

Registered number: 07287773

PHP EMPIRE HOLDINGS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017



PHP EMPIRE HOLDINGS LIMITED

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PHP EMPIRE HOLDINGS LIMITED

COMPANY INFORMATION

Directors	H A Hyman P J Holland (resigned 1 April 2017) R Howell (appointed 1 April 2017) T D Walker-Arnott (resigned 1 April 2017) D C Austin (appointed 1 April 2017)
Company secretary	Nexus Management Services Limited
Registered number	07287773
Registered office	5th Floor Greener House 66-68 Haymarket London SW1Y 4RF
Independent auditor	Deloitte LLP Statutory Auditor 1 New Street Square London EC4A 3BZ

PHP EMPIRE HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Directors present their report and the financial statements for the year ended 31 December 2017.

Principal activity

The principal activity of the Company during the year continued to be that of property investment.

Business review

The Annual Report for the year ended 31 December 2017 of the Company's ultimate parent undertaking, Primary Health Properties PLC ("PHP"), contains a fair review of its business and that of its subsidiaries (the "Group") and an indication of future developments, as required by section 417 of the Act. It is incorporated into this report by reference.

The Directors consider the key performance indicator to be rental income on the Company's investment property.

For the year ended 31 December 2017 rental income was £2,683,078 (2016 - £2,705,221) which represents a decrease of 0.8%. No significant changes to the operations of the Company have occurred during the year ended 31 December 2017.

Results and dividends

The profit for the year, after taxation, amounted to £4,688,951 (2016 - loss £3,132,067).

The profit for the year is to be transferred to reserves. The Directors have recommended that no dividend should be declared or paid for the year (2016 - £NIL).

Future developments

No significant business developments are anticipated in the foreseeable future.

Post balance sheet events

There have been no significant events affecting the Company since the year end other than those described in the post balance sheet events note.

Going concern

Reference to the Company's continued adoption of the going concern basis in preparation of these financial statements is made in Note 1.3 on page 10.

Principal risks and uncertainties

Details of the principal risks and uncertainties faced by the Company and the Group and their financial risk management objectives and policies are set out in the Annual Report of PHP, the ultimate parent undertaking.

Directors

The Directors who served during the year were:

H A Hyman
P J Holland (resigned 1 April 2017)
R Howell (appointed 1 April 2017)
T D Walker-Arnott (resigned 1 April 2017)
D C Austin (appointed 1 April 2017)

PHP EMPIRE HOLDINGS LIMITED

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

Directors' and Officers' Liability Insurance

PHP has procured Directors' and Officers' Liability Insurance for the benefit of its directors and directors of all of its subsidiaries. Such insurance was available throughout the year and remains in force at the date of this report. The cost of Directors and Officers Liability Insurance is met by another Group company.

Directors' responsibilities statement

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 101 'Reduced Disclosure Framework'. 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 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.

Auditor

Under section 487(2) of the Companies Act 2006, Deloitte LLP will be deemed to have been reappointed as auditor 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.

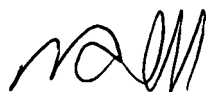
Disclosure of information to auditor

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'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's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

This report was approved by the board on 27 September 2018 and signed on its behalf.



R Howell
Director

PHP EMPIRE HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHP EMPIRE HOLDINGS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of PHP Empire Holdings Limited (the 'company') which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (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 are independent of the 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. 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 are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

PHP EMPIRE HOLDINGS LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHP EMPIRE HOLDINGS LIMITED (CONTINUED)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual 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.

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 respect of these matters.

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 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.

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.

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 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.

Report on other legal and regulatory requirements

Opinions 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.

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 any material misstatements in the directors' report.

PHP EMPIRE HOLDINGS LIMITED

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHP EMPIRE HOLDINGS LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.



Valerie Main, FCA (Senior statutory auditor)

for and on behalf of

Deloitte LLP

Statutory Auditor
1 New Street Square
London
EC4A 3BZ
27 September 2018

PHP EMPIRE HOLDINGS LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £	2016 £
Rental income	3	2,683,078	2,705,221
Direct property expenses		(13,111)	(14,016)
Net rental income		2,669,967	2,691,205
Administrative expenses		(72)	-
Other income		-	237
Net result on property portfolio	10	2,742,776	976,565
Operating profit		5,412,671	3,668,007
Finance costs	7	(2,924,985)	(1,651,204)
Fair value movement on derivative financial instruments	8	2,201,265	(5,148,870)
Profit/(loss) before taxation		4,688,951	(3,132,067)
Taxation	9	-	-
Profit/(loss) for the financial year		4,688,951	(3,132,067)

There were no recognised gains and losses for 2017 or 2016 other than those included in the income statement.

There was no other comprehensive income for 2017 (2016:£NIL).

The notes on pages 10 to 20 form part of these financial statements.

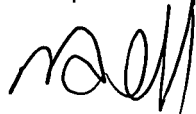
All of the activities of the Company are continuing.

PHP EMPIRE HOLDINGS LIMITED
REGISTERED NUMBER: 07287773

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note	2017 £	2016 £
Non-current assets			
Investment property	10	49,410,000	46,670,000
		<u>49,410,000</u>	<u>46,670,000</u>
Current assets			
Trade and other receivables	11	929,008	928,021
Cash and cash equivalents		54,359	519,265
		<u>983,367</u>	<u>1,447,286</u>
Current liabilities			
Trade and other payables	12	(28,546,654)	(28,758,260)
Net current liabilities		<u>(27,563,287)</u>	<u>(27,310,974)</u>
Total assets less current liabilities		<u>21,846,713</u>	<u>19,359,026</u>
Non-current liabilities			
Derivative financial instruments	13	(17,569,415)	(19,770,679)
		<u>4,277,298</u>	<u>(411,653)</u>
Net assets/(liabilities)		<u><u>4,277,298</u></u>	<u><u>(411,653)</u></u>
Equity			
Share capital	14	-	-
Retained earnings	15	4,277,298	(411,653)
Total equity attributable to the owners of the Company		<u><u>4,277,298</u></u>	<u><u>(411,653)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 27 September 2018.



R Howell
 Director

The notes on pages 10 to 20 form part of these financial statements.

PHP EMPIRE HOLDINGS LIMITED

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

	Share capital	Retained Earnings	Total equity
	£	£	£
At 1 January 2016	-	2,720,414	2,720,414
Loss for the year	-	(3,132,067)	(3,132,067)
Total comprehensive income for the year	-	(3,132,067)	(3,132,067)
At 1 January 2017	-	(411,653)	(411,653)
Profit for the year	-	4,688,951	4,688,951
Total comprehensive income for the year	-	4,688,951	4,688,951
At 31 December 2017	-	4,277,298	4,277,298

The notes on pages 10 to 20 form part of these financial statements.

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

The Company is a private company limited by shares incorporated in the United Kingdom and registered in England and Wales in accordance with the Companies Act 2006. These financial statements are presented in Sterling because that is the currency of the primary economic environment in which the Company operates.

The nature of the Company's operations and its principal activities are set out in the Directors' Report on pages 2 to 3. The Company's registered office is detailed on page 1.

1. Accounting policies

1.1 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 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company accounting policies (see note 2).

The following principal accounting policies have been applied:

1.2 Financial reporting standard 101 - reduced disclosure exemptions

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraphs 76 and 79(d) of IAS 40 Investment Property; and
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

1.3 Going Concern

Having reviewed the Company's current position and cash flow projections, loan facilities and covenant cover the Directors have a reasonable expectation that the Company, together with the support of its parent, has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

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

1. Accounting policies (continued)

1.4 Investment properties and investment properties under construction

The Company's investment properties are held for long term investment. Investment properties and those under construction are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties and investment properties under construction are stated at fair value based on market data and a professional valuation made as of each reporting date. The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect future benefits from this future expenditure.

Gains or losses arising from changes in the fair value of investment properties and investment properties under construction are included in the Income Statement in the year in which they arise.

Investment properties are recognised for accounting purposes upon completion of contract, when the risks and rewards of ownership are transferred to the Company. Investment properties cease to be recognised when they have been disposed of. Any gains and losses arising are recognised in the Income Statement in the year of disposal.

The Company may enter into a forward funding agreement with third party developers in respect of certain properties under development. In accordance with these agreements, the Company will make monthly stage payments to the developer based on certified works on site at that time. Interest is charged to the developer on all stage payments made during the construction period and on the cost of the land acquired by the Company at the outset of the development and taken to the Income Statement in the year in which it accrues.

1.5 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. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

1.6 Financial instruments

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedging relationships as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the income statement.

Other loans and payables

Other loans and payables are non-derivative financial liabilities with fixed or determinable payments that are not quoted on an active market. Such liabilities are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and payables are de-recognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are de-recognised or impaired, as well as through the amortisation process.

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

1. Accounting policies (continued)

1.7 De-recognition of financial assets and liabilities

Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income.

When the exchange or modification of an existing financial liability is not accounted for as an extinguishment, any costs or fees incurred adjust the liability's carrying amount and are amortised over the modified liability's remaining term.

1.8 Finance costs

Finance costs are charged to the Income Statement 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.

1.9 Derivative financial instruments and hedging

Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the Income Statement, unless they are included in a hedging arrangement.

These derivatives do not meet the criteria for hedge accounting under IAS 39 and are therefore accounted for through the Income Statement.

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

1. Accounting policies (continued)

1.10 Fair value measurements

The Company measures certain financial instruments such as derivatives, and non-financial assets such as investment property, at fair value at the end of each reporting period. Also, fair values of financial instruments measured at amortised cost are disclosed in the financial statements.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Company must be able to access the principal or the most advantageous market at the measurement date.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques at three levels that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole:

Level 1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 Valuation techniques for which the lowest input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

1.11 Net rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease term. An adjustment to rental income is recognised from the rent review date of each lease in relation to unsettled rent reviews. Such adjustments are accrued at 100% (2016 - 90%) of the additional rental income that is expected to result from the review. For leases which contain fixed or minimum deemed uplifts, the rental income is recognised on a straight line basis over the lease term. Incentives for lessees to enter into lease agreements are spread evenly over the lease terms, even if the payments are not made on such a basis. Rental income is measured at the fair value of the consideration receivable, excluding discounts, rebates, VAT and other sales taxes or duty.

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

1. Accounting policies (continued)

1.12 Taxation

The Company is a member of a UK Group REIT. Taxation on the profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on any non-REIT taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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

The preparation of financial statements requires management to make a number of estimates and judgements that affect the reported amounts of assets and liabilities and may differ from future actual results. The estimates and judgements that are considered most critical and that have a significant inherent risk of causing a material adjustment to the carrying amounts of assets and liabilities are:

a) Estimates

Fair value of investment properties

Investment property includes (i) completed investment property, and (ii) investment property under construction. Completed investment property comprises real estate held by the Company or leased by the Company under a finance lease in order to earn rentals or for capital appreciation, or both.

The fair market value of a property is deemed by the independent property valuers appointed by the Company, to be the estimated amount for which a property should exchange, on the date of valuation, in an arm's length transaction. Properties have been valued on an individual basis, assuming that they will be sold individually over time. Allowances are made to reflect the purchaser's costs of professional fees and stamp duty.

In accordance with RICS Appraisal and Valuation Standards, factors taken into account are current market conditions, annual rentals, state of repair, ground stability, contamination issues and fire, health and safety legislations.

In determining the fair value of investment properties under construction the valuer is required to consider the significant risks which are relevant to the development process including, but not limited to, construction and letting risks. The valuer takes into account where the Company's assets under construction are pre-let and construction risk remains with the respective developer or contractor.

Fair value of derivatives

In accordance with IAS 39, the Company values its derivative instruments at fair value. Fair value is estimated by J.C. Rathbone Associates Limited on behalf of the Company, using a number of assumptions based upon market rates and discounted future cash flows. The derivative financial instruments have been valued by reference to the mid-price of the yield curve prevailing on 31 December 2017. Fair value represents the net present value of the difference between the cash flows produced by the contracted rate and the valuation rate.

b) Judgements

Leases

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of the vast majority of the properties, which are leased out on operating leases. The Company has entered into a small number of finance lease arrangements where it has determined that it has transferred substantially all the risks and rewards incidental to ownership to the occupier.

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

3. Rental income

Rental income comprises gross rental income and associated revenue from investment properties in the UK. Rental income is derived from one business segment. Rental income is normally recognised as invoiced on a receivable basis, adjusted for certain rents invoiced in advance, the effect of lease incentives such as rent free periods and accrued income receivable following rent reviews.

Company as a lessor

The future minimum lease payments under non-cancellable operating leases receivable by the Company are as follows:

	Less than one year £	One to five years £	More than five years £	Total £
2017	2,682,508	10,632,865	15,580,521	28,895,894
2016	2,660,189	10,627,210	17,936,624	31,224,023

The rental income earned on operating leases is recognised on a straight line basis over the lease term.

The Company leases medical centres to GPs, NHS organisations and other healthcare users, typically on long term occupational leases which provide for regular reviews of rent on an effectively upward-only basis.

4. Auditor's remuneration

Auditor's remuneration for audit services and tax compliance for the current year have been borne by PHP, the ultimate parent undertaking. The following amount is applicable to the audit of the Company:

	2017 £	2016 £
Auditor's remuneration - audit	7,700	7,500

The Company has taken advantage of the exemption not to disclose amounts paid for non audit services as these are disclosed in the group accounts of the parent Company.

5. Employees

The Company has no employees other than the Directors, who did not receive any remuneration (2016 - £NIL).

6. Directors' remuneration

PHP procures the services of directors to all of its subsidiary undertakings under an advisory agreement with Nexus Tradeco Limited, as disclosed in PHP's financial statements. The Directors of the Company have received no remuneration for their services to the Company during the year (2016 - £NIL).

PHP EMPIRE HOLDINGS LIMITED

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

7. Finance costs

	2017 £	2016 £
Bank Fees	221	306
Swap interest	2,924,764	1,650,898
	<u>2,924,985</u>	<u>1,651,204</u>

8. Fair value movement on derivative financial instruments

	2017 £	2016 £
Market to market gain/(loss) on derivatives	2,201,265	(5,148,870)

The mark to market gain/(loss) on derivatives has arisen from two interest rate swaps which do not meet the criteria for hedge accounting. Any gain or loss incurred in stating them at fair value is taken directly to the income statement.

9. Taxation

	2017 £	2016 £
Current tax:		
UK Corporation tax	-	-
Total current tax	<u>-</u>	<u>-</u>

PHP EMPIRE HOLDINGS LIMITED

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

9. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - lower than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £	2016 £
Profit/(loss) on ordinary activities before tax	<u>4,688,951</u>	<u>(3,132,067)</u>
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	902,623	(626,413)
Effects of:		
Utilisation of tax losses	(431,015)	-
REIT exempt income	472,848	(1,237,822)
Non-taxable items	(951,728)	834,461
Group relief	-	1,029,144
Transfer pricing adjustments	7,272	630
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

Finance Act No2 2015 included provisions to reduce the UK corporation tax rate to 19% with effect from 1 April 2017. Finance Act 2016 introduced further legislation to reduce the main rate of corporation tax to 17% from 1 April 2020 and these rates have therefore been used to measure deferred tax assets and liabilities where applicable.

PHP EMPIRE HOLDINGS LIMITED

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

10. Investment Property

	Investment Properties long leasehold £	Investment properties freehold £	Total £
Valuation			
As at 1 January 2016	3,815,000	41,865,000	45,680,000
Additions	5,870	7,565	13,435
Revaluations	94,130	882,435	976,565
	<hr/>	<hr/>	<hr/>
As at 31 December 2016	3,915,000	42,755,000	46,670,000
	<hr/>	<hr/>	<hr/>
Additions	-	(2,776)	(2,776)
Revaluations	195,000	2,547,776	2,742,776
	<hr/>	<hr/>	<hr/>
As at 31 December 2017	4,110,000	45,300,000	49,410,000

The historical cost of the freehold and long leasehold investment properties at 31 December 2017 was £40,121,495 (2016 - £40,124,271) and £3,645,870 (2016 - £3,645,870). See note 16 for details of the Group borrowings for which the Company's property is included as security.

Investment properties were independently valued at 31 December 2017 by Lambert Smith Hampton, acting as external surveyors on the basis of market value as defined in RICS Appraisal and Valuations Manual.

11. Trade and other receivables

	2017 £	2016 £
Trade receivables	119,072	7,515
Amounts owed by group undertakings	744,334	756,552
Other receivables	420	1,440
Prepayments and accrued income	65,182	162,514
	<hr/>	<hr/>
	929,008	928,021

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

PHP EMPIRE HOLDINGS LIMITED

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

12. Trade and other payables

	2017 £	2016 £
Trade payables	9,221	155
Amounts owed to group undertakings	27,258,892	27,437,513
Other creditors	708,826	753,514
Accruals and deferred income	569,715	567,078
	<u>28,546,654</u>	<u>28,758,260</u>

Amounts owed to Group undertakings are unsecured, interest free and repayable on demand.

13. Derivative financial instruments

	2017 £	2016 £
Fair value interest rate swaps		
Non-current liabilities	<u>17,569,415</u>	<u>19,770,679</u>

On 2 April 2012, the Company entered into a series of interest rate swap contracts for a total notional amount of £70 million with Allied Irish Banks PLC ("AIB") to hedge risk on the loan facility held with the same bank at that time. The initial loan facility expired on 31 January 2013 but the Company retained the swap contracts which mature on 8 June 2026. The Company pays a fixed rate of interest and receives floating rate from the bank.

On 7 January 2016, the Company acceded to a loan facility provided to its immediate parent, Primary Health Investments Properties (No.4) Limited ("PHIP4"). The Company's investment properties together with those of fellow PHIP4 subsidiaries are charged as collateral for the loan facility and also provide security for the Company's interest rate swaps.

On 17 July 2018, the swaps were cancelled for the next two years for a one-off payment of £5 million.

Under IAS 39, the interest rate SWAPs are recognised at fair value with gains or losses recognised in the Income Statement.

14. Share capital

	2017 £	2016 £
Issued, allocated and fully paid		
1 Ordinary share of £0.01	<u>-</u>	<u>-</u>

PHP EMPIRE HOLDINGS LIMITED

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

15. Retained earnings

	2017 £
At 1 January	(411,653)
Profit for the year	4,688,951
	<hr/>
At 31 December	4,277,298
	<hr/>

16. Contingent liabilities

A loan facility for a total of £115 million has been entered into with Barclays Bank PLC (the "Facility") by the Company's immediate parent, Primary Health Investment Properties (No. 4) Limited and other Group companies as guarantors, one of which is the Company. At 31 December 2017, amounts drawn on the debt facility totalled £105.88 million (2016 - £74.97 million). The property held by the Company is included as security for the Facility.

17. Related party transactions

The Company has taken advantage of the exemption available in FRS 101 not to disclose transactions with other members of the Group on the basis that 100% of voting rights are controlled within the Group. The consolidated financial statements in which the Company is included are publicly available.

18. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Primary Health Investments Properties (No.4) Limited. The ultimate parent undertaking and the controlling party is Primary Health Properties PLC ("PHP"). PHP's registered address is 5th Floor, Greener House, 66-68 Haymarket, London, SW1Y 4RF.

The parent undertaking of the smallest and largest group of undertakings for which Group financial statements are drawn up and of which the Company is a member is PHP. Copies of the financial statements of PHP can be obtained from Companies House or the Company Secretary or downloaded from www.phpgroup.co.uk.

19. Post balance sheet events

On 17 July 2018, six 4.52% fixed rate swaps with a total nominal value of £70 million, effective until July 2026, were cancelled for the next two years for a one-off payment of £5 million.