

OHI UK Healthcare Properties Ltd

Annual Report and Financial Statements

Year Ended

31 December 2016

Company Number 09532166



OHI UK Healthcare Properties Ltd

Company Information

Directors	R Stephenson D Booth M Ritz
Company secretary	D Booth
Registered number	09532166
Registered office	Tower 42 25 Old Broad Street London England EC2N 1HQ
Independent auditors	KPMG LLP 15 Canada Square London E14 5GL

OHI UK Healthcare Properties Ltd

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OHI UK Healthcare Properties Ltd

Group Strategic Report For the Year Ended 31 December 2016

Introduction and business review

OHI UK Healthcare Properties Ltd ("the company") was incorporated on 8 April 2015.

On 1 May 2015, the company acquired 23 care homes with 1,018 registered beds from Healthcare Homes Holding Limited ("Healthcare Homes") and leased them to Healthcare Homes pursuant to a 12-year master lease agreement ("Healthcare Homes Master Lease") with an initial annual cash yield of 7%, and annual escalators of 2.5%. Subsequent to this initial transaction, in calendar year 2016 the company acquired 12 additional care homes with 829 registered beds from 3 separate third party sellers, and leased them to Healthcare Homes via amendments to the Healthcare Homes Master Lease. The transactions involving these 12 additional care homes all provide for an initial annual cash yield of 7%, and annual escalators of 2.5%. As of the period ended 31 December 2016, the company owned a total of 35 care homes; all of which are leased to Healthcare Homes. The care homes are primarily located throughout the East Anglia and greater London regions of the United Kingdom ("UK").

The company continues to identify opportunities for investment in the market, including the potential for additional investment in the care home industry.

Principal risks and uncertainties

Principal risks we consider include changes in the political, regulatory, and economic conditions, including regionally, nationally, and locally; challenges of complying with a wide variety of laws and regulations, including those relating to real estate, corporate governance, operations, taxes, employment and legal proceedings; and regional (European Union) or nation-specific (UK) business cycles and economic instability.

These risks could potentially limit the company's ability/desire to make future investments in the UK care home industry, if unforeseen events caused changes such as reduced tax efficiency, or reductions to market-rate rental yields. Specific potential risks that we regularly evaluate and manage via conservative underwriting, and lease/loan covenant and credit requirements - include, but are not limited to;

- The bankruptcy or insolvency of our operators could limit or delay our ability to recover on our investments;
- Failure by our operators to comply with various local and national government regulations may adversely impact their ability to make debt or lease payments to us;
- Our operators depend on reimbursement from governmental and other third-party payors, and reimbursement rates from such payors may be reduced;
- Government budget deficits could lead to a reduction in local authority reimbursements;
- We may be unable to find a replacement operator for one or more of our leased properties;
- A prolonged economic slowdown could adversely impact our operating income and earnings, as well as the results of operations of our operators, which could impair their ability to meet their obligations to us; and
- Increased competition as well as increased operating costs result in lower revenues for some of our operators and may affect the ability of our operators to meet their obligations to us.

OHI UK Healthcare Properties Ltd

Group Strategic Report For the Year Ended 31 December 2016

Development, performance and position

We maintain and are focused in growing a portfolio of long-term healthcare facilities and mortgages on healthcare facilities located in the UK. Our criteria for evaluating potential investments include but are not limited to:

- the quality and experience of management and the creditworthiness of the operator of the facility;
- the facility's historical and forecasted cash flow and its ability to meet operational needs, capital expenditure requirements and lease or debt service obligations;
- the construction quality, condition and design of the facility;
- the location of the facility;
- the tax, growth, regulatory and reimbursement environment of the applicable jurisdiction;
- the occupancy rate for the facility and demand for similar healthcare facilities in the same or nearby communities; and
- the individual/organisation mix of private, and government reimbursed residents at the facility.

The trading loss after taxation for the years ended 31 December 2016 and 2015 was £36.4 million and £2.5 million, respectively. The primary reason for the change relates to the deficit in revaluation of investment properties in 2016.

Rental income for the year ended 31 December 2016 amounted to £13.2 million, compared to £5.4 million in the previous period, which was an increase of 144%. This change primarily results from twelve months of operations in 2016 compared to eight months of operations in 2015, and approximately £90 million of additional investments made in the first half of 2016.

The value of investment properties at 31 December 2016 was £163.2 million compared to £111.7 million at 31 December 2015. The £51.5 million increase is a result of approximately £90 million of additional investments offset by £38 million of revaluation deficit on investment property.

Financial and other key performance indicators

The Board of Directors uses many financial performance indicators to monitor the company's position. The board analyzes rents, operating profit before rents and rental coverages.

In order to manage the risks on our investments, we typically obtain lease and loan covenants regarding minimum rent coverage ratios, minimum net worth, minimum capital expenditure requirements, liens on certain operating assets, and various provisions for cross-default, cross-collateralization and corporate and or personal guarantees, when appropriate.

At the OHI UK Healthcare Properties Ltd group level, the company determines the attractiveness of initial investments and subsequent capital expenditure investments based on the resulting cash yield of the investment, and projected rent coverages. All future transactions will continue to undergo similar underwriting analyses to ensure that the company's return is at, or above, our desired rate of return.

This report was approved by the board on 31 October 2017 and signed on its behalf.


M Ritz
Director

OHI UK Healthcare Properties Ltd

Directors' Report For the Year Ended 31 December 2016

The directors present their report and the financial statements for the year ended 31 December 2016.

Results and dividends

The loss for the year, after taxation, amounted to £36,423,247 (2015 - loss £2,543,813).

No dividends were paid or proposed during the year (2015 - £Nil).

Directors

The directors who served during the year were:

R Stephenson
D Booth
M Ritz

Future developments

The company continues to identify opportunities for investment in the market, including the potential for additional investment in the care home industry.

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 and the group'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 and the group's auditors are aware of that information.

Post statement of financial position events

In May 2017, the company acquired 18 care home facilities for £80million.

Auditors

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

This report was approved by the board on 31 October 2017 and signed on its behalf.

M Ritz
Director

OHI UK Healthcare Properties Ltd

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements for the Year Ended 31 December 2016

The directors are responsible for preparing the Annual 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 they have elected to prepare group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 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 group and parent company and of their profit or loss for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

OHI UK Healthcare Properties Ltd

Independent Auditors' Report to the Members of OHI UK Healthcare Properties Ltd

We have audited the financial statements of OHI UK Healthcare Properties Ltd for the year ended 31 December 2016 set out on pages 7 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the group strategic report and the directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

OHI UK Healthcare Properties Ltd

Independent Auditors' Report to the Members of OHI UK Healthcare Properties Ltd (continued)

Matters on which we are required to report by exception

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

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

Mike Woodward

Mike Woodward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
United Kingdom

31 OCT 2017

OHI UK Healthcare Properties Ltd

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2016

	Note	Year ended 31 December 2016 £	9 month period ended 31 December 2015 £
Turnover	4	13,195,233	5,389,650
Gross profit		13,195,233	5,389,650
Administrative expenses		(2,119,894)	(1,309,659)
Deficit on revaluation of investment property	13	(38,108,098)	-
Impairment of goodwill	10	(5,888,606)	(4,628,487)
Operating loss	5	(32,921,365)	(548,496)
Interest receivable and similar income	7	40,575	-
Interest payable and expenses	8	(7,308,054)	(2,710,103)
Loss before tax		(40,188,844)	(3,258,599)
Tax on loss	9	3,765,597	714,786
Loss for the year/period		(36,423,247)	(2,543,813)
Loss for the year/period attributable to:			
Owners of the parent company		(36,423,247)	(2,543,813)

There was no other comprehensive income for 2016 (2015 - £Nil).

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Registered number: 09532166

Consolidated Statement of Financial Position As at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Intangible assets	10	-	6,028,909
Tangible assets	11	4,142,623	2,848,750
Investment property	13	163,240,460	111,741,375
		<u>167,383,083</u>	<u>120,619,034</u>
Current assets			
Debtors due within one year	14	2,439,956	-
Cash at bank and in hand		5,339,516	2,600,376
		<u>7,779,472</u>	<u>2,600,376</u>
Creditors: amounts falling due within one year	15	(317,185)	(710,730)
Net current assets		<u>7,462,287</u>	<u>1,889,646</u>
Total assets less current liabilities		<u>174,845,370</u>	<u>122,508,680</u>
Creditors: amounts falling due after more than one year	16	(157,900,000)	(85,000,000)
Provisions for liabilities			
Deferred tax	18	(5,362,600)	(8,752,663)
		<u>(5,362,600)</u>	<u>(8,752,663)</u>
Net assets		<u><u>11,582,770</u></u>	<u><u>28,756,017</u></u>
Capital and reserves			
Called up share capital	19	370	100
Share premium account	20	50,549,460	31,299,730
Profit and loss account	20	(38,967,060)	(2,543,813)
		<u>11,582,770</u>	<u>28,756,017</u>

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

31 October 2017

M Ritz
Director

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Registered number: 09532166

Company Statement of Financial Position As at 31 December 2016

	Note	2016 £	2015 £
Fixed assets			
Investments	12	166,932,505	116,372,918
		<u>166,932,505</u>	<u>116,372,918</u>
Current assets			
Debtors	14	620,757	-
Cash at bank and in hand		5,339,516	2,600,376
		<u>5,960,273</u>	<u>2,600,376</u>
Creditors: amounts falling due within one year	15	(6,613,167)	(2,748,132)
Net current liabilities		<u>(652,894)</u>	<u>(147,756)</u>
Total assets less current liabilities		<u>166,279,611</u>	<u>116,225,162</u>
Creditors: amounts falling due after more than one year	16	(157,900,000)	(85,000,000)
Net assets		<u>8,379,611</u>	<u>31,225,162</u>
Capital and reserves			
Called up share capital	19	370	100
Share premium account	20	50,549,460	31,299,730
Profit and loss account	20	(42,170,219)	(74,668)
		<u>8,379,611</u>	<u>31,225,162</u>

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss after tax of the parent company for the year was £42,095,551 (2015 - loss £74,668).

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

31 October 2017

M Ritz
Director

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2016

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 January 2016	100	31,299,730	(2,543,813)	28,756,017
Comprehensive income for the year				
Loss for the year	-	-	(36,423,247)	(36,423,247)
Other comprehensive income for the year	-	-	-	-
Total comprehensive expense for the year	-	-	(36,423,247)	(36,423,247)
Contributions by and distributions to owners				
Shares issued at a premium during the year	270	19,249,730	-	19,250,000
Total transactions with owners	270	19,249,730	-	19,250,000
At 31 December 2016	370	50,549,460	(38,967,060)	11,582,770

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Consolidated Statement of Changes in Equity For the Period Ended 31 December 2015

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
Comprehensive income for the period				
Loss for the period	-	-	(2,543,813)	(2,543,813)
Other comprehensive income for the period	-	-	-	-
Total comprehensive expense for the period	-	-	(2,543,813)	(2,543,813)
Contributions by and distributions to owners				
Shares issued at a premium during the period	100	31,299,730	-	31,299,830
Total transactions with owners	100	31,299,730	-	31,299,830
At 31 December 2015	100	31,299,730	(2,543,813)	28,756,017

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Company Statement of Changes in Equity For the Year Ended 31 December 2016

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
At 1 January 2016	100	31,299,730	(74,668)	31,225,162
Comprehensive income for the year				
Loss for the year	-	-	(42,095,551)	(42,095,551)
Total comprehensive expense for the year	-	-	(42,095,551)	(42,095,551)
Contributions by and distributions to owners				
Shares issued at a premium during the year	270	19,249,730	-	19,250,000
Total transactions with owners	270	19,249,730	-	19,250,000
At 31 December 2016	370	50,549,460	(42,170,219)	8,379,611

Company Statement of Changes in Equity For the Period Ended 31 December 2015

	Called up share capital £	Share premium account £	Profit and loss account £	Total equity £
Comprehensive income for the period				
Loss for the period	-	-	(74,668)	(74,668)
Total comprehensive expense for the period	-	-	(74,668)	(74,668)
Contributions by and distributions to owners				
Shares issued at a premium during the period	100	31,299,730	-	31,299,830
Total transactions with owners	100	31,299,730	-	31,299,830
At 31 December 2015	100	31,299,730	(74,668)	31,225,162

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Consolidated Statement of Cash Flows For the Year Ended 31 December 2016

	2016 £	2015 £
Cash flows from operating activities		
Loss for the financial year/period	(36,423,247)	(2,543,813)
Adjustments for:		
Amortisation of intangible assets	531,963	626,906
Depreciation of tangible assets	1,361,641	569,750
Impairment of intangible fixed assets	5,888,606	4,628,487
Interest paid	7,308,054	2,710,103
Interest received	(40,575)	-
Taxation charge	(3,765,597)	(714,786)
Increase in debtors	(6,494)	-
Increase in creditors	124,944	106,920
Net deficit on revaluation of investment property	38,108,098	-
Corporation tax paid	(1,485,118)	-
Net cash generated from operating activities	11,602,275	5,383,567
Cash flows from investing activities		
Purchase of tangible fixed assets	(368,497)	-
Purchase of investment properties	(11,544,200)	-
Acquisition of subsidiaries	(81,832,959)	(116,372,918)
Interest received	40,575	-
Net cash used in investing activities	(93,705,081)	(116,372,918)
Cash flows from financing activities		
Issue of ordinary shares	19,250,000	31,299,830
Issue of new loan notes	72,900,000	85,000,000
Interest paid	(7,308,054)	(2,710,103)
Net cash generated from financing activities	84,841,946	113,589,727
Net increase in cash and cash equivalents	2,739,140	2,600,376
Cash and cash equivalents at beginning of year/period	2,600,376	-
Cash and cash equivalents at the end of year/period	5,339,516	2,600,376
Cash and cash equivalents at the end of year/period comprise:		
Cash at bank and in hand	5,339,516	2,600,376

The notes on pages 14 to 32 form part of these financial statements.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

1. General information

OHI UK Healthcare Properties Ltd is a private company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the group's operations are set out in the group strategic report.

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 company's accounting policies (see note 3).

Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliations for the group and the parent company would be identical;
- No cash flow statement has been presented for the parent company;
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.
- No disclosure has been given for related party transactions between wholly owned subsidiary undertakings.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

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

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the statement of financial position, 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 statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Revenue

Revenue represents rental income from investment properties. It is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. It is recognised on a straight-line basis over the term of the lease. Where leases are structured to increase in line with expected general inflation, those increases are recognised as incurred.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.4 Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis to the statement of comprehensive income over its useful economic life which is 12 years. This period represents the term of the leases on properties owned by each business acquired, and therefore the period over which income from the acquired businesses is expected to be earned.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed five years.

Estimates of the useful economic life of goodwill are based on a variety of factors such as the expected use of the acquired business, the expected useful life of the cash generating units to which the goodwill is attributed, any legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses.

2.5 Tangible fixed assets

Tangible fixed assets under the cost model, other than investment properties, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Tangible fixed assets under the revaluation model are initially measured at cost, and are subsequently held at fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. The assets are then revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined as the fair value at the reporting date.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Fixtures and fittings	-	25% straight line
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.6 Impairment of fixed assets and goodwill

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.7 Investment property

Investment property is carried at fair value determined annually and derived through applying a rate of return and a coverage rate to the earnings before interest, tax, depreciation, amortisation and rent, adjusted if necessary for any difference in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the statement of comprehensive income.

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Investments are reviewed each year for indicators of impairment.

2.9 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.10 Financial instruments

Financial assets, other than investments, are initially measured at transaction price (including transaction costs) and subsequently held at cost, less any impairment.

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations, rather than the financial instrument's legal form. Financial liabilities are initially measured at transaction price (including transaction costs) and are subsequently held at amortised cost.

2.11 Finance costs

Finance costs are charged to the statement of comprehensive income 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.

2.12 Operating leases: the group as lessor

Rental income from operating leases is credited to the statement of comprehensive income on a straight line basis over the term of the relevant lease. Where leases are structured to increase in line with expected general inflation, those increases are recognised as incurred.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

2. Accounting policies (continued)

2.13 Interest income

Interest income is recognised in the statement of comprehensive income using the effective interest method.

2.14 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, 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 reporting date in the countries where the company and the group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the statement of financial position 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 reporting date.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Impairment and amortisation of goodwill (see note 10):

- Determining whether there are indicators of impairment of goodwill. Factors taken into consideration in reaching such a decision include assessing if events or circumstances indicate that we may not be able to recover the carrying amount of the net assets. In the prior period, when comparing the carrying value of certain assets to their recoverable amount, it was established that there was need for an impairment to be recognised. This impairment is shown in the statement of comprehensive income for the prior period.
- Determining the useful economic life of goodwill. Factors taken into consideration in establishing the useful life of goodwill include assessing the expected useful life of the cash generating units to which the goodwill is attributed. The group determined the economic useful life to be 12 years which is consistent with the lease terms of the investment properties.

Valuation of investment properties (see note 13):

- Determining an appropriate valuation of investment properties. Factors taken into consideration in establishing the valuation include quality of the asset, current performance of the asset, financial position and performance of the operator, current market rents and investment property yields for comparable real estate, supported by market evidence of transaction prices for similar properties.

4. Turnover

The whole of the turnover is attributable to the rental of investment properties, and arose within the United Kingdom.

5. Operating loss

The operating loss is stated after charging:

	Year ended 31 December 2016 £	9 month period ended 31 December 2015 £
Depreciation of tangible fixed assets	1,361,641	569,750
Amortisation of intangible assets, including goodwill	531,963	626,906
Impairment of intangible assets	5,888,606	4,628,487
Fees payable to the group's auditor and its associates for the audit of the company's annual financial statements	60,000	50,000

In addition to the above, fees of £Nil (2015 - £180,000) were paid to the group's auditors for tax fees in relation to the acquisition of subsidiaries. These fees formed part of the goodwill calculation in the prior period.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

6. Employees

The company and group have no employees other than the directors, who did not receive any remuneration (2015 - £Nil).

Due to the nature of the operations of the group, the remuneration of the directors for their services to OHI UK Healthcare Properties Ltd is not contained in the records of the company. The directors are remunerated for their services to the group as a whole, which is disclosed in the consolidated financial statements of the ultimate parent company, Omega Healthcare Investors, Inc.. The directors do not consider it practical to apportion remuneration based on the services performed for individual undertakings within the Omega Healthcare Investors, Inc. group. The financial statements of Omega Healthcare Investors, Inc. are publicly available, details of which are disclosed in note 24.

7. Interest receivable

	Year ended 31 December 2016 £	9 month period ended 31 December 2015 £
Loan interest receivable	40,389	-
Other interest receivable	186	-
	<u>40,575</u>	<u>-</u>

8. Interest payable and similar charges

	Year ended 31 December 2016 £	9 month period ended 31 December 2015 £
Group loan interest payable	7,287,861	2,710,103
Other interest payable	20,193	-
	<u>7,308,054</u>	<u>2,710,103</u>

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

9. Taxation

	Year ended 31 December 2016 £	9 month period ended 31 December 2015 £
Corporation tax		
Current tax on loss for the year/period	771,307	603,810
Adjustments in respect of previous periods	(21,710)	-
Total current tax	<u>749,597</u>	<u>603,810</u>
Deferred tax		
Origination and reversal of timing differences	(4,047,226)	(328,157)
Changes to tax rates	(465,478)	(990,439)
Adjustments in respect of previous periods	(2,490)	-
Total deferred tax	<u>(4,515,194)</u>	<u>(1,318,596)</u>
Taxation on loss on ordinary activities	<u>(3,765,597)</u>	<u>(714,786)</u>

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

9. Taxation (continued)

Factors affecting tax charge for the year/period

The tax assessed for the year/period is lower than (2015 - lower than) the standard rate of corporation tax in the UK of 20% (2015 - 20%). The differences are explained below:

	Year ended 31 December 2016 £	9 month period ended 31 December 2015 £
Loss on ordinary activities before tax	(40,188,844)	(3,258,599)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 - 20%)	(8,037,769)	(651,720)
Effects of:		
Non-tax deductible amortisation of goodwill and impairment	1,284,114	1,049,079
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	2,999,380	-
Fixed asset differences	(40,641)	-
Movement on deferred tax on investment properties due to movement in indexation allowances	-	(121,748)
Adjustments to tax charge in respect of prior periods	(24,200)	-
Non-taxable income for tax purposes	(590,877)	-
Other differences leading to a (decrease)/increase in the tax charge	(161,291)	42
Adjustment to deferred tax to average rate	330,610	(990,439)
Deferred tax not recognised	475,077	-
Total tax charge for the year/period	(3,765,597)	(714,786)

Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the group's future current tax charge accordingly. The net deferred tax liability at 31 December 2016 has been calculated based on these rates.

The net reversal of the deferred tax liability expected to occur during the year beginning 1 January 2017 totals £84,574. This estimated reversal is in relation to capital allowances on fixed assets.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

10. Intangible assets

Group

	Goodwill £
Cost	
At 1 January 2016	11,284,302
On acquisition of subsidiaries	391,660
	<u>11,675,962</u>
At 31 December 2016	<u>11,675,962</u>
Amortisation	
At 1 January 2016	5,255,393
Charge for the year	531,963
Impairment charge	5,888,606
	<u>11,675,962</u>
At 31 December 2016	<u>11,675,962</u>
Net book value	
At 31 December 2016	-
	<u><u>6,028,909</u></u>
At 31 December 2015	<u><u>6,028,909</u></u>

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

11. Tangible fixed assets

Group

	Fixtures and fittings £
Cost or valuation	
At 1 January 2016	3,418,500
Additions	368,497
On acquisition of subsidiaries	2,287,017
	<u>6,074,014</u>
At 31 December 2016	
Depreciation	
At 1 January 2016	569,750
Charge for the year	1,361,641
	<u>1,931,391</u>
At 31 December 2016	
Net book value	
At 31 December 2016	<u><u>4,142,623</u></u>
At 31 December 2015	<u><u>2,848,750</u></u>

All of the above assets are attached to the investment properties which are leased to Healthcare Homes Group Limited.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

12. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the company:

Name	Company number	Holding	Principal activity
OHI Pri-Med Group Developments Limited	02467049	100 %	Rental of investment property
OHI Pri-Med Group Limited**	01241402	100 %	Rental of investment property
OHI Pri-Med Care Homes Limited*	02939745	100 %	Rental of investment property
OHI Healthcare Homes Limited	05029866	100 %	Rental of investment property
OHI Anglia Care Limited	01375652	100 %	Rental of investment property
OHI Healthcare Homes (Central) Limited	03995046	100 %	Rental of investment property
OHI Beaumont Park Limited*	03213741	100 %	Rental of investment property
OHI Home Close Limited*	03995398	100 %	Rental of investment property
OHI Home Meadow Limited*	03995378	100 %	Rental of investment property
OHI Hillings Limited*	03995388	100 %	Rental of investment property
OHI Manor House (North Walsham Wood) Limited	03808976	100 %	Rental of investment property
OHI Olive House RCH Limited	05599571	100 %	Rental of investment property
OHI Park House Care Home Ltd	09940512	100 %	Rental of investment property
OHI Malthouse Care Home Ltd	09960319	100 %	Rental of investment property
OHI AC Investments (Jersey) Ltd		100 %	Holding company
OHI AC Properties (UK) Ltd*	08796701	100 %	Rental of investment property
OHI PC Investments (Jersey) Ltd		100 %	Holding company
OHI LSC Properties (UK) Ltd*	08449394	100 %	Rental of investment property

* Denotes investments indirectly held.

** 20% directly held, 80% indirectly held.

All shares held above are Ordinary shares.

With the exception of OHI AC Investments (Jersey) Ltd and OHI PC Investments (Jersey) Ltd who are incorporated in Jersey, all of the above subsidiaries are incorporated in England and Wales.

All of the above subsidiaries are included in the consolidated financial statements, and are entitled to, and have opted to take, exemption from the requirement for their individual accounts to be audited under S479A of the Companies Act 2006 relating to subsidiary companies. OHI AC Investments (Jersey) Ltd and OHI PC Investments (Jersey) Ltd are not required to take this exemption.

The registered office of the subsidiaries listed above is the same as the parent company; Tower 42, 25 Old Broad Street, London, England, EC2N 1HQ, other than OHI AC Investments (Jersey) Ltd and OHI PC Investments (Jersey) Ltd which have a registered office address of 44 Esplanade, St Helier, Jersey, JE4 9WG.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

12. Fixed asset investments (continued)

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 January 2016	116,372,918
Additions	92,554,680
At 31 December 2016	208,927,598
Impairment	
Charge for the year	41,995,093
At 31 December 2016	41,995,093
Net book value	
At 31 December 2016	166,932,505
At 31 December 2015	116,372,918

The company invested in two new entities incorporated in the year being OHI Park House Care Home Ltd and OHI Malthouse Care Home Ltd.

The company purchased 100% of the share capital in two further entities in the year, being OHI AC Investments (Jersey) Ltd and OHI PC Investments (Jersey) Ltd, see note 21. These entities own 100% of the share capital in OHI AC Properties (UK) Ltd and OHI LSC Properties (UK) Ltd respectively.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

13. Investment property

Group

	Freehold investment property £
Valuation	
At 1 January 2016	111,741,375
Additions at cost	11,544,200
Deficit on revaluation	(38,108,098)
On acquisition of subsidiaries	78,062,983
At 31 December 2016	163,240,460

The 2015 valuations were undertaken by Christies. In 2016 valuations were undertaken by the directors, the directors are qualified by their knowledge and experience in the industry to provide an assessment having also done so in consultation with the group's internal valuation team. The directors are part of a wider REIT specialising in investment care homes with £7.9 billion under management. A rate of return and a coverage rate is applied to earnings before interest, tax, depreciation, amortisation and rent to arrive at the property valuation.

Impairments were taken as a result of changes in the market on the portfolio acquired in May 2015. The impairment was driven by an increase in the company's required yield based on its cost of capital together with the deterioration of the performance of healthcare operators in the market primarily related to salary costs.

Any gain or loss arising from a change in fair value is recognised in profit or loss. Rental income from investment property is accounted for as described in the Revenue accounting policy.

14. Debtors

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Amounts owed by group undertakings	-	-	1,690	-
Other debtors	6,494	-	619,067	-
Deferred taxation (see note 18)	2,433,462	-	-	-
	2,439,956	-	620,757	-

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

15. Creditors: Amounts falling due within one year

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Amounts owed to group undertakings	22,712	-	6,509,551	2,679,547
Corporation tax	65,121	603,810	-	-
Accruals and deferred income	229,352	106,920	103,616	68,585
	<u>317,185</u>	<u>710,730</u>	<u>6,613,167</u>	<u>2,748,132</u>

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

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Other loans (due after more than 5 years)	<u>157,900,000</u>	<u>85,000,000</u>	<u>157,900,000</u>	<u>85,000,000</u>

During the year loan notes of £72,900,000 (2015 - £85,000,000) were issued to the company by its immediate parent, OHI Healthcare Properties Limited Partnership. The loan notes totalling £157,900,000 (2015 - £85,000,000) are payable on 1 May 2025, and interest is charged at 5.25%, a raise from 4.75% on 1 April 2016. The loan notes are secured over the entire share capital of each of the company's subsidiaries, and are listed on the Channel Islands Security Exchange Authority Limited.

17. Financial instruments

	Group 2016 £	Group 2015 £	Company 2016 £	Company 2015 £
Financial assets				
Financial assets that are debt instruments measured at amortised cost	<u>5,346,010</u>	<u>2,600,376</u>	<u>5,347,700</u>	<u>2,600,376</u>
Financial liabilities				
Financial liabilities measured at amortised cost	<u>(158,152,064)</u>	<u>(85,106,920)</u>	<u>(164,513,167)</u>	<u>(87,748,132)</u>

Financial assets measured at amortised cost comprises cash at bank and in hand, amounts owed by group undertakings and other debtors.

Financial liabilities measured at amortised cost comprise amounts owed to group undertakings, accruals and loans.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

18. Deferred taxation

Group

	2016 £	2015 £
At beginning of year/period	(8,752,663)	-
Charged to profit or loss	4,514,801	1,318,596
Liability arising on business combinations	(610,042)	(10,071,259)
Asset arising on business combinations	1,918,766	-
At end of year/period	(2,929,138)	(8,752,663)

The provision for deferred taxation is made up as follows:

	2016 £	2015 £
Accelerated capital allowances	(1,419,957)	(1,380,116)
Other timing differences	(2,429)	161,290
On investment properties	(1,506,752)	(7,533,837)
	(2,929,138)	(8,752,663)

The provision for deferred taxation comprises:

	2016 £	2015 £
Deferred tax asset	2,433,462	-
Deferred tax liability	(5,362,600)	(8,752,663)
	(2,929,138)	(8,752,663)

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

19. Share capital

	2016 £	2015 £
Shares classified as equity		
Allotted, called up and fully paid		
370 (2015 - 100) Ordinary shares of £1 each	<u>370</u>	<u>100</u>

On 18 January 2016, 20 ordinary shares were allotted with a nominal value of £1 per share for, consideration of £937,500. On 15 March 2016, an additional 15 ordinary shares were allotted with a nominal value of £1 per share, for consideration of £1,100,000. Finally on 1 April 2016, a further 235 ordinary shares were allotted with a nominal value of £1 per share, for consideration of £17,212,500.

Each share has full rights in the company with respect to voting, dividends and distributions.

20. Reserves

Share capital

Called up share capital reserve represents the nominal value of the shares issued.

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Profit and loss account

Profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

21. Business combinations

On 1 April 2016, the group acquired 100% of the following companies:

OHI AC Investments (Jersey) Ltd
OHI AC Properties (UK) Ltd
OHI PC Investments (Jersey) Ltd
OHI LSC Properties (UK) Ltd

The total consideration for the acquisition was £80,000,000, with acquisition costs of £1,832,959. In calculating the goodwill arising on acquisition, the fair value of net assets of the above companies have been assessed and adjustments from book value have been made where necessary, as follows:

	Book value £	Fair value adjustment £	Fair value £
Fixed assets			
Investment property and tangible fixed assets	80,739,460	(389,460)	80,350,000
	<u>80,739,460</u>	<u>(389,460)</u>	<u>80,350,000</u>
Current assets			
Debtors	18,000	-	18,000
	<u>18,000</u>	<u>-</u>	<u>18,000</u>
Total assets	80,757,460	(389,460)	80,368,000
Creditors			
Due within one year	(235,425)	-	(235,425)
Deferred tax on differences between fair value and tax bases	908,673	400,051	1,308,724
	<u>673,248</u>	<u>400,051</u>	<u>1,073,299</u>
Fair value of net assets	81,430,708	10,591	81,441,299
Goodwill	391,660	-	391,660
Total purchase consideration (including costs of £1,832,959)	81,822,368	10,591	81,832,959
	<u>81,822,368</u>	<u>10,591</u>	<u>81,832,959</u>
Purchase consideration settled in cash, as above	81,832,959	-	81,832,959
Cash and cash equivalents in subsidiary acquired	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Cash outflow on acquisition	81,832,959	-	81,832,959
	<u>81,832,959</u>	<u>-</u>	<u>81,832,959</u>

The useful economic life of goodwill has been estimated to be 12 years.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

21. Business combinations (continued)

The results of the above companies since its acquisition are as follows:

	Current period since acquisition £
Turnover	4,307,019
Profit for the period	3,407,080

22. Operating leases - Lessor

At 31 December 2016 the group and the company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2016 £	Group 2015 £
Not later than 1 year	15,030,072	8,219,216
Later than 1 year and not later than 5 years	63,972,923	34,983,685
Later than 5 years	95,692,757	62,937,252
	<u>174,695,752</u>	<u>106,140,153</u>

23. Related party transactions

During the year, loan notes of £72,900,000 (2015 - £85,000,000) were issued to the company by its immediate parent, OHI Healthcare Properties Limited Partnership. The loan notes totalling £157,900,000 (2015 - £85,000,000) are payable on 1 May 2025, and interest is charged at 5.25%, a raise from 4.75% on 1 April 2016. They are secured over the entire share capital of the company's subsidiaries. The total interest paid to OHI Healthcare Properties Limited Partnership during the year was £7,287,861 (2015 - £2,710,103).

No remuneration was paid by the group to key management personnel during the year (2015 - £Nil). The directors were remunerated for their services to the group by the ultimate parent company, Omega Healthcare Investors, Inc., see note 6.

OHI UK Healthcare Properties Ltd

Notes to the Financial Statements For the Year Ended 31 December 2016

24. Controlling party

The company is a subsidiary of OHI Healthcare Properties Limited Partnership, a partnership registered in the United States of America, which is the immediate parent company.

The largest and smallest group in which the results of the company are consolidated is that headed by Omega Healthcare Investors, Inc., incorporated in the United States of America, which is the ultimate parent company.

The consolidated accounts of Omega Healthcare Investors, Inc. are available to the public and may be obtained from 303 International Circle, Suite 200, Hunt Valley, Maryland, 21030.

The directors consider that there is no ultimate controlling party due to the fact that the ultimate parent company is listed and has no one controlling shareholder.