

Registered number:

09736648

SIR HEALTHCARE 2 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2023

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SIR HEALTHCARE 2 LIMITED

COMPANY INFORMATION

Directors	N M Leslau (resigned 6 July 2022) T J Evans (resigned 6 July 2022) P M Brown (resigned 6 July 2022) S L Gumm (resigned 6 July 2022) F J Brooks (appointed 6 July 2022) S Lee (appointed 6 July 2022) J K L White (appointed 6 July 2022)
Company secretary	LDC Nominee Secretary Limited
Registered number	09736648
Registered office	8th Floor 100 Bishopsgate London EC2N 4AG
Independent auditor	BDO LLP 55 Baker Street London W1U 7EU
Independent valuer	Knight Frank LLP 55 Baker Street London W1U 8AN

SIR HEALTHCARE 2 LIMITED

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SIR HEALTHCARE 2 LIMITED

**GROUP STRATEGIC REPORT
FOR THE PERIOD ENDED 31 MARCH 2023**

Business review

The directors present the strategic report relating to the 15 month period ended 31 March 2023. Comparative figures reflect the year ended 31 December 2021.

The Company is an intermediate holding company in LXi REIT Plc ("LXI") group, holding part of LXi's healthcare investment property portfolio through eleven subsidiary undertakings. The Group's performance over the 15-month period has remained robust. The results for the Group show a profit for the year of £31.7 million (2021: £26.8 million) which includes a change in fair value of investment property of £15.3 million (2021: £17.0 million). As at 31 March 2023, Knight Frank valued the property portfolio at £666.2 million (2021: £640.2 million). The portfolio is partly financed by a £292.5 million fixed rate loan from a third party, secured by charges on the investment properties and other assets. The loan is repayable in October 2025 and interest is payable at 5.3% per annum.

Nine of the ten investment properties are let to a substantial UK operating subsidiary of Ramsay Health Care Limited ("Ramsay"), the guarantor of the two leases. Ramsay is one of the top five private hospital operators in the world and is a constituent of the ASX 50 index of Australia's largest companies, with a market capitalisation at 27 July 2023 of £6.7 billion. The Ramsay hospitals are let on full repairing and insuring leases with a term to expiry at 31 March 2023 of 14.1 years without break and passing rent of £31.3 million. The rents increase in May each year by a minimum of a fixed 2.75% per annum throughout the lease term.

There are additional upwards only open market review within each lease as at 3 May 2018 and then in May 2022 and every five years thereafter. Following further analysis by CBRE (acting as rent review consultant to the Company) on the Arbitration decision of the Duchy Hospital's 2018 open market rent review (held on identical lease terms to the hospitals in this portfolio), the Company has decided not to pursue the case for open market rental uplifts on any of the Ramsay leases within this portfolio for both the 2018 reviews and the 2022 open market reviews, where given the diminished trade during the pandemic it was highly unlikely any uplifts above the fixed rent increases in the leases would be achievable. All reviews are now up to date and rent is receivable in line with the May 2023 fixed uplifts.

The other property is located in Central London and is let to a subsidiary of Group Sinoue, a French company specialising in mental health. The hospital is let on a full repairing and insuring lease with a term to expiry at 31 March 2023 of 21.1 years without break and passing rent of £2.3 million. The rent increases in May each year by a fixed 3.0% per annum throughout the lease term.

Principal risks and uncertainties

The Company is part of a larger group. As such, the fundamental underlying risks for this Company are those of the LXi REIT plc group and can be found in the group annual report.

These include:

- Macro economic challenges
- Geopolitical risk
- Tenant default risk
- Competition for properties
- Property valuation
- Compliance risks
- Dependence on the Investment Advisor
- Climate-related risks

SIR HEALTHCARE 2 LIMITED

This report was approved by the board on 31 July 2023 and signed on its behalf.

DocuSigned by:

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F J Brooks
Director

SIR HEALTHCARE 2 LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 MARCH 2023

The directors present their report and the financial statements for the period ended 31 March 2023.

Results and dividends

The profit for the period, after tax, amounted to £31.7 million (2021 - £26.8 million) and interim dividends of £3.8 million (2021 - £7.6 million) were paid in the year. The directors do not recommend payment of a final dividend (2021 - £nil).

Directors' responsibilities statement

The directors are responsible for preparing the group strategic report, the directors' report and the consolidated 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's financial statements and then apply them consistently;
- make judgements 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; and
- 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 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors

The directors who served during the period were:

N M Leslau (resigned 6 July 2022)
T J Evans (resigned 6 July 2022)
P M Brown (resigned 6 July 2022)
S L Gumm (resigned 6 July 2022)
F J Brooks (appointed 6 July 2022)
S Lee (appointed 6 July 2022)
J K L White (appointed 6 July 2022)

SIR HEALTHCARE 2 LIMITED

**DIRECTORS' REPORT
FOR THE PERIOD ENDED 31 MARCH 2023**

Disclosure of information to auditor


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 and the Group's auditor is 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 and the Group's auditor is aware of that information.

Auditor

The auditor, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 31 July 2023 and signed on its behalf.

DocuSigned by:

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F J Brooks
Director

SIR HEALTHCARE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIR HEALTHCARE 2 LIMITED

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2023 and of the Group's profit for the period then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of SIR Healthcare 2 Limited ("the parent Company") and its subsidiaries ("the Group") for the period ended 31 March 2023 which comprise the Group profit and loss account, the Group and Company balance sheet, the Group and Company 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).

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 Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the directors' report and financial statements other than the financial statements and our auditor's 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.

SIR HEALTHCARE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIR HEALTHCARE 2 LIMITED

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or 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 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.

Responsibilities of Directors

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, 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

SIR HEALTHCARE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIR HEALTHCARE 2 LIMITED

Auditor's 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 auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with the Directors and those charged with governance; and
- Obtaining and understanding the Group's policies and procedures regarding compliance with laws and regulations,

We considered the significant laws and regulations to be the Companies Act 2006, the UK Listing Rules and the UK Real Estate Investment Trust ("REIT") regime.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be UK VAT regulations.

Our procedures in respect of the above included:

- Review of Board meeting minutes for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with the Directors and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of Board meeting minutes for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

SIR HEALTHCARE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIR HEALTHCARE 2 LIMITED

Based on our risk assessment, we considered the areas most susceptible to fraud to be the assessment of lease term lengths that any incentives are recognised over, revenue recognition (completeness and accuracy of lease incentives), investment property valuations and management override of controls.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year/period, which met a defined risk criteria, by agreeing to supporting documentation;
- We agreed all bank and loan balances to direct bank confirmations and agreements;
- We also addressed the risk of management override of internal controls by evaluating whether there was evidence of bias by the Manager and the Directors that represented a risk of material misstatement due to fraud. This included evaluating any management bias within the valuation of investment property;
- To address the fraud risk in relation to the assessment of lease term lengths that any incentives are recognised over, we assessed the Directors' judgements of lease terms for any evidence of bias.
- To address the fraud risk in relation to the completeness of lease incentives, we obtained all new or amended lease agreements and ensured that any lease incentives were correctly recorded. For all new, amended and existing leases, we set expectations for the rental income to be received under the lease agreement, investigating any variances. For a sample of new, amended and existing leases, we verified the cash receipts and payee details as per the lease agreement to bank statements, investigating any variances.
- To address the fraud risk in relation to the accuracy of lease incentives, we recalculated and traced to source documentation the details of all lease incentives.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's 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 auditor's 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.

SIR HEALTHCARE 2 LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SIR HEALTHCARE 2 LIMITED

DocuSigned by:

Chris Young

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Christopher Young (Senior Statutory Auditor)

for and on behalf of BDO LLP

31 July 2023

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

55 Baker Street
London
W1U 7EU

SIR HEALTHCARE 2 LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE PERIOD ENDED 31 MARCH 2023**

	Note	Period ended 31 March 2023 £000	Year ended 31 December 2021 £000
Turnover	4	39,165	30,466
Property outgoings		83	(70)
Gross profit		39,248	30,396
Administrative expenses	5	(2,272)	(4,093)
Revaluation movements	11	14,881	16,965
Operating profit		51,857	43,268
Interest payable and similar expenses	8	(20,162)	(16,444)
Profit before tax		31,695	26,824
Tax on profit	9	-	-
Profit for the period		31,695	26,824

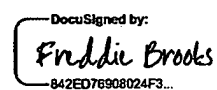
The notes on pages 16 to 26 form part of these financial statements.

SIR HEALTHCARE 2 LIMITED
REGISTERED NUMBER: 09736648

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2023

		31 March 2023 £000	31 December 2021 £000
	Note		
Fixed assets			
Investment properties	11	666,175	640,240
		<u>666,175</u>	<u>640,240</u>
Current assets			
Debtors: amounts falling due within one year	12	2	3
Cash at bank and in hand	13	7,941	7,598
		<u>7,943</u>	<u>7,601</u>
Creditors: amounts falling due within one year	14	(13,296)	(13,286)
Net current liabilities		(5,353)	(5,685)
Total assets less current liabilities		660,822	634,555
Creditors: amounts falling due after more than one year	15	(290,641)	(292,260)
Net assets		<u>370,181</u>	<u>342,295</u>
Capital and reserves			
Called up share capital	17	-	-
Share premium account	18	110,215	110,215
Profit and loss account	18	259,966	232,080
		<u>370,181</u>	<u>342,295</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 July 2023.

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F J Brooks
Director

The notes on pages 16 to 26 form part of these financial statements.

SIR HEALTHCARE 2 LIMITED
REGISTERED NUMBER: 09736648

COMPANY BALANCE SHEET
AS AT 31 MARCH 2023

		31 March 2023 £000	31 December 2021 £000
	Note		
Fixed assets			
Investments	10	193,521	183,020
		<u>193,521</u>	<u>183,020</u>
Current assets			
Debtors: amounts falling due within one year	12	338,778	351,448
Cash at bank and in hand	13	7,940	7,598
		<u>346,718</u>	<u>359,046</u>
Creditors: amounts falling due within one year	14	(5,966)	(5,978)
Net current assets		<u>340,752</u>	<u>353,068</u>
Total assets less current liabilities		<u>534,273</u>	<u>536,088</u>
Creditors: amounts falling due after more than one year	15	(290,641)	(292,260)
Net assets		<u><u>243,632</u></u>	<u><u>243,828</u></u>
Capital and reserves			
Called up share capital	17	-	-
Share premium account	18	110,215	110,215
Profit and loss account	18	133,417	133,613
		<u><u>243,632</u></u>	<u><u>243,828</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 31 July 2023.


F J Brooks
 Director

The notes on pages 16 to 26 form part of these financial statements.

SIR HEALTHCARE 2 LIMITED
REGISTERED NUMBER: 09736648

COMPANY BALANCE SHEET (CONTINUED)
AS AT 31 MARCH 2023

The Company has taken advantage of the exemption within section 408 of the Companies Act 2006 not to present its own profit and loss account. The profit for the period dealt with in the financial statements of the Company was £3.6 million (profit in 2021 - £11.3 million). As at 31 March 2023, the Company had distributable reserves totalling £133.4 million (2021 - £133.6 million).

SIR HEALTHCARE 2 LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2023**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2022	-	110,215	232,080	342,295
Comprehensive income for the period				
Profit for the period	-	-	31,695	31,695
Total comprehensive income for the period	-	-	31,695	31,695
Contributions by and distributions to owners				
Dividends paid	-	-	(3,809)	(3,809)
Total transactions with owners	-	-	(3,809)	(3,809)
At 31 March 2023	-	110,215	259,966	370,181

The notes on pages 16 to 26 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2021**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2021	-	110,215	212,807	323,022
Comprehensive income for the year				
Profit for the year	-	-	26,824	26,824
Contributions by and distributions to owners				
Dividends paid	-	-	(7,551)	(7,551)
At 31 December 2021	-	110,215	232,080	342,295

The notes on pages 16 to 26 form part of these financial statements.

SIR HEALTHCARE 2 LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2023**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2022	-	110,215	133,613	243,828
Comprehensive profit for the period				
Profit for the period	-	-	3,614	3,614
Total comprehensive profit for the period	-	-	3,614	3,614
Contributions by and distributions to owners				
Dividends paid	-	-	(3,809)	(3,809)
Total transactions with owners	-	-	(3,809)	(3,809)
At 31 March 2023	-	110,215	133,418	243,633

The notes on pages 16 to 26 form part of these financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 DECEMBER 2021**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2021	-	110,215	129,879	240,094
Comprehensive income for the year				
Profit for the year	-	-	11,285	11,285
Contributions by and distributions to owners				
Dividends paid	-	-	(7,551)	(7,551)
At 31 December 2021	-	110,215	133,613	243,828

The notes on pages 16 to 26 form part of these financial statements.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023**

1. General information

The Company is a private company limited by shares, incorporated in England, and the registered office is 8th Floor 100 Bishopsgate, London, United Kingdom, EC2N 4AG. The nature of the Group's and Company's principal activities is set out in the strategic report and the directors' report.

Balances in the financial statements are presented in Pounds Sterling, which is the functional currency of the Group and the Company, rounded to the nearest thousand.

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 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 Group management to exercise judgement in applying the Group's accounting policies (see note 3).

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 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 Financial Instruments; and
- the requirements of Section 12 Other Financial Instruments Issues.

This information is included in the consolidated financial statements of LXI REIT Plc as at 31 March 2023, which may be obtained by writing to the Company Secretary, 8th Floor 100 Bishopsgate, London, United Kingdom, EC2N 4AG.

2.2 Going concern

The financial statements have been prepared on a going concern basis, which assumes that the Group and Company will continue to meet their liabilities when they fall due for the foreseeable future, being a period of at least 12 months from the date on which these financial statements are approved, including the assessment that the relevant financial covenants of the secured loan drawn by the Company will continue to be complied with. The debt facility disclosed in note 15, has a maturity of £3.2m due in less than 1 year and the remaining balance due in October 2025.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023**

2. Accounting policies (continued)**2.3 Basis of consolidation**

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form 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.

2.4 Turnover

Turnover represents rents receivable during the period from the letting of the investment property at invoiced amounts excluding any value added tax. As permitted by FRS 102, the Group accounts for the fixed rental income uplifts in the leases on its investment properties as they arise in recognition of the fact that they were intended as a proxy for inflation. Contingent income relating to contractual rights that are subject to external factors, such as that arising from site earnings or open market rent reviews, is only recognised in profit or loss in the period in which it is determinable and reasonably certain. Such income is recognised on a straight line basis over the remaining term of the lease.

2.5 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.

2.6 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 profit or loss.

2.7 Fixed asset investments

Investments in subsidiaries are measured at cost less any 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 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.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023**

2. Accounting policies (continued)**2.10 Financial instruments**

The Group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

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 debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

2.11 Finance costs

Finance costs are charged to profit or loss 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. Unamortised finance costs are charged to the profit and loss account in proportion to repayments of loan principal on the date of repayment. Any early repayment costs are expensed as incurred.

2.12 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. Judgements 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 and Company may require subjective or complex estimates or judgements

The principal area of estimation uncertainty is the investment property valuations where the opinion of independent external valuers is obtained at each reporting date using recognised valuation techniques.

The principal area of judgement is the recognition of any additional income in the year as a result of an outstanding May 2018 rent review, which has been referred to formal arbitration. There is a significant level of uncertainty about the amount of any rent uplift at this stage in the process and therefore the financial statements do not reflect any additional income from this review.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023**

4. Turnover

All turnover arose from the letting of investment properties within the United Kingdom.

	Period ended 31 March 2023 £000	<i>Year ended 31 December 2021 £000</i>
Rental income	38,746	30,165
Back rent adjustment	419	301
	<u>39,165</u>	<u>30,466</u>

The back rent adjustment relates to a May 2017 site earnings rent review. Revenue includes amounts receivable in respect of property rental income and is measured at the fair value of the consideration received or receivable. Rental income is derived from investment properties and is recognised on a straight line basis over the expected term of the relevant leases.

5. Administrative expenses

	Period ended 31 March 2023 £000	<i>Year ended 31 December 2021 £000</i>
Advisory fees (note 20)	2,244	3,979
Other expenses	28	114
	<u>2,272</u>	<u>4,093</u>

Amounts shown above include irrecoverable VAT.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023**
6. Revaluation movements

	Period ended 31 March 2023 £000	Year ended 31 December 2021 £000
Revaluation of investment properties (note 11)	15,300	17,255
Back rent adjustment	(419)	(290)
	<u>14,881</u>	<u>16,965</u>

The back rent adjustment relates to a May 2017 site earnings rent review. The rent, net of costs, received as a result of that review is required under FRS 102 to be recognised in turnover and property outgoings on a straight line basis over the remaining term of the lease, and the balance that has not yet been recognised at the balance sheet date is included within the carrying value of the investment property. The net amount that is released as a credit to turnover and property outgoings each year is also charged to the profit and loss account through revaluation movements.

7. Operating profit

The operating profit does not include fees payable to the Group Auditor as at 31 March 2023 as these are borne by the ultimate controlling entity (2023 £19,000).

8. Interest payable and similar expenses

	Period ended 31 March 2023 £000	Year ended 31 December 2021 £000
Secured loan interest payable	19,428	15,774
Amortisation of loan issue costs	678	545
Loan agent fees and other lender costs	56	125
	<u>20,162</u>	<u>16,444</u>

SIR HEALTHCARE 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023

9. Tax

	Period ended 31 March 2023 £000	Year ended 31 December 2021 £000
Current tax on profit for the year	-	-

Factors affecting tax charge for the period/year

The reconciliation of profit before tax multiplied by the standard rate of corporation tax for the period of 19% to the total tax charge in the income statement is as follows:

	Period ended 31 March 2023 £000	Year ended 31 December 2021 £000
Profit on ordinary activities before tax	31,695	26,824
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	6,022	5,097
Effects of:		
Unrealised property revaluations not taxable	(2,907)	(3,223)
Property rental business not taxable under UK REIT regime	(3,115)	(2,633)
Residual business tax losses carried forward	-	598
Residual business loss transferred as group relief	-	163
Capital allowances	-	(2)
Tax charge for the year	-	-

Factors that may affect future tax charges

UK REIT exempt income includes property rental income that is exempt from UK Corporation Tax in accordance with Part 12 of CTA 2010.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023**

10. Fixed asset investments**Company**

	Investments in subsidiary undertakings £000
Cost	
At 1 January 2022	183,020
Additions	10,501
At 31 March 2023	193,521

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Class of shares	Holding
SIR Fitzwilliam Limited	06182061	100 %
SIR Fulwood Limited	06181972	100 %
SIR Lisson Limited	05956505	100 %
SIR Midlands Limited	06182040	100 %
SIR Oaks Limited	06181967	100 %
SIR Oaklands Limited	06181969	100 %
SIR Pinehill Limited	06181975	100 %
SIR Rivers Limited	06182038	100 %
SIR Woodland Limited	06182008	100 %
SIR Yorkshire Limited	06181984	100 %
Thomas Rivers Limited	00178109	100 %

The principal activity of all subsidiary undertakings is property investment. The registered address of all subsidiary undertakings is 8th Floor 100 Bishopsgate, London, EC2N 4AG.

SIR HEALTHCARE 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023

11. Investment properties

Group

	Freehold £000
Valuation	
At 1 January 2022	640,240
Additions at cost	10,635
Deficit on revaluation	15,300
At 31 March 2023	666,175

In accordance with FRS 102, the investment properties have been independently valued at fair value by Knight Frank LLP ("KFL"), an accredited external valuer with recognised and relevant professional qualifications and recent experience in the location and category of the investment properties being valued, however the valuations are the ultimate responsibility of the Directors.

The 2021 valuations were carried out by CBRE Limited, on an open market value for existing use basis.

The historical cost of the properties is £366.2 million (2021 - £366.2 million).

The additions in the period reflect capitalised costs in association with the purchase of the wider Secure Income REIT Plc group by LXi REIT Plc in July 2022.

12. Debtors

	Group 31 March 2023 £000	Group 31 December 2021 £000	Company 31 March 2023 £000	Company 31 December 2021 £000
Prepayments and accrued income	2	3	-	2
Amounts owed by subsidiary undertakings	-	-	338,778	351,446
	2	3	338,778	351,448

Amounts owed by subsidiary undertakings are unsecured, bear interest at a rate of 6.5% per annum and are repayable on demand although it is noted that the balances may not be recovered within one year.

SIR HEALTHCARE 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023

13. Cash and cash equivalents

	Group	<i>Group</i>	Company	<i>Company</i>
	31 March	<i>31 December</i>	31 March	<i>31 December</i>
	2023	<i>2021</i>	2023	<i>2021</i>
	£000	<i>£000</i>	£000	<i>£000</i>
Cash at bank and in hand	<u>7,941</u>	<u><i>7,598</i></u>	<u>7,940</u>	<u><i>7,598</i></u>

Included within the Group's cash balances at 31 March 2023 is £7.9 million (2021 - £7.6 million) of cash in accounts held as security by the providers of the secured loans.

14. Creditors: Amounts falling due within one year

	Group	<i>Group</i>	Company	<i>Company</i>
	31 March	<i>31 December</i>	31 March	<i>31 December</i>
	2023	<i>2021</i>	2023	<i>2021</i>
	£000	<i>£000</i>	£000	<i>£000</i>
Trade creditors	136	<i>-</i>	136	<i>-</i>
Secured loan	3,156	<i>3,156</i>	3,156	<i>3,156</i>
Accruals and deferred income	10,004	<i>10,130</i>	2,674	<i>2,822</i>
	<u>13,296</u>	<u><i>13,286</i></u>	<u>5,966</u>	<u><i>5,978</i></u>

SIR HEALTHCARE 2 LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023

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

	Group	<i>Group</i>	Company	<i>Company</i>
	31 March	<i>31</i>	31 March	<i>31</i>
	2023	<i>December</i>	2023	<i>December</i>
	£000	<i>2021</i>	£000	<i>2021</i>
		<i>£000</i>		<i>£000</i>
Secured loan	289,332	293,277	289,332	293,277
Unamortised loan issue costs	(1,367)	(2,047)	(1,367)	(2,047)
Amounts owed to parent undertaking	2,676	1,030	2,676	1,030
	<u>290,641</u>	<u>292,260</u>	<u>290,641</u>	<u>292,260</u>

The secured loan incurs interest at a fixed rate of 5.3% per annum and is secured by charges over the Group's investment properties and by fixed and floating charges over the other assets of Group companies. £3.2 million per annum of the loan is currently repayable on a quarterly basis with full repayment of the remaining balance due in October 2025.

Amounts owed to the parent undertaking are unsecured, incur interest at a rate of 6.5% per annum and are repayable on demand, though they are treated as repayable in more than one year as they are subordinated to the secured loan.

16. Loan maturity

The secured loan matures as follows:

	Group	<i>Group</i>	Company	<i>Company</i>
	31 March	<i>31</i>	31 March	<i>31</i>
	2023	<i>December</i>	2023	<i>December</i>
	£000	<i>2021</i>	£000	<i>2021</i>
		<i>£000</i>		<i>£000</i>
Less than one year	3,156	3,156	3,156	3,156
Between one and five years	289,332	293,277	289,332	293,277
	<u>292,488</u>	<u>296,433</u>	<u>292,488</u>	<u>296,433</u>

17. Share capital

	31 March	<i>31</i>
	2023	<i>December</i>
	£	<i>2021</i>
		<i>£</i>
Allotted, called up and fully paid		
2 (2021 - 2) ordinary shares of £1 each	<u>2</u>	<u>2</u>

Share capital represents the aggregate nominal value of shares.

SIR HEALTHCARE 2 LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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18. Reserves**Share premium account**

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

Profit and loss account

As at 31 March 2023, the Company had distributable reserves totalling £133.4 million (2021 - £133.6 million).

19. Operating leases

The Group's investment properties are leased to third parties under non-cancellable operating leases. The future minimum lease payments receivable are as follows:

	31 March 2023 £000	31 December 2021 £000
Group		
Less than one year	32,106	30,946
Between one and five years	137,285	132,591
More than five years	401,993	446,127
	<u>571,385</u>	<u>609,664</u>

20. 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 the ultimate parent undertaking, LXI REIT PLC.

The previous investment advisor of the Company and Group prior to LXI's acquisition was Prestbury Investment Partners Limited ("PIP"). The Group administrative expenses (excluding irrecoverable VAT) include £2.2 million (2021 - £3.3 million) of advisory fees payable to PIP, none of which was unpaid at the period end.

21. Controlling party

The Company's immediate parent undertaking is SIR Healthcare 1 Limited and the ultimate parent undertaking is LXI REIT Plc (previously Secure Income REIT Plc). The consolidated financial statements of LXI REIT PLC are available to the public and may be obtained by writing to the Company Secretary, 8th Floor 100 Bishopsgate, London, United Kingdom, EC2N 4AG.