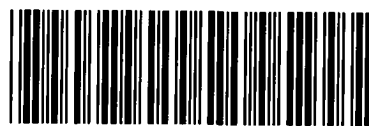

PRESTBURY SIR 2 LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2018

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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

CONTENTS

	Page
Directors' report	1 - 2
Directors' responsibilities statement	3
Independent auditors' report	4 - 6
Profit and loss account	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10 - 15

PRESTBURY SIR 2 LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2018

The directors present their report and the financial statements for the year ended 31 March 2018.

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 the AIM market of the London Stock Exchange, 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 1 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 £26.5m, which increased by £2.2m during the year to a carrying value of £28.7m at the balance sheet date, offset by a deferred tax liability of £2.9m representing the Company's share of the taxable gains in the LLP. As well as the £2.2m revaluation, the Company received distributions of £2.2m from the LLP, which contributed to a profit of £3.7m after tax for the year.

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 2018**

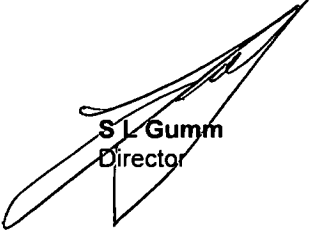
Auditors

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.

Small companies note

In preparing this report, the directors have taken advantage of the small companies exemptions provided by section 415A of the Companies Act 2006.

This report was approved by the board on 12 December 2018 and signed on its behalf.



S. L. Gumm
Director

PRESTBURY SIR 2 LIMITED

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 MARCH 2018**

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

Opinion

We have audited the financial statements of Prestbury SIR 2 Limited (the 'Company') for the year ended 31 March 2018, 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 financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

PRESTBURY SIR 2 LIMITED

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the 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 in relation to which 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 prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

PRESTBURY SIR 2 LIMITED

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of our report

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.

BDO LLP

Christopher Wingrave (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

21 December 2018

PRESTBURY SIR 2 LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2018**

	Note	2018 £000	2017 £000
Administrative expenses		(3)	(3)
Operating loss	4	(3)	(3)
Income from other fixed asset investments		2,183	17,415
Revaluation of fixed asset investments	6	2,214	(10,541)
Interest payable and similar expenses		(5)	-
Profit before tax		4,389	6,871
Tax on profit	5	(716)	(507)
Profit and total comprehensive income for the financial year		3,673	6,364

The notes on pages 10 to 15 form part of these financial statements.

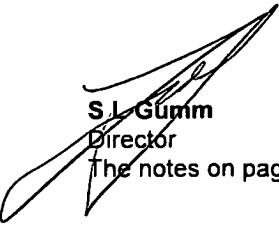
PRESTBURY SIR 2 LIMITED
REGISTERED NUMBER: 09361122

BALANCE SHEET
AS AT 31 MARCH 2018

	Note	2018 £000	2017 £000
Fixed assets			
Investments	6	28,694	26,446
		<u>28,694</u>	<u>26,446</u>
Current assets			
Debtors: amounts falling due within one year	7	16,175	16,145
		<u>16,175</u>	<u>16,145</u>
Creditors: amounts falling due within one year	8	(244)	(182)
		<u>(244)</u>	<u>(182)</u>
Net current assets		<u>15,931</u>	<u>15,963</u>
Total assets less current liabilities		<u>44,625</u>	<u>42,409</u>
Provisions for liabilities			
Deferred tax	9	(2,868)	(2,387)
		<u>(2,868)</u>	<u>(2,387)</u>
Net assets		<u>41,757</u>	<u>40,022</u>
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	41,757	40,022
		<u>41,757</u>	<u>40,022</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 12 December 2018.


S.J. Gumm
 Director

The notes on pages 10 to 15 form part of these financial statements.

PRESTBURY SIR 2 LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 April 2017	-	40,022	40,022
Comprehensive income for the year			
Profit for the year	-	3,673	3,673
Total comprehensive income for the year	-	3,673	3,673
Dividends paid	-	(1,938)	(1,938)
At 31 March 2018	-	41,757	41,757

**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 from share premium	-	-	39,343	39,343
Capital reduction - transfer to retained earnings	-	(39,343)	-	(39,343)
At 31 March 2017	-	-	40,022	40,022

The notes on pages 10 to 15 form part of these financial statements.

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

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.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared 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 Section 1A of 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 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.

PRESTBURY SIR 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

2. Accounting policies (continued)

2.4 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.

2.5 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.

2.6 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

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 holding in SIR which is held by an entity related to the management of SIR. In determining that discount, the LLP has taken external advice from the broker to SIR.

4. Operating loss

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

PRESTBURY SIR 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

5. Tax

	2018	2017
	£000	£000
Corporation tax		
Current tax on profit for the year	173	-
Adjustments in respect of previous year	63	(166)
Total current tax	236	(166)
Deferred tax		
Share of deferred tax on unrealised gains in PIHL Property LLP	480	673
Total deferred tax	480	673
Tax on profit / (loss) on ordinary activities	716	507

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - *lower than*) the standard rate of corporation tax in the UK of 19% (2017 - 20%). The differences are explained below:

	2018	2017
	£000	£000
Profit on ordinary activities before tax	4,389	6,871
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 - 20%)	834	1,374
Effects of:		
Distributions from PIHL Property LLP not taxable	(415)	(3,483)
Revaluation of investment in PIHL Property LLP not taxable	60	2,782
Taxable share of profit from PIHL Property LLP	192	107
Group relief	(18)	(107)
Prior period adjustment	63	(166)
Total tax charge for the year	716	507

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

6. Fixed asset investments

	Investment in PIHL Property LLP £000
Cost or valuation	
At 1 April 2017	26,446
Additions	34
Revaluations	2,214
At 31 March 2018	<u>28,694</u>
Net book value	
At 31 March 2018	<u>28,694</u>
At 31 March 2017	<u>26,446</u>

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 £34,000 (2017: £247,000) 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 7.0% (2017: 9.9%) interest in the shares of Secure Income REIT Plc ("SIR"), a UK REIT listed on the AIM market of the London Stock Exchange.

The fair value of the LLP's investment in SIR reflects a discount of 8% (2017: 13%) to the SIR share price at the balance sheet date, reflecting the fact that the investment represents a material holding in SIR which is held by an entity related to the management of SIR and would therefore have to be sold in a block trade. In determining that discount, the LLP has taken external advice from the broker to SIR.

The fair value of the Company's investment in the LLP 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. The carrying value of the investment has increased by £2.2m, largely reflecting gains on the LLP's underlying investment in SIR as a result of an increase in the SIR share price from 346p to 371p and the narrowing of the broker's assessment of the valuation discount from 13% to 8% during the year.

PRESTBURY SIR 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

7. Debtors

	2018 £000	2017 £000
Amounts owed by parent undertaking	16,175	16,145

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

8. Creditors: Amounts falling due within one year

	2018 £000	2017 £000
Amounts owed to PIHL Property LLP	32	32
Corporation tax	204	142
Accruals and deferred income	8	8
	244	182

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

9. Deferred tax

	2018 £000	2017 £000
At beginning of period	(2,387)	(1,714)
Charged to profit or loss	(481)	(673)
At end of period	(2,868)	(2,387)

The provision for deferred tax is made up as follows:

	2018 £000	2017 £000
Share of deferred tax on unrealised gains in PIHL Property LLP	(2,868)	(2,387)

PRESTBURY SIR 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018**

10. Share capital

	2018 £	2017 £
Allotted, called up and fully paid		
3 (2017 - 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.

11. Reserves

Profit and loss account

This represents the cumulative profits or losses of the Company to date. As at 31 March 2018, the Company had distributable reserves of £41.8m (2017: £39.9m).

12. Related party transactions

The Company has taken advantage of the exemption available to wholly owned subsidiary undertakings not to disclose any transactions with other wholly owned 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 £0.8m.

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.