

Empiric Student Property plc
(“Empiric” or the “Company” or, together with its subsidiaries, the “Group”)

RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

The Board of Empiric Student Property plc (ticker: ESP), the owner and operator of modern, premium student accommodation across the UK, today announced the Company’s audited results for the six months to 31 December 2016.

Following consideration of the Group’s activities, in particular, the focus of operational and development activity around the start of the academic year in September, the Board decided that it would be appropriate to change the accounting reference date to 31 December. These results have, therefore, been prepared for the shortened six month period to 31 December 2016.

HIGHLIGHTS

Financial Highlights

	As at 31 December 2016 ¹	% change
Portfolio valuation	£721.3m	37.7% on 30 June 2016
NAV per share (basic)	105.9p	0.5% on 30 June 2016
Dividend declared per share	3.05p	1.67% based on 12 month target
Gross annualised rent ²	£52.1m	57.4% on 30 June 2016
Adjusted EPRA Earnings Per Share	0.72p	
Revenue	£19.2m	
Earnings Per Share (basic)	3.38p	
EPRA Earnings Per Share	0.38p	

¹The comparative figures for the 12 months to 30 June 2016 have not been provided as these would not provide a meaningful comparison

² Gross Annualised rent includes commercial revenue and marketed student revenue for the academic year 2016/17 at full occupancy⁷

- Operating profit of £20.2 million
 - £14.5 million revaluation gain
 - £19.2 million rental income from standing assets
- £143.4 million of new debt raised through two new facilities
- As at 31 December 2016, the Loan to Value ratio (“LTV”) was 31.1% (compared to a target of 35% and maximum of 40%), with a weighted average term to maturity for the debt of 7.5 years and a weighted average interest payable of 3.46%

Operational Highlights

- 14 new assets (1,142 beds) contracted in the six months to 31 December 2016
- 2,515 new beds generating revenue for 2016/17 academic year, including 1,728 beds from 13 newly completed developments
- Portfolio now consists of 89 assets (8,504 beds) in 30 prime UK cities and towns as at 31 December 2016, continued progress to the IPO target of 10,000 beds within five years
- Average valuation yield on the portfolio of operating assets at 31 December 2016 was 5.9% compared with average yield on acquisition or cost of 6.5%
- Average rental uplift of 2.5% targeted for the 2017/18 academic year
- Hello Student® managed 3,075 beds as at 31 December 2016 (30 June 2016: 1,868) and was ANUK accredited

Post balance sheet highlights

- Acquired one new standing asset (Foss Studios, 220 beds) and one forward funded asset (Percy’s Lane, 106 beds)
- Acquired the remaining 50 per cent. share in joint venture asset (Glasgow, Willowbank) previously owned by an investment fund affiliated with Revcap Advisors Limited
- Agreed £10m, three year unsecured loan with First Commercial Bank which has been drawn down

The Rt Hon Baroness Dean of Thornton-le-Fylde, Chairman of Empiric Student Property plc, commented:

“The last six months has been a period of continuing growth. We invested in or committed to a further 14 buildings with 1,142 beds in eight towns and cities across the UK, of which 10 buildings were operational. The number of revenue generating assets increased from 52 at 30 June 2016 to 75 at 31 December 2016.

“In addition, a key development was the approval by shareholders of a revised Investment Policy which enables us to grow our existing studio portfolio, as well as diversifying the range of student accommodation formats, catering for a wider group of students. These changes have facilitated the implementation of our 2025 Plan – our blueprint for the future growth of the Group.”

For further information on the Company, please contact:

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Further information on Empiric can be found on the Company's website at www.empiric.co.uk.

Notes:

Empiric Student Property plc is a leading provider and operator of modern, direct-let, nominated or leased student accommodation across the UK. Investing in both operating and development assets, Empiric is a multi-niche student property company focused on, (i) providing good quality first year accommodation managed through its Hello Student® operating platform in partnership with universities, (ii) offering a variety of second and third year purpose built accommodation options for individual students and those wanting a group living environment, and (iii) continuing to expand the Group's existing premium, studio-led accommodation portfolio which is attractive to international and postgraduate students.

The Company, an internally managed real estate investment trust ("REIT") incorporated in England and Wales, listed on the premium listing segment of the Official List of the Financial Conduct Authority and was admitted to trading on the main market for listed securities of the London Stock Exchange in June 2014.

A meeting for investors and analysts will be held at 9:00am today at:
Newgate
Sky Light City Tower
50 Basinghall Street
London, EC2V 5DE

In addition, a recorded webcast of this meeting and the presentation will also be available to download from the Company's website: www.empiric.co.uk.

The Annual Report and Accounts will today be available on the Company's website at www.empiric.co.uk. In accordance with Listing Rule 9.6.1, copies of these documents will also be submitted today to the UK Listing Authority via the National Storage Mechanism and will be available for viewing shortly at www.morningstar.co.uk/uk/NSM.

Hard copies of the Annual Report and Accounts will be sent to shareholders, along with the notice for Annual General Meeting 2016, on or around 21 April 2017.

Chairman's Statement

The six month period to 31 December 2016 has been one of continuing growth at the Company. Shareholders approved a revised Investment Policy which enables the Company to grow our existing studio portfolio, as well as a more diverse range of student accommodation formats, catering for a wider group of students.

Overview

I am pleased to introduce the financial results of Empiric Student Property plc for the six months ended 31 December 2016.

We continued to grow our portfolio of purpose-built student accommodation. During the six month period, we invested in or committed to a further 14 buildings with 1,142 beds in eight towns and cities across the UK, of which 10 buildings were operational.

At the period end, the Group owned or had committed to a portfolio of purpose-built student accommodation assets amounting to 8,504 beds across 89 buildings (including sites acquired subject to planning) across 30 cities and towns in the UK (30 June 2016: 7,396 beds across 75 buildings).

I am very pleased to report that 12 properties being developed on a forward funded or forward committed basis and one through our development joint venture with Revcap Advisors Limited ("Revcap") became income-producing for the 2016/17 academic year, with these 1,728 new beds forming part of our portfolio of standing assets. This includes our flagship development of the former Willowbank Primary School in Glasgow, which has been completed to a very high standard and complements our adjoining Ballet School property.

The Group's portfolio of assets (including the Company's share of a joint venture development asset) had an aggregate value of £721.3 million as at 31 December 2016 (30 June 2016: £523.9 million) as valued by CBRE. Of these properties, 75 (6,775 beds) were operational (or revenue generating) at the period end with gross annualised rent of £52.1 million (30 June 2016: 52 standing assets with 4,257 beds and gross annualised rent of £33.1 million) and were fully let.¹

Our operating platform, Hello Student®, and its website, hellostudent.co.uk, launched in February 2016, has continued to expand. The marketing and management of more standing assets and the developments that commenced operation in September 2016 were brought in-house under Hello Student®. The number of buildings under management doubled to 36 over the six months to 31 December 2016 (3,075 beds (30 June 2016: 1,868 beds across 18 buildings)) with 4,882 beds being marketed.

The investments made over the six months were funded through existing equity capital and further debt. During the six month period to 31 December 2016, the Group secured a further £143.4 million of debt financing through two development loans secured against forward funded development assets and extensions to two existing facilities of £40 million each.

As at 31 December 2016, £243.9 million (excluding the Group's share of the debt relating to a joint venture development) was drawn down. As at 31 December 2016, the Loan to Value ratio ("LTV") was 31.1% (30 June 2016: 22.7%) (compared to a target of 35% and maximum of 40%), with a weighted average interest payable of 3.46%.

With the dividend declared for the quarter ended 31 December 2016 of 1.55p per share, we have paid out dividends in respect of the six month period equating to 3.05p per share (12 months to 30 June 2016: 6.0p per share). Of this, 0.93p per share was paid as a property income distribution ("PID") under the UK Real Estate Investment Trust ("REIT") rules.

We are targeting a dividend of 6.1p per share for the 12 months to 30 June 2017 (in line with our annual dividend growth target of not less than RPI), which we expect to be substantially covered by adjusted EPRA earnings per share for 2017.²

Future Growth

A key development for the Company was the approval by shareholders in December 2016 of the revised Investment Policy which increases the types of student accommodation investments that the Group can make, facilitating the implementation of our 2025 Plan – our blueprint for the future growth of the Group (see page 21 of the Annual Report for more detail).

The 2025 Plan is the culmination of a significant amount of research and analysis into the student accommodation market, including feedback from our own customers, which informed discussions around the Board and with our advisers. We also undertook a comprehensive consultation process with our major shareholders before proposing the necessary amendments to our Investment Policy in a General Meeting.

Another significant change to the Investment Policy was the removal of forward funded development assets from the restriction on developments. These assets enable us to develop further purpose-built student accommodation but with

the advantage of reduced risk (the principal risk lies with the third party developer), together with a coupon from the developer which is accrued over the period of the development, as well as the enhanced capital returns typical of developments (these properties are usually acquired by us at a yield on cost of 7+%).

Together, these changes mean that we will be able to acquire or develop a more diverse range of student accommodation formats, catering for students from their first year as undergraduates to postgraduates, both UK and international, and from varying economic backgrounds, reducing marketing and operational costs, without losing focus on our core portfolio of premium studios. We will also look to work more closely with higher education institutions, themselves, to assist them in addressing the accommodation needs of a growing, and more demanding, student population.

Alongside these changes, shareholders approved a new Directors' Remuneration Policy to enable the introduction of a Value Delivery Plan which aligns the long term remuneration of the Executive Directors responsible for the delivery of the 2025 Plan, currently Paul Hadaway and Tim Attlee, with that of our shareholders.

Our Shareholders

Our aim, always, is to provide our shareholders with a secure and steadily growing return, with a covered dividend (increasing in line with RPI) and capital growth over the medium to long term, and we believe that the 2025 Plan will help us to deliver this.

We have gone to great lengths to engage with our shareholders regarding the 2025 Plan and its related proposals, incorporating their feedback wherever possible. As a Board, we are committed to maintaining a dialogue with all of our shareholders, with direct access to both Jim Prower, our Senior Independent Director, and me, as well as the ongoing programme of market updates, analyst presentations, site visits and one-on-one meetings between our Executive Directors and key shareholders and other potential investors.

The Board, Management and Staff

In the six months to 31 December 2016 we continued to secure financing, source and deliver investment opportunities and maintain the governance framework that our shareholders expect. We have also successfully delivered over 1,700 new beds through our development activities, significantly grown our operations capabilities, expanded our central management function to support this growth and, importantly, we have a plan in place for the future growth of the Company.

These achievements would not have been possible without the hard work and dedication of the Executive Directors and my other fellow Board members who have demonstrated outstanding commitment, as well as the Group's employees, who are key to our success. I would like to thank them all for their individual contributions.

Following the period end, in March 2017, Michael Enright tendered his resignation from the Group, for personal reasons. Michael had been Chief Financial Officer since the Company listed in June 2014 and my colleagues and I would like to thank him for his input and contribution and we wish him well for the future.

We have made good progress in seeking a permanent replacement for the role of Chief Financial Officer, further details of which are set out in my Nominations Committee Report on page 59 of the Annual Report.

Outlook

The fundamentals of the student accommodation sector remain the same: excess demand with limited supply. With our 2025 Plan, we expect to be able to address this demand in a wider context.

The UK is still in the process of determining how its exit from the EU will take place and the impact it may have on the future of the country and the economy. The UK Government has publicly committed to promoting UK higher education internationally in order to maintain the world-class reputation of our universities.

In a time of persisting uncertainty in the macro-economic backdrop, we aim to provide our shareholders with the certainty of a stable return on their investment together with the anticipation of future growth prospects.

The Rt Hon the Baroness Dean of Thornton-le-Fylde
Chairman
10 April 2017

1 The Company budgets and models on 97% occupancy.

2 Shareholders should note that the figures in relation to dividends set out above and elsewhere in this Annual Report are for illustrative purposes only and are not intended to be, and should not be taken as, a profit forecast or estimate.

Our Business

Our aim is to provide shareholders with regular, sustainable and growing long term dividends, together with the potential for capital appreciation over the medium to long term. We deliver value by investing in operating and development assets, and managing a diversified portfolio of properties to offer premium university student accommodation to a range of customers, from first year undergraduates through to postgraduates.

Our business generates value for our shareholders...

- Dividends paid in respect of the six months to 31 December 2016 of 3.05p per share, targeting 6.1p per share for the 12 months to 30 June 2017
- NAV was 105.9p per share at the end of the six month period to 31 December 2016 (30 June 2016: 105.4p per share)

...in a unique and efficient way		...by drawing on our key strengths
Locations	Prime university towns and cities	<ul style="list-style-type: none"> • 36 target locations based on the strengths and trajectory of each university
	Highly selective	<ul style="list-style-type: none"> • Sites selected on their attractiveness and proximity to universities and city centre amenities
Buildings	Buildings that fit strategic niches	<ul style="list-style-type: none"> • Picking stock that fits strategic niches, with an eye on future value • Buildings of character
	Acquisition, development and asset management	<ul style="list-style-type: none"> • Effective acquisition strategies based on tried-and-tested methods • Development of purpose-built accommodation and facilities
	Design specification	<ul style="list-style-type: none"> • Specifications tailored to each building, versatile approach to high quality interiors • Innovative use of communal space
	Size tailored to target market	<ul style="list-style-type: none"> • Smaller buildings that engender loyalty and build • Larger buildings to facilitate interactions within a student body • Clustered together for operational efficiency
Operations	Marketing	<ul style="list-style-type: none"> • A boutique approach to marketing and management • Focus on recruitment of experienced and dedicated staff • Empowerment of property managers to feel ownership, pride and vested interest
	People	
	Asset management	<ul style="list-style-type: none"> • Hello Student® operational platform established with the aim to manage 10,000 beds by 2018
	Building relationships	<ul style="list-style-type: none"> • Supporting universities directly and indirectly through delivery of a range of stock types
Technology	Bespoke and fit-for-purpose systems	<ul style="list-style-type: none"> • Contracting with specialist providers to develop new accounting, central operational and booking systems • Underpinned by reliable supplier relationships

Our Strategy

Deepen and widen engagement with, and understanding of, all stakeholders

Achieving positive returns for our shareholders through:

Focus on target locations and increasing our presence

Diversification of building types while retaining a focus on quality

In-house management leading to cost reductions

Brand management facilitating cross-marketing

Broadening of our customer base

Theme	2025 Plan Objectives	What we did July–Dec 2016	Outlook
Locations	<ul style="list-style-type: none"> • Selectively invest in 36 towns and cities • Create efficiencies in locations with existing assets, plus some additional leading university locations • Metrics of university performance and trajectory to be developed in-house, to refine product types and assess locational risk 	<ul style="list-style-type: none"> • Established a presence in 30 of 36 towns and cities • Analytical review of demand and supply characteristics of 36 target cities • Granular investigation into the four property sub-groups • Updated acquisitions strategy 	<ul style="list-style-type: none"> • In all locations we have a requirement for additional beds • Asset selectivity will be informed by the existing holding in each location. Some cities are new and all four asset types under the 2025 Plan will be targeted. In our largest cities (for example, Manchester with over 700 beds and Cardiff with over 500 beds), acquisition will be more selective • The 2025 Plan envisages growth to 1,200 - 1,500 beds per city or town over the medium to long term
Buildings	<ul style="list-style-type: none"> • Continue to purchase core assets • Increase development options • Diversifying income between direct-let and leased properties and between different markets and product types, to spread operational risk and increase efficiencies 	<ul style="list-style-type: none"> • Worked on the proto-typical building design and appraisals to establish investment and acquisition criteria at a building level to enable acquisition team to appraise in each location • Purchased the Campbell property portfolio 	<ul style="list-style-type: none"> • Opportunities to purchase different types of stock regularly emerge in portfolios and individually • Development pipeline is very strong • We are actively pursuing university relationship opportunities
Management	<ul style="list-style-type: none"> • Provide the majority of operational functions in-house • Grow at a sustainable rate • Build gross income • Reduce marketing costs per asset • Improve operational efficiency 	<ul style="list-style-type: none"> • Head office relocated to accommodate expansion • Hired five central staff and 28 regional hires plus 16 TUPE • Moved 18 operating assets under the Hello Student® brand • Pilot of Newcastle based accountants • Continued to develop relationship with Incentive FM 	<ul style="list-style-type: none"> • Continue transfer to management by Hello Student® platform from outsourced • As the number of properties managed by Hello Student® increases, the drag of up-front set-up costs will diminish, and an increase in economies of scale will emerge
Brand	<ul style="list-style-type: none"> • Improve the student experience through a consistent and high quality approach to branding, operation and 	<ul style="list-style-type: none"> • First full letting season for Hello Student® management started • At 31 December 2016, 	<ul style="list-style-type: none"> • 4,882 beds will be operational under Hello Student® by September 2017 (if no further acquisitions)

	<p>management through the Hello Student® platform</p> <ul style="list-style-type: none"> • Build on the Hello Student® consumer brand and capture first year students as new customers and then provide a fresher to PhD accommodation and service offering 	<p>3,075 beds being marketed by Hello Student®</p> <ul style="list-style-type: none"> • 17 cities being marketed by Hello Student® • Customer app testing in Nottingham • Restructure of the “no deposit” booking system 	<ul style="list-style-type: none"> • App rollout to other cities for September 2017 • Continued work towards a “click-click-book” bookings system • Commercial relationships with other brands in our space being nurtured
Customers	<ul style="list-style-type: none"> • Enable loyal customers to move building to building and city to city but keep them attracted to an Empiric building 	<ul style="list-style-type: none"> • Social media – Facebook grew to a reach of 4.1 million • Perkbox customer loyalty scheme rolled out to tenants • Focus group testing on the new affordable apartments and premium house stock typologies 	<ul style="list-style-type: none"> • First premium houses and affordable apartments prototypes will launch in 2017 • #SayHelloStudent campaign to win a free room will be repeated • Social media marketing continues • More research and focus groups will take place in the year
Shareholder outcomes	<ul style="list-style-type: none"> • Improve profitability through lower cost base per city • Mitigate risk of a single-niche approach and broaden growth opportunities • Continue to grow a high yielding portfolio through development 	<ul style="list-style-type: none"> • Increased number of operating buildings by c. 50% in the six months to 31 December 2016 • Delivered significantly higher rental income • Increased beds per city, and city switching/block mover/rebooker take-up rates will begin to result in lower marketing and operational costs 	<ul style="list-style-type: none"> • Working towards increasing building marketing and management in-house • Increasing density of assets per city • More efficient marketing and facilities management should lead to higher profitability

Key Performance Indicators

The Company's objective is to deliver attractive returns to shareholders through the execution of its Investment Policy which is set out on page 26 of the annual report. The Key Performance Indicators on which we report each period to track the progress made are set out below in respect of the six month financial period to 31 December 2016.

Financial

	Performance
1. Total Return ("TR") to shareholders TR to shareholders is the ratio of growth in share price plus dividends paid as a percentage of the mid-market price at the start of the financial period. The TR of the Group was 1.1% for the six months to 31 December 2016, compared with 5.7% for the FTSE All-Share REIT Index for the six months ended 31 December 2016. The Group's TR was negatively impacted by the volatility in the market at the period end which caused the share price to drop, but it has since recovered.	1.1% (4.6% for the 12 months to 30 June 2016)
2. NAV per share (basic) The value of the Group's total assets less the book value of its liabilities attributable to shareholders. The Group's NAV per share grew by 0.5% over the six month period to 31 December 2016.	105.9p (105.4p as at 30 June 2016)
3. LTV ratio The proportion of borrowings compared to Gross Asset Value (defined as total assets less current liabilities). Pursuant to the Company's Investment Policy, the Group targets a 35% LTV but no more than 40%, measured at the time of draw-down.	31.1% (22.7% as at 30 June 2016)
4. Dividend against target Dividends declared in respect of the six month financial period. The dividend per share was 3.05p compared to a target of 6.10p for the 12 months to 30 June 2017.	3.05p (6.00p for the 12 months to 30 June 2016)
5. Earnings per share (basic) The post-tax earnings generated that are attributable to shareholders.	3.38p (7.29p for the 12 months to 30 June 2016)
6. Adjusted EPRA earnings per share Post-tax adjusted EPRA earnings per share attributable to shareholders which includes the licence fee receivable on the Group's forward funded development assets and late completion development rebate on forward funded assets.	0.72p (1.89p for the 12 months to 30 June 2016)

EPRA Performance Measures

	<i>Performance</i>	
1 EPRA earnings (basic) Earnings from operational activities. <i>Purpose</i> A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£1.9m (£5.2m for the 12 months to 30 June 2016)	0.38p (1.34p per share (basic) for the 12 months to 30 June 2016)
2 EPRA NAV (basic) NAV adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long term investment property business. <i>Purpose</i> Makes adjustments to International Financial Reporting Standards ("IFRS") NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities for a true real estate investment company.	£532.1m (£530.0m as at 30 June 2016)	106.2p (105.7p per share (basic) as at 30 June 2016)
3 EPRA NNAV (basic) EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt and; (iii) deferred taxes. <i>Purpose</i> Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£519.6m (£516.5m as at 30 June 2016)	103.65p (103.04p as at 30 June 2016)
4 EPRA net initial yield ("NIY") Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property net of (estimated) purchasers' costs. <i>Purpose</i> A comparable measure for portfolio valuations. This measure should make it easier for investors to judge how the valuation of portfolios compare.		4.2% (5.5% as at 30 June 2016)

Our Market

The student accommodation market is now an asset class in its own right, catering for a wide variety of both first year and returning students. The development of the purpose-built student accommodation ("PBSA") market has emerged from the needs of the sector.

In the course of the development of our 2025 Plan, we have undertaken extensive analysis of the student accommodation sector. Several factors have emerged as impacting the overall sector:

- **Growth in full-time student numbers and participation in higher education:** Due to policy, curriculum innovation, university outreach and labour market factors such as the globalisation of high skilled labour, engagement of young people in higher education is the highest that it has even been. The Department of Education reported the 2014/15 initial participation rate for UK 18–30 year olds had risen to 48%¹, rising from 42% in 2006/07.
- **Competition between universities:** The pressure to do well at university, alongside policy drivers to create competition between universities (including the Higher Education and Research Bill and introduction of the Teaching Excellence Framework), are contributory factors in a polarisation in the attractiveness of universities. Good universities continue to attract students from wide national and international backgrounds. Successful universities will be those that are able to adapt to external factors through solid planning, adaptable funding and attractive and relevant course portfolios.
- **University investment in facilities:** Accommodating growth and the need to attract high quality students are key drivers underpinning universities' investment in academic and residential space. Maintenance and the need for further expansion has led to increasing pressure on institutions to prioritise expenditure, which together with borrowing limits imposed by Higher Education Funding Councils is typically driving investment in the academic rather than residential estates.
- **The emergence of residential business models, on and off campus:** Higher education institutions ("HEIs") have generally come to see other providers of student accommodation as supportive to their needs – that money is available through other sources to build residential capacity with private development of accommodation (on and off campus) as a mainstream option for residential development.
- **Private PBSA investment levels:** Levels of investment into the development of PBSA have risen over the past decade, as have student numbers. High levels of liquidity and investment activity are driving changes in the UK student accommodation market, encouraging greater levels of competition between operators and differentiation in stock types. Those students with a larger budget have few alternatives to renting in student halls or the private rented sector (houses of multiple occupancy ("HMOs")), particularly those wishing to share. Students with a more limited budget, the fastest growing sector of the market, are competing with the wider rented residential sector.
- **Constraints on housing markets:** Growth in student populations in recent decades has led to pressure on housing stock near many universities with a widespread conversion of houses to HMOs around university campuses, pushing out local employees, young families and changing the balance of voting and Council Tax paying populations. There is concern over "studentification" and ensuring that student "ghettos" do not detract from the sustainable balance of communities. Rents have risen significantly in areas of high demand.
- **Council activity and effects on the housing market:** Local Authorities have responded to this increasing pressure on housing markets through licensing that aims to limit the irrevocable loss of houses to student and other transient populations, and to control the quality of the HMO housing stock. The tool of Article 4 Direction ("A4D") has been available for use by Councils since 2010 for C4 use class, requiring owners to obtain planning permission to convert houses to HMOs. A4D is in place in many major cities. Private businesses are entering the space, packaging houses into larger portfolios, with professional landlords and greater investment and quality. High quality houses now mimic the convenience and room types of PBSA in some cases. The blurring of lines between property types may be a further opportunity to convert audiences towards PBSA alternatives.
- **The student experience vs affordability:** The rise in tuition fees has had widespread effects on the sector. Students are under pressure to demonstrate good degrees, and investment in higher education has risen. They come from families with consumer lifestyles, with concerns about safety and they rely on their parents to a greater degree and for a longer duration, which has led students and parents to choose PBSA for at least some part of the student's time at university. The higher quality of PBSA over time and it being more widely available and accepted in the market have led to it being seen as mainstream for first years, and other groups are following suit. Demand for en-suite and high-end product outstrips demand for more affordable, generally older accommodation. At the same time, the National Union of Students ("NUS") and students in London are protesting the rise in costs of university accommodation, reflecting the value imbalance between private and university owned PBSA. The replacement of supplementary grants for students from lower income households with loans does not seem to have diminished the appetite of 18 year olds from lower income families for a university education. However, with the increasing number of UK students studying without additional parental financial support, the issue of affordability may well become the subject of even

more attention in future.

Provision of Student Accommodation

Student demand for private sector PBSA has increased significantly over recent years, with 568,000 beds, albeit serving primarily first year undergraduates, reported by Cushman & Wakefield in 2016/17. An increase in room numbers is being projected for 2017 and beyond. The increase in rooms is reflected in the rising number of students reporting to their universities that they are living in PBSA off campus.

Student preferences towards PBSA have evolved over recent years, along with an expectation of having an enjoyable and valuable student experience during their time at university. Living within walking distance of the university campus; being able to choose from a variety of room types and price points; as well as an overall contemporary interior and fit-out including modern social spaces are all regarded as important factors that students take into consideration when making accommodation choices.

In response to changing student preferences, as well as the rise in the quality of accommodation off campus, universities are improving their accommodation stock through refurbishments and the replacement of standard rooms with shared bathrooms, though they remain behind the curve in terms of quality. In 2015, Cushman & Wakefield recorded a total of c.7,000 rooms had been refurbished on campuses, with a negligible increase in the volume of rooms on campus. Some of this work is being undertaken by universities themselves, but also the joint venture market for on campus and off balance sheet projects is now seen as a more acceptable route by universities.

Although private PBSA accounted for only 27% of provision for all students in 2015/16, it was the fastest growing stock type in the sector. Within the next few years, there is likely to be a shift from majority university ownership of rooms to private provision.

Due to the increasing maturity of the student accommodation market, we considered niche markets both in terms of location as well as product design in relation to our growth prospects.

Being responsive to student preferences and finding innovative solutions for differentiation, e.g. securing development sites close to campus, designing new inventive room types such as townhouses, and the inclusion of a variety of social spaces and being sensitive to affordability, will be key factors in ensuring the future success of schemes in a more competitive marketplace. Micro market analysis will also be crucial in ensuring the sustainable attractiveness of schemes long term.

Sector Outlook

Students

- Expectations around the student experience are driving up the quality of PBSA
 - A flight to quality universities drives students further away from home
 - New ways of studying and alternative providers of higher education may continue to emerge, but could present opportunities for PBSA providers
 - NUS and student voice reiterate the importance of student experience but also express concerns about value for money
-

Cities and towns

- Pressure on housing markets (A4D and licensing) drives increasing demand for PBSA, but also improvement in the quality of existing HMOs
 - Encouragement of PBSA for regenerative purposes, and where there is demonstrable need
 - Recognition that successful institutions may continue to grow, driving additional demand for PBSA
-

Universities and policy

- Competition between universities to invest in academic facilities and quality means external sources of PBSA funding will be needed
 - Polarisation between winning and losing universities will drive a focus on successful institutions and core PBSA locations
 - Student loans, grants and affordability are central debates within the sector
 - Longer-term competition from alternative providers and higher apprenticeships cause competition as well as innovation on campus (foundation year provision, new pathways and outreach)
-

PBSA

- Pipeline and competition between PBSA blocks is a concern in some cities
 - Competition in PBSA market will drive the need for diversification and economies of scale
 - Product, price point innovation and the quality of service offering
 - Blurring of lines between HMO and PBSA stock types
-

Chief Executive Officer's Q&A

Q How has the Company performed this period? What were the highlights?

We have continued to build towards the achievement of our IPO goal of 10,000 beds in five years, which we are on target to complete ahead of time with 8,504 beds under contract at the six month period end. Of these, 6,775 were operational (or revenue generating) with 869 due to become operational in time for the 2017/18 academic year and 860 operational in September 2018. We are continuing to build a strong pipeline that should enable us, within 2017, to achieve the IPO aim. In the six month period to 31 December 2016, we contracted on £95.5 million of buildings (1,142 beds), funded through existing equity and further gearing.

Within the six month period, we engaged with shareholders over the development of the 2025 Plan, our strategy for the future beyond 10,000 beds. In December 2016, shareholders voted in favour of the diversification of our Investment Policy. This is hugely exciting for us, facilitating further opportunities for growth, appeal to a wider customer base and increased efficiencies across the portfolio to the benefit of our shareholders.

Hello Student®, our operating platform, was launched in early 2016. By the end of December 2016, 3,075 rooms were being operated by Hello Student®. For the 2017/18 academic year, 4,882 beds are being marketed directly by Hello Student®, out of a total of 7,644 beds currently available. This is significant progress towards the previously stated target of all of the beds currently owned or contracted being run in-house by September 2018. With the enacting of the 2025 Plan, future acquisitions will include standing assets and new developments. The standing assets are likely to be acquired with incumbent operational management which will be transitioned onto the Hello Student® platform.

As well as concluding an attractive series of purchases, the acquisition team has generated a strong pipeline of both standing assets and forward funded opportunities. I would like to thank the acquisition and development teams for their efforts; the acquisition team who have secured a further 787 operational beds for the portfolio, and the development team who have delivered the 1,728 new beds. We, therefore, achieved a balance of standing assets for income generation and forward funded developments to increase the future size of the portfolio at enhanced yields; always with a view to achieving full cover of our dividend in the near future.

In terms of acquisitions, Leicester stands out as a particular highlight. Leicester is a city of 32,600 full-time students which has seen growth of 15% between 2010/11 and 2015/16. De Montfort University grew to its largest size in 2015/16 with 17,400 full-time students, driven by impressive growth at a postgraduate level in a range of subjects. The University of Leicester is one of the Russell Group of universities, ranked 25th in The Times University Guide 2017 and attracting 15,300 full-time students. De Montfort has no accommodation of its own and there are few private operators serving the University of Leicester.

The five assets we acquired in Leicester, obtained through two deals, are the most interesting of all the properties acquired in the period. Princess Road, in the corner of De Montfort Square, is one of the finest sites in Leicester, where a 106 bed building with full Empiric studio-based specification is being developed by forward funding a local developer for delivery for the 2018/19 academic year. We also continue work on the contiguous Victorian terrace at New Walk, within sight of the University of Leicester, and we were very happy with the two warehouse conversions we acquired (The Hosiery Factory and The Shoe & Boot Factory) located in the city centre, which target returning students. Our first two buildings in Leicester, CityBlocks 1 & 2, continue to perform well and have started the letting cycle for September 2017 encouragingly.

Another highlight was the delivery of 13 of our development assets for operation in the 2016/17 academic year. Of those, there were five forward commitments (The Exchange, Bath; James House, Bath; Windsor House, Cardiff; Claremont House, Newcastle; and Metrovick House, Newcastle), one direct development (Willowbank, our flagship development in Glasgow) and seven forward funded developments (St Peter Studios, Aberdeen; William & Matthew House, Bristol; Buccleuch St, Edinburgh; Oldgate House, Huddersfield; The Frontage, Nottingham; Talbot Point, Nottingham; and Portobello House, Sheffield). These assets have added 1,728 new revenue generating beds to our portfolio, creating a significant increase to our rental income.

While this considerable growth has resulted in an increase in one-off property costs expensed in full during the period, the continued acquisition of income producing assets and the completion of the development assets, has generated a substantial uplift in revenue in the second half of the six month period. We expect this to contribute to a significant increase in the adjusted EPRA earnings per share for the financial year to 31 December 2017, with a view towards our target of a substantially covered dividend for 2017.

We paid total dividends of 3.05p for the six month period to 31 December 2016 in line with our target of 6.1p for the 12 months to 30 June 2017 – an increase in excess of RPI compared to the year ended 30 June 2016.

In December 2016, we moved our head office to Swan House, Stratford Place, London. We had outgrown our

previous office at James Street and were in need of space to house additional central staff members to support the expanding business. The refurbished office is about twice the size and will allow for new staff to be recruited to support the strategy and operation of the business. The increased size of the business has significantly outpaced the growth of the head office overhead to date.

Q What was the rationale for the multi-niche diversification – the 2025 Plan?

Our IPO strategy was based on an accommodation type virtually unknown ten years ago, satisfying the needs of a wealthier, but substantial part of the student market. Whilst a good deal of development activity in recent years has focused on this, research carried out for Empiric during the last year bears out that there is still significant opportunity in this area. For that reason, as one of the four niche strategies within the 2025 Plan, we see continued expansion beyond the 10,000 beds targeted at IPO.

The IPO strategy has delivered a robust portfolio of small and medium-sized city centre buildings in the 30 leading university towns and cities in the UK. We have had good rebooker rates in these buildings but having some of the studio apartment based tenants ask whether they could share in newly formed friendship groups was one of the catalysts for the development of the 2025 Plan.

As we know from our tenant base (of 137 different countries with an age range of 17–61 this academic year) the student market is large and complex. As the numbers of both UK and international students have expanded over recent decades (reaching 1.7 million full-time students in 2015/16) and participation of young UK people in higher education is at record levels, we recognise that there is more diversity in the UK student population than there has ever been. These students have expectations of good value, quality accommodation in attractive, central locations or on campus. The growing pressures on the HMO market, and on universities which are unable to keep up with the guarantee to provide for their first years, are resulting in a huge opportunity for a specialist provider to think differently about this target market. Indeed, as the supply of purpose-built accommodation has increased, a greater proportion of students is attracted to this way of life, and we believe there is a structural shift towards PBSA. The Cushman & Wakefield Student Accommodation Annual Report 2016/17 indicated that the number of students per PBSA bed has actually increased from 2.1 to 2.3 in 2016/17, signifying that supply is not keeping up with demand.

We believe that there is a role for a multi-niche student accommodation provider to become more widely embedded in the market to meet and capitalise on these opportunities. The 2025 Plan enables us to respond in a targeted and distinctive way, opening up new channels and stock types which will add value to students, our business and our shareholders.

Q How quickly will the portfolio grow in the 2025 Plan, and what impact will it have on the mix of room types and customer demographics?

The 2025 Plan sets out four different niches which we believe cross-fertilise and do not compete with each other. By becoming engaged in a wider range of accommodation types, the business will be able to continue to grow and target different potential customers at different stages of their academic life. The four niches are described as:

- *Core Studio and Premium Small Group* – this is a continuation of the offer from our initial strategy and includes premium studio, two bed and three bed apartments;
- *Premium Houses* – accommodation in prime locations configured into townhouses with large living spaces which will appeal to customers seeking high specifications within a group environment. Shared communal facilities and a concierge desk are provided similar to the Core Studio and Premium Small Group;
- *Affordable Apartments* – with a focus on prime locations, new stock types which fit with the Empiric brand and service offer, but that manifest in more affordable rent levels. These are designed as tightly planned and contemporary two, three and four bedroom apartments arranged around staircases to avoid an institutional feel; and
- *University Relationships* – innovation in our business and operating model to work with universities to bring a range of product types and the strength of our business to bear on or near campus, through either new build or sale, refurbish and leaseback of existing stock.

Each of these niches might grow at different rates, as the pipeline of opportunities is likely to vary in each case.

Equally, operational efficiencies will be achieved differently for each niche. Working with universities might take longer to bring to fruition, but with larger numbers in each deal. In the core niche, we will seek to retain the small community feel and character of the estate by clustering smaller assets.

In the evolution of the 2025 Plan we expanded the number of towns and cities under watch from 30 to 36, expanding the IPO strategy into new locations. Across these cities we modelled an even distribution of activity. Crossed with a desire to slow the overall expansion of the business, this will result in modest investment in each niche over the next one to two years. The guiding principle for expansion is to be able to fund development without endangering cash returns to shareholders, which means that the capacity for development will grow only as the portfolio grows

and consequently, income with it.

The 2025 Plan is designed to attract a wider target customer base. Some of the changes will come from purchasing different types of assets, and there is evidence that recent acquisitions are already affecting demographics in our tenancy profile. For example, the purchase of the Campbell portfolio with buildings in Exeter, Leicester and Portsmouth in late 2016 included assets that largely target returning UK undergraduates. This addition has resulted in a slightly greater proportion of UK returning undergraduates being exhibited in our tenant demographics. The tenant mix is also tending more towards female than it was last year. Equally, the new universities niche will have an impact. Working with universities will bring us into contact with more first year students due to the guarantees they offer, again opening a new channel for tenant progression through the Empiric portfolio, reducing marketing and operational costs.

Q How far can the core strategy grow?

The core strategy focuses on postgraduate and international students. If the Government's target of promoting education exports remains unchallenged, the market is set fair to grow. Transnational education has been growing at nearly 5% p.a. since the mid-1970s (source: UNESCO) and is predicted to continue at this rate. This is driven by the rising wealth and numbers of the middle classes globally, accompanied by a desire to educate their children.

Considering the overall wealth of international students in the UK (most of whom, our research shows, tend to be privately funded and a vast proportion of whom are postgraduate) as well as the propensity for students, generally, to live in purpose-built student accommodation, we believe there is still an undersupply of high quality accommodation to meet the needs of students who are willing and able to pay for the best accommodation.

Our core offer consists of studio accommodation and premium small group apartments, configured in relatively small buildings with high quality social and amenity space. They engender a sense of community, which generates loyalty from our customer base.

After our core portfolio reaches the initial 10,000 bed target, we envisage it expanding by between 500 and 1,000 beds per year on a measured opportunistic basis, responding to market demands and in-filling our existing portfolio to achieve operational efficiencies.

Q How is the Hello Student® brand and platform development progressing?

The Hello Student® platform continues to roll out its brand across the portfolio, allowing us to build a coherent presence in the market. Following the launch of the website in February 2016, we have been steadily adding buildings to the Hello Student® platform and it is now the primary marketing platform for 53 of the assets available for the 2017/18 academic year.

We are running a rolling programme of platform developments and improvements. At the end of 2016, we began a pilot of a streamlined website/booking system integration of Hello Student® in Cardiff, which has been brought in-house from the previous outsourced management. This will be a test bed of how all the assets will run in future. We see a phased transition as important to mitigating risk and to ensure that we maintain the effectiveness of the systems as Hello Student® takes on a greater proportion of the income producing assets. A parallel pilot initiative is running in Nottingham where we will deploy the full marketing, booking, allocation and communication technology of Hello Student® to our residents through the Hello Student® app. These initiatives will bring an improved customer experience, retention and income generation.

The Operations Review covers Hello Student® and our marketing initiatives in more detail (see pages 34 to 37 of the annual report).

Q What will be the financial impact of the 2025 Plan?

The diversification plan allows us to build a multi-niche portfolio appealing to students at all stages of study and across the price spectrum. Marketing and operating costs are expected to reduce over time due to variety of factors including:

- Continuing to build on Hello Student's® capacity to reduce the reliance on per room percentage fees to out-sourced operators
- Consolidating within cities through acquisition in existing locations and a small number of target cities, where more stock can be added to build a city portfolio containing a diversified range of assets under the new strategy
- Continuing to exercise our buying power through the supply chain to obtain greater economies of scale
- Benefiting from re-bookers, building-switchers (moving year to year in the same city) and city-switchers (moving from one city to another within the UK) all with the Hello Student® brand

The 2025 Plan will allow the business to grow and find more opportunity from within the market, and growing income

through improved net operating margins, a lower total expense ratio and lower cost bases per city or town will improve profitability and, hence returns to shareholders. The focus will remain on providing value for our shareholders through regular, sustainable income returns, capital appreciation and growing a high yielding portfolio.

Future outlook

The core strategy is one where we intend to progress with our characteristic small building, small group model, and we feel, based on first-hand research, that there is mileage in this approach to building communities.

We are very excited about the potential for the diversified strategy arising from the 2025 Plan to assist us in reaching ever more deeply into the student accommodation market, to assist universities in their aspirations and to bring the high quality and distinctive brand of Hello Student® to a wider audience of students.

As we move into the second quarter of 2017 with Article 50, a devalued currency, immigration questions, President Trump and uncertain statuses for the other members of the EU, the outlook for 2017 is tough to call. The Conservative Party policy from Summer 2015 to expand exports through education to £30 billion by 2020 remains uncontradicted and British universities go from strength to strength. Our own lettings for the 2017/18 academic year have made an excellent start since going live in November 2016, as a result of our well chosen and well managed portfolio. Our position is probably best described as cautiously optimistic.

CASE STUDY

Willowbank, Glasgow

Willowbank is an exemplar within the Empiric portfolio; an example of our latest design standards for new and refurbished buildings.

A fantastic redevelopment of a Victorian primary school, mixing new and old, it brings a dilapidated city centre building back to life. The original building was Willowbank Primary School, commissioned by the Glasgow School Board in 1900 designed by renowned Paisley born architect Alexander Petrie (c. 1836 to 1910). The iconic red sandstone building, listed in 2002, was used as a school for children aged 5-12 until 2010 when it fell into disrepair, and was added to the Buildings at Risk Register for Scotland.

Empiric acquired the site shortly after IPO in 2014 and worked with Susan Stephen Architects to redevelop and extend it, adding four modern, stone, brick and metal clad buildings. Located within the Woodlands conservation area, this project was a labour of love for all those involved and exemplifies the marriage of commercial development and restoration to great effect.

Within five minutes' walk of the University of Glasgow, and connected by local buses, the scheme contains 178 rooms including studios and 2-5 bed apartments. With great amenity spaces and preserved internal features it includes study rooms, a gym, a large cinema room and several communal areas where students can engage and socialise. Feedback from students is that they love the high ceilings, the building's history and how it has been revitalised. The old headmaster and teachers have also visited, noting how sympathetically the school has been restored, how kind to the old features, but also how modern the restoration is.

Building operational efficiencies in the West End of Glasgow by linking with Empiric's adjacent scheme, the Ballet School, it delivers an impressive product near to the leading university in Glasgow, a city of 55,000 students. Currently fully occupied and letting well for September 2017, it is marketed and managed by Hello Student®. A direct development joint venture with Revcap; Empiric's share generated a nearly 60% leveraged IRR. The Group acquired Revcap's share in the joint venture in March 2017.

Willowbank was commended in the Scottish Property Awards 2017 and is shortlisted for the forthcoming Royal Institute of Chartered Surveyors (Scotland) awards for both the Residential Development and Building Conservation categories.

Chief Investment Officer's Portfolio Review

As at 31 December 2016, our portfolio had benefitted from 2,515 new beds generating income for the 2016/17 academic year, comprising 988 beds from standing assets acquired and 1,728 beds from assets under development that reached practical completion¹. We also have a strong pipeline of standing assets and new forward funding opportunities.

Overview

Over the six month period to 31 December 2016, a key feature was the impact of our assets under development becoming income generating in time for the 2016/17 academic year on our portfolio. Taking into account the operating assets acquired over the period, as at 31 December 2016, 75 assets were operational (or revenue generating) for the 2016/17 academic year, equivalent to 6,775 beds available to students in our target cities and towns across the UK.

Virtually all of the newly completed assets were developed via forward funded contracts. Forward funded projects typically are less complex than direct developments, have a lower risk profile as the planning, construction and time risk lies with the third party developer, have lower staffing requirements and benefit from a forward funding coupon charged to the developer. In addition, as with a direct development, we are able to configure and design a property to our specifications and benefit from a greater yield on cost than standing asset investments.

In December 2016, we obtained shareholder approval to amend the Company's Investment Policy so as to remove forward funded assets from the scope of the restriction on developments undertaken by the Group. This will enable us to take advantage of the increasing number of forward funding opportunities that are being presented to us as the student accommodation market evolves.

A further change to the Investment Policy was the expansion of our investment remit, our 2025 Plan. We believe that there is still significant growth to be achieved in our core market of premium student accommodation targeting individual postgraduate and international students. However, our market research and analysis indicates that there are a number of other "niche" markets within the student accommodation sector, that are currently underserved, and which offer growth opportunities, whilst at the same time selectively consolidating, broadening and diversifying the Group's exposure across a wider spectrum of the student accommodation market.

This key change to our Investment Policy will enable the Group to evolve from a single-niche investor and developer, to a multi-niche student property company focused on, (i) providing good quality first year accommodation managed by Hello Student® in partnership with universities, (ii) offering a variety of second and third year purpose-built accommodation options for individual students and those wanting a group living environment, and (iii) continuing to expand the Group's existing premium, studio led accommodation portfolio which is attractive to international and postgraduate students. We have also expanded this "fresher to PhD" approach and service offering to 36 cities and towns across the UK.

Assets

During the six months to 31 December 2016, the Group invested in, or committed to, the freeholds (unless otherwise stated) of 12 new assets, comprising a mix of operating properties and forward funded assets (funding of third party developments in return for a discount on the acquisition price), with an aggregate price of £81.0 million (including acquisition costs) (12 months to 30 June 2016: 35 assets with an aggregate price of £251.2 million (including acquisition costs)).

The Group had also exchanged conditional contracts on two further properties (both acquired subject to practical completion), for which the outstanding conditions had not been met as at 31 December 2016, with an aggregate price of £14.5 million (excluding acquisition costs) (12 months to 30 June 2016: three assets with an aggregate price of £72.6 million (excluding acquisition costs)).

As at 31 December 2016, the Group owned, or was committed on, a total of 84 assets (representing 7,829 beds) (30 June 2016: 68 assets representing 6,191 beds) and had exchanged conditional contracts, including on sites subject to planning permission being obtained (with the conditions or planning remaining outstanding at the period end) on a further five assets (representing 675 beds) (30 June 2016: seven assets representing 1,207 beds), in a total of 30 cities and towns.

¹ This includes The Frontage in Nottingham, where practical completion has been delayed to April 2017 but for which the Group benefits from a rental guarantee for the 2016/17 academic year.

Summaries of these properties are set out in Tables 1 and 2 below.

Table 1 – Operating Assets (and those that had reached practical completion) as at 31 December 2016 (74 in total)

Name	Location	Number of Beds	Date of Acquisition or Practical Completion	Purchase Price (£m)	Net Yield on Acquisition or Cost	Valuation Yield
Centro Court	Aberdeen	56	September 2014	6.5	6.8%	6.0%
St Peter Studios	Aberdeen	123	June 2016	13.7	7.0%	6.0%
Canal Bridge	Bath	20	November 2015	1.7	5.9%	5.5%
James House	Bath	169	September 2016	25.0	5.7%	5.2%
Piccadilly Place	Bath	47	November 2015	3.6	5.9%	5.5%
Radway House (formerly Oolite Road)	Bath	31	July 2016	2.6	6.7%	6.7%
The Exchange (formerly 1-3 James Street West) ⁽¹⁾	Bath	78	December 2016	7.7	5.8%	5.3%
Widcombe Wharf	Bath	40	November 2015	3.9	5.5%	5.3%
Edge Apartments	Birmingham	77	August 2014	8.9	7.0%	5.7%
The Brook	Birmingham	106	July 2014	12.0	6.5%	5.8%
College Green ⁽²⁾	Bristol	84	July 2014	10.0	6.7%	5.7%
William & Matthew House	Bristol	75	September 2016	7.9	6.7%	5.7%
Pavilion Court	Canterbury	79	August 2016	9.2	6.0%	6.1%
Alwyn Court	Cardiff	51	October 2014	3.5	6.4%	5.9%
Northgate House	Cardiff	67	February 2015	5.2	7.0%	5.8%
Summit House	Cardiff	87	July 2014	9.6	7.0%	5.7%
Windsor House	Cardiff	314	September 2016	41.0	5.6%	5.5%
St Margaret's Flats	Durham	109	May 2015	5.1	7.5%	6.4%
Buccleuch St	Edinburgh	88 ⁽³⁾	June 2016	9.2	8.1%	5.5%
Bishop Blackall School	Exeter	113	October 2016	8.0	6.0%	6.0%
Dean Clarke Lofts ⁽⁴⁾	Exeter	30	December 2014	4.5	6.6%	5.7%
Isca Lofts	Exeter	71	August 2016	4.7	6.9%	6.8%
Library Lofts	Exeter	61	September 2015	6.1	6.3%	5.7%
Picturehouse Apartments	Exeter	102	July 2014	11.4	6.3%	5.7%
Maritime Studios	Falmouth	141 ⁽⁵⁾	August 2015	8.8	6.5%	6.1%
333 Bath Street	Glasgow	70	September 2015	7.4	6.5%	6.1%
Ballet School	Glasgow	103	March 2015	11.9	6.7%	6.1%
Willowbank ⁽⁶⁾	Glasgow	178	September 2016	6.9	7.7%	6.0%
Curzon Point ⁽⁷⁾	Hatfield	116	December 2014	9.2	6.4%	5.8%
Kingsmill Studios	Huddersfield	98	September 2015	7.5	7.5%	6.1%
Oldgate House	Huddersfield	179	September 2016	11.1	8.3%	6.4%
CityBlock 1	Lancaster	30	May 2015	2.1	6.1%	5.9%
CityBlock 2	Lancaster	77	May 2015	5.6	6.1%	5.9%
CityBlock 3	Lancaster	100	May 2015	7.9	6.1%	5.9%
Algernon Firth	Leeds	111	January 2015	7.2	6.6%	5.7%
Pennine House	Leeds	127	June 2016	17.8	6.6%	6.0%
St Mark's Court	Leeds	85	March 2015	7.1	6.0%	5.8%
136-138 New Walk	Leicester	30	May 2016	2.9	6.0%	6.2%
160 Upper New Walk	Leicester	17	May 2016	1.6	6.1%	6.3%
Bede Park	Leicester	59	May 2016	4.5	6.2%	6.2%
CityBlock 1	Leicester	98	May 2015	6.2	6.3%	6.2%
CityBlock 2	Leicester	76	May 2015	4.8	6.3%	6.2%
The Hosiery Factory	Leicester	107	October 2016	5.6	6.3%	6.2%
The Shoe & Boot Factory	Leicester	173	October 2016	8.9	6.3%	6.1%
Art School Lofts	Liverpool	64	June 2015	8.4	6.3%	6.0%

Name	Location	Number of Beds	Date of Acquisition or Practical Completion	Purchase Price (£m)	Net Yield on Acquisition or Cost	Valuation Yield
Chatham Lodge	Liverpool	50	June 2015	3.9	6.5%	6.2%
Grove Street Studios	Liverpool	28	June 2015	2.7	6.5%	6.2%
Hayward House	Liverpool	74	June 2015	5.4	6.3%	6.0%
Maple House	Liverpool	147	June 2015	12.9	6.3%	6.0%
The Octagon	Liverpool	19	June 2015	2.0	6.4%	6.2%
Francis Gardner Hall	London	70	August 2016	10.6	5.5%	4.6%
Grosvenor Hall	London	72	August 2016	6.2	6.3%	6.1%
Halsmere Studios	London	79	February 2015	13.3	6.4%	5.0%
Ladybarn House	Manchester	117	March 2016	10.3	6.3%	6.1%
Victoria Point 1, 2, 3, 4, 5 ⁽⁸⁾ and 6	Manchester	561	April 2016	29.5	5.6%	6.0%
Claremont House	Newcastle	88	December 2016	10.9	6.3%	6.1%
Metrovick House	Newcastle	63	May 2016	7.4	6.5%	5.9%
Talbot Point	Nottingham	77	September 2016	6.0	7.0%	5.8%
Talbot Studios	Nottingham	98	September 2014	8.2	6.9%	5.8%
Stone Mason House	Oxford	44	May 2016	4.5	5.1%	5.0%
Elm Grove Library	Portsmouth	19	October 2016	1.1	6.5%	6.4%
Kingsway House	Portsmouth	52	October 2016	3.1	6.4%	6.4%
The Registry	Portsmouth	41	August 2015	4.5	6.5%	6.3%
Saxon Court	Reading	83	March 2016	13.0	6.0%	5.7%
Portobello House	Sheffield	134	September 2016	11.2	7.1%	5.8%
Brunswick Apartments	Southampton	173	September 2015	16.7	7.2%	5.9%
London Road ⁽⁹⁾	Southampton	46	November 2014	3.6	7.0%	5.9%
Ayton House	St Andrews	241	December 2015	26.0	5.5%	5.6%
Caledonia Mill	Stoke-on-Trent	120	June 2015	6.3	6.5%	6.1%
Total/average yield		6,613		593.7	6.5%	5.9%

Notes:

- (1) Reached practical completion as at the date indicated but was not operational as at 31 December 2016.
- (2) 150 year lease, started in August 2010.
- (3) In June 2016, the Group acquired a retail site adjacent to the Buccleuch Street building which will be converted to provide an additional two studios, resulting in a total of 88 beds for the property and increased communal facilities with an estimated total project cost of £0.74 million.
- (4) 999 year lease, started in March 2014.
- (5) This figure includes two studios which were acquired after 31 December 2016.
- (6) Owned in a 50:50 joint venture with Revcap at 31 December 2016. On 30 March 2017, the Group acquired Revcap's 50% interest in the joint venture.
- (7) 199 year lease, started in December 2014.
- (8) This building (132 beds) is to be significantly refurbished and, therefore, is not operational for the 2016/17 academic year.
- (9) Freehold/leasehold.

The portfolio of 75 revenue generating properties (30 June 2016: 52) is fully let for the 2016/17 academic year². The gross annualised rent for these properties was £52.1 million (30 June 2016: £33.1 million), of which £1.8 million (representing 3.4% of the gross annualised rent) was attributable to commercial revenue (30 June 2016: £0.9 million representing 2.7% of gross annualised rent). The average uplift in annual rents was 2.78% for the 2016/17 academic year (2015/16: 3.0%).

The average net yield on acquisition of the operating properties, or on cost for those development assets that had reached practical completion, as at 31 December 2016 was 6.5% (30 June 2016: 6.4%). The average valuation yield as at 31 December 2016 was 5.9% (30 June 2016: 5.9%).

² The Company budgets and models on the basis of 97% occupancy (previously 97.5%). Occupancy or income of the operational portfolio (being available beds) to this level and in excess is considered fully let. This letting figure, however, excludes The Frontage in Nottingham which had not reached practical completion as at 31 December 2016, notwithstanding the rental guarantee in place for the 2016/17 academic year.

Table 2 Forward Funded and Development Assets as at 31 December 2016 and Projects and Sites Acquired Subject to Planning (15 in total)

Name	Location	Proposed Number of Beds	Date of Acquisition	Price Paid or Total Investment to Completion (£m)	Estimated Completion Date
Forward Funded Projects					
The Emporium	Birmingham	185	September 2016	19.6	September 2018
Bonhay Road	Exeter	150	September 2015	12.6	October 2017
155 George Street	Glasgow	89	November 2015	9.5	September 2017
134 New Walk	Leicester	16	November 2016	1.5	September 2017
Welsh Baptist Chapel	Manchester	87	May 2015	8.8	September 2017
The Frontage ⁽¹⁾	Nottingham	162	October 2015	17.1	April 2017
Europa House	Portsmouth	242	April 2016	21.4	September 2017
Trippet Lane	Sheffield	63	April 2016	5.5	September 2017
Lawrence Street	York	115	March 2016	11.1	September 2017
Development Project					
Provincial House	Sheffield	107	December 2015	10.9	January 2018
Total		1,216		118.1	
Projects and Sites Acquired Subject to Planning					
Well Street ⁽²⁾	Exeter	68	–	–	September 2018
Ocean Bowl ⁽³⁾	Falmouth	249	–	–	September 2018
140-142 New Walk	Leicester	48	–	–	September 2018
Princess Road	Leicester	106	–	–	September 2018
Forthside ⁽⁴⁾	Stirling	204	–	–	September 2018

(1) Practical completion of this asset has been delayed until April 2017 but the Group benefits from a rental guarantee for the 2016/17 academic year.

(2) The Group had exchanged contracts on this site, subject to planning consent being obtained. Planning consent had not been obtained as at 31 December 2016 and, in January 2017, the Group allowed the contract to lapse.

(3) The Group had exchanged contracts on this site, subject to planning consent being obtained. Planning consent had not been obtained as at 31 December 2016.

(4) The Group had exchanged contracts on this site, subject to planning consent being obtained. While planning consent had been obtained prior to 31 December 2016, the Group had not completed the acquisition of this site by 31 December 2016.

Valuation

Each individual property in the Company's property portfolio has been valued by an external valuer, CBRE, in accordance with the RICS Valuation – Professional Standards January 2014 (the "Red Book"). CBRE now values the portfolio off 97% occupancy (previously 97.5%) which has had a slight negative impact on the valuation of the portfolio.

As at 31 December 2016, the Group's property portfolio had a market value of £721.3 million (including the Company's interest in a joint venture development asset but excluding the value of properties on which only conditional contracts had been exchanged at the year end) (30 June 2016: £523.9 million). Of this, £654.0 million was attributable to operating assets or those which had reached practical completion, an increase of 10.2% in value compared to the aggregate purchase price or cost of development of £593.7 million (30 June 2016: £443.4 million, an increase of 4.7% compared to purchase price or cost of development of £423.2 million). The aggregate valuation attributable to the forward funded and development assets that had unconditionally exchanged was £67.4 million, which is based on progress of the development of the assets to 31 December 2016.

The Group had also exchanged conditional contracts on five properties and sites for which conditions (e.g. practical completion or planning consent) remained outstanding as at 31 December 2016 and, therefore, the value of these properties has not been included in the aggregate valuation of the Group's property portfolio as at 31 December 2016.

Post Balance Sheet Events

Since the period end, we have announced the acquisition of one asset which was operational and one forward funded

development property which, together, represent a further 326 beds. Details of these acquisitions are set out in Table 3 below.

In March 2017, the Group acquired Revcap's 50% share of the Willowbank joint venture for £4.65 million.

Table 3 – Assets Acquired Since 31 December 2016 to Date (2 in Total)

Name	Location	Number of Beds	Date of Acquisition	Price Paid or Total Investment to Completion (£m)	Estimated Completion Date	Net Initial Yield
Operating						
Foss Studios	York	220	January 2017	23.3	N/A	5.6%
Forward Funded Projects						
Percy's Lane	York	106	January 2017	9.3	September 2018	N/A
Total		326		32.6		

Our Teams

Our investment and development teams have continued to work hard over the six month period and I would like to thank them for all their efforts. We look forward to delivering further investment opportunities within the Group's expanded Investment Policy.

Tim Attlee
Chief Investment Officer
10 April 2017

CASE STUDY

Our Social Media Strategy

When it comes to connecting with students in the UK and abroad, social media is proven to be the most effective channel. Some 90% of younger millennials and Gen-Z, the two generations currently at university, use social media every day. We use social media platforms to curate a modern, unified brand presence which speaks to students, and it drives 53% of the traffic on the Hello Student® website.

Facebook has regularly been the top traffic driver to the Hello Student® website. We use it to drive sales and engage our audience with the brand. It's also a great place to grow and interact with a student audience. We are so pleased to see so many residents interacting by leaving comments, posting pictures and reviewing us. Our reach through Facebook was 4.1 million in the 1 July to 31 December 2016 period, and we gained 11,950 new followers in this time.

Meanwhile on Instagram, we are less about driving sales and more about curating the Hello Student® brand. Instagram is a key platform for millennials and Gen-Z. We post a mix of our own beautiful property pictures, and repost content from top-performing accounts. Each month we pick a new theme to guarantee consistency. January was clean living and February was interior design, for example.

Our average engagement rate (the percentage of people who liked, commented or shared) is around 4% – the industry average is 1%.

Twitter is less of a priority for Hello Student®; however, we do use it for keeping up with customer service, and for reaching out to influencers. Where students are leaving Twitter, they are joining Snapchat in droves. On this platform we run filters to showcase selected properties and campuses. These allow students to customise the photos they share with Hello Student® branding. Student photos encourage user-generated content in a mobile first format that students are connecting with every day.

Chief Executive Officer's Operations Review

Over the six months to 31 December 2016, we experienced our fastest acceleration in the number of operating (or revenue generating) buildings, from 52 buildings at the end of June 2016 to 75 buildings at the period end. Hello Student® is also making good progress, increasing the number of buildings under management over the six month period from 18 to 36.

Introduction

The six months to 31 December 2016 saw a significant ramp-up in the number of operating (or revenue generating) assets – 23 buildings in the six month period compared to 52 buildings over the previous two years. We are also making good progress in moving assets to sit within the Hello Student® marketing and operational platform, whilst continuing to grow and diversify our portfolio of properties. Hello Student® received accreditation into the Accreditation Network UK (ANUK) in December 2016.

Both the number and proportion of rooms under the Hello Student® platform increased significantly, moving us towards the aim of running most of the core portfolio by September 2018. The operational (or revenue generating) portfolio grew by 2,515 beds across 23 buildings between 1 July and 31 December 2016, including the largest handover of buildings under development to date, comprising 13 assets (totalling 1,728 beds) becoming operational in the 2016/17 academic year.

These new rooms coming into operation gave us additional capacity in several key cities including Bath, Cardiff, Glasgow and Leicester.

The operational (or revenue generating) portfolio included 6,775 beds in total by December 2016, across 75 buildings (30 June 2016: 4,257 beds across 52 buildings) of which Hello Student® operated 3,075. The beds not operated by Hello Student® were operated by third party student accommodation management companies.

Summary Beds Owned and Operated

	June 2016	December 2016
Operational (or revenue generating) building	52	75
Operational (or revenue generating) beds	4,257	6,775
Buildings operated by Hello Student®	18	36
Rooms operated by Hello Student®	1,868	3,075

The transition to marketing and operation by our single student branded website Hello Student® has been successful to date, and allows us greater access to information on our customer base, savings on operational costs and the potential for efficiencies and excellence in service provision.

Marketing

Hello Student's® marketing cycle for the 2017/18 academic year commenced during November 2016. 4,882 beds will be marketed directly by Hello Student®, of 7,644 beds available for the 2017/18 academic year (at period end).

In line with the strategic move of assets to Hello Student®, we have invested in additional in-house marketing capability to provide central marketing and support to the regional network.

We remain very interested in who our tenants are, and how we can add value to their experience in our residences and as part of their time at university. As at December 2016, our portfolio, fully let, comprised the following tenant diversity:

Tenant Demographics, 2016/17 and 2015/16

	2016/17	2015/16
Postgraduate	26%	30%
Undergraduate (including Foundation/other)	74%	70%
First year undergraduate	21%	32%
Returning undergraduate	34%	68%
UK	49%	31%

EU	10%	8%
Non EU	41%	61%
Number of nationalities	137	98
First year UK undergraduates, under 20 years old	4%	3%
Female	55%	51%
Male	45%	49%
Average age	22	22

December 2016.

The demographic analysis highlights that over one year we have increased the number of UK students (rather than decreased the number of international students as the total number of beds has increased). One of the reasons for this is the purchase of the portfolio of assets in Exeter, Leicester and Portsmouth from Campbell Properties which, historically, has targeted returning UK students.

Given the diversification plan, these assets support the transition of the business into a multi-niche operator appealing to students at all stages of study and across the price spectrum.

Our research has told us that international students are typically funded by parents whereas UK students are funded predominantly by loans. In our latest tenant survey, more than half of our international tenants' self-reported levels of disposable income, on average, of £500 per week, once tuition fees and accommodation were paid for. Non-UK students are also more demanding in their expectations from their accommodation, valuing location, safety, technology, cleanliness and amenities more highly than UK students in general. This research reinforces the need for student accommodation to be as diverse as the student population.

We continue to look for ways to add value to our tenants, and one new but very effective service that we have been able to supply is Perkbox. This rewards-based provider was created for employees to use companies' shared discounted products and preferential deals (such as cinema tickets, Tastecard, high street store discounts etc.). We have rolled out Perkbox to every tenant (and every member of staff) on a cost-effective basis due to the large number of our twenty-something tenants. It is early days in our relationship with this company and by December, 15% of tenants had activated their accounts. However, the benefits to those 15% were substantial at £22,000 of savings in one month. This is indicative of the purchasing power of our customer base and their importance as economic drivers for their local economies.

During the period, the trial version of the Hello Student® app went live for testing in Nottingham. The app allows customers to access a range of add-on services (such as dry cleaning and room servicing) as well as creating an additional channel of communication between residents and management and maintenance teams.

The aim will be to roll out the app in phases across the cities beginning next year. We believe that there is significant potential for the app to assist operations further. As part of the IT plan, we wish to move to a three-click booking process which can be accessed from mobile devices.

Hello Student's® social media outreach has met with a huge level of engagement from prospective tenants. During the 1 July to 31 December 2016 period we gained almost 12,000 new Facebook followers and our posts reached 4.1 million users. We also ran a campaign #SayHelloStudent across a range of social media channels based around a competition to win a free room for a year. The prize was won by a student at Glasgow University for her video of international students saying "Hello Student®" in their own languages; she is now living in our Willowbank building. Facebook is used as a marketing channel for increasing influence rather than just simply sales, which is a departure from how the tool is used by other operators. However, Facebook is now the biggest driver of traffic to Hello Student's® booking website.

Booking System

The Hello Student® booking system was improved and the website booking process streamlined in November 2016. There were several reasons for the changes. We wanted to reduce the abandonment rates and implement benefits of the recent distance selling law change that could make the booking system simpler for prospective tenants.

We refined and customised the website customer journey, and took the innovative move of removing the requirement for deposits and booking fees (which were due to be prevented by law at the end of 2016). Due to the quality of the buildings and the tenants they attract, we experience little malicious damage where we claim on deposits, so the removal of them was deemed beneficial; as they can only be a significant drag on the take-up of bookings. We are showing a level of trust to our customers which we believe they appreciate. Early indications are that the level of abandonment has been reduced from the booking system as a result, and will significantly improve the efficiency of tenant recruitment over time.

A further benefit has been to create more certainty of income earlier in the booking cycle. Rather than pay a deposit, the tenant enters into the licence agreement earlier. Tenants also benefit from not having their deposits held by a tenant protection scheme (at a cost of time and expense to us); one of which suffered a major failure last year, temporarily affecting our tenants, and creating unnecessary concern within the sector.

Management

As the business grows, it remains vital that those staff who are managing the assets and engaging with tenants become integral to the operation of the Hello Student® platform.

The regional operational and management structure is being grown, with the first regional office opening soon in Glasgow. Two Heads of Operations (Northern England and Scotland) started during the period, and five City Managers were recruited with total staff of 44, together with 73 student ambassadors. Recruitment will be ongoing – and will be supported by the implementation of a structured induction plan, central training and support and creating best practice networks between buildings and cities. The positive effect of managers being brought into one operational platform is already being felt, and we believe the sense of ownership and community will result in even more positive engagement with current and prospective tenants in future. The growth of the Hello Student® platform and overhead reflects the increasing total number of beds and mirrors the reducing number of outsourced management contracts and their fee burden.

Empiric head office staff are closely engaged with the expansion of the operational platform, including those not directly involved in it or overseeing it. With so many new beds and buildings completing for the 2016/17 academic year, over move-in weekends in September, central staff assisted hands-on, working side by side with building managers to welcome tenants and their parents. This has been a great way for staff to see the business at the sharp end, saying “Hello” to customers.

As a group, central office staff were taken to Edinburgh for a weekend in August to stay in the recently completed Buccleuch Street property to experience an Empiric building first-hand. Not only did the business come to life for the more office bound of the central office employees, but the latest design and specification of our product was reviewed and discussed by a new and critical group of testers.

Our London head office moved to Swan House, Stratford Place near Bond Street Station. The additional office space will accommodate the expansion of the central team and support development and diversification of the business and the new strategy.

Direct Operational Costs

The basis of Hello Student® as an operational platform is the operational cost savings and quality improvements that can be achieved by bringing the operation in-house. One of the central elements of the operational plan was to bring in-house more of the management of the buildings, by directly employing the team of management people around the country. A core premise was that as the business enlarges, so the economies of scale of managing residences becomes a greater financial benefit. The added cost of investing in an in-house operational platform is expected to be more than offset by the savings that we are able to make through reducing percentage based per-bed fees currently paid for services which are outsourced.

A benefit of this change, and the restructured outsourcing of other functions, has been to examine the full detail of the operational costs that are involved in running the portfolio and to enable us to customise a cost plan to respond to the unique nature of our buildings and our service offer. In developing the budgeting process for Hello Student®, we built a financial model using the external valuation as a starting point; utilising industry benchmark numbers, categorised into the various operational areas. Since September 2016, we have been refining this model, moving away from narrow assumptions and thinking smartly about how operational efficiencies can be achieved with the future portfolio that the delivery of the 2025 Plan will bring.

Cost tracking and sensitivity testing are now in place to feed into the modelling, as we will be bringing newly acquired standing assets onto the operating platform on a recurring basis in all asset types described in the 2025 Plan.

The aim is to improve operating costs per bed over a period of time by moving them from external fee based management contracts to the in-house Hello Student® platform. Conducting ongoing testing of operational costs will ultimately result in efficiencies and a costing model that really reflects the business and its needs. We are running this model on an ongoing basis as a test bed which will evolve from year to year.

The preparatory work to replace the current accounting system took place and the new system is expected to go live in phases during 2017. This change allows the operational cost reporting to be more integrated and simplified than before and puts the reporting systems on a footing to accommodate future growth.

Preventative Maintenance and Reactive Repairs

We contracted with Incentive FM in the previous financial year to provide highly responsive facilities management to support us. This move to a directly employed national contractor long term will enable us to have more oversight of

operational costs, greater economies of scale within the supply chain and a coordinated and consistent approach to delivery.

Overall the continuing rollout of the Hello Student[®] platform will enable us to achieve greater quality control and efficiencies as the portfolio continues to grow and evolve which will feed into shareholder value.

Paul Hadaway
Chief Executive Officer
10 April 2017

Financial Review

The financial results for the six months to 31 December 2016 reflect the Group's significant expansion and capital deployment over the period including the practical completion of a substantial number of development properties which became operational for the 2016/17 academic year.

Accounting Policies

The Group changed its accounting reference date from 30 June to 31 December and the consolidated financial statements have been prepared for a shortened six month period to 31 December 2016. The comparative financial information included in this report relates to the audited consolidated financial statements for the 12 months ended 30 June 2016.

The Group's consolidated financial statements for the six months to 31 December 2016 have been prepared in accordance with IFRS.

Overview

The Group has undergone significant growth during the six month period to 31 December 2016, with the addition of 23 assets to the existing portfolio of 52 operating (or revenue generating) purpose-built accommodation assets owned at 30 June 2016. As a result, gross annualised rent as at 31 December 2016 increased to £52.1 million (30 June 2016: £33.1 million).

Of these additional assets, 13 were development properties which reached practical completion (or became revenue generating) for the 2016/17 academic year, equivalent to 1,728 beds. This has resulted in a commensurate uplift in the valuation of these assets. Development assets typically are slower to let in the first year and, while the portfolio was fully let¹ at the period end, three of our 13 newly completed assets were not fully let for the start of the 2016/17 academic year. This, together with there being only three months of operations at 31 December 2016, means that the full impact of the additional rental income will only flow through to the Group's revenues for the financial year ending 31 December 2017.

However, the cost of mobilisation (one-off setup costs) of these assets, including staffing and other one-off expenses associated with setting up these properties on the Hello Student® management platform, were incurred in full during the period. Similarly, the set-up costs associated with transferring operating assets acquired previously and during the period onto the Hello Student® platform (resulting in a total of 36 buildings managed by Hello Student® at the period end (30 June 2016: 18 buildings)) were also expensed in full during the period.

Again, the benefits associated with an in-house management structure are expected to have a positive impact in the short to medium term as the Group is able to take advantage of economies of scale, with the operation and management of all currently owned operating properties moving to Hello Student® by September 2018.

1 The Company budgets and models on the basis of 97% occupancy (compared to 97.5% previously) adjusted in line with the valuation methodology. Occupancy or income of the operational portfolio (being available beds) to this level and in excess is considered fully let.

Financial Results

The operating profit for the Group for the six months to 31 December 2016 under IFRS was £20.2 million (12 months to 30 June 2016: £30.0 million), including an aggregate revaluation uplift of £14.5 million, net of property acquisition costs, on the Group's property portfolio at the period end (12 months to 30 June 2016: £21.7 million). The operating profit includes the rental income derived from the standing assets in the portfolio, which were fully let¹ and produced rental income of £19.2 million in the six month period (12 months to 30 June 2016: £21.6 million).

Revenue during the six months ended 31 December 2016 was negatively impacted by slower than anticipated lettings at some properties (see above), particularly those new to the Group and/or those under construction where completion was achieved later than scheduled, adversely affecting pre-bookings during the Summer. However, the majority of these properties had achieved full occupation by the end of the period. In addition, the voids on properties acquired on 44 week tenancies (as opposed to our standard 51 week tenancy) impacted on revenue as these tenancies terminated shortly after the start of the period.

Property expenses included:

- significant non-recurring expenditure on certain properties associated with their transfer to the Hello Student® platform;
- legacy utility and other running costs inherited on the transfer of the properties concerned from their previous operators as standing investments; and
- one-off mobilisation costs on assets new to the letting market.

The impact of the factors affecting the revenue and one off expenses is magnified by the shortened reporting period.

The Group's share of results from joint ventures in the six month period was £0.7 million, which primarily related to uplift in the fair values of the property (12 months to 30 June 2016: £1.8 million).

Administrative and other expenses, which include the ongoing costs of running the business, were £5.3 million (12 months to 30 June 2016: £7.3 million). During the period, the Group expanded its head office operation, adding seven new recruits, moved to new premises, continued to establish the Hello Student® platform and negotiated several new debt facilities.

Net financing costs for the six month period were £4.0 million net of money market investment income of £0.3 million (12 months to 30 June 2016: £3.6 million and £0.9 million, respectively).

The profit before tax for the six month period was £16.9 million (12 months to 30 June 2016: £28.1 million), with basic earnings per share for the six month period of 3.38p (3.35p on a diluted basis) (12 months to 30 June 2016: 7.29p and 7.23p (diluted)).

No Corporation Tax has been charged in the period because of the Group's fulfilment of all of its obligations as a REIT.

The NAV per share as at 31 December 2016 was 105.9p prior to adjusting for the second interim dividend of 1.55p per share (30 June 2016: 105.4p prior to adjusting for the fourth interim dividend of 1.5p) and is shown net of all property acquisition costs and dividends paid during the six months.

Asset Valuation

The Group's portfolio has been independently valued by CBRE in accordance the RICS Valuation - Professional Standards January 2014 (the "Red Book"). As at 31 December 2016, the aggregate market value of property in our portfolio was £721.3 million (including the Company's interest in a joint venture development asset) (30 June 2016: £523.9 million).

CBRE now values the portfolio off 97% occupancy (previously 97.5%) which has led to a slight relative reduction in the valuation of the portfolio. In addition, we have implemented a valuation policy pursuant to which only 25% of the valuation increase related to rental uplifts for the 2016/17 academic year is recognised as at 31 December 2016. A further 50% will be recognised for the six months ending 30 June 2017 and the balance during the second half of the financial year.

Further details on the portfolio and valuation are set out in the Chief Investment Officer's Portfolio Review on pages 28 to 33 (inclusive).

Dividends

For the six month period ended 31 December 2016, the Company declared two interim dividends amounting, in aggregate, to 3.05p per share (of which 1.55p per share was declared on 11 January 2017) (12 months to 30 June 2016: 6.0p per share including 1.5p per share declared after the period end), which is in line with the target of a dividend of 6.1p per share for the 12 months ending 30 June 2017.

Of these dividends, 0.93p per share was declared as a PID in respect of the Group's tax exempt property rental business and 2.12p per share was declared as ordinary UK dividends (year to 30 June 2016: 1.45p per share and 4.55p per share, respectively).

The Group's adjusted EPRA earnings per share for the six month period was 0.72p (12 months to 30 June 2016: 1.89p per share). The adjusted EPRA earnings per share figure takes the EPRA earnings per share for the year and adds the licence fee on forward funded developments and the rental guarantee payments on two forward funded assets that were delivered late by the developer. We see this as a more relevant measure when assessing dividend distributions.

The Company is targeting a dividend of 6.1p per share for the 12 months ending 30 June 2017. This reflects the prior financial year dividend of 6p per share with an adjustment broadly in line with our dividend growth target of not less than RPI. The Directors anticipate that dividends for the year ended 31 December 2017 and going forward will be substantially covered by adjusted EPRA earnings per share.²

2 Shareholders should note that the figures in relation to prospective dividends set out above and elsewhere in this Annual Report are for illustrative purposes only and are not intended to be, and should not be taken as, a profit forecast or estimate.

Financing

In March 2016, the Company launched a share issuance programme enabling it to issue up to 165 million shares valid until 28 February 2017 (the "Share Issuance Programme"). The only tranche of the Share Issuance Programme, which closed on 16 March 2016, raised gross equity of £125 million, well above the original target of £90 million.

As a consequence, the Company had sufficient equity capital for the six month period to 31 December 2016 and sought

to raise debt financing.

During the period, the Group agreed four further debt facilities, namely:

- on 15 July 2016, a new facility of £32.8 million with AIB Group (UK) PLC secured on five forward funded assets, to be drawn down in stages over the development period, with practical completion on all five assets expected by July 2017 when the facility will convert into an investment loan. The development loan interest rate is at a margin of 2.80% per annum over LIBOR. The investment loan interest rate is at a margin of 1.80% per annum over LIBOR. At 31 December 2016, £14.7 million had been drawn;
- on 6 September 2016, a new facility of £30.63 million with The Royal Bank of Scotland plc secured against a portfolio of five forward funded assets, to be drawn down in stages over each asset's development period, converting to an investment loan, separately, on practical completion of each of the developments. At 31 December 2016, £8.4 million had been drawn down;
- on 13 December 2016, a new £40 million extension facility to the existing £80 million fixed rate term facility (together, the "Amended and Restated Facility") through Barings Real Estate Advisers (a member of the Massachusetts Mutual Group), secured against 25 operating properties. The fixed all in blended interest rate for the Amended and Restated Facility is 3.37% per annum. The new £40 million facility was drawn down in full on 16 December 2016; and
- on 27 July 2016, a supplementary £40 million facility to the existing £31.1 million fixed rate term facility with Canada Life Investments became available for draw down against completion and acquisition of four forward committed purchases. By 31 December 2016, £34.2 million of the facility had been drawn down against three property acquisitions.

As at 31 December 2016, the Group had, in aggregate, £310.0 million of committed debt in place of which £243.9 million had been drawn down. The Group's aggregate LTV ratio as at 31 December 2016 was 31.1% (30 June 2016: 22.7%), compared to a target LTV of 35% and a maximum of 40%) and it was in full compliance with its covenants.

Post Balance Sheet Events

The Company has announced the acquisition of one asset which was operational and one property under development which, together, represent a further 326 beds. Details of these acquisitions are set out in Table 3 of the Chief Investment Officer's Portfolio Review.

On 3 March 2017, the Company agreed a new unsecured term loan facility of £10 million with First Commercial Bank Limited, repayable three years from the date of agreement.

On 30 March 2017, the Group acquired Revcap's 50% share of the Willowbank joint venture, Empiric (Glasgow) Limited, for £4.65 million. At the same time, the outstanding debt for the joint venture, amounting to £9.5 million, was repaid to Close Brothers.

Alternative Investment Fund Manager ("AIFM")

The Company continues to be authorised as a full-scope AIFM and is regulated by the Financial Conduct Authority. The Company has engaged a specialist compliance consultancy, Portman Compliance Consulting LLP, to ensure that it adheres to all of its regulatory obligations.

Thanks

The Board would like to thank our finance team for their hard work and dedication over this period of significant growth in the business and successfully meeting the significant challenges along the way.

Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal controls within the Group.

The Audit Committee formally reviews the effectiveness of the Company's risk management processes on behalf of the Board.

The Board recognises that the operation of a company is not without risk but that effective risk management is key to the success of an organisation.

Approach to Managing Risk

The overall risk management process is designed to identify, evaluate and mitigate (rather than eliminate) significant risks that the Group faces. Therefore, the process can only provide reasonable, rather than absolute, assurance. The Company outsources certain services to its administrator, FIM Capital Limited (the "Administrator"), and other service providers, and a certain element of reliance is placed on the Company's service providers' own systems and controls.

The Board undertakes formal risk reviews with the assistance of the Audit Committee in order to assess the effectiveness of the Company's risk management and internal control systems. During the course of such reviews, the Board has not identified, nor been advised of, any failings or weaknesses which it has determined to be of a material nature.

The principal risks and uncertainties that the Group faces are set out on pages 42 to 47 of the Annual Report.

Principal Risks

Principal risks have the potential to affect the Group's business materially – either favourably or unfavourably. Some risks may be unknown at present, and certain risks that are currently regarded as immaterial, and therefore not included here, might well become material in the future.

Risk		Impact	Mitigation
Strategic risks			
1	The Group will continue to focus exclusively on the student accommodation sector. It will, therefore, have direct reliance on the development of the higher education market in the UK, generally, or in specific regions, including any change in demand from international students.	An adverse change in the higher education market in the UK, generally, or in a specific region, could lead to a reduction in student numbers and a consequent reduction in demand for student accommodation across the UK or any such region. This, in turn, could result in reduced rental income and negatively impact the value of all, or a significant proportion of, the Group's portfolio.	<p>The Board constantly monitors government policy and its impact on, and forecasts of, UK, EU and international student numbers studying in the UK. Further, the Board will pay particular attention to proposals relating to the UK's exit from the EU and how these impact the UK as a whole and specific regions, such as Scotland.</p> <p>The Board acquires or develops student accommodation properties serving leading university cities and towns in the UK, such as the Russell Group or high growth universities. Where the Directors perceive a weakening in a particular market (either a specific city or region), they will carefully monitor the performance of existing assets in such market and adjust rental levels and marketing activities, as necessary, to ensure occupancy levels are maintained.</p> <p>The properties are well located, with the majority being within walking distance of the universities they serve and are also close to leisure amenities. The Board therefore believes maintaining competitive rental levels should</p>

Risk		Impact	Mitigation
			<p>ensure high occupancy levels across the portfolio during periods of weaker demand.</p> <p>The recently approved 2025 Plan provides for further future diversification across multiple sub-markets including: i) low cost housing; ii) quality townhouses; iii) on-campus accommodation; and iv) the first/second year markets.</p> <p>The Directors also seek to ensure the Group's developments and, where possible, acquisitions of standing assets, are fit for alternative use such as private residential, subject to planning.</p>
2	<p>The Group faces competition in the student accommodation sector from a number of UK and international property investors, both existing and new, which may have access to larger financial resources and/or be targeting lower investment returns.</p>	<p>Increased competition may lead to an oversupply of rooms through overdevelopment, to prices for existing properties or land for development being inflated or to an adverse impact on rents able to be achieved.</p>	<p>The full-time student population across the UK (from first year to postgraduate level) was over 1.7 million for the 2015/16 academic year. The Group is focused on 36 cities and towns with high quality and growing higher education institutions and where research indicates that there is a significant under supply of PBSA. The Group's assets are situated in prime locations in varying formats and different price points and, therefore, in times of reduced demand, these properties should be more attractive to prospective customers than the competition at the right price.</p>
Investment risks			
3	<p>The performance of the Group's portfolio will depend on general property and investment market conditions.</p> <p>There remains uncertainty in respect of the property market, in general, following the result of the EU referendum in June 2016, which could prevail until Brexit negotiations are concluded and beyond, depending on the outcome of such negotiations.</p> <p>If market conditions deteriorate and, as a result, the value of the Group's assets falls, the NAV of the Group will reduce. Furthermore, the Group's borrowings contain LTV covenants.</p>	<p>Market conditions may negatively impact on the revenues earned from the property assets, which may impact the Group's ability to make distributions to shareholders.</p> <p>An adverse change in the Group's property valuations may lead to the Group breaching its banking covenants.</p>	<p>The Group's assets are located in multiple, prime locations, diversifying the risk of adverse changes to the portfolio.</p> <p>The Company's Investment Policy provides for a prudent borrowing limit for the asset class of a maximum of 40% of the Gross Asset Value (with a target of 35%). The Board regularly reviews property market conditions and would seek to take action in advance should it look like any property used as collateral had decreased in value to the extent that there was a risk that the Group might breach any of its LTV covenants. The LTV covenants have been negotiated to be as flexible as possible.</p> <p>Further, with international students paying in advance, the Group maintains substantial cash</p>

Risk		Impact	Mitigation
			<p>balances on account.</p> <p>The student property sector has demonstrated considerable robustness underpinned by a significant and beneficial supply and demand imbalance. Notwithstanding this imbalance, the Group does not overstretch annual rent increases and varies such increases according to the local market conditions for each particular area or building.</p> <p>With EU students representing only 6% of all full-time students in the UK, and with the high number of other international students applying to study in the UK, the higher education sector in the UK is not reliant on students from the EU.</p>
4	The ability of the Group to achieve its investment objective is dependent on both the rental income received from the properties and the appreciation in property values.	Rental income and property values may be adversely affected by an increased supply of student accommodation, failure to collect rents, increasing costs or any deterioration in the quality of the properties in the portfolio.	<p>The Group's portfolio of properties is geographically diversified and where there is more than one property serving a town/university, the total number of beds equates to no more than 2% of the location's full-time student population. Each operational property is managed either by the Group directly or by reputable property management companies. Therefore, the Group is not unduly exposed to any one student market.</p> <p>The Group's Operations Director liaises with the property managers to ensure rental income is collected on time (usually in advance at the start of an academic year), that the properties are well maintained and the desired level of customer service is provided.</p>
Development risks			
5	The Group's development activities are likely to involve a higher degree of risk than is associated with operating properties including general construction risks such as delays or health and safety problems, developments not being completed (while associated costs are still incurred) or changes in market conditions which could result in completed developments having substantial vacancies.	Any of the risks associated with the Group's development activities could reduce the value of the Group's assets.	Under the Company's current Investment Policy, the Company may only commit up to a maximum of 15% of NAV to expenditure on development (excluding the cost of the land or property to be developed). Since IPO, a greater proportion of the Group's development activities has been undertaken through forward funded projects rather than by direct development. Investment into forward funded projects reduces the risk to the Company as the

Risk		Impact	Mitigation
			<p>developer takes on the construction risk and the risk of cost overruns.</p> <p>The Group's development activities span a range of towns and cities and there is little or no overlap in the developers acting on these projects (with the maximum exposure to any one developer restricted to 20% of GAV for forward funded projects), further reducing the impact of any delays or changes in market conditions.</p>
6	Construction of the Group's development projects may be subject to delays or disruptions that are outside of the Group's control.	A delay in the timely construction of the Group's assets under development could result in one or more of the development assets not being delivered in time for the start of a particular academic year with a resultant impact on occupancy and revenue.	<p>Building programmes are structured to ensure construction completion occurs at least one month before the commencement of the academic year and that contractors provide show flats and assist Empiric with marketing during the construction phase.</p> <p>Properties developed using third party developers generally benefit from a one year rental guarantee for the first year of operations in the event the asset is not delivered in time for the start of the academic year. For assets developed by the Group (directly or through its joint venture arrangement with Revcap), the Group puts in place suitable contingencies, insurance cover and other arrangements with the responsible contractor or sub-contractor to cover the impact of any delay.</p>
Funding risks			
7	The Group's strategy anticipates the Company or certain Group companies incurring debt with interest payable based on LIBOR and it may hedge or partly hedge interest rate exposure on borrowings. However, such measures may not be sufficient to protect the Group from adverse movements in prevailing interest rates.	Future increases in the amount of interest payable by the Group on its borrowings would reduce the profitability of the Company.	<p>Since IPO, the Executive Directors have been in active discussions with a number of debt providers and, to date, have secured facilities with five separate providers (including joint venture debt providers) and have agreed fixed rates or employed interest rate hedging which is in place for 61% of the variable rate debt.</p> <p>As at 31 December 2016, the weighted average term to maturity of the Group's debt investment debt was 9 years and 2 years for its development debt.</p>
8	The Group may not be able to secure further debt on acceptable terms.	Without the continued availability of debt on acceptable terms, the Group may be unable to progress investment opportunities as they arise and continue to grow the	The Executive Directors are in active discussions with a number of debt providers in order to secure future debt on acceptable terms.

Risk		Impact	Mitigation
		Group in line with the long-term strategy.	The forward funded developments' yields on cost reduce the need for gearing to meet the dividend target.
People			
9	<p>The Group's ability to achieve its investment objective is dependent on the performance of the Executive Directors which cannot be guaranteed.</p> <p>As a result, the Group's performance will, to a large extent, be dependent upon the ability of the Company to align the incentives of the Executive Directors to shareholder interests and retain key staff and/or recruit individuals of appropriate experience and calibre on a timely basis.</p>	<p>Failure by the Executive Directors to acquire and manage assets effectively could materially adversely affect the Company's profitability, the NAV and the share price. Similarly, the departure of an Executive Director or member of senior staff, and either a delay or failure in recruiting a suitable replacement, could have an adverse impact on the performance of the Group.</p>	<p>The Executive Directors' interests are aligned with those of other shareholders, with each Executive Director currently holding a meaningful interest in the shares and their long-term incentivisation to be satisfied in shares.</p> <p>The Remuneration Committee takes formal external advice to ensure that the Remuneration Policy for the Executive Directors incentivises them to achieve the goals of the Company for the benefit of the shareholders. The Value Delivery Plan has recently been approved by shareholders in order to achieve further alignment.</p> <p>Other senior staff are remunerated in accordance with market practice and conditions.</p>
Operational risks			
10	<p>The Group's operations, including its development activities, are subject to laws and regulations enacted by national and local government and by government policy, for example, the requirement for Energy Performance Certificates for all of the Group's buildings.</p> <p>The ability to respond and adapt to the changing planning and regulatory environment is key to Group's future business performance.</p>	<p>A failure to comply with the relevant law or regulations may negatively impact the Group's ability to deliver or acquire further buildings, or result in one or more existing buildings to be temporarily or permanently closed which may have a material adverse effect on the performance of the Group.</p> <p>Any change in the laws, regulations and/or government policy in relation to the Group's operations or development activities may have a material adverse impact on the Company's ability to implement its investment policy and, hence, negatively impact returns to shareholders.</p>	<p>The Company's investment team has significant experience and, together with its relevant advisers, closely monitors the planning environment both nationally and locally in the Group's target markets.</p> <p>The Executive Directors are ultimately responsible for ensuring that planning submissions are well prepared, addressing local concerns and demonstrating good design, and that all buildings comply with all the relevant building regulations and are sustainable and environmentally efficient.</p>
11	<p>The Company operates as a UK REIT and has a tax efficient corporate structure with advantageous consequences for UK shareholders. Any change to the Company's tax status or in UK tax legislation (or interpretation thereof) could affect the Company's ability to achieve its investment objective or provide favourable returns to shareholders.</p>	<p>If the Company fails to remain a REIT for UK tax purposes, its profits and gains will be subject to UK Corporation Tax.</p>	<p>The Board is ultimately responsible for ensuring adherence to the UK REIT regime and monitors the compliance reports provided by the Executive Directors on potential transactions to be undertaken, the Administrator reports on asset levels and the Company's registrar and broker on shareholdings. The Company's Head of Compliance provides internal compliance</p>

Risk		Impact	Mitigation
			<p>support.</p> <p>In addition, Ernst & Young LLP provide REIT compliance monitoring services to Empiric and a third party consultant, Portman Compliance Consulting LLP, assists the Company with compliance matters.</p>
12	<p>The Group may not be able to let the commercial units which form part of some of the properties it owns or acquires.</p>	<p>A number of the Group's properties include commercial units which generate between 2%–17% (depending on each property) of the individual total rental income from such properties. If the Group was not able to lease some or all of these commercial units, it could have a material adverse effect on the Group's profitability, the NAV and the price of the shares.</p>	<p>Under the Company's Investment Policy, commercial leases are limited to 25% of total rent receipts of any single building and 15% of the Group's total rent receipts limiting the impact of any one commercial unit. For the six months to 31 December 2016, the aggregate annualised rental income from commercial leases amounted to 3.4% of the Group's gross annualised rent for its operating assets (30 June 2016: 2.7%).</p>
13	<p>The Group may not be able to maintain the occupancy rates of its properties or any other student accommodation properties it acquires.</p>	<p>If the Group is unable to maintain attractive occupancy levels (or to maintain such levels on economically favourable terms) in relation to its properties, there may be a material adverse effect on the Group's profitability, NAV and the share price.</p>	<p>The Board carefully assesses the Group's acquisitions to ensure that the properties are well located in prime university towns and cities. The diverse portfolio of midsized buildings reduces the impact of reduced occupancy in any one building on the overall portfolio and allows the Group to adjust its pricing property by property to ensure maximum occupancy levels for each property.</p>
14	<p>A significant health and safety incident could put people at risk, including injury to, or loss of life of, employees, contractors, customers and the general public.</p>	<p>A serious health and safety incident could result in criminal or civil proceedings and severe reputational damage to the Group. It could also lead to delays in development projects.</p>	<p>The Group undertakes landlord risk assessments for every property prior to occupation. Additionally, all student property is insured as occupied residential property, property managers receive suitable training to minimise the risk of a health and safety incident occurring in one of our buildings, and student buildings are inspected on a sample basis as part of the Company's ANUK accreditation.</p> <p>Whilst the Group undertakes development activity in respect of the property portfolio, construction is undertaken by third party contractors who retain responsibility for the health and safety of their staff and subcontractors working on the construction sites.</p> <p>Appropriate risk assessments have also been undertaken in respect of the Company's head office function, and the Health and</p>

Risk		Impact	Mitigation
			Safety policy is available to all members of staff.
15	Lettings on the Group's in-house platform, Hello Student®, may not reach target levels.	An inability to secure lettings for properties marketed by the Group, directly, would result in occupancy levels below target and, hence, a shortfall in rental income.	<p>The Hello Student® website acts as a portal for all properties in the Group's operational portfolio. Residences run entirely by Hello Student® appear on this website and other third party listings. Where a property is run by a third party manager, it appears on (and can be booked from) the manager's website, as well as being present on the Hello Student® website. The website features on several third party websites and is supported by a strong social media presence. In this way, each property is marketed through multiple sources. The migration of all residences to being run entirely by Hello Student® is phased until September 2018.</p>
16	We collect and retain information in computer systems regarding our business dealings, our customers and our suppliers. The secure processing, maintenance and transmission of this information is critical to our business and we must comply with restrictions on the handling of sensitive information (including employee and customer information).	A major information security breach could have a significant negative impact on our reputation and could result in the loss of business-critical information. This in turn could have a negative impact on our ability to do business or result in fines or compensation, impacting on the Group's profitability.	<p>Our networks are protected by firewalls and anti-virus protection systems with back-up procedures also in place.</p> <p>The Company has retained the services of a specialist information technology consultancy to enhance controls further and optimise our systems design in order to minimise the risk of hacking. This latter service is particularly critical to the Group as we expand our portfolio and our operational capabilities. In order to ensure that our investment into computer systems is aligned with our overall business strategy is cost-effective and designed to reduce as far as possible the risk of security breaches.</p> <p>All staff are given appropriate training to identify emails and other communications that could result in a security breach.</p>

Financial Statements

Group Statement of Comprehensive Income

	Note	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Continuing operations			
Revenue	2	19,210	21,600
Property expenses	3	(8,152)	(6,092)
Net rental income		11,058	15,508
Administrative expenses	4	(5,323)	(7,262)
Change in fair value of investment property	13	14,474	21,724
Operating profit		20,209	29,970
Finance cost		(4,231)	(4,552)
Finance income		255	910
Net finance costs	5	(3,976)	(3,642)
Share of results from joint ventures	14	713	1,793
Profit before income tax		16,946	28,121
Corporation tax	7	–	–
Profit for the period		16,946	28,121
Other comprehensive income			
<i>Items that will be reclassified to Statement of Comprehensive Income</i>			
Fair value gain or (loss) on cash flow hedge		453	(1,237)
Total comprehensive income for the period		17,399	26,884
Earnings per share expressed in pence per share	8		
Basic		3.38	7.29
Diluted		3.35	7.23

Group Statement of Financial Position

	Note	At 31 December 2016 £'000	At 30 June 2016 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	509	297
Intangible assets	12	1,017	737
Investment property – operational assets	13	644,510	443,440
Investment property – development assets	13	67,380	70,754
Investment in joint venture	14	4,923	4,197
Derivative financial assets	19	19	18

Total non-current assets		718,358	519,443
Current assets			
Trade and other receivables	15	24,852	18,716
Cash and cash equivalents	16	59,399	163,923
Total current assets		84,251	182,639
Total assets		802,609	702,082
LIABILITIES			
Current liabilities			
Trade and other payables	17	16,033	14,974
Borrowings	18	–	9,257
Derivative financial liability	19	485	479
Deferred income	17	15,760	4,418
Total current liabilities		32,278	29,128
Non-current liabilities			
Borrowings	18	238,718	143,639
Derivative financial liability	19	748	1,206
Total non-current liabilities		239,466	144,845
Total liabilities		271,744	173,973
Total net assets		530,865	528,109
Equity			
Called-up share capital	20	5,013	5,013
Share premium	21	359,958	359,958
Capital reduction reserve	22	106,198	121,236
Retained earnings		60,686	43,345
Cashflow hedge reserve		(990)	(1,443)
Total equity		530,865	528,109
Total equity and liabilities		802,609	702,082
Net Asset Value per share basic (pence)	9	105.90	105.35
Net Asset Value per share diluted (pence)	9	105.07	104.73
EPRA Net Asset Value per share (pence)	9	106.15	105.73

These financial statements were approved by the Board of Directors on 10 April 2017 and signed on its behalf by:

Paul Hadaway
Director

Company Statement of Financial Position

	Notes	At 31 Decemb er 2016 £'000	At 30 June 2016 £'000
ASSETS			
Non-current assets			

Property, plant and equipment	11	509	133
Intangible assets	12	127	-
Investments in subsidiaries	31	5,118	5,117
Investment in joint venture	14	2,965	2,952
Total non-current assets		8,719	8,202
Current assets			
Trade and other receivables	15	602	511
Amounts due from Group undertakings	15	651,897	460,845
Cash and cash equivalents	16	14,997	143,819
Total current assets		667,496	605,175
Total assets		676,215	613,377
LIABILITIES			
Current liabilities			
Trade and other payables	17	1,639	1,681
Amounts due to Group undertakings	17	216,305	134,163
Total current liabilities		217,944	135,844
Total net assets		458,271	477,533
Equity			
Called-up share capital	20	5,013	5,013
Share premium	21	359,958	359,958
Capital reduction reserve	22	106,198	121,236
Retained earnings		(12,898)	(8,674)
Total equity		458,271	477,533
Total equity and liabilities		676,215	613,377

The Company made a loss for the period of £4,619,000 (12 months to 30 June 2016: £5,774,000).

These financial statements were approved by the Board of Directors on 10 April 2017 and signed on its behalf by:

Paul Hadaway
Director

Group Statement of Changes in Equity

	Called-up share capital £'000	Share premium £'000	Capital reducti on reserve £'000	Retaine d earnings £'000	Cash flow hedge reserve £'000	Total equity £'000
Period ended 31 December 2016						
Balance at 1 July 2016	5,013	359,958	121,236	43,345	(1,443)	528,109
Changes in equity						
Profit for the period	—	—	—	16,946	—	16,946
Fair value gain on cash flow hedge	—	—	—	—	453	453
Total comprehensive income for the period	—	—	—	16,946	453	17,399

Share-based payments	–	–	–	395	–	395
Dividends	–	–	(15,038)	–	–	(15,038)
Total contributions and distributions recognised directly in equity	–	–	(15,038)	395	–	(14,643)
Balance at 31 December 2016	5,013	359,958	106,198	60,686	(990)	530,865
Balance at 1 July 2015	2,329	82,280	141,417	14,575	(206)	240,395
Changes in equity						
Profit for the period	–	–	–	28,121	–	28,121
Fair value (loss) on cash flow hedge	–	–	–	–	(1,237)	(1,237)
Total comprehensive income for the period	–	–	–	28,121	(1,237)	26,884
Issue of share capital	2,684	283,742	–	–	–	286,426
Share issue costs	–	(6,064)	–	–	–	(6,064)
Share-based payments	–	–	–	649	–	649
Dividends	–	–	(20,181)	–	–	(20,181)
Total contributions and distributions recognised directly in equity	2,684	277,678	(20,181)	649	–	260,830
Balance at 30 June 2016	5,013	359,958	121,236	43,345	(1,443)	528,109

Company Statement of Changes in Equity

	Called-up share capital £'000	Share premium £'000	Capital reducti on reserve £'000	Retaine d earnings £'000	Total equity £'000
Period ended 31 December 2016					
Balance at 1 July 2016	5,013	359,958	121,236	(8,674)	477,533
Changes in equity					
Loss for the period	–	–	–	(4,619)	(4,619)
Total comprehensive loss for the period	–	–	–	(4,619)	(4,619)
Share-based payments	–	–	–	395	395
Dividends	–	–	(15,038)	–	(15,038)
Total contributions and distributions recognised directly in equity	–	–	(15,038)	395	(14,643)
Balance at 31 December 2016	5,013	359,958	106,198	(12,898)	458,271
Year ended 30 June 2016					
Balance at 1 July 2015	2,329	82,280	141,417	(3,549)	222,477
Changes in equity					
Loss for the period	–	–	–	(5,774)	(5,774)
Total comprehensive loss for the period	–	–	–	(5,774)	(5,774)
Issue of share capital	2,684	283,742	–	–	286,426
Share issue costs	–	(6,064)	–	–	(6,064)

Share-based payments	–	–	–	649	649
Dividends	–	–	(20,181)	–	(20,181)
Total contributions and distributions recognised directly in equity	2,684	277,678	(20,181)	649	260,830
Balance at 30 June 2016	5,013	359,958	121,236	(8,674)	477,533

Group Statement of Cash Flows

		Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities			
Profit before income tax		16,946	28,121
Share-based payments		395	649
Depreciation and amortisation		73	113
Finance income		(255)	(910)
Finance costs		4,231	4,552
Share of results from joint venture		(713)	(1,793)
Change in fair value of investment property		(14,474)	(21,724)
		6,203	9,008
Increase in trade and other receivables		(6,135)	(14,541)
Increase in trade and other payables		1,059	10,919
Increase in deferred rental income		11,342	2,041
		6,266	(1,581)
Net cash flows generated from operations		12,469	7,427
Cash flows from investing activities			
Purchases of tangible fixed assets		(240)	(287)
Purchases of intangible assets		(325)	(781)
Investments in joint ventures		(13)	(1,108)
Purchase of investment property		(183,222)	(235,999)
Interest received		254	910
Net cash flows from investing activities		(183,546)	(237,265)
Cash flows from financing activities			
Share issue proceeds		–	286,426
Share issue costs		–	(6,064)
Dividends paid		(15,038)	(20,181)
Bank borrowings drawn		97,346	99,117
Bank borrowings repaid		(9,286)	(37,860)
Loan arrangement fee paid		(2,789)	(2,124)
Finance cost (excluding fair value loss on derivatives)		(3,680)	(4,341)
Net cash flows from financing activities		66,553	314,973
(Decrease)/increase in cash and cash equivalents		(104,524)	85,135

Cash and cash equivalents at beginning of period		163,923	78,788
Cash and cash equivalents at end of period		59,399	163,923

Company Statement of Cash Flows

		Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities			
Loss before income tax		(4,619)	(5,774)
Share-based payments		395	649
Depreciation charge		28	29
Finance income		(227)	(826)
		(4,423)	(5,922)
Increase in trade and other receivables		(91)	(107)
Increase in trade and other payables		(42)	645
		(133)	538
Net cash flows generated from operations		(4,556)	(5,384)
Cash flows from investing activities			
Purchases of tangible fixed assets		(404)	(83)
Purchases of intangible fixed assets		(127)	–
Investments in subsidiaries		(1)	(4,952)
Investments in joint ventures		(13)	(1,108)
Payments to/on behalf of subsidiaries		(196,358)	(248,045)
Repayments from subsidiaries		87,448	83,521
Interest received		227	826
Net cash flows from investing activities		(109,228)	(169,841)
Cash flows from financing activities			
Share issue proceeds		–	286,426
Share issue costs		–	(6,064)
Dividends paid		(15,038)	(20,181)
Net cash flows from financing activities		(15,038)	260,181
(Decrease)/increase in cash and cash equivalents		(128,822)	84,956
Cash and cash equivalents at beginning of period		143,819	58,863
Cash and cash equivalents at end of period		14,997	143,819

Notes to the Financial Statements

1. Accounting Policies

1.1 Period of Account

The consolidated financial statements of the Group are in respect of the reporting period from 1 July 2016 to 31 December 2016. Results for the six month period to 31 December 2016 do not provide a meaningful comparison to the 12 months to 30 June 2016.

1.2 Basis of Preparation

The consolidated financial statements of the Group for the period to 31 December 2016 comprise the results of Empiric Student Property plc (the "Company") and its subsidiaries (together "the Group"). These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union.

The Group's financial statements have been prepared on a historical cost basis, except for investment property and derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in Sterling which is also the Company and the Group's functional currency.

The Company has applied the exemption allowed under Section 408(1b) of the Companies Act 2006 and has therefore not presented its own Statement of Comprehensive Income in these financial statements. The Group profit for the year includes a loss after taxation of £4.62 million (30 June 2016: £5.77 million) for the Company, which is reflected in the financial statements of the Company.

The financial information does not constitute the Group's statutory accounts for the six month period ended 31 December 2016 or the year ended 30 June 2016 but is derived from those accounts. The Group's statutory accounts for the year ended 30 June 2016 have been delivered to the Registrar of Companies. The Group's statutory accounts for the six month period ended 31 December 2016 will be delivered to the Registrar of Companies in due course. The Auditor has reported on both the December 2016 and June 2016 accounts; the reports were unqualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under Section 498 of the Companies Act 2006.

1.3 Going Concern

The consolidated financial statements have been prepared on a going concern basis as discussed in the Director's Report on page 85.

1.4 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Fair Valuation of Investment Property

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

The valuations have been prepared in accordance with the RICS Valuation - Professional Standards January 2014 ('the Red Book'). Factors reflected include current market conditions, annual rentals, lease lengths, and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 13.

For properties under development the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and an appropriate developer's margin.

(b) Operating Lease Contracts – the Group as Lessor

The Group has acquired investment properties which have commercial property leases in place with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

(c) Fair Valuation of Interest Derivatives

In accordance with IAS 39, the Group values its interest rate derivatives at fair value. The fair values are estimated by an independent financial valuation expert with revaluation occurring on a six-monthly basis. The independent financial valuation expert will use a number of assumptions in determining the fair values. The fair value is derived by using the mid-point of the yield curve prevailing on the reporting date and the valuation is performed on a clean basis. The fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

(d) Business Combinations

The Group acquires subsidiaries that own investment properties. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property.

Where such acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations, rather the cost to acquire the corporate equity is allocated between the identifiable assets and liabilities of the entity based upon their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

Summary of significant Accounting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. Subsidiaries are those investee entities where control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, it has:

- (a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-Group balances, transactions and unrealised gains and losses resulting from intra-Group transactions are eliminated in full.

Financial Assets – Loans and Receivables

The Group classifies its financial assets into one of the categories required by the accounting standards, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as "held to maturity".

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently impaired if there is doubt over recovery.

The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the Consolidated Statement of Financial Position.

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

Financial Liabilities

The Group's financial liabilities predominantly comprise trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Forward Funded Developments

Under the terms of certain funding agreements, the Group commits to pay the total fixed price construction cost to the developer upon entering into the agreement. As construction costs are incurred, funds are released subject to the authorisation of the Group's subsidiary that has contracted the development, along with the appropriate monitoring surveyor certification.

During the period between initial investment in a forward funded agreement and the practical completion date, the Group typically earns licence fee income. This is payable by the developer to the Group once the development is complete. Under IFRS, such licence fees are deducted from the cost of the investment and are shown as a receivable until settled. Any economic benefit of the licence fee is reflected within the Group Statement of Comprehensive Income as a movement in the fair value of investment property.

Hedge accounting

The Group's activities expose it to the financial risks of changes in interest rates.

The use of financial derivatives (interest rate swaps and caps) is approved by the Board of Directors and is consistent with the Group's risk management strategy.

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently remeasured to fair value at each reporting date. Any difference between the transaction price and the initial fair value is recognised immediately in the Consolidated Statement of Comprehensive Income. The Group designates certain derivatives as hedges against the change in fair value of recognised assets and liabilities ("cash flow hedges"). Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or the Group chooses to end the hedging relationship.

Cash Flow Hedges

The Group has entered into a derivative contract in order to convert its floating rate debt to a fixed rate to hedge the interest rate risk. This hedging instrument was designated as a cash flow hedge at inception. Changes in fair value of the hedging instrument are recognised in Other Comprehensive Income to the extent that they represent an effective hedge; otherwise fair value changes are recognised as financial costs in the Consolidated Statement of Comprehensive Income.

Intangible Assets

Intangible assets are initially recognised at cost and then subsequently carried at cost less accumulated amortisation and impairment losses.

For all intangibles amortisation has been charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over ten years.

Investment Property

Investment property comprises property that is held to earn rentals or for capital appreciation, or both, and property under development rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is measured initially at cost including transaction costs and is included in the financial statements on unconditional exchange. Transaction costs include transfer taxes, professional fees and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Consolidated Statement of Comprehensive Income in the period in which they arise.

Investment property is derecognised when it has been disposed of, or permanently withdrawn from use, and no future economic benefit is expected from its disposal. The investment property is derecognised upon unconditional exchange. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Consolidated Statement of Comprehensive Income in the period of retirement or disposal.

Joint Ventures

The Group is party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

Joint ventures: where the Group has rights to only the net assets of the joint arrangement; or

Joint operations: where the Group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

the structure of the joint arrangement;

the legal form of the joint arrangements structured through a separate vehicle;

the contractual terms of the joint arrangement agreement; and

any other facts and circumstances (including any other contractual arrangements).

Joint ventures are initially recognised in the Consolidated Statement of Financial Position at cost and are subsequently accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the Consolidated Statement of Comprehensive Income (except for losses in excess of the Group's investment in the joint venture, unless there is an obligation to make good those losses).

Profits and losses arising on transactions between the Group and its joint venture are recognised only to the extent of unrelated investors' interests in the joint venture. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Operating Leases

Rentals paid under operating leases are charged to the Consolidated Statement of Profit or Loss on a straight-line basis over the period of the lease.

Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the asset.

Depreciation has been charged to the Consolidated Statement of Comprehensive Income on the following basis:

fixtures and fittings – 15% p.a. on a reducing balance basis; and

computer equipment – straight-line basis over three years.

Rental Income

The Group is the lessor in respect of operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in gross rental income in the Consolidated Statement of Comprehensive Income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are recognised as an expense over the lease term on the same basis as the lease income.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Consolidated Statement of Comprehensive Income when the right to receive them arises.

Rent and Other Receivables

Rent and other receivables are recognised at their original invoiced value net of VAT. A provision is made when there is objective evidence that the Group will not be able to recover balances in full.

Segmental Information

The Directors are of the opinion that the Group is engaged in a single segment business, being the investment in the UK in student and commercial lettings.

Share-Based Payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Consolidated Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. So long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Consolidated Statement of Comprehensive Income over the remaining vesting period. National Insurance obligations with respect to equity-settled share-based payments awards are accrued over the vesting period.

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issuance of shares are recognised as a deduction from equity.

Taxation

As the Group is a UK Real Estate Investment Trust ("REIT"), profits arising in respect of the property rental business are not subject to UK Corporation Tax.

Taxation in respect of profits and losses outside of the property rental business comprises current and deferred taxes. Taxation is recognised in Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movement in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the total of the expected corporation tax payable in respect of any non-REIT taxable income for the year and any adjustment in respect of previous periods, based on tax rates applicable to the periods.

Deferred tax is calculated in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised in full (except to the extent that they relate to the initial recognition of assets and liabilities not acquired in a business combination). Deferred tax assets are only recognised to the extent that it is considered probable that the Group will obtain a tax benefit when the underlying temporary differences unwind.

1.5 Accounting standards and interpretations issued But Not Yet effective

At the date of authorisation of these financial statements, the following accounting standards had been issued which are not yet applicable to the Group:

Mandatory for accounting periods beginning on or after 1 January 2018:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

Mandatory for accounting periods beginning on or after 1 January 2019:

IFRS 16 'Leases'

The Group has carried out an initial assessment of the impact of the adoption of the standards above. Based on this, the Directors do not anticipate that these will have a material impact on the financial statements of the Group in future periods, although it is noted that additional disclosures may be required. A detailed review of the impact of these standards will be undertaken in advance of their mandatory adoption.

Other amendments

Additionally, amendments to existing standards have been issued by the IASB, including:

IFRS 2 (amendments) 'Classification and Measurement of Share-based Payment Transactions'

IAS 7 (amendments) 'Disclosure Initiative'

IAS 12 (amendments) 'Recognition of Deferred Tax Assets for Unrealised Losses'

IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'

The Directors do not consider that these amendments will materially impact the financial statements.

2. Revenue

	Group	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Student rental income	18,320	20,616
Commercial rental income	890	723
Rental income	19,210	21,339
Development services	—	261
Total revenue	19,210	21,600

3. Property Expenses

	Group	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Direct site costs	3,143	2,782
Technology services	358	332
Site office and utilities	2,000	1,873
Cleaning and service contracts	991	615
Repairs and maintenance	1,660	490
Total property expenses	8,152	6,092

4. Administrative Expenses

	Group	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Salaries and Directors' remuneration	2,018	3,321
Legal and professional fees	1,123	1,470
Other administrative costs	1,179	1,248
Irrecoverable VAT	717	469
	5,037	6,508
Auditor's fees		
Fees payable for the audit of the Group's annual accounts	175	160
Fees payable for the review of the Group's interim accounts	—	53
Fees payable for the audit of the Group's subsidiaries	86	35

Total auditor's fees	261	248
Abortive acquisition costs	25	271
Non-capitalised Hello Student® website development	–	235
Total administrative expenses	5,323	7,262

The auditor has not received any remuneration in respect of providing reporting accountant services in relation to share offerings during the period (30 June 2016: £164,000). The prior period non-audit fees related to share issue expenses and offset against the share premium account.

5. Net Finance Cost

	Group	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Finance cost		
Fair value loss on interest rate cap	–	211
Interest expense on bank borrowings	3,680	3,986
Amortisation of loan transaction costs	551	355
	4,231	4,552
Finance income		
Fair value gain on interest rate cap	1	–
Interest received on bank deposits	254	910
	255	910
Net finance costs	3,976	3,642

6. Employees and Directors

	Group		Company	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Total wages and salaries	1,469	1,805	1,021	1,606
Less: capitalised salary costs	(31)	(258)	(31)	(258)
Less: Hello Student® wages and salaries included in property expenses	(448)	(199)	–	–
Total wages and salaries included in administrative expenses	990	1,348	990	1,348
Pension costs	134	179	134	179
Cash bonus	164	601	164	601
Share-based payments	395	691	395	691

National Insurance	335	502	335	502
	2,018	3,321	2,018	3,321
The average monthly number of employees of the Group during the period was as follows;				
Management	3	3	3	3
Administration – Empiric	21	14	21	14
Administration – Hello Student®	57	20	–	–
	81	37	24	17
			Group and Company	
			Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Directors' remuneration				
Salaries and fees			625	1,110
Pension costs			74	137
Cash bonus			164	601
Share-based payments			395	691
			1,258	2,539

£31,000 of wages and salaries are directly related to the costs necessary to develop the Hello Student® application and new accounting software and have therefore been capitalised within intangible assets. £258,000 was capitalised in the year ended 30 June 2016 in relation to the development of the Hello Student® website. The Hello Student® wages and salaries are included within Direct site costs in Property expenses and, therefore, have been excluded here.

A summary of the Directors' emoluments, including the disclosures required by the Companies Act 2006 is set out in the Directors' Remuneration Report on pages 77 to 84 of the Annual Report. No Directors received any advances, credits or guarantees during the period.

7. Corporation Tax

The Group became a REIT on 1 July 2014 and as a result does not pay UK Corporation Tax on its profits and gains from its qualifying property rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains of the Group continue to be subject to Corporation Tax as normal.

In order to achieve and retain REIT status, several conditions have to be met on entry to the regime and on an ongoing basis, including:

- (i) at the start of each accounting period, the assets of the property rental business (plus any cash and certain readily realisable investments) must be at least 75% of the total value of the Group's assets;
- (ii) at least 75% of the Group's total profits must arise from the tax exempt property rental business; and
- (iii) at least 90% of the tax-exempt profit of the property rental business (excluding gains) of the accounting period must be distributed.

In addition, the full UK Corporation Tax exemption in respect of the profits of the property rental business will not be available if the profit: financing cost ratio in respect of the property rental business is less than 1.25.

The Group met all of the relevant REIT conditions for the six months ended 31 December 2016.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is not required to be recognised in respect of temporary differences relating to the property rental business.

	Group	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Current tax		
Income tax charge/(credit) for the period	—	—
Adjustment in respect of prior period	—	—
Total current income tax charge/(credit) in the Statement of Comprehensive Income	—	—
Deferred tax		
Total deferred income tax charge/(credit) in the Statement of Comprehensive Income	—	—
Total current income tax charge/(credit) in the Statement of Comprehensive Income	—	—
The tax assessed for the period is lower than the standard rate of Corporation Tax in the period.		
	Group	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Profit for the period	16,946	28,121
Profit before tax multiplied by the rate of Corporation Tax in the UK of 20.00% (June 2016: 20.00%)	3,389	5,624
Exempt property rental profits in the period	(856)	(1,332)
Exempt property revaluations in the period	(2,895)	(4,454)
Effects of:		
Non-allowable expenses	15	—
Residual property revaluations in the period	—	110
Unutilised current period tax losses	347	52
Total current income tax charge/(credit) in the Statement of Comprehensive Income	—	—

On the basis that the residual (non-tax exempt) business is not expected to be income generating in future periods, a deferred tax asset has not been recognised in respect of the tax losses generated by the residual business of the Group of £347,000 (30 June 2016: £52,000).

8. Earnings per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

Reconciliations are set out below:

	Calculati on of basic EPS	Calculati on of diluted EPS	Calculati on of EPRA basic EPS	Calculati on of EPRA diluted EPS	Calculati on of EPRA adjusted basic EPS
Period to 31 December 2016					
Earnings (£'000)	16,946	16,946	16,946	16,946	16,946
Adjustment to include licence fee receivable on forward funded developments in the year (£'000)	–	–	–	–	1,201
Adjustment to include development rebate receivable on forward funded developments in the year (£'000)	–	–	–	–	496
Adjustments to remove:					
Changes in fair value of investment properties (Note 13) (£'000)	–	–	(14,474)	(14,474)	(14,474)
Changes in fair value of share of joint venture investment (£'000)	–	–	(557)	(557)	(557)
Changes in fair value of interest rate derivatives (Note 19) (£'000)	–	–	(1)	(1)	(1)
Earnings/adjusted earnings (£'000)	16,946	16,946	1,914	1,914	3,611
Weighted average number of shares ('000)	501,279	501,279	501,279	501,279	501,279
Adjustment for employee share options ('000)	–	3,990	–	3,990	–
Total number shares ('000)	501,279	505,269	501,279	505,269	501,279
Per-share amount (pence)	3.38	3.35	0.38	0.38	0.72
Year to 30 June 2016					
Earnings (£'000)	28,121	28,121	28,121	28,121	28,121
Adjustment to include licence fee receivable on forward funded developments in the year (£'000)	–	–	–	–	2,140
Adjustments to remove:					
Changes in fair value of investment properties (Note 13) (£'000)	–	–	(21,724)	(21,724)	(21,724)
Changes in fair value of share of joint venture investment (£'000)	–	–	(1,450)	(1,450)	(1,450)
Changes in fair value of interest rate derivatives (Note 19) (£'000)	–	–	211	211	211
Earnings/adjusted earnings (£'000)	28,121	28,121	5,158	5,158	7,298
Weighted average number of shares ('000)	385,889	385,889	385,889	385,889	385,889
Adjustment for employee share options ('000)	–	2,957	–	2,957	–
Total number shares (£'000)	385,889	388,846	385,889	388,846	385,889
Per share amount (pence)	7.29	7.23	1.34	1.33	1.89

The ordinary number of shares is based on the time-weighted average number of shares throughout the period.

EPRA adjusted earnings is a performance measure used by the Board to assess the Group's dividend payments. Licence fees and development rebates received during the period are added to earnings on the basis noted below.

The adjustment for licence fee receivable is calculated by reference to the fraction of the total construction completed during the period, multiplied by the total licence fee receivable on a given forward funded asset.

The development rebate is due from developers in relation to late completion on forward funded developments, as stipulated in the development agreements.

EPRA EPS, reported on the basis recommended for real estate companies by the European Public Real Estate Association, is a key measure of the Group's operating results.

9. Net Asset Value per Share (NAV)

Basic NAV per share is calculated by dividing net assets in the Statement of Financial Position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the period. EPRA NNNAV adjusts EPRA NAV to include the fair values of, inter alia, debt and financial instruments, which provides shareholders with the most relevant information on the current fair value of the assets and liabilities of the Group.

Diluted NAV, EPRA NAV and EPRA NNNAV per share are calculated using the number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

NAVs have been calculated as follows:

	Group	
	31 December 2016 £'000	30 June 2016 £'000
Net assets per Statement of Financial Position	530,865	528,109
Adjustment to exclude the fair value loss of financial instruments	1,232	1,905
EPRA NAV	532,097	530,014
Adjustment to include fair value of debt	(11,285)	(11,589)
Adjustment to include the fair value loss of financial instruments	(1,232)	(1,905)
EPRA NNNAV	519,580	516,520
Ordinary shares	Number	Number
Issued share capital	501,279,071	501,279,071
Issued share capital plus employee options	505,269,491	504,236,462
	Pence	Pence
NAV per share basic	105.90	105.35
NAV per share diluted	105.07	104.73
EPRA NAV per share basic	106.15	105.73
EPRA NAV per share diluted	105.31	105.11
EPRA NNNAV per share basic	103.65	103.04
EPRA NNNAV per share diluted	102.83	102.44

10. Dividends Paid

	Group and Company	
	For the period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000

Interim dividend in respect of quarter ended 30 June 2015 at 1.0p per ordinary share	—	2,329
Interim dividend of 1.5p per ordinary share in respect of the quarter ended 30 September 2015	—	4,558
Interim dividend of 1.5p per ordinary share in respect of the quarter ended 31 December 2015	—	5,775
Interim dividend of 1.5p per ordinary share in respect of the quarter ended 31 March 2016	—	7,519
Interim dividend in respect of quarter ended 30 June 2016 at 1.5p per ordinary share	7,519	—
Interim dividend of 1.5p per ordinary share in respect of the quarter ended 30 September 2016	7,519	—
	15,038	20,181

On 11 January 2017, the Company announced the declaration of a final interim dividend in respect of the financial year ended 31 December 2016, of 1.55p per ordinary share amounting to £7.8 million, which was paid on 3 February 2017 to ordinary shareholders.

11. Property, Plant and Equipment

	Group			Company		
	Fixture s and fittings £'000	Compu ter equipm ent £'000	Total £'000	Fixture s and fittings £'000	Compu ter equipm ent £'000	Total £'000
Period ended 31 December 2016						
Costs						
As at 01 July 2016	242	140	382	94	84	178
Additions	460	43	503	361	43	404
Transfer to Investment Property	(247)	(56)	(303)	—	—	—
As at 31 December 2016	455	127	582	455	127	582
Depreciation						
As at 01 July 2016	54	31	85	29	16	45
Charge for the period	13	15	28	13	15	28
Depreciation on assets transferred to Investment Property	(25)	(15)	(40)	—	—	—
As at 31 December 2016	42	31	73	42	31	73
Net book value as at 31 December 2016	413	96	509	413	96	509

	Group			Company		
	Fixture s and fittings £'000	Compu ter equipm ent £'000	Total £'000	Fixture s and fittings £'000	Compu ter equipm ent £'000	Total £'000
Year ended 30 June 2016						
Costs						
As at 01 July 2015	75	20	95	75	20	95
Additions	167	120	287	19	64	83
As at 30 June 2016	242	140	382	94	84	178
Depreciation						

As at 01 July 2015	11	5	16	11	5	16
Charge for the year	43	26	69	18	11	29
As at 30 June 2016	54	31	85	29	16	45
Net book value as at 30 June 2016	188	109	297	65	68	133

12. Intangible Assets

	Group				Company			
Period ended 31 December 2016	Hello Student® application development £'000	Hello Student® website development £'000	Accountancy software development £'000	Total £'000	Hello Student® application development £'000	Hello Student® website development £'000	Accountancy software development £'000	Total £'000
Costs								
As at 01 July 2016	—	781	—	781	—	—	—	—
Additions	187	11	127	325	—	—	127	127
As at 31 December 2016	187	792	127	1,106	—	—	127	127
Amortisation								
As at 01 July 2016	—	44	—	44	—	—	—	—
Charge for the period	—	45	—	45	—	—	—	—
As at 31 December 2016	—	89	—	89	—	—	—	—
Net book value as at 31 December 2016	187	703	127	1,017	—	—	127	127

	Group				Company			
Year ended 30 June 2016	Hello Student® application development £'000	Hello Student® website development £'000	Accountancy software development £'000	Total £'000	Hello Student® application development £'000	Hello Student® website development £'000	Accountancy software development £'000	Total £'000
Costs								
As at 01 July 2015	—	—	—	—	—	—	—	—
Additions	—	781	—	781	—	—	—	—
As at 30 June 2016	—	781	—	781	—	—	—	—
Amortisation								
As at 01 July 2015	—	—	—	—	—	—	—	—
Charge for the year	—	44	—	44	—	—	—	—
As at 30 June 2016	—	44	—	44	—	—	—	—
Net book value as at 30 June 2016	—	737	—	737	—	—	—	—

No amortisation charge has been recognised for the accountancy software or Hello Student® application as neither were in use at 31 December 2016.

13. Investment Property

	Group				
	Investment properties freehold £'000	Investment properties long leasehold £'000	Total operational assets £'000	Properties under development £'000	Total investment property £'000
Period ended 31 December 2016					
As at 01 July 2016	368,260	75,180	443,440	70,754	514,194
Property additions and transfers	151,036	1,658	152,694	30,528	183,222
Transfer of completed developments	40,495	—	40,495	(40,495)	—
Change in fair value during the period	5,091	2,790	7,881	6,593	14,474
As at 31 December 2016	564,882	79,628	644,510	67,380	711,890

	Group				
	Investment properties freehold £'000	Investment properties long leasehold £'000	Total operational assets £'000	Properties under development £'000	Total investment property £'000
Year ended 30 June 2016					
As at 01 July 2015	193,375	25,375	218,750	21,025	239,775
Property additions	131,258	48,352	179,610	73,085	252,695
Transfer of completed developments	33,869	—	33,869	(33,869)	—
Change in fair value during the year	9,758	1,453	11,211	10,513	21,724
As at 30 June 2016	368,260	75,180	443,440	70,754	514,194

During the period £4,917,000 (30 June 2016: £1,500,000) of additions related to subsequent expenditure recognised in the carrying value of operational assets.

In accordance with IAS 40, the carrying value of investment property is their fair value as determined by independent external valuers. This valuation has been conducted by CBRE, as independent external valuers, and has been prepared as at 31 December 2016, in accordance with the Appraisal & Valuation Standards of the Royal Institution of Chartered Surveyors ("RICS"), on the basis of market value. Properties have been valued on an individual basis. This value has been incorporated into the financial statements.

The valuation of all property assets uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in NAV.

The table below reconciles between the fair value of the investment property per the Consolidated Group Statement of Financial Position and investment property per the independent valuation performed in respect of each period end.

	Group	
	As at 31 December 2016 £'000	As at 30 June 2016 £'000
Value per independent valuation report	721,345	523,890
Less:		

Investment in joint ventures	(9,455)	(8,150)
	711,890	515,740
Less:		
Licence fee receivable	–	(1,546)
Fair value per Group Statement of Financial Position	711,890	514,194

The licence fee income earned on forward funded developments of £1,613,000 (30 June 2016: £1,546,000) has been included within the independent valuation report whereas, within the prior year, it has been excluded and, therefore, deducted from the investment property total. This does not affect the valuation.

Fair Value Hierarchy

The following table provides the fair value measurement hierarchy for investment property:

		Quoted prices in active markets (Level 1) £'000	Significant observabl e inputs (Level 2) £'000	Significant unobserva ble inputs (Level 3) £'000
Date of valuation 31 December 2016	Total £'000			
Assets measured at fair value:				
Student properties	688,390	–	–	688,390
Commercial properties	23,500	–	–	23,500
As at 31 December 2016	711,890	–	–	711,890

		Quoted prices in active markets (Level 1) £'000	Significant observabl e inputs (Level 2) £'000	Significant unobserva ble inputs (Level 3) £'000
Date of valuation 30 June 2016	Total £'000			
Assets measured at fair value:				
Student properties	492,624	–	–	492,624
Commercial properties	21,570	–	–	21,570
As at 30 June 2016	514,194	–	–	514,194

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

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards, as:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining fair values. The valuation techniques for student properties use a discounted cash flow with the following inputs:

(a) Unobservable input: Rental income

The rent at which space could be let in the market conditions prevailing at the date of valuation.
Range £89–£337 per week (30 June 2016: £93–£329).

(b) Unobservable input: Rental growth

The estimated average increase in rent based on both market estimations and contractual arrangements.
Assumed growth of 2.16% used in valuations (30 June 2016: 2.78%).

(c) Unobservable input: Net initial yield

The net initial yield is defined as the initial net income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase.

Range: 5.20%–6.80% per week (30 June 2016: 5.00%–6.35%).

(d) Unobservable input: Physical condition of the property

(e) Unobservable input: Planning consent

No planning inquiries undertaken for any of the development properties.

(f) Sensitivities of measurement of significant unobservable inputs

As set out in the significant accounting estimates and judgements the Group's portfolio valuation is open to judgements and is inherently subjective by nature.

As a result the following sensitivity analysis for the student properties has been prepared by the valuer:

	-3% Change in Rental Income £'000	+3% Change in Rental Income £'000	-0.25% Change in Yield £'000	-0.25% Change in Yield £'000
As at 31 December 2016				
(Decrease)/increase in the fair value of investment properties	(30,320)	29,590	34,230	(31,350)
As at 30 June 2016	-3% Change in Rental Income £'000	+3% Change in Rental Income £'000	-0.25% Change in Yield £'000	-0.25% Change in Yield £'000
(Decrease)/increase in the fair value of investment properties	(22,200)	22,770	25,430	(22,710)

(g) The key assumptions for the commercial properties are net initial yield, current rent and rental growth. A movement of 3% in passing rent and 0.25% in the net initial yield will not have a material impact on the financial statements.

14. Joint Ventures

Willowbank – Glasgow

In July 2014 the Group entered a joint venture with Revcap Advisors Limited to develop a 178 room site in Glasgow called Willowbank. The development completed in time for the 2016/17 academic year and the total cost of the development was £13 million. Funding for the development was obtained with a contribution of equity and debt (50% from each entity). See Note 27 Subsequent Events for further information.

Net Assets of the Joint Venture

The summarised balance sheet, results and the Group's share of the joint venture for the period are as follows:

					Willowbank	
					Gross £'000	Share £'000
As at 31 December 2016						
Investment property					18,910	9,455
Cash and cash equivalents					1,185	592
Loans and borrowings					(9,197)	(4,599)
Trade and other receivables					611	306
Trade and other payables					(1,663)	(831)
Net assets					9,846	4,923

					Willowbank	
					Gross £'000	Share £'000
As at 30 June 2016						

Investment property					16,300	8,150
Cash and cash equivalents					1,002	501
Loans and borrowings					(7,024)	(3,512)
Other current assets					130	65
Other current liabilities					(2,013)	(1,007)
Net assets					8,395	4,197

The following table shows how the increase in the carrying value of the Group's investment in joint ventures has arisen:

	Group		Company	
	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000	Period ended 31 December 2016 £'000	Year ended 30 June 2016 £'000
Capital invested in Willowbank	13	930	13	929
Net capital movement in Brunswick	—	(6,904)	—	(3,595)
	13	(5,974)	13	(2,666)
Group's share of net revaluation gains	557	1,450	—	—
Group's share of other trading results	156	343	—	—
	713	1,793	—	—
Total movement in investment in joint ventures in the period	726	(4,181)	13	(2,666)
Carrying value bought forward	4,197	8,378	2,952	5,618
Carrying value carried forward	4,923	4,197	2,965	2,952

15. Trade and Other Receivables

	Group		Company	
	31 December 2016 £'000	30 June 2016 £'000	31 December 2016 £'000	30 June 2016 £'000
Trade receivables	729	500	11	—
Other receivables	6,346	4,647	85	358
Amounts owed by property managers	9,743	3,192	—	—
Prepayments	5,591	7,846	506	146
VAT recoverable	2,443	2,531	—	7
	24,852	18,716	602	511
Amounts due from Group undertakings	—	—	651,897	460,845
	24,852	18,716	652,499	461,356

As there were no material trade receivables past due at the period end, no aged analysis of trade receivables has been included. The Directors consider that the carrying value of trade and other receivables approximate to their fair value.

16. Cash and Cash Equivalents

The amounts disclosed on the Statement of Cash Flow as cash and cash equivalents are in respect of the following amounts shown in the Consolidated Statement of Financial Position:

	Group		Company	
	31 Decemb er 2016 £'000	30 June 2016 £'000	31 Decemb er 2016 £'000	30 June 2016 £'000
Cash and cash equivalents	59,399	163,923	14,997	143,819

17. Trade and Other Payables

	Group		Company	
	31 Decemb er 2016 £'000	30 June 2016 £'000	31 Decemb er 2016 £'000	30 June 2016 £'000
Trade payables	1,974	6,040	—	382
Other payables	3,362	2,540	640	173
Accrued expenses	10,080	5,540	382	272
Directors' bonus accrual	617	854	617	854
	16,033	14,974	1,639	1,681
Amounts owed to Group undertakings	—	—	216,305	134,163
	16,033	14,974	217,944	135,844

At 31 December 2016, there was deferred rental income of £15,760,000 (30 June 2016: £4,418,000) which was rental income that had been received that relates to future periods.

The Directors consider that the carrying value of trade and other payables approximate to their fair value.

18. Bank Borrowings

A summary of the drawn and undrawn bank borrowings in the period is show below:

	Group					
	Bank borrowi ngs drawn 31 Dec 2016 £'000	Bank borrowi ngs undraw n 31 Dec 2016 £'000	Total 31 Dec 2016 £'000	Bank borrowi ngs drawn 30 June 2016 £'000	Bank borrowi ngs undraw n 30 June 2016 £'000	Total 30 June 2016 £'000
Balance bought forward	155,857	60,773	216,630	85,343	20,000	105,343
Bank borrowings in the period	97,346	—	97,346	108,374	—	108,374
Bank borrowings repaid during the period	(9,286)	—	(9,286)	(37,860)	—	(37,860)
Bank borrowings available but undrawn in the period	—	5,340	5,340	—	40,773	40,773
	243,917	66,113	310,030	155,857	60,773	216,630

The Group has entered into two new separate banking facilities during the period, and drawn down on two existing available facilities.

A total of £97,346,000 (30 June 2016: £99,117,000) of additional debt was drawn whilst having an undrawn debt facility available of £66,113,000 at 31 December 2016 (30 June 2016: £60,773,000). The weighted average term to maturity of the Group's debt as at the period end is 7.5 years (30 June 2016: 9.7 years).

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. These assets have a fair value of £573,015,000 at 31 December 2016 (30 June 2016: £298,690,000). In some cases the lenders also hold charges over the shares of the subsidiaries and the intermediary holding companies of those subsidiaries.

Any associated fees in arranging the bank borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	Group	
	31 Decemb er 2016 £'000	30 June 2016 £'000
Balance bought forward (including current liability of £9,257,000 (30 June 2016: £750,000))	155,857	84,593
Total bank borrowings in the period	97,346	108,374
Less bank borrowings: repaid during the period	(9,286)	(37,860)
Less bank borrowings: due within one year	—	(8,507)
Bank borrowings drawn: due in more than one year	243,917	146,600
Less: Unamortised costs	(5,199)	(2,961)
Non-current liabilities: Bank borrowings	238,718	143,639

Maturity of Bank Borrowings

	Group	
	31 Decemb er 2016 £'000	30 June 2016 £'000
Repayable between one and two years	23,117	—
Repayable between two and five years	35,500	35,500
Repayable in over five years	185,300	111,100
Bank borrowings drawn: due in more than one year	243,917	146,600

Each of the Group's facilities has an interest charge which is payable quarterly. Three of the facilities have an interest charge that is based on a margin above LIBOR whilst the other four facility interest charges are fixed at 3.97%, 3.52%, 3.24% and 3.64%. The weighted average margin payable by the Group on its debt portfolio as at the period end was 3.46% (30 June 2016: 3.54%).

19. Interest Rate Derivatives

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group has entered into an interest rate cap and interest rate swap. The interest rate cap has been taken out to cap the rate to which three-month LIBOR can rise and is coterminous with the initial term of the facility. The premium of £238,500 is being settled over the five-year life of the loan.

On 24 October 2014 a derivative swap contract was taken out to hedge the interest rate risk on long-term debt. The change in valuation of this derivative at 31 December 2016 was £0.5 million gain (30 June 2016: £1.2 million loss), recognised in other comprehensive income. £0.5 million of this derivative liability has been recognised as a non-current liability (30 June 2016: £0.5 million).

The Group will continue to review the level of its hedging in the light of the current low interest rate environment.

Fair Value of Derivative Instruments

	31 December 2016 £'000	30 June 2016 £'000
Non-current assets: Interest rate derivatives – cap	19	18
Current liabilities: Interest rate derivatives – swap	(485)	(479)
Non-current liabilities: Interest rate derivatives – swap	(748)	(1,206)

The interest rate derivatives are marked to market by the relevant counterparty banks on a quarterly basis in accordance with IAS 39. Any movement in the fair values of the interest rate cap are taken to the net finance costs in the Group Statement of Comprehensive Income.

	31 December 2016 £'000	30 June 2016 £'000
Interest rate cap premium – opening fair value	18	229
Changes in fair value of interest rate derivatives	1	(211)
Closing fair value	19	18

	31 December 2016 £'000	30 June 2016 £'000
Total bank borrowings	243,917	155,857
Total fixed borrowings	(185,300)	(120,357)
Total floating rate borrowings	58,617	35,500
Notional value of borrowings hedged by interest rate derivative – swap	35,500	35,500
Proportion of notional value of interest rate swap derivative to floating rate bank borrowings	60.6%	100.0%

Fair Value of Debt

	Group					
	Fair Value at 31 Decem ber 2016 £'000	Book Value at 31 Decem ber 2016 £'000	Differe nce at 31 Decem ber 2016 £'000	Fair Value at 30 June 2016 £'000	Book Value at 30 June 2016 £'000	Differe nce at 30 June 2016 £'000
Fixed rate bank debt	193,092	181,807	11,285	129,784	118,195	11,589

The fair value of the fixed rate debt has been valued by independent financial valuation expert, JCRA. The floating rate debt has been excluded as it is assumed the carrying value will be similar to the fair value.

The fair value of these contracts is determined by discounting the future cash flows estimated to be paid or received under these contracts using a valuation technique based on forward rates derived from short term rates, futures, swap

rates and implied option volatility.

Fair Value Hierarchy

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

Assets/(liability) measured at fair value:	Date of Valuation	£'000	Group		
			Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000
	31 December 2016				
Interest rate derivative – cap		19	–	19	–
Interest rate derivative – swap		(1,232)	–	(1,232)	–
	30 June 2016				
Interest rate derivative – cap		18	–	18	–
Interest rate derivative – swap		(1,685)	–	(1,685)	–

The fair value of these contracts is recorded in the Group Consolidated Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the period end.

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

20. Share Capital

Ordinary Shares Issued and Fully Paid at 1p Each

	Group and Company		Group and Company	
	31 December 2016 Number	31 December 2016 £'000	30 June 2016 Number	30 June 2016 £'000
Balance brought forward	501,279,071	5,013	232,926,830	2,329
Issued in relation to further equity issuance	–	–	268,352,241	2,684
Balance carried forward	501,279,071	5,013	501,279,071	5,013

There were no share issues during the period or have there been since 31 December 2016.

21. Share Premium

The share premium relates to amounts subscribed for share capital in excess of nominal value:

	Group and Company	
	31 December 2016 £'000	30 June 2016 £'000
Balance brought forward	359,958	82,280
Share premium on ordinary shares issued in relation to further equity share issuance	–	283,742

Costs associated with the issue of ordinary shares	–	(6,064)
Balance carried forward	359,958	359,958

22. Capital Reduction Reserve

	Group and Company	
	31 December 2016 £'000	30 June 2016 £'000
Balance brought forward	121,236	141,417
Less interim dividends declared and paid per Note 10	(15,038)	(20,181)
Balance carried forward	106,198	121,236

The capital reduction reserve account is a distributable reserve.

Refer to Note 10 for details of the declaration of dividends to shareholders.

23. Leasing Agreements

Future total minimum lease payments under non-cancellable operating leases fall due as follows:

On Office Space Currently Rented

	Group	
	31 December 2016 £'000	30 June 2016 £'000
Less than one year	361	141
Between one and five years	1,446	282
More than five years	1,717	–
Total	3,524	423

Future total minimum lease receivables under non-cancellable operating leases on investment properties are as follows:

	Group	
	31 December 2016 £'000	30 June 2016 £'000
Less than one year	32,834	5,392
Between one and five years	12,862	19,713
More than five years	10,727	10,484
Total	56,423	35,589

The above relates to commercial leases, contracted student rent and nomination agreements with UK universities in place as at the period end. The impact of student leases for the forthcoming academic year signed by 31 December 2016 have not been included as the certainty of income does not arise until ten days before the tenant takes occupation of the accommodation when the first rental instalment falls due.

24. Contingent Liabilities

There were no contingent liabilities at 31 December 2016 (30 June 2016: £nil).

25. Capital Commitments

The Group had capital commitments relating to forward funded developments totalling £61,443,000 at 31 December 2016 (30 June 2016: £75,356,000).

26. Related Party Disclosures

Key Management Personnel

Key management personnel are considered to comprise the Board of Directors. Please refer to Note 6 for details of the remuneration for the key management.

Share Capital

There were no share transactions of related parties during the period ended 31 December 2016.

Share transactions of related parties during the year ended 30 June 2016 were as follows:

Name	How related	No. of shares	Transaction	Date
Rock Nominees Limited (Paul Hadaway)	Director	62,510	Purchased	22 October 2015
Rock Nominees Limited (Paul Hadaway)	Director	31,285	Purchased	21 March 2016
Paul Hadaway	Director	125,000	Purchased	21 March 2016
Michael Enright	Director	104,999	Purchased	21 March 2016
Baroness Brenda Dean	Chairman	4,785	Purchased	21 March 2016
Redmayne Bentley (Brenda Dean)	Chairman	10,000	Purchased	21 March 2016
Jim Prower	Director	14,175	Purchased	21 March 2016
Killik & Co (Stephen Alston)	Director	12,500	Purchased	21 March 2016

Share-Based Payments

On 29 September 2016, nil-cost options were granted to executive Directors in the amounts of:

Paul Hadaway 373,297 shares
Tim Attlee 373,297 shares
Michael Enright 286,435 shares

Details of the shares granted are outlined in Note 28 – Share-Based Payments.

Other

Payments for professional services totalling £150,000 (excluding VAT) were made to Real Estate Venture Capital Management LLP (Revcap). Revcap is deemed to be a related party as one of its employees, Stephen Alston, is a Non-Executive Director of the Company.

27. Subsequent Events

Property Transactions

York

On 17 January 2017, the Group acquired the freehold of a 220 bed student accommodation scheme in York for £23.3 million (excluding costs). Foss Studios was developed for the 2015/16 academic year.

On 20 January 2017, the Group acquired the land and entered into a forward funded development agreement for a 106 bed, premium student accommodation development in York for a total funding commitment of £9.245 million. The Percy's Lane development comprises the redevelopment of a site involving the demolition of the existing buildings and the construction of new purpose-built student accommodation.

Other transactions

On 3 March 2017, the Company agreed a new unsecured term loan facility of £10 million with First Commercial Bank Limited. The facility, which was available to draw down in full over the next 12 months, has been drawn down. It is repayable three years from the date of the agreement with an all-in cost of 2.15% p.a.

On 30 March 2017, the Group acquired the remaining 50% shareholding in Empiric (Glasgow) Limited from joint venture partner, Revcap, for £4.65 million. The outstanding debt of £9.5 million was also repaid to lender, Close Brothers.

28. Share-Based Payments

The Company operates two equity-settled share-based remuneration schemes for Executive Directors under the deferred annual bonus and a long-term incentive plan. The details of the schemes are included in the Remuneration Committee Report on page 74 of the Annual Report.

On 29 September 2016, the Company granted nil-cost options over a total of 361,908 ordinary shares pursuant to the deferred shares element of the annual bonus awards for the 2015/16 financial year (the "Annual Bonus Awards") and nil-cost options over a total of 671,121 ordinary shares pursuant to the Empiric 2014 Long Term Incentive Plan (the "2016-2019 LTIP Awards") to the Company's three Executive Directors (Paul Hadaway 373,297, Tim Attlee 373,297, and Michael Enright 286,435).

None of the nil-cost options are currently exercisable.

The fair value on date of grant for the nil-cost options under the 2016–2019 LTIP Awards were priced using the Monte Carlo pricing model.

During the period to 31 December 2016 the amount recognised relating to the options was £395,000 (30 June 2016: £649,000).

The awards have the benefit of dividend equivalence. The Remuneration Committee will determine on or before vesting whether the dividend equivalent will be provided in the form of cash and/or shares.

	Group and Company	
	Period ended 31 December 2016	Year ended 30 June 2016
Outstanding number brought forward	2,880,391	1,220,423
Granted during the period	1,033,029	1,659,968
Outstanding number carried forward	3,913,420	2,880,391

The following information is relevant in the determination of the fair value of these nil-cost options:

- (a) Weighted average share price at grant date of £1.1625
- (b) Exercise price of £nil
- (c) Contractual life of three years
- (d) Expected volatility of 28.7%
- (e) Expected dividend yield of 0%
- (f) Risk-free rate of 0.04%
- (g) The volatility assumption is based on a statistical analysis of daily share prices of comparator companies over the last three years.
- (h) The TSR performance conditions have been considered when assessing the fair value of the options.

29. Financial Risk Management

Financial Instruments

The Group's principal financial assets and liabilities are those which arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents.

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

Risk Management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk.

The Board of Directors oversees the management of these risks.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(a) Market Risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with the interest rate derivatives (swap and cap) entered into to mitigate interest rate risk.

(b) Credit Risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risks from both its leasing activities and financing activities, including deposits with banks and financial institutions. Credit risk is managed by requiring tenants to pay rentals in advance. The credit quality of the tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

Outstanding tenants' receivables are regularly monitored. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial asset.

(i) Tenant Receivables

Tenant receivables, primarily tenant rentals, are presented in the Consolidated Statement of Financial Position net of allowances for doubtful receivables and are monitored on a case-by-case basis. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. There are no trade receivables past due as at the period end.

(ii) Credit Risk Related to Financial Instruments and Cash Deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances are limited because the counterparties are banks, which are committed lenders to the Group, with high credit ratings assigned by international credit-rating agencies.

Credit Ratings (Moody's)	Long-term Outlook	
AIB Group	A3	Positive
Canada Life	Aa3	Positive
Mass Mutual	Aa2	Excellent
Royal Bank of Scotland Plc	A3	Positive

(c) Liquidity Risk

Liquidity risk arises from the Group's management of working capital and going forward, the finance charges and principal repayments on any borrowings, of which currently there are none. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The following table sets out the contractual obligations (representing undiscounted contractual cash flows) of financial liabilities:

	Group					
	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
At 31 December 2016						
Bank borrowings and interest	—	2,129	6,387	94,067	217,196	319,779
Swap derivatives	—	123	365	830	—	1,318
Trade and other payables	—	16,033	—	—	—	16,033
	—	18,285	6,752	94,897	217,196	337,130

	On	Less	3 to 12	1 to 5	> 5	Total
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	demand £'000	than 3 months £'000	months £'000	years £'000	years £'000	£'000
At 30 June 2016						
Bank borrowings and interest	–	1,251	13,691	56,050	135,763	206,755
Swap derivatives	–	156	476	1,453	–	2,085
Trade and other payables	–	14,974	–	–	–	14,974
	–	16,381	14,167	57,503	135,763	223,814

	Company					
	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
At 31 December 2016						
Bank borrowings and interest	–	–	–	–	–	–
Swap derivatives	–	–	–	–	–	–
Trade and other payables	–	1,639	–	–	–	1,639
	–	1,639	–	–	–	1,639

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
At 30 June 2016						
Bank borrowings and interest	–	–	–	–	–	–
Swap derivatives	–	–	–	–	–	–
Trade and other payables	–	1,681	–	–	–	1,681
	–	1,681	–	–	–	1,681

30. Capital Management

The primary objectives of the Group's capital management are to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Board of Directors monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and to maintain sustainable returns for shareholders.

Capital consists of ordinary shares, other capital reserves and retained earnings.

31. Subsidiaries

Those subsidiaries listed below are all considered to be subsidiaries of the Company at 31 December 2016, with the shares issued being ordinary shares. All subsidiaries are registered in London at the following address: 6th Floor, Swan House, 17-19 Stratford Place, London, England, W1C 1BQ.

In each case the country of incorporation is the UK.

	Company	
	31 December 2016 £'000	30 June 2016 £'000

As at 1 July 2016	5,117	–
Additions in the period	1	5,117
Balance at 31 December 2016	5,118	5,117

	Status	Ownership	Principal activity
Brunswick Contracting Limited	Active	100%	Property contracting
Empiric (Alwyn Court) Limited	Active	100%	Property investment
Empiric (Leeds Cookridge) Limited Previously (Empiric Baptists Chapel Leasing Limited)	Active	100%	Property leasing
Empiric (Baptist Chapel) Limited	Active	100%	Property investment
Empiric (Bath Canalside) Limited	Active	100%	Property investment
Empiric (Bath James House) Limited	Active	100%	Property investment
Empiric (Bath JSW) Limited	Active	100%	Property investment
Empiric (Bath Oolite Road) Limited	Active	100%	Property investment
Empiric (Bath Piccadilly Place) Limited	Active	100%	Property investment
Empiric (Birmingham Emporium) Limited	Active	100%	Property investment
Empiric (Birmingham) Limited	Active	100%	Property investment
Empiric (Bristol) Leasing Limited	Active	100%	Property leasing
Empiric (Bristol) Limited	Active	100%	Property investment
Empiric (Buccleuch Street) Limited	Active	100%	Property investment
Empiric (Canterbury Pavilion Court) Limited	Active	100%	Property investment
Empiric (Cardiff Wndsr House) Leasing Limited	Active	100%	Property leasing
Empiric (Cardiff Wndsr House) Limited	Active	100%	Property investment
Empiric (Centro Court) Limited	Active	100%	Property investment
Empiric (Claremont Newcastle) Limited	Active	100%	Property investment
Empiric (College Green) Limited	Active	100%	Property investment
Empiric (Developments) Limited	Active	100%	Development management
Empiric (Durham St Margarets) Limited	Active	100%	Property investment
Empiric (Edge Apartments) Limited	Active	100%	Property investment
Empiric (Exeter Bishop Blackall School) Limited	Active	100%	Property investment
Empiric (Exeter Bonhay Road) Leasing Limited	Active	100%	Property leasing
Empiric (Exeter Bonhay Road) Limited	Active	100%	Property investment
Empiric (Exeter City Service) Limited	Active	100%	Property investment
Empiric (Exeter DCL) Limited	Active	100%	Property investment
Empiric (Exeter Isca Lofts) Limited	Active	100%	Property investment
Empiric (Exeter LL) Limited	Active	100%	Property investment
Empiric (Falmouth Maritime Studios) Limited	Active	100%	Property investment
Empiric (Falmouth Ocean Bowl) Limited	Active	100%	Property investment
Empiric (Glasgow Ballet School) Limited	Active	100%	Property investment
Empiric (Glasgow Bath St) Limited	Active	100%	Property investment
Empiric (Glasgow George Square) Leasing Limited	Active	100%	Property leasing
Empiric (Glasgow George Square) Limited	Active	100%	Property investment
Empiric (Glasgow George St) Leasing Limited	Active	100%	Property leasing
Empiric (Glasgow George St) Limited	Active	100%	Property investment

	Status	Ownership	Principal activity
Empiric (Glasgow Otago Street) Limited	Active	100%	Property investment
Empiric (Hatfield CP) Limited	Active	100%	Property investment
Empiric (Huddersfield Oldgate House) Leasing Limited	Active	100%	Property leasing
Empiric (Huddersfield Oldgate House) Limited	Active	100%	Property investment
Empiric (Huddersfield Snow Island) Leasing Limited	Active	100%	Property investment
Empiric (Lancaster Penny Street 1) Limited	Active	100%	Property investment
Empiric (Lancaster Penny Street 2) Limited	Active	100%	Property investment
Empiric (Lancaster Penny Street 3) Limited	Active	100%	Property investment
Empiric (Leeds Algernon) Limited	Active	100%	Property investment
Empiric (Leeds Pennine House) Limited	Active	100%	Property investment
Empiric (Leeds St Mark's) Limited	Active	100%	Property investment
Empiric (Leicester 134 New Walk) Limited	Active	100%	Property investment
Empiric (Leicester 136-138 New Walk) Limited	Active	100%	Property investment
Empiric (Leicester 140-142 New Walk Limited)	Active	100%	Property investment
Empiric (Leicester 160 Upper New Walk) Limited	Active	100%	Property investment
Empiric (Leicester Bede Park) Limited	Active	100%	Property investment
Empiric (Leicester De Montfort Square) Limited	Active	100%	Property investment
Empiric (Leicester Hosiery Factory) Limited	Active	100%	Property investment
Empiric (Leicester Peacock Lane) Limited	Active	100%	Property investment
Empiric (Leicester Shoe & Boot Factory) Limited	Active	100%	Property investment
Empiric (Liverpool Art School / Maple House) Limited	Active	100%	Property investment
Empiric (Liverpool Chatham Lodge) Limited	Active	100%	Property investment
Empiric (Liverpool Grove Street) Limited	Active	100%	Property investment
Empiric (Liverpool Hahnemann Building) Limited	Active	100%	Property investment
Empiric (London Camberwell) Limited	Active	100%	Property investment
Empiric (London Francis Gardner) Limited	Active	100%	Property investment
Empiric (London Road) Limited	Active	100%	Property investment
Empiric (Manchester Ladybarn) Limited	Active	100%	Property investment
Empiric (Manchester Victoria Point) Limited	Active	100%	Property investment
Empiric (Newcastle Metrovick) Limited	Active	100%	Property investment
Empiric (Northgate House) Limited	Active	100%	Property investment
Empiric (Leeds Mary Morris) Limited Previously Empiric (Nottingham 95 Talbot) Leasing Limited	Active	100%	Property investment
Empiric (Nottingham 95 Talbot) Limited	Active	100%	Property investment
Empiric (Nottingham Frontage) Leasing Limited	Active	100%	Property leasing
Empiric (Nottingham Frontage) Limited	Active	100%	Property investment
Empiric (Liverpool Octagon / Hayward) Limited	Active	100%	Property investment
Empiric (Oxford Stonemason) Limited	Active	100%	Property investment
Empiric (Picturehouse Apartments) Limited	Active	100%	Property investment
Empiric (Egham High Street) Limited Previously Empiric (Portobello House) Leasing Limited	Active	100%	Property investment
Empiric (Portobello House) Limited	Active	100%	Property investment
Empiric (Portsmouth Elm Grove Library) Limited	Active	100%	Property investment
Empiric (York Percy's Lane) Limited Previously Empiric (Portsmouth Europa House) Leasing Limited	Active	100%	Property leasing

	Status	Ownership	Principal activity
Empiric (Portsmouth Europa House) Limited	Active	100%	Property investment
Empiric (Portsmouth Kingsway House) Limited	Active	100%	Property investment
Empiric (Portsmouth Registry) Limited	Active	100%	Property investment
Empiric (Provincial House) Leasing Limited	Active	100%	Property leasing
Empiric (Provincial House) Limited	Active	100%	Property investment
Empiric (Reading Saxon Court) Leasing Limited	Active	100%	Property leasing
Empiric (Reading Saxon Court) Limited	Active	100%	Property investment
Empiric (Snow Island) Limited	Active	100%	Property investment
Empiric (Southampton) Leasing Limited	Active	100%	Property leasing
Empiric (Southampton) Limited	Active	100%	Property investment
Empiric (St Andrews Ayton House) Leasing Limited	Active	100%	Property leasing
Empiric (St Andrews Ayton House) Limited	Active	100%	Property investment
Empiric (St Peter Street) Leasing Limited	Active	100%	Property leasing
Empiric (St Peter Street) Limited	Active	100%	Property investment
Empiric (Stirling Forthside) Leasing Limited	Active	100%	Property leasing
Empiric (Stirling Forthside) Limited	Active	100%	Property investment
Empiric (Stoke Caledonia Mill) Limited	Active	100%	Property investment
Empiric (Summit House) Limited	Active	100%	Property investment
Empiric (Talbot Studios) Limited	Active	100%	Property investment
Empiric (Trippet Lane) Leasing Limited	Active	100%	Property leasing
Empiric (Trippet Lane) Limited	Active	100%	Property investment
Empiric (Twickenham Grosvenor Hall) Limited	Active	100%	Property investment
Empiric (York Foss Studios 1) Limited	Active	100%	Property investment
Empiric (Buccleuch Street) Leasing Limited	Active	100%	Property leasing
Empiric (York Lawrence Street) Limited	Active	100%	Property investment
Empiric (Portsmouth Europa House) Leasing Limited	Active	100%	Property leasing
Empiric Acquisitions Limited	Active	100%	Intermediate holding company
Empiric Investment Holdings (Four) Limited	Active	100%	Holding company
Empiric Investment Holdings (Three) Limited	Active	100%	Holding company
Empiric Investment Holdings (Two) Limited	Active	100%	Holding company
Empiric Investments (Five) Limited	Active	100%	Intermediate holding company
Empiric Investment Holdings (Six) Limited	Active	100%	Holding company
Empiric Investments (Three) Limited	Active	100%	Intermediate holding company
Empiric Investment Holdings (Five) Limited	Active	100%	Holding company
Empiric Investments (Four) Limited	Active	100%	Intermediate holding company
Empiric Investments (One) Limited	Active	100%	Intermediate holding company
Empiric Investments (Six) Limited	Active	100%	Intermediate holding company
Empiric Investments (Two) Limited	Active	100%	Intermediate holding company
Empiric Student Property Limited	Active	100%	Property Management
Empiric Student Property Trustees Limited	Active	100%	Trustee of EBT

	Status	Ownership	Principal activity
Hello Student® Management Limited	Active	100%	Property Management
Grove St Studios Ltd	Liquidation	100%	Property investment
Spring Roscoe Limited	Liquidation	100%	Property investment