

Registered number: 09361122

PRESTBURY SIR 2 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

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PRESTBURY SIR 2 LIMITED

COMPANY INFORMATION

Directors	N M Leslau S L Gumm T J Evans
Company secretary	S L Gumm
Registered number	09361122
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

PRESTBURY SIR 2 LIMITED

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PRESTBURY SIR 2 LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

The directors present their report and the financial statements for the year ended 31 March 2017.

Business review

The principal activity of the Company is to hold an investment in the A and B capital of PIHL Property LLP (the "LLP"), which invests in turn in Secure Income REIT Plc ("SIR"), a UK REIT listed on AIM, and other real estate investments. The Company holds one third of the B capital of the LLP, which does not carry voting rights but entitles the holder to a priority profit share equivalent to a return on equity invested of 9% per annum compounded annually. Its sister companies, Prestbury SIR 2 Limited and Prestbury SIR 3 Limited, each hold a further third of the B capital.

At the start of the year, the Company's investment in the LLP was carried at £36.7m, offset by a loan of £16.8m owed to the LLP. During the year, the LLP made distributions of £17.4m to the Company, £16.8m of which repaid that loan and the balance of which was paid as a cash distribution. This realisation resulted in an equivalent fall of £17.4m in the carrying value of the investment in the LLP, which was subsequently offset by valuation increases of £6.8m, largely reflecting gains on the LLP's underlying investment in SIR as a result of an increase in the SIR share price from 270p to 346p during the year. Following these movements, the Company recognised a profit before tax of £6.9 million for the year and the investment in the LLP had a carrying value of £26.4m as at the end of the year, which is offset by a deferred tax liability of £2.4m on the Company's share of the taxable gains in the LLP.

Directors

The directors who served during the year were:

N M Leslau
S L Gumm
T J Evans

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 the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the 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's auditors are aware of that information.

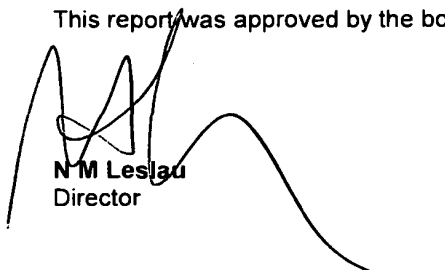
PRESTBURY SIR 2 LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2017**

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 15 December 2017 and signed on its behalf.



N M Leslau
Director

PRESTBURY SIR 2 LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017**

The directors are responsible for preparing 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 of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PRESTBURY SIR 2 LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PRESTBURY SIR 2 LIMITED

We have audited the financial statements of Prestbury SIR 2 Limited for the year ended 31 March 2017, which comprise the profit and loss account, the balance sheet, the statement of changes in equity and the related notes, including a summary of significant accounting policies. The relevant 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 on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Company's affairs as at 31 March 2017 and of its profit 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, based on the work undertaken in the course of the audit, the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with those financial statements and the directors' report has been prepared in accordance with applicable legal requirements.

PRESTBURY SIR 2 LIMITED

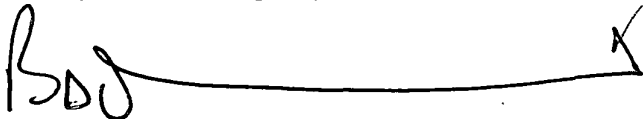
**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PRESTBURY SIR 2 LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies' exemption from the requirement to prepare a strategic report.



Russell Field (senior statutory auditor)

for and on behalf of

BDO LLP (statutory auditor)

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

15 December 2017

PRESTBURY SIR 2 LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2017

		Year ended 31 March 2017 £000	Period ended 31 March 2016 £000
	Note		
Administrative expenses		(3)	(7)
Operating loss	4	(3)	(7)
Income from other fixed asset investments		17,415	-
Amounts written off investments		(10,541)	(3,570)
Profit/(loss) before tax		6,871	(3,577)
Tax on profit/(loss)	5	(507)	(2,108)
Profit/(loss) and total comprehensive income/(loss) for the financial period		6,364	(5,685)

The notes on pages 9 to 16 form part of these financial statements.

PRESTBURY SIR 2 LIMITED
REGISTERED NUMBER: 09361122

BALANCE SHEET
AS AT 31 MARCH 2017

	Note	2017 £000	2016 £000
Fixed assets			
Investments	6	26,446	36,740
		<u>26,446</u>	<u>36,740</u>
Current assets			
Debtors: amounts falling due within one year	7	16,145	15,816
		<u>16,145</u>	<u>15,816</u>
Creditors: amounts falling due within one year	8	(182)	(17,184)
Net current assets/(liabilities)		<u>15,963</u>	<u>(1,368)</u>
Total assets less current liabilities		<u>42,409</u>	<u>35,372</u>
Provisions for liabilities			
Deferred tax	9	(2,387)	(1,714)
		<u>(2,387)</u>	<u>(1,714)</u>
Net assets		<u>40,022</u>	<u>33,658</u>
Capital and reserves			
Called up share capital	10	-	-
Share premium account	11	-	39,343
Profit and loss account	11	40,022	(5,685)
		<u>40,022</u>	<u>33,658</u>

The financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime and in accordance with the provisions of FRS 102 Section 1A - small entities.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 15 December 2017.


N M Leslau
 Director

The notes on pages 9 to 16 form part of these financial statements.

PRESTBURY SIR 2 LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017**

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 1 April 2016	-	39,343	(5,685)	33,658
Comprehensive income for the year				
Profit for the year	-	-	6,364	6,364
Total comprehensive income for the year	-	-	6,364	6,364
Capital reduction - transfer to retained earnings	-	-	39,343	39,343
Capital reduction - transfer from share premium	-	(39,343)	-	(39,343)
At 31 March 2017	-	-	40,022	40,022

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2016**

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
Comprehensive loss for the period				
Loss for the period	-	-	(5,685)	(5,685)
Total comprehensive loss for the period	-	-	(5,685)	(5,685)
Shares issued during the period at a premium	-	39,343	-	39,343
At 31 March 2016	-	39,343	(5,685)	33,658

The notes on pages 9 to 15 form part of these financial statements.

PRESTBURY SIR 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

1. General information

The Company is incorporated in England and the registered office is Cavendish House, 18 Cavendish Square, London W1G 0PJ. The nature of the Company's principal activities is set out in the directors' report.

The financial statements relate to the year ended 31 March 2017, with comparative figures relating to the period from incorporation on 18 December 2014 to 31 March 2016.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Section 1A of Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

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

The following principal accounting policies have been applied:

2.2 Fixed asset investments

The Company's investment in PIHL Property LLP was initially measured at its transaction price, which was considered to be the same as its fair value on acquisition, and is subsequently measured at fair value. Movements in fair value are shown in profit or loss.

2.3 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.

2.4 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.

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.5 Tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except that a charge 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 operates and generates 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; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

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.

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 Company may require subjective or complex judgements. The principal ongoing area of judgement is the valuation of the Company's investment in PIHL Property LLP (the "LLP"), which in turn principally depends on the valuation of the LLP's investment in shares of Secure Income REIT Plc ("SIR"). This valuation requires an estimate of the effect on the SIR share price of the discount that would be required in order to sell the shares in a block trade, given that the investment represents a material management holding in SIR. In determining that discount, the LLP has taken external advice from Stifel Nicolaus Europe Limited, the nominated adviser and broker to SIR.

4. Operating loss

The operating loss is stated after charging:

	Year ended 31 March 2017 £000	Period ended 31 March 2016 £000
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	2	2

The Company had no employees and no director received any remuneration during the current year and prior period.

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

5. Tax

	Year ended 31 March 2017 £000	Period ended 31 March 2016 £000
Corporation tax		
Current tax on profit / (loss) for the period	-	394
Adjustments in respect of previous period	(166)	-
Total current tax	(166)	394
Deferred tax		
Share of deferred tax on unrealised gains in PIHL Property LLP	673	1,714
Total deferred tax	673	1,714
Tax on profit / (loss) on ordinary activities	507	2,108

Factors affecting tax charge for the year/period

The tax assessed for the year/period is lower than (2016 - *higher than*) the standard rate of corporation tax in the UK of 20% (2016 - 20%). The differences are explained below:

	Year ended 31 March 2017 £000	Period ended 31 March 2016 £000
Profit/(loss) on ordinary activities before tax	6,871	(3,577)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 - 20%)	1,374	(715)
Effects of:		
Distributions from PIHL Property LLP not taxable	(3,483)	-
Movement in fair value of PIHL Property LLP not taxable	2,782	2,428
Taxable share of profit from PIHL Property LLP	107	394
Unrelieved tax losses carried forward	-	1
Group relief	(107)	-
Prior period adjustment	(166)	-
Total tax charge for the year/period	507	2,108

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

6. Fixed asset investments

	Investment in PIHL Property LLP £000
Cost or valuation	
At 1 April 2016	36,740
Additions	247
Revaluations	6,874
Amounts written off	(17,415)
At 31 March 2017	<u>26,446</u>
Net book value	
At 31 March 2017	<u>26,446</u>
At 31 March 2016	<u>36,740</u>

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

6. Fixed asset investments (continued)

The Company holds interests in the A and B capital of PIHL Property LLP (the "LLP") acquired in January 2015 for cash consideration of £39.3m. During the year, the Company made further capital contributions of £0.2m (2016: £1.0m) to the LLP.

The principal activity of the LLP is investment in real estate and real estate-backed corporate and other investments. The LLP's operations are within the UK but the operations of the underlying investments are not restricted to the UK. The Company has a 0.03% interest in the A capital of the LLP, which carries voting rights, and a 33.33% interest in the B capital of the LLP, which does not carry voting rights but entitles the holder to a priority profit share equivalent to a return on equity invested of 9% per annum compounded annually, providing that the underlying investments held by the LLP in aggregate generate a cash return in excess of 9% per annum.

The LLP's largest investment is a 9.9% (2016: 12.5%) interest in the shares of Secure Income REIT Plc ("SIR"), a UK REIT listed on AIM which specialises in investing in real estate assets providing long term rental income and offering protection against inflation. At the start of the year, the LLP had loaned the Company £16.8m from the sale of nearly half its shares in SIR in March 2016, and during the year this loan was settled by a distribution from the LLP. SIR also commenced payment of quarterly dividends in August 2016 and the LLP therefore made cash distributions of a further £0.6m to the Company over the remainder of the year, representing its share of those dividends. These realisations resulted in a fall of £17.4m in the carrying value of the investment, which was offset by gains of £6.9m largely reflecting gains on the LLP's underlying investment in SIR as a result of an increase in the SIR share price from 270p to 346p during the year.

The fair value of the LLP's investment in SIR reflects a discount of 13% (2016: 16%) to the SIR midmarket quoted share price at the balance sheet date, representing an estimate of the discount that would be required in order to sell the shares in a block trade, given that the investment represents a material management holding in SIR. In determining that discount, the LLP has taken external advice from Stifel Nicolaus Europe Limited, the nominated adviser and broker to SIR.

The fair value of the investment also reflects the LLP's loans to its subsidiary undertakings and other investments, which are impaired to reflect an estimate of the amounts recoverable from the underlying entities.

7. Debtors

	2017 £000	2016 £000
Amounts owed by parent undertaking	16,145	15,816

Amounts owed by parent undertaking are interest free and repayable on demand.

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

8. Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Amounts owed to PIHL Property LLP	32	16,783
Corporation tax	142	394
Accruals and deferred income	8	7
	<u>182</u>	<u>17,184</u>

Amounts owed to PIHL Property LLP are interest free and repayable on demand.

9. Deferred tax

	2017 £000	2016 £000
At beginning of period	(1,714)	-
Charged to profit or loss	(673)	(1,714)
At end of period	<u>(2,387)</u>	<u>(1,714)</u>

The provision for deferred tax is made up as follows:

	2017 £000	2016 £000
Share of deferred tax on unrealised gains in PIHL Property LLP	<u>(2,387)</u>	<u>(1,714)</u>

10. Share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
3 ordinary shares of £1 each	<u>3</u>	<u>3</u>

Share capital represents the aggregate nominal value of shares issued. All shares rank *pari passu* in all respects.

PRESTBURY SIR 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

11. Reserves

Share premium account

This represents the surplus of the gross proceeds of share issues over the nominal value of the shares. During the year, the balance on the Company's share premium account was transferred to retained earnings via a capital reduction.

Profit and loss account

This represents the cumulative profits or losses of the Company to date. As at 31 March 2017, the Company had distributable reserves of £39.9m (2016: £NIL).

12. Related party transactions

The Company has 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 Prestbury Investment Holdings Limited.

13. Post balance sheet events

Since the balance sheet date, the Company has paid two interim dividends totalling £1,678,000.

14. Controlling party

The Company's immediate parent undertaking is Prestbury Investment Holdings Limited ("PIHL") and the ultimate parent undertaking is Lesray Holdings Limited. The consolidated financial statements of PIHL are available to the public and may be obtained from the Company Secretary, Cavendish House, 18 Cavendish Square, London, W1G 0PJ. Lesray Holdings Limited does not prepare consolidated financial statements on the basis that it is the parent undertaking of a small group.