

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Board and its advisers seek to have appropriate credit facilities in place on a project by project basis, either from available cash resources or from bank facilities.

Management monitor the Group's liquidity position on a daily basis and formal liquidity reports are issued from all jurisdictions on a weekly basis and are reviewed monthly by the Board, along with cash flow forecasts. A summary table with maturity of financial liabilities is presented below.

All amounts shown are gross undiscounted cash flows.

Financial liabilities

As at 31 December 2017

	Total \$'000	Current \$'000	Year 2 \$'000	Years 3 to 5 \$'000	Years 6 to 10 \$'000
Interest bearing loans and borrowings	1,072,072	166,325	197,846	478,065	229,836
Preference shares	160,943	16,094	16,094	48,283	80,472
Convertible preference shares	495,150	16,917	16,917	50,751	410,565
Derivative financial instruments	35	35	-	-	-
Head leases	1,553	155	155	466	777
Trade and other payables	46,705	24,078	7,736	13,981	910
	1,776,458	223,604	238,748	591,546	722,560

As at 31 December 2016

Interest bearing loans and borrowings	964,900	96,014	106,721	542,826	219,339
Preference shares	145,711	14,571	14,571	43,713	72,856
Convertible preference shares	254,153	8,260	8,260	24,780	212,853
Derivative financial instruments	1,010	943	67	-	-
Head leases	1,447	145	145	434	723
Trade and other payables	38,832	15,509	5,471	15,496	2,356
	1,406,053	135,442	135,235	627,249	508,127

Details of the interest rates applicable to the Group's long term borrowings, preference shares and convertible preference shares are given in notes 22, 23 and 24. The Group is subject to interest costs in perpetuity in respect of preference shares, which have no contractual maturity date. The table above does not show cash flows beyond 10 years.

The Group monitors its risk to a shortage of funds by forecasting cash flow requirements for future years. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short term borrowing facilities, bank loans and equity fund raisings.

Fair values

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments in the financial statements.

	2017		2016	
	Carrying Value \$'000	Fair Value \$'000	Carrying Value \$'000	Fair Value \$'000
<i>Non-current assets</i>				
Loans receivable	665	621	611	577
Security deposits	1,305	1,220	-	-
Derivative financial instruments	7,948	7,948	5,012	5,012
<i>Current assets</i>				
Trade receivables	44,315	44,315	37,732	37,732
Security deposits	-	-	2,393	2,393
Other current receivables	1,509	1,509	318	318
Derivative financial instruments	445	445	358	358
Cash and short term deposits	266,666	266,666	198,621	198,621
<i>Non-current liabilities</i>				
Interest bearing loans and borrowings	740,485	743,488	699,038	706,682
Preference shares	146,458	195,816	131,703	165,140
Convertible preference shares	269,031	317,521	119,859	143,596
Derivative financial instruments	-	-	67	67
Rent deposits	22,626	19,838	23,324	19,838
Other payables	1,932	1,932	1,935	1,935
<i>Current liabilities</i>				
Interest bearing loans and borrowings	106,697	106,697	40,787	45,458
Derivative financial instruments	35	35	943	943
Rent deposits	6,622	6,622	6,640	6,640
Other payables	17,455	17,455	8,869	8,869

The fair values of loans receivable and borrowings have been calculated based on a discounted cash flow model using a discount rate based on the Group's weighted average cost of capital. The valuation technique falls within level 3 of the fair value hierarchy (see note 36 for definition). The fair value of short term deposits, other assets, trade and other receivables, trade and other payables is assumed to approximate to their book values. The fair value of preference shares and convertible preference shares are assumed to be their last quoted price, which is considered to be level 1 of the fair value hierarchy. The fair value of derivatives is determined by a model with market based inputs.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

For capital risk management, the Directors consider both the ordinary and preference shares to be permanent capital of the Company, with similar rights as to cancellation.

To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, under take tender offers, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total liabilities but excluding provisions, head lease obligations and preference shares, which for capital risk management is considered to be capital rather than debt, less cash and short term deposits. Total capital is calculated as equity, as shown in the balance sheet, plus preference shares and net debt. Where the Group has a net cash position, the gearing ratio will be zero.

	2017 \$'000	2016 \$'000
Non-current liabilities	1,123,213	904,157
Current liabilities	214,080	107,130
Total borrowings	1,337,293	1,011,287
Less: cash and short term deposits	266,666	198,621
Net debt	1,070,627	812,666
Equity	529,758	500,226
Preference shares	146,458	131,703
Total capital	1,746,843	1,444,595
Gearing ratio	61.29%	56.26%

36. Fair value measurement

The following table provides the fair value measurement hierarchy* of the Group's assets and liabilities.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total Fair Value \$'000
As at 31 December 2017				
<i>Assets measured at fair value</i>				
Investment property	-	-	1,568,126	1,568,126
Investment property under construction	-	-	38,411	38,411
Derivative financial instruments	-	8,393	-	8,393
<i>Liabilities measured at fair value</i>				
Derivative financial instruments	-	35	-	35
As at 31 December 2016				
<i>Assets measured at fair value</i>				
Investment property	-	-	1,300,643	1,300,643
Investment property under construction	-	-	41,253	41,253
Derivative financial instruments	-	5,370	-	5,370
<i>Liabilities measured at fair value</i>				
Derivative financial instruments	-	1,010	-	1,010

* Explanation of the fair value hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities that can be accessed at the balance sheet date.

Level 2 - Use of a model with inputs that are directly or indirectly observable market data.

Level 3 - Use of a model with inputs that are not based on observable market data.

The Group's foreign currency derivative financial instruments are call options and are measured based on spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. The Group's interest rate derivative financial instruments comprise swap contracts and interest rate caps. These contracts are valued using a discounted cash flow model and where not cash collateralised consideration is given to the Group's own credit risk.

There have been no transfers between level 1 and level 2 during the year or the prior year.

37. Operating lease arrangements

The Group earns rental income by leasing its investment properties to tenants under non-cancellable operating leases, which are discussed in detail in the Strategic Report and note 13. At the Balance Sheet date the Group had contracted with tenants for the following future minimum lease payments:-

	2017 \$'000	2016 \$'000
Within one year	153,733	124,505
In the second year	129,165	108,852
In the third to fifth year (inclusive)	191,718	196,800
After five years	43,466	53,140
	<u>518,082</u>	<u>483,297</u>

38. Reconciliation of liabilities arising from financing activities

	2016 \$'000	Cash flows \$'000	Fair value \$'000	Non-cash changes Foreign exchange \$'000	Other \$'000	2017 \$'000
Interest bearing loans and borrowings	739,825	103,175	-	(143)	4,325	847,182
Preference shares	131,703	(112)	-	12,506	2,361	146,458
Convertible preference shares	119,859	126,402	-	17,322	5,448	269,031
Derivative financial instruments	(5,041)	(4,870)	1,758	(19)	-	(8,172)
	<u>986,346</u>	<u>224,595</u>	<u>1,758</u>	<u>29,666</u>	<u>12,134</u>	<u>1,254,499</u>

Cash flows relating to interest bearing loans and borrowings comprise:

	2017 \$'000
Proceeds from long term borrowings	271,457
Repayment of long term borrowings	(125,371)
Loan amortisation	(38,322)
Bank borrowing costs paid	(64,171)
Add: Interest paid	59,582
Loan origination costs incurred	(4,589)
	<u>103,175</u>

Other non-cash changes include amortisation of origination costs, movements in interest accruals, accretion of premiums payable on redemption of preference and convertible preference shares and the allocation to equity on issue of convertible preference shares.

39. Acquisitions in the period

The Group made three corporate acquisitions in the period; Gorigo Logistics Park, Premium Business Centre and Kellerman Business Centre from the same investment fund. The Group purchased the properties by acquiring all of the issued share capital of the corporate vehicles that owned the properties. In accordance with its accounting policy, the Group considered each acquisition in turn, assessing whether an integrated set of activities had been acquired in addition to the property. In each case it was concluded a business had not been purchased but rather the acquisition of a group of assets and related liabilities.

Analyses of the consideration payable for the properties and the incidental assets and liabilities are provided below:

	Premium \$'000	Kellerman \$'000	Offices Total \$'000	Gorigo \$'000	Total \$'000
Non-current assets					
Investment property (note 11)	29,216	20,963	50,179	35,994	86,173
Deferred tax assets (note 26a)	-	-	-	1,856	1,856
Current assets					
Trade and other receivables	234	440	674	282	956
Cash and short term deposits	1,930	1,016	2,946	1,142	4,088
Current liabilities					
Trade and other payables	(1,983)	(2,523)	(4,506)	(1,961)	(6,467)
	<u>29,397</u>	<u>19,896</u>	<u>49,293</u>	<u>37,313</u>	<u>86,606</u>
Discharged by:					
Cash consideration paid					85,778
Acquisition costs					828
					<u>86,606</u>