

Registered number: 4707153

SIR HOSPITALS PROPCO LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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SIR HOSPITALS PROPCO LIMITED

COMPANY INFORMATION

Directors	N M Leslau S L Gumm T J Evans P M Brown
Company secretary	S L Gumm
Registered number	4707153
Registered office	Cavendish House 18 Cavendish Square London W1G 0PJ
Independent auditors	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA

SIR HOSPITALS PROPCO LIMITED

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SIR HOSPITALS PROPCO LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The directors present the strategic report for the year ended 31 December 2015. The comparative period comprises the nine months ended 31 December 2014.

Business review

The Company is an intermediate holding company in the Secure Income REIT Plc ("SIR") group, holding nine freehold private hospitals within SIR's healthcare investment property portfolio.

The Group's investment properties were externally valued at £372.0m as at 31 December 2015. Each property is let to a substantial UK operating subsidiary of Ramsay Health Care Limited ("Ramsay"), the guarantor of the leases. Ramsay is a constituent of the ASX 50 index of Australia's largest companies with a market capitalisation at 22 June 2016 of £7.3bn, and is one of the top five private hospital operators in the world. The average unexpired lease term was 21.4 years at 31 December 2015, the leases are on full repairing and insuring terms, and there are fixed annual rental increases of 2.75% every May throughout the term.

Every five years commencing in May 2017, the Group has the option to revise the rent to the higher of the then passing rent increased by 2.75% per annum calculated on a compounded basis (the "indexed rent") and the open market rental value, with a special assumption at the first open market review in May 2017 that the rental level is the higher of the indexed rent or the amount calculated by the formula $0.885 \times 0.65 \times \text{'EBITDARH'}$, where EBITDARH is calculated as earnings from each individual property before interest, tax, depreciation, amortisation, rent and head office costs. In subsequent five yearly reviews the rent is set to indexed rent or open market rental value at the Group's option.

During the year, the Group sold the New Hall hospital in Salisbury for £49.8m at a profit over book value of £3.2m. The net proceeds were used to partially repay a loan from the immediate parent undertaking.

At the start of the year, the portfolio of investment properties comprised twenty hospitals, which were financed with a bank loan drawn by the Company's parent undertaking, SIR Hospital Holdings Limited ("SIR HH"). During the year, following the repayment of a portion of the debt by SIR HH with the sales proceeds from New Hall noted above, the remaining bank loan was refinanced with two new external lending facilities. In order to facilitate that refinancing, the SIR HH group was restructured to create two sub-groups, one of which is now headed by the Company.

As part of that restructuring, ten of the Company's property holding subsidiary undertakings were transferred to another subsidiary of SIR HH at nominal value, resulting in a loss of £115.0m to the Group which was equivalent to the fair value of those subsidiaries at the date of disposal. The entire share capital of the Company was then transferred to a new subsidiary of SIR HH, SIR Umbrella Limited, which became the immediate parent undertaking of the Company.

Following this restructuring, £268.6m of the secured bank loan and interest rate swaps with a fair value of £19.4m were novated to the Company by SIR HH at fair value. The intercompany loans owned to the Group from the ten subsidiary undertakings transferred out of the Group were also novated to another subsidiary of SIR HH at nominal value, resulting in a further loss of £307.1m to the Group. The Company then drew down an intercompany loan of £56.1m from its immediate parent undertaking and a new third party secured loan of £220.0m, net of costs of £2.2m; these proceeds were used to repay the existing secured loan of £268.6m and terminate the interest rate swap for a cash payment of £5.3m. The discount of £14.1m on the fair value of the swap was recognised as a gain in the profit and loss account.

The new secured loan has a fixed interest rate of 4.3% and amortises at a rate of £1.0m per annum. It is repayable in September 2025 and is secured on the Group's nine remaining investment properties.

SIR HOSPITALS PROPCO LIMITED

GROUP STRATEGIC REPORT (continued) FOR THE YEAR ENDED 31 DECEMBER 2015

Business review (continued)

The Group's net assets have fallen from £741.5m to £441.8m in the year. This is the result of the net £407.9m loss as a result of the restructuring described above, which hived off substantial net assets to another group undertaking, offset primarily by unrealised revaluation gains of £67.5m on the Group's investment properties, which were the result of both the fixed rental increases in May 2015 and a fall in the net initial valuation yield adopted by the external valuers from 5.6% to 5.3% over the year. The movement in net assets also reflects the £3.2m gain on the sale of New Hall and £37.9m of net rental income on the property portfolio. In 2016, rental income is expected to fall to c. £21.1m because of the reduced portfolio, and the Group expects to incur interest costs on the secured loan (including agency fees and the amortisation of loan set-up costs) of c. £9.8m.

Allowing for the fact that the comparatives relate to a nine month period, the main difference in the operating results of the property rental business from the prior period relates to administrative expenses, which were £3.5m in 2015 but £19.3m in 2014. Administrative expenses largely comprise management and incentive fees charged to SIR by its investment adviser, which are recharged through the SIR group to the Company's subsidiary undertakings pro rata to rent received from each property owned by those subsidiaries. In the prior period, the Group was charged an incentive fee of £17.6m but no such fee arose in 2015.

As part of the SIR group, the Group is subject to the UK REIT regime and is therefore exempt from UK corporation tax on the property rental business, which comprises substantially all of the Group's operations.

Principal risks and uncertainties

Property valuation movements

The Group invests in commercial property and so is exposed to movements in property valuations, which are subjective and may vary as a result of a variety of factors, many of which are outside the control of the Group. The SIR group uses experienced external valuers, whose work is reviewed by suitably qualified directors before being approved in the context of the SIR group accounts as a whole by the audit committee and board of the ultimate parent undertaking. The results of those reviews are available to the board for consideration.

Tenant risk

During the year, the Group derived its rental income from nineteen separate assets let to one tenant with one guarantor, ten of which continued to be held at the end of the year. Although the board considers the tenant and guarantor to be financially strong, there can be no guarantee that they will remain able to comply with their obligations throughout the term of the relevant leases, and will not suffer any insolvency events. The guarantor is, however, a listed company with a capital structure considered appropriate by the board, and with impressive long term earnings growth and share price track records. The board reviews the financial position of the tenant and guarantor at least every quarter, based on publicly available financial information and any other trading information which may be obtained under the terms of the lease.

Borrowing

The Company has granted security to lenders in the form of mortgages over all the Group's investment properties and fixed and floating charges over certain other assets. With effect from September 2015 when the new financing arrangements took effect, there are interest cover tests over the term of the loan facility and annual LTV tests from September 2019. The board reviews compliance with those financial covenants at least every quarter, including look forward tests for at least twelve months, and considers there is sufficient headroom on relevant loan covenants.

SIR HOSPITALS PROPCO LIMITED

**GROUP STRATEGIC REPORT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015**

Principal risks and uncertainties (continued)

Tax risk

All Group companies are subject to the UK REIT regime as part of the SIR group. A failure to comply with UK REIT conditions resulting in the loss of this status would make the Group and Company subject to UK corporation tax on its property rental business income and gains. The board reviews compliance with the UK REIT rules at least every quarter.

Liquidity risk

Working capital must be managed to ensure that the Group and Company are able to meet their liabilities as they fall due. Unless there is a tenant default (discussed under tenant risk above) the Group and Company's cash flows are generally highly predictable. The cash position is reviewed at least quarterly and projections at least two years ahead are reviewed by the board when the financial statements are approved.

This report was approved by the board on 23 June 2016 and signed on its behalf.



S L Gumm
Director

SIR HOSPITALS PROPCO LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

The directors present their report and the financial statements for the year ended 31 December 2015.

Results and dividends

The loss for the year, after tax, amounted to £299,641k (2014 - profit £159,061k).

The directors do not recommend payment of a dividend (2014 - £NIL).

Directors

The directors who served during the year were:

N M Leslau
S L Gumm
T J Evans
P M Brown

Disclosure of information to auditors

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

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

Auditors

Under section 487(2) of the Companies Act 2006, BDO LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 23 June 2016 and signed on its behalf.



S L Gumm
Director

SIR HOSPITALS PROPCO LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Group financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

SIR HOSPITALS PROPCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SIR HOSPITALS PROPCO LIMITED

We have audited the financial statements of SIR Hospitals Propco Limited for the year ended 31 December 2015, set out on pages 8 to 29. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the group strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

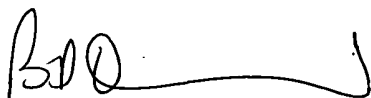
SIR HOSPITALS PROPCO LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SIR HOSPITALS PROPCO LIMITED

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Russell Field (senior statutory auditor)

for and on behalf of

BDO LLP

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

23 June 2016

SIR HOSPITALS PROPCO LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2015**

		Year ended 31 December 2015 £000	<i>Period ended 31 December 2014 £000</i>
Turnover	4	37,958	34,362
Cost of sales		(19)	(12)
		<hr/>	<hr/>
Gross profit		37,939	34,350
Administrative expenses		(3,480)	(19,269)
Profit on disposal of investment property	5	3,202	-
Revaluation of investment properties	13	67,452	78,955
Loss on group restructuring	7	(422,040)	-
		<hr/>	<hr/>
Operating (loss)/profit	6	(316,927)	94,036
Interest receivable and similar income	8	20,342	-
Interest payable and expenses	9	(3,056)	(12,185)
		<hr/>	<hr/>
(Loss)/profit before tax		(299,641)	81,851
Tax on (loss)/profit	10	-	77,210
		<hr/>	<hr/>
(Loss)/profit and total comprehensive (loss)/income for the year/period		(299,641)	159,061
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 13 to 29 form part of these financial statements.

SIR HOSPITALS PROPCO LIMITED
REGISTERED NUMBER: 4707153

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Fixed assets			
Investment properties	13	371,960	773,760
		<u>371,960</u>	<u>773,760</u>
Current assets			
Debtors: amounts falling due within one year	14	293,048	2
		<u>293,048</u>	<u>2</u>
Creditors: amounts falling due within one year	15	(7,624)	(10,598)
Net current assets/(liabilities)		<u>285,424</u>	<u>(10,596)</u>
Total assets less current liabilities		<u>657,384</u>	<u>763,164</u>
Creditors: amounts falling due after more than one year	16	(215,570)	(21,709)
Net assets		<u><u>441,814</u></u>	<u><u>741,455</u></u>
Capital and reserves			
Called up share capital	18	7	7
Share premium account	19	693	693
Profit and loss account	19	441,114	740,755
		<u><u>441,814</u></u>	<u><u>741,455</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 June 2016.


S. Gumm
 Director

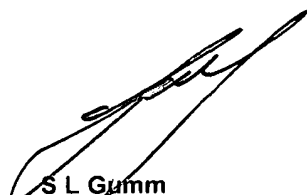
The notes on pages 13 to 29 form part of these financial statements.

SIR HOSPITALS PROPCO LIMITED
REGISTERED NUMBER: 4707153

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Fixed assets			
Investments	12	-	28,440
		<u>-</u>	<u>28,440</u>
Current assets			
Debtors: amounts falling due within one year	14	554,373	-
		<u>554,373</u>	<u>-</u>
Creditors: amounts falling due within one year	15	(2,786)	-
		<u>(2,786)</u>	<u>-</u>
Net current assets		551,587	-
Total assets less current liabilities		551,587	28,440
Creditors: amounts falling due after more than one year	16	(215,570)	(15,508)
		<u>(215,570)</u>	<u>(15,508)</u>
Net assets		336,017	12,932
Capital and reserves			
Called up share capital	18	7	7
Share premium account	19	693	693
Profit and loss account	19	335,317	12,232
		<u>336,017</u>	<u>12,932</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 June 2016.


S L Gumm
 Director

SIR HOSPITALS PROPCO LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2015	7	693	740,755	741,455
Comprehensive income for the year				
Loss for the year	-	-	(299,641)	(299,641)
At 31 December 2015	<u>7</u>	<u>693</u>	<u>441,114</u>	<u>441,814</u>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2014**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 April 2014	7	693	581,694	582,394
Comprehensive income for the period				
Profit for the period	-	-	159,061	159,061
At 31 December 2014	<u>7</u>	<u>693</u>	<u>740,755</u>	<u>741,455</u>

The notes on pages 13 to 29 form part of these financial statements.

SIR HOSPITALS PROPCO LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2015	7	693	12,232	12,932
Comprehensive income for the period				
Profit for the year	-	-	323,085	323,085
At 31 December 2015	<u>7</u>	<u>693</u>	<u>335,317</u>	<u>336,017</u>

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2014**

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 April 2014	7	693	12,792	13,492
Comprehensive income for the period				
Loss for the period	-	-	(560)	(560)
At 31 December 2014	<u>7</u>	<u>693</u>	<u>12,232</u>	<u>12,932</u>

The notes on pages 13 to 29 form part of these financial statements.

SIR HOSPITALS PROPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. General information

The financial information set out in this report covers the year to 31 December 2015, with comparative figures relating to the nine month period to 31 December 2014, and includes the results and net assets of the Company and its subsidiaries, together referred to as the "Group".

The Company is incorporated in England. The address of the registered office and principal place of business is Cavendish House, 18 Cavendish Square, London W1G 0PJ.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006. FRS 102 is mandatory for accounting periods beginning on or after 1 January 2015 and therefore this is the first year in which the financial statements have been prepared under FRS 102.

Information on the impact of first-time adoption of FRS 102 is given in note 23.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Reduced disclosure framework

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Basic Financial Instruments; and
- the requirements of Section 12 Other Financial Instruments Issues.

This information is included in the consolidated financial statements of Secure Income REIT Plc as at 31 December 2015 and these financial statements may be obtained from Cavendish House, 18 Cavendish Square, London W1G 0PJ or from www.SecureIncomeREIT.co.uk.

2.3 Basis of consolidation

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated profit and loss account from the date on which control is obtained. They are deconsolidated from the date control ceases.

SIR HOSPITALS PROPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

2. Accounting policies (continued)

2.4 Turnover

Turnover represents rents receivable during the period from the letting of investment properties at invoiced amounts excluding any value added tax. As permitted by FRS 102, since the leases relating to the Group's investment properties were in existence at the date of transition to FRS 102, the Group has continued to account for rental income in line with old UK GAAP and as such recognises fixed uplifts as they arise.

2.5 Investment property

Investment property is carried at fair value determined annually by external valuers and derived from the current market rents and investment property yields for comparable real estate, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the profit and loss account.

2.6 Operating leases

Judgement is exercised in considering the potential transfer of the risks and rewards of ownership for all properties leased to tenants and determine whether such leases are operating leases. A lease is classified as a finance lease if substantially all of the risks and rewards of ownership transfer to the lessee. If the Group substantially retains those risks, a lease is classified as an operating lease. The leases reflected in these financial statements are all classified as operating leases.

2.7 Fixed asset investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.8 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.9 Financial instruments

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received. However if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an outright short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

2. Accounting policies (continued)

2.10 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.11 Finance costs

Finance costs are charged to the profit and loss account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.12 Interest income

Interest income is recognised in the profit and loss account using the effective interest method.

2.13 Tax

Tax is recognised in the profit and loss account, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

3. Judgments in applying accounting policies and key sources of estimation uncertainty

Accounting policies which have a significant bearing on the reported financial condition and results of the Group may require subjective or complex judgements. The principal ongoing area of judgement is the valuation of investment properties where the opinion of external valuers has been obtained at each reporting date using recognised valuation techniques. There are no accounting policies which have a significant bearing on the reported financial condition and results of the Company that require subjective or complex judgements.

4. Analysis of turnover

All turnover arose from the Group's principal activity and within the United Kingdom.

5. Profit on sale of investment property

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
Proceeds on sale of investment property	49,775	-
Costs of sale	(560)	-
Book cost of sold property	(46,013)	-
	<u>3,202</u>	<u>-</u>

6. Operating (loss)/profit

The operating (loss)/profit is stated after charging:

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
Fees payable to the Group's auditor and its associates for the audit of the company's annual financial statements	45	23
	<u>45</u>	<u>23</u>

Neither the Group nor the Company has any employees and no director received any remuneration for the year (2014 - £NIL).

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

7. Loss on group restructuring

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
Loss on disposal of subsidiary undertakings	(114,977)	-
Loss on novation of intercompany loans	(307,063)	-
	<u>(422,040)</u>	<u>-</u>

As part of the restructuring of the SIR Hospital Holdings ("SIR HH") group during the year prior to the refinancing of its secured debt, ten property-holding subsidiaries of the Company were transferred to a fellow SIR HH group undertaking at nominal value, which resulted in a loss of £115.0m to the Group. As part of the same restructuring transaction, intercompany loans owed by those subsidiaries to another subsidiary undertaking of the Company were also novated to that SIR HH group undertaking at nominal value, which resulted in a further loss of £307.1m to the Group.

8. Interest receivable

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
Discount to fair value on interest rate swap termination costs	14,100	-
Interest receivable from group undertakings	6,240	-
Other interest receivable	2	-
	<u>20,342</u>	<u>-</u>

Following the restructuring described in note 7, a secured loan and interest rate swap were novated to the Company from SIR Hospital Holdings Limited at fair value. The proceeds of the drawdown of a new secured loan by the Company were subsequently used to repay the old loan and terminate the interest rate swap at a discount, which resulted in a gain of £14.1m to the Group.

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

9. Interest payable and similar charges

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
Secured loan interest payable	3,056	-
Interest payable to group undertakings	-	785
Covenant release fee	-	11,400
	<u>3,056</u>	<u>12,185</u>

10. Tax

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Release of deferred tax on unrealised investment property revaluations on conversion to UK REIT	-	(77,651)
Release of deferred tax on tax losses brought forward on conversion to UK REIT	-	441
Total deferred tax	<u>-</u>	<u>(77,210)</u>
Tax on (loss)/profit on ordinary activities	<u>-</u>	<u>(77,210)</u>

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

10. Tax (continued)

Factors affecting tax charge for the year/period

The tax assessed for the year/period is lower than (2014 - lower than) the standard rate of corporation tax in the UK of 20.25% (2014 - 21%). The differences are explained below:

	Year ended 31 December 2015 £000	Period ended 31 December 2014 £000
(Loss)/profit on ordinary activities before tax	(299,641)	81,851
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014 - 21%)	(60,677)	17,189
Effects of:		
Non-taxable items	85,462	-
Qualifying property rental business not taxable	(17,415)	(12,776)
Group relief	(7,220)	(3,955)
Transfer pricing adjustments	(139)	18
Capital allowances	(11)	(12)
Deferred tax released on conversion to UK REIT	-	(77,210)
Utilisation of tax losses	-	(464)
Total tax charge for the year/period	-	(77,210)

Factors that may affect future tax charges

The Secure Income REIT Plc group (the "SIR group") elected into the UK REIT regime in June 2014. Subject to the SIR group's continuing compliance with certain rules, the UK REIT status exempts both profits of the Group's property rental business and gains on the Group's investment properties from UK corporation tax. Since entering the UK REIT regime the SIR group has continued to meet the relevant rules but must continue to do so to maintain UK REIT status.

11. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The profit after tax of the parent Company for the year/period was £323.1m (2014 - £0.6m).

SIR HOSPITALS PROPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

12. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company at 31 December 2015:

Name	Country of incorporation	Class of shares	Holding	Principal activity
SIR Downs Limited	England	Ordinary	100 %	Property investment
SIR Duchy Limited	England	Ordinary	100 %	Property investment
SIR Euxton Limited	England	Ordinary	100 %	Property investment
SIR Midlands Limited	England	Ordinary	100 %	Property investment
SIR Mt Stuart Limited	England	Ordinary	100 %	Property investment
SIR Oaklands Limited	England	Ordinary	100 %	Property investment
SIR Renacres Limited	England	Ordinary	100 %	Property investment
SIR Rivers Limited	England	Ordinary	100 %	Property investment
SIR Springfield Limited	England	Ordinary	100 %	Property investment
Thomas Rivers Limited	England	Ordinary	100 %	Property investment

All subsidiaries are directly held by the Company.

As described in note 7, as part of a restructuring of the SIR Hospital Holdings group during the year, ten of the Company's property holding subsidiaries were transferred to a fellow group undertaking at nominal value, which resulted in a loss of £115.0m (2014 - £NIL) to the Group. These subsidiaries were previously held at a book value of £1 each so the disposals are shown as zero when rounded into thousands in the Company note below.

As at 31 December 2014, the book value of the Company's fixed asset investments principally comprised a £28.4m investment in UK Healthcare Limited Partnership Incorporated, a Guernsey partnership that acted as the financing company for the Group. As part of the restructuring noted above, the partnership's intercompany debtors and other net assets were transferred to the Company at their fair value by means of a distribution of £608.5m and a return of capital of £28.4m by the partnership, which was subsequently dissolved.

SIR HOSPITALS PROPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

12. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £000
At 1 January 2015	28,440
Disposals	-
Amounts written off	(28,440)
At 31 December 2015	-
	<hr/>
At 31 December 2014	28,440
	<hr/>

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

13. Investment properties

Group

	Freehold investment properties £000
Valuation	
At 1 January 2015	773,760
Disposals	(46,013)
Surplus on revaluation	67,452
On disposal of subsidiaries	(423,239)
At 31 December 2015	371,960

The 2015 valuations were made by CBRE Limited, Commercial Real Estate Advisers, in their capacity as external valuers, on an open market value for existing use basis.

The valuations were prepared on a fixed fee basis, independent of the portfolio value, and were undertaken in accordance with the RICS Valuation - Professional Standards January 2014, supported by reference to market evidence of transaction prices for similar properties.

The historical cost of the investment properties is £292.3m (2014 - £662.3m).

A charge over certain Group assets, including the investment properties, has been granted to the Group's lenders as part of the security for borrowings provided to the Group.

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

14. Debtors

	Group 2015 £000	<i>Group 2014 £000</i>	Company 2015 £000	<i>Company 2014 £000</i>
Amounts owed by group undertakings	292,972	-	554,297	-
Prepayments and accrued income	76	2	76	-
	<u>293,048</u>	<u>2</u>	<u>554,373</u>	<u>-</u>

Amounts owed by group undertakings are repayable on demand and incur interest at a rate of 6.5%.

15. Creditors: Amounts falling due within one year

	Group 2015 £000	<i>Group 2014 £000</i>	Company 2015 £000	<i>Company 2014 £000</i>
Secured loan	1,000	-	1,000	-
Trade creditors	32	-	32	-
Accruals and deferred income	6,592	10,598	1,754	-
	<u>7,624</u>	<u>10,598</u>	<u>2,786</u>	<u>-</u>

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

	Group 2015 £000	<i>Group 2014 £000</i>	Company 2015 £000	<i>Company 2014 £000</i>
Secured loan	218,750	-	218,750	-
Prepaid finance fees	(3,180)	-	(3,180)	-
Amounts owed to group undertakings	-	21,709	-	15,508
	<u>215,570</u>	<u>21,709</u>	<u>215,570</u>	<u>15,508</u>

The secured loan incurs interest at a fixed rate of 4.3% and is repayable in September 2025. It amortises at a rate of £1.0m per annum and is secured by charges over the investment properties held by subsidiary undertakings, the shares of those subsidiary undertakings, and by fixed and floating charges over the assets of the Company and its subsidiary undertakings.

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

17. Secured loan

The secured loan is due for repayment as follows:

	2015 £000	2014 £000
Group and Company		
Within one year	1,000	-
Between two and five years	4,000	-
More than five years	214,750	-
	<u>219,750</u>	<u>-</u>

18. Share capital

	2015 £000	2014 £000
Allotted, called up and fully paid		
7,000 ordinary shares of £1 each	<u>7</u>	<u>7</u>

Share capital represents the aggregate nominal value of shares issued.

19. Reserves

Share premium

Share premium represents the surplus of the gross proceeds of share issues over the nominal value of the shares.

Profit & loss account

As at 31 December 2015, the Company had distributable reserves of £335.3m (2014 - £12.2m).

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

20. Operating leases

The Group's investment properties are leased to a third party under non-cancellable operating leases. The remaining average lease term is 21.4 years (2014: 22.4 years) with no break options and the leases contain fixed annual uplifts of 2.75% each May. The future minimum lease payments receivable are as follows:

	2015 £000	2014 £000
Group		
Within one year	21,094	46,785
Between one year and five years	90,159	200,450
More than five years	488,823	1,170,414
	<u>600,076</u>	<u>1,417,649</u>

21. Related party transactions

The Group and Company have taken advantage of the exemption available to wholly owned subsidiary undertakings not to disclose any transactions with entities that are included in the consolidated financial statements of Secure Income REIT Plc.

22. Controlling party

The Company's immediate parent undertaking is SIR Umbrella Limited and the ultimate parent undertaking is Secure Income REIT Plc. The consolidated financial statements of Secure Income REIT Plc are available to the public and may be obtained from the Company Secretary, Cavendish House, 18 Cavendish Square, London, W1G 0PJ or from www.SecureIncomeREIT.co.uk.

SIR HOSPITALS PROPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

23. First time adoption of FRS 102

Group

		As previously stated 1 April 2014 £000	Effect of transition 1 April 2014 £000	FRS 102 (as restated) 1 April 2014 £000	As previously stated 31 December 2014 £000	Effect of transition 31 December 2014 £000	FRS 102 (as restated) 31 December 2014 £000
Note							
Fixed assets		694,805	-	694,805	773,760	-	773,760
Current assets		9	-	9	3	-	3
Creditors: amounts falling due within one year		(10,065)	-	(10,065)	(10,599)	-	(10,599)
Net current liabilities		(10,056)	-	(10,056)	(10,596)	-	(10,596)
Total assets less current liabilities		684,749	-	684,749	763,164	-	763,164
Creditors: amounts falling due after more than one year		(24,703)	-	(24,703)	(21,709)	-	(21,709)
Deferred tax liability	1	-	(77,652)	(77,652)	-	-	-
Net assets		660,046	(77,652)	582,394	741,455	-	741,455
Capital and reserves		660,046	(77,652)	582,394	741,455	-	741,455

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

23. First time adoption of FRS 102 (continued)

		<i>As previously stated 31 December 2014 £000</i>	<i>Effect of transition 31 December 2014 £000</i>	FRS 102 (as restated) 31 December 2014 £000
Turnover		34,362	-	34,362
Cost of sales		(12)	-	(12)
		<hr/>	<hr/>	<hr/>
		34,350	-	34,350
Administrative expenses		(19,269)	-	(19,269)
Revaluation of investment properties	2	-	78,955	78,955
		<hr/>	<hr/>	<hr/>
Operating profit		15,081	78,955	94,036
Interest payable and similar charges		(12,185)	-	(12,185)
Tax	1	(442)	77,652	77,210
		<hr/>	<hr/>	<hr/>
Profit on ordinary activities after tax and for the financial period		<hr/> 2,454 <hr/>	<hr/> 156,607 <hr/>	<hr/> 159,061 <hr/>

Explanation of changes to previously reported profit and equity:

- 1 Deferred tax arising on unrealised property and interest rate swap revaluations is recognised under FRS 102 when it was previously unprovided.
- 2 Under FRS 102, property revaluation movements are shown in the profit and loss account under other operating income. Previously, they were shown in a separate revaluation reserve.

SIR HOSPITALS PROPCO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

23. First time adoption of FRS 102 (continued)

Company

		As previously stated 1 April 2014 £000	Effect of transition 1 April 2014 £000	FRS 102 (as restated) 1 April 2014 £000	As previously stated 31 December 2014 £000	Effect of transition 31 December 2014 £000	FRS 102 (as restated) 31 December 2014 £000
Note							
Fixed assets		28,442	-	28,442	28,440	-	28,440
Current assets		9,941	-	9,941	-	-	-
Net current assets		9,941	-	9,941	-	-	-
Total assets less current liabilities		38,383	-	38,383	28,440	-	28,440
Creditors: amounts falling due after more than one year		(24,892)	-	(24,892)	(15,508)	-	(15,508)
Net assets		13,491	-	13,491	12,932	-	12,932
Capital and reserves		13,491	-	13,491	12,932	-	12,932

SIR HOSPITALS PROPCO LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

23. First time adoption of FRS 102 (continued)

Note	<i>As previously stated 31 December 2014 £000</i>	<i>Effect of transition 31 December 2014 £000</i>	FRS 102 (as restated) 31 December 2014 £000
	-	-	-
Administrative expenses	(6)	-	(6)
Amounts written off investments	(2)	-	(2)
	<hr/>	<hr/>	<hr/>
Operating profit	(8)	-	(8)
Interest payable and similar charges	(552)	-	(552)
	<hr/>	<hr/>	<hr/>
Loss on ordinary activities after tax and for the financial period	(560)	-	(560)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Explanation of changes to previously reported profit and equity:

- 1 There are no changes to the Company's previously reported profit and equity as a result of the transition to FRS 102.