>
Total financial liabilities (contrac- tual maturity dates)	<u>857,800</u>	<u>2,442,604</u>	<u>4,759,894</u>	<u>8,060,298</u>

(e) Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders. The Board of Directors monitors the return on capital, which the group defines as net operating income, excluding non-recurring items, divided by total stockholders' equity. The Board of Directors also monitors the level of dividends to stockholders.

There are no particular strategies to determine the optimal capital structure. There are also no external capital maintenance requirements to which the group is subject.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

6. INCOME:

Income represents revenue from the rental of dormitory accommodations.

7. OTHER OPERATING INCOME:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Foreign exchange gain	3,506	1,470	2,318	1,470
Interest income	18,499	18,238	17,107	17,468
Other income	<u>31,656</u>	<u>8,354</u>	<u>30,173</u>	<u>10,432</u>
	<u>53,661</u>	<u>28,062</u>	<u>49,598</u>	<u>29,370</u>

8. EXPENSES BY NATURE:

Total administrative and other expenses:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Staff costs (note 9)	77,676	54,742	74,349	54,487
Advertising	5,111	1,162	3,381	1,162
Security services	8,865	1,098	16	360
Land lease	63,912	49,196	32,725	44,660
Cleaning	3,714	2,549	3,507	2,549
Audit fees	5,701	4,277	3,440	1,772
Assets tax	400	200	200	200
Professional fees	31,750	15,898	29,881	13,009
Directors' fees	2,370	2,553	2,370	2,553
Trustee fees	8,224	5,928	5,211	3,191
Bank charges	8,204	5,341	7,699	5,122
Repairs and maintenance	29,251	13,631	23,705	13,536
Stationery and office supplies	1,574	893	1,574	893
Travelling and entertainment	16,120	3,426	3,521	2,201
Computer software	2,227	1,570	2,227	1,570
Utilities	161,987	40,427	100,496	36,560
Insurance	22,180	17,219	15,900	15,675
Telephone, internet and cable	48,758	41,196	42,233	35,735
Foreign exchange loss	-	212	-	-
Bad debts	19,805	8,316	14,459	5,941
Other operating expenses	<u>1,313</u>	<u>2,101</u>	<u>1,279</u>	<u>2,018</u>
	<u>519,142</u>	<u>271,935</u>	<u>368,173</u>	<u>243,194</u>

138 STUDENT LIVING JAMAICA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2018

9. STAFF COSTS:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Salaries and wages	66,047	47,418	62,728	47,163
Statutory deductions	8,173	5,497	8,173	5,497
Staff benefits	<u>3,456</u>	<u>1,827</u>	<u>3,448</u>	<u>1,827</u>
	<u>77,676</u>	<u>54,742</u>	<u>74,349</u>	<u>54,487</u>

The average number of persons employed by the group during the year was 84 (2017 - 81).

10. FINANCE COSTS:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Interest expense	<u>406,390</u>	<u>309,911</u>	<u>286,830</u>	<u>286,796</u>

11. TAXATION EXPENSE:

(a) Taxation for the year comprises:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Deferred taxation (note 14)	<u>(74,877)</u>	<u>(50,322)</u>	<u>(42,660)</u>	<u>(39,431)</u>

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

11. TAXATION EXPENSE (CONT'D):

- (b) Reconciliation of theoretical tax charge that would arise on (loss)/profit before taxation using the applicable tax rate to actual tax charge.

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
(Loss)/profit before taxation	(91,128)	19,757	(9,459)	(1,131)
Tax calculated @ 25%	(22,782)	4,939	(2,365)	(283)
Adjusted for the effects of:				
Expenses not deducted for Tax purposes	4,146	9,675	2,594	6,866
Net effect of other charges and allowances	(56,241)	(64,936)	(42,889)	(46,014)
Taxation credit income statement	(74,877)	(50,322)	(42,660)	(39,431)

- (c) Subject to agreement with the Tax Administration Jamaica, the company has tax losses of \$514,606,000 (2017 - \$336,949,000) and the group has tax losses of \$696,181,000 (2017 - \$386,340,000) available for offset against future taxable profits. A deferred tax asset has been recognised in respect of these losses.

12. (LOSS)/PROFIT PER STOCK UNIT:

(Loss)/profit per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary stock units in issue at year end.

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net (loss)/profit attributable to Stockholders	(16,251,000)	70,079,000	33,201,000	38,300,000
Weighted average number of ordinary stock units	414,500,000	414,500,000	414,500,000	414,500,000
(Loss)/profit per stock unit	(\$ 0.04)	\$ 0.17	\$ 0.08	\$ 0.09

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

13. FINANCIAL ASSET - SERVICE CONCESSION RIGHTS:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
At Cost	5,389,982	5,295,230	3,809,455	3,746,329
Amount recognised in other Comprehensive income	<u>2,550,018</u>	<u>1,954,770</u>	<u>2,815,545</u>	<u>1,878,671</u>
Amount recognised in the statement of financial position	<u>7,940,000</u>	<u>7,250,000</u>	<u>6,625,000</u>	<u>5,625,000</u>

- (a) On 12 November 2018, the properties were valued by Allison Pitter & Company - Chartered (Valuation) Surveyors, resulting in a fair value of \$6.625B for 138 Student Living Limited and a fair value of \$1.315B for 138 SL Restoration Limited. The surplus/(deficit) arising on the valuation was taken to other comprehensive income.
- (b) Both 138 Student Living and 138 SL Restoration constructed and renovated properties and purchased furniture and fixtures. The properties are professionally valued every three years and by directors in the intervening years. The resulting valuations at 30 September 2017 were fair value at \$5.5B - \$5.75B for 138 Student Living Limited and \$1.5B - \$1.75B for 138 SL Restoration Limited. The mid values of \$5.62B and \$1.62B were used for 138 Student Living and 138 SL Restoration Limited respectively. The surplus or deficit arising was taken to other comprehensive income.
- (c) The valuation methodology employed for the assessment of the fair value of the subject is an investment approach via a discounted cash flow where the following are undertaken:

Firstly a projection of net income over the proposed periods of the Concession Agreements to determine the likely termination dates of these Agreements - as per the achievements of a net IRR's on which they are predicated, is undertaken; and

Secondly a DCF is undertaken of those likely net incomes over the projected terms for both agreements in order to establish the fair value of each.

Specific Valuation Assumptions:

In the analysis undertaken the following assumptions are made:

- A rental growth of 1.5% to 2.5% per annum is assumed, as the subject types of properties generally do not show good rental growth and are tied to a US dollar denomination already making it fairly unstable in Jamaican dollar terms;
- Given the current levels of rentals and occupancies achieved, it is assumed that no further development of the balance of rooms as per the agreement will be executed in the foreseeable future.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

13. FINANCIAL ASSET - SERVICE CONCESSION RIGHTS (CONT'D):

Specific Valuation Assumptions (Cont'd):

- Expenses are projected to grow at an anticipated rate of 3.2% per annum - in line with a stabilised long term rate of inflation;
- The projected period for an after tax 15% and 12.5% IRR for Concessions Agreements 1 and 2 respectively was assessed at 30 and 21 years, respectively;
- Discount rates ranging between 7% and 9% are used for the relevant cash flows as against current institutional investor target rates of 6% to 8% for more traditional investment real estate. Student housing tends to show lower growth rates in terms of income but are fairly stable and offer earnings that often run 'less cyclical' in their performance to more traditional investment properties, hence having the effect of reducing the 'overall risk' in real estate portfolios.
- The income that is capitalised is the net operating income from the property, which does not include taxes (except property tax where relevant) interest on loans, depreciation or appreciation.

14. DEFERRED INCOME TAXES:

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 25%.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities. The amounts determined after appropriate offsetting are as follows:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Deferred tax liability	(461)	(1,739)	(431)	(1,238)
Deferred tax assets	<u>176,662</u>	<u>103,063</u>	<u>129,919</u>	<u>88,066</u>
Net deferred tax assets	<u>176,201</u>	<u>101,324</u>	<u>129,488</u>	<u>86,828</u>

The movement in deferred taxation is as follows:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Balance at beginning of year	101,324	51,002	86,828	47,397
Credit for the year (note 11)	<u>74,877</u>	<u>50,322</u>	<u>42,660</u>	<u>39,431</u>
Balance at end of year	<u>176,201</u>	<u>101,324</u>	<u>129,488</u>	<u>86,828</u>

Deferred taxation represents the amount for interest payable, interest receivables and tax losses.

138 STUDENT LIVING JAMAICA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2018

15. INVESTMENT IN SUBSIDIARY:

	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>
Investment of the company in the subsidiary:		
138 SL Restoration Limited	<u>466,000</u>	<u>466,000</u>

16. RECEIVABLES:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Receivables	227,135	59,317	189,453	44,641
Advance to contractor	592	2,820	-	720
Prepayments and deposits	1,679	640	1,679	640
Interest receivable	1,847	6,954	1,726	4,951
138 SL Restoration Limited	-	-	200,842	29,541
Other receivables	19,254	5,230	15,233	3,150
UWI Mona	<u>108,185</u>	<u>96,969</u>	<u>108,185</u>	<u>96,969</u>
	358,692	171,930	517,118	180,612
Less: Provision for bad debts	<u>(28,121)</u>	<u>(8,316)</u>	<u>(20,400)</u>	<u>(5,941)</u>
	<u>330,571</u>	<u>163,614</u>	<u>496,718</u>	<u>174,671</u>

17. SHORT TERM DEPOSITS:

This represents deposits with financial institutions with original maturities of greater than 90 days but less than 1 year.

Included in short term deposits for the group and the company are amounts required under various loan agreements representing debt service reserves, totalling \$249 million.

18. CASH AND CASH EQUIVALENTS:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Foreign currency accounts	15,583	11,219	12,682	1,691
Jamaican currency current accounts	13,155	3,921	10,863	3,867
Cash in hand	<u>4,281</u>	<u>29</u>	<u>570</u>	<u>29</u>
	<u>33,019</u>	<u>15,169</u>	<u>24,115</u>	<u>5,587</u>

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

19. SHARE CAPITAL:

	<u>The Group and the Company</u>	
	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>
Authorised -		
480,500,000 ordinary shares at no par value		
94,500,000 cumulative redeemable preference shares		
Stated capital -		
414,500,000 ordinary shares issued and fully paid	721,153	721,153
34,528,500 preference shares issued and fully paid	<u>172,642</u>	<u>172,642</u>
	<u>893,795</u>	<u>893,795</u>
Shares issued to professionals for other than cash (share based payment)	<u>435,565</u>	<u>435,565</u>
Initial public offering	505,691	505,691
Less: IPO transactions costs	<u>(47,461)</u>	<u>(47,461)</u>
	<u>458,230</u>	<u>458,230</u>
Closing balance	893,795	893,795
Less redeemable preference shares required by IFRS to be accounted for as liabilities in the financial statements	<u>(172,642)</u>	<u>(172,642)</u>
	<u>721,153</u>	<u>721,153</u>

At the end of the reporting period, the company's issued and fully paid up ordinary share capital stood at 414,500,000. This includes shares allotted in the initial public offering in November 2014 of 82,900,000 at a price of \$4.00 per share.

As part of the initial public offering, the company also offered 33,680,000 cumulative redeemable preference shares at \$5.00 per share. Arising from the over-subscription for these shares, an additional 848,000 shares were issued to subscribers. Preference dividend for the years 2014 to 2018 will be accumulated and be paid in 2018 and annually thereafter. Dividend yield on preference shares will be indexed to the Government of Jamaica 180 day weighted average Treasury Bill yield plus a premium of three percent. The paid up share capital for both classes is net of transaction cost incurred of \$47,461,000, and amount of \$29,506,000 was included in the financial asset - service concession.

Share based payment

Share based payment arrangements are measured at the fair value of the goods or services received or the fair value of the equity instruments granted using the option pricing model, the inputs to that model being the share price, exercise price and the expected dividends.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

19. SHARE CAPITAL (CONT'D):

Share based payment (cont'd)

The share based payment is recognised as part cost of the financial asset - service concession rights with a corresponding increase in equity.

The share based payment arrangement entered on 13 November 2014 issued ordinary shares in lieu of payment for fees for consultancy and other services.

The members are prohibited from disposing of more than:

- 50% of their respective holdings of ordinary shares in Phase 1
- A further 50% of their remaining holdings in Phase 2
- The remainder of their holdings in Phase 3

20. FAIR VALUE RESERVE:

This represents fair value movement in financial asset - service concession rights.

21. RESERVE:

This represents shares in subsidiary, 138 SL Restoration Limited, acquired for other than cash.

22. LONG TERM LOANS:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
JCSD Trustees Services Limited - Trustee for noteholders	<u>4,701,613</u>	<u>4,376,907</u>	<u>3,280,613</u>	<u>2,955,907</u>

This represents long term note issued with JCSD Trustee Services Limited (Trustee for note holders) through CIBC FirstCaribbean International Bank with fifteen (15) years tenor and seven (7) years carrying interest at six (6) months weighted average treasury bill yield (WATBY) plus 350 basis points and one loan at a fixed rate of 10.45%. Additionally, loans during the year \$325 billion to 138 Student Living Limited to partially replace the short term borrowings from Jamaica Mortgage Bank mentioned at Note 24 below.

The loan facilities are secured by the following:

- (a) Debenture over the fixed and floating assets of the issuer inclusive of the building under Phase1.
- (b) Assignment of rights under Concession Agreement to cover Phase 1 of the project.
- (c) Assignment of all insurance policies.
- (d) Assignment of lease for the benefit of the note holders.
- (e) Debt service reserve account with at least one period debt service.
- (f) Promissory notes
- (g) Maintenance reserve account with minimum value of deposits of up to 3% of the total value of the building.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

22. LONG TERM LOANS (CONT'D):

The subsidiary, 138 SL Restoration Limited also raised funding for the renovation works for Gerald Lalor Hall and the reconstruction of Irvine Hall through long term instruments issued through Victoria Mutual Wealth Management and MoneyMasters Limited to raise up to \$2.795 billion for a period of 15 years. Interest is fixed at 11.5% for the first six months and thereafter a variable rate of 350 basis points above the weighted average rate applicable to the six month Jamaica Treasury Bill Tender (WATBY). JCSD Trustee Services Limited are the Trustee for the long term instruments and \$468M has been raised in 2016. Additionally disbursements of \$953,218,000 were made during the year.

23. PAYABLES:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
Trade payables	243,373	55,000	223,286	30,576
Rent deposit	141,483	101,948	103,809	76,516
Contractor's levy	-	5,752	-	204
Due to contractor	104,680	175,529	75,140	75,017
Loan interest	10,468	25,908	5,073	15,314
Interest payable (related to dividend on preference shares)	57,930	45,155	57,930	45,155
University of The West Indies	29,555	16,726	1,479	10,346
Other	<u>28,394</u>	<u>11,911</u>	<u>25,889</u>	<u>6,878</u>
	<u>615,883</u>	<u>437,929</u>	<u>492,606</u>	<u>260,006</u>

24. SHORT TERM BORROWINGS:

	<u>The Group</u>		<u>The Company</u>	
	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
Jamaica Mortgage Bank Jamaica Limited (11.5%) (i)	-	137,365	-	137,365
National Commercial Bank Jamaica Limited (11.5%) (i)	<u>-</u>	<u>132,051</u>	<u>-</u>	<u>132,051</u>
	<u>-</u>	<u>269,416</u>	<u>-</u>	<u>269,416</u>

138 STUDENT LIVING JAMAICA LIMITED
NOTES TO THE FINANCIAL STATEMENTS
30 SEPTEMBER 2018

24. **SHORT TERM BORROWINGS (CONT'D):**

- (i) This represents a joint loan with Jamaica Mortgage Bank and National Commercial Bank Jamaica Limited to provide \$1,688,490,000 to facilitate the construction of Phase 2 of the project, for a duration of eighteen (18) months at an interest rate of 11.5%. The loan was repaid during the year.

The loan is secured by the following -

- (a) Assignment of rights relating to Phase 2 under the Concession Agreement.
 (b) A three (3) month interest reserve account - balance to be built up in line with amounts disbursed on the loan.
 (c) Assignment of Contractor all risk insurance.
 (d) Assignment of a 10% performance bond in accordance with the Concession Agreement.
 (e) Charge over cash/negotiable securities having aggregate face value equivalent to at least 20% of the loan amount to a maximum of \$300,000,000.

25. **RELATED PARTY TRANSACTIONS AND BALANCES:**

	<u>The Group and the Company</u>	
	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
<u>Transactions during the year</u>		
138 SL Restoration Limited - payments made	<u>70,815</u>	<u>86,751</u>
138 SL Restoration Limited - Reimbursements	<u>89,562</u>	<u>59,275</u>
Key management compensation - Key management includes senior manager - Salaries and other short-term employee benefits	<u>17,031</u>	<u>9,371</u>
Directors' emoluments - Fees Professional fees	<u>2,370</u> <u>26,838</u>	<u>2,553</u> <u>48,177</u>
<u>Year end balances</u>		
With related company: Due from 138 SL Restoration Limited (included in receivables)	<u>200,842</u>	<u>29,541</u>

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

26. NET PROFIT/(LOSS):

	<u>2018</u> <u>\$'000</u>	<u>2017</u> <u>\$'000</u>
Reflected in the financial statements of:		
The company	33,201	38,300
Subsidiary	<u>(49,452)</u>	<u>31,779</u>
	<u>(16,251)</u>	<u>70,079</u>

27. BORROWING COSTS:

Included in financial asset - service concession rights and construction-in-progress is an amount of \$24,654,000 (2017 - \$191,474,000) that represents borrowing costs capitalised during the year using a capitalisation rate of 10%. These borrowing costs were offsetted by interest earned amounting to \$ Nil (2017 - \$2,873,000).

28. COMMITMENT:

The company has contracted with CIBC First Caribbean International Bank to raise funding for its long term notes, having an aggregate principal value of \$4.3B, however, the contract by mutual agreement was terminated during the year and Sagicor appointed to raise the remainder of the funds.

Long term notes issued as at 30 September 2018 for the group and the company amounted to \$4.702B (2017 - \$4.377B) for which JCSD Trustee Services Limited has been appointed Trustee.

There is also an arrangement between Victoria Mutual Wealth Management and 138 SL Restoration Limited for a period of five years to raise up to \$2.4B.

Long term notes issued as at 30 September 2018 amounted to \$1.421B (2017 - \$468M) for which JCSD Trustee Services Limited have been appointed Trustee.

29. LEASE COMMITMENTS:

Lease commitments to be paid annually over the life of the Concession Agreement, is subject to the agreed terms contained therein and at 1,584 rooms (100% build out) at the end of phase 3, the company will be liable to pay \$100,000,000 per annum adjusted for 50% of the annual Jamaican Consumer Price Index, unpaid rooms and residents breaking contracts. Payments during phases 1 and 2 were calculated based on the number of rooms and the other adjustable factors mentioned. Rooms completed to date total 1008.

138 SL Restoration Limited lease commitment is based on the maximum 722 rooms as a percentage of 1,584 rooms and \$100,000,000 adjusted for the Consumer Price Index and other factors mentioned above.

138 STUDENT LIVING JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

30 SEPTEMBER 2018

30. CONTINGENCIES:

The company is currently involved in two matters - an arbitration and a claim in the Supreme Court. Both matters stem from a Construction Contract dated 16 September 2014 (“the Construction Contract”) between 138 Student Living Jamaica Limited (138 SL) and Prime Development Limited (Prime).

Arbitration

Arising from disputes under the Construction Contract, the Contract Administrator along with the Quantity Surveyor, issued a final certificate recommending that Prime owed 138 SL \$32,231,695. Prime initiated the arbitration process provided for by the Construction Contract, by sending notice of arbitration to 138 SL on 22 June 2016 and has since filed points of claim in accordance with directions given by the arbitrators. Prime claims that \$118,926,866 is due under the Construction Contract and has asked the arbitrators to award same. 138 SL has filed a defence to the points of claim on 10 December 2016 and has also counter claimed for general damages for breach of contract.

The arbitration proceeding has commenced, however, the outcome is uncertain.

Claim in Supreme Court

To provide security for the completion of the project under the Construction Contract, a performance bond was signed under the terms of which 138 SL could call on the bank to pay the sum if Prime defaulted on its obligations under the Construction Contract. A claim was filed by 138 SL.

On 24 August 2016, the Court put the claim on hold pending the outcome of the arbitration. Further proceedings on the claim is dependent on the outcome of the arbitration and the Attorneys are of the opinion that even if there are further proceedings on the claim there is no risk of 138 SL being ordered to pay a sum of money to Prime save for legal costs if 138 SL is unsuccessful in defending the claim.