



# Delivering our strategy

Annual Report and  
Financial Statements 2016

Target Healthcare REIT is the only listed specialist investor in UK care homes. We bring much needed investment into the elderly care sector through our focus on best-in-class care home assets, let to tenants who share our strong care ethos.

## Strategic Report

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#### Important information

Past performance is not necessarily a guide to future performance. The value of investments and income from them may go down as well as up and are not guaranteed. Net asset value performance is not linked to share price performance, and shareholders may realise returns that are lower or higher in performance.

If you have sold or otherwise transferred all of your ordinary shares in Target Healthcare REIT Limited, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.



## Performance Highlights

### EPRA NAV PER SHARE

100.6p

2016	100.6p
2015	97.9p
2014	94.7p

### NAV TOTAL RETURN

9.3%

2016	9.3%
2015	10.3%
2014	3.5%

### DIVIDEND DECLARED

6.18p

2016	6.18p
2015	6.12p
2014	6.00p*

\* Annualised amount for the period to June 2014.

### IFRS PROFIT

£11.7m

2016	£11.7m
2015	£9.6m
2014	£0.8m

### DIVIDEND COVER

72%

2016	72%
2015	84%
2014	52%

### EPRA EARNINGS PER SHARE

4.7p

2016	4.7p
2015	5.7p
2014	4.2p

2014 reflects the period from incorporation on 22 January 2013 to 30 June 2014.

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## Portfolio Highlights

### PORTFOLIO VALUATION

£210.7m

2016	£210.7m
2015	£143.7m
2014	£83.2m

### PORTFOLIO PASSING RENT

£15.5m

2016	£15.5m
2015	£11.0m
2014	£6.4m

### NUMBER OF TENANTS

13

2016	13
2015	8
2014	5

### WAULT

28.6 yrs

2016	28.6 yrs
2015	29.5 yrs
2014	30.9 yrs

### NUMBER OF ACQUISITIONS

9

2016	9
2015	11
2014	17

### VALUE OF ACQUISITIONS (INC. COSTS)

£64.4m

2016	£64.4m
2015	£57.6m
2014	£85.5m

 FOR MORE INFORMATION  
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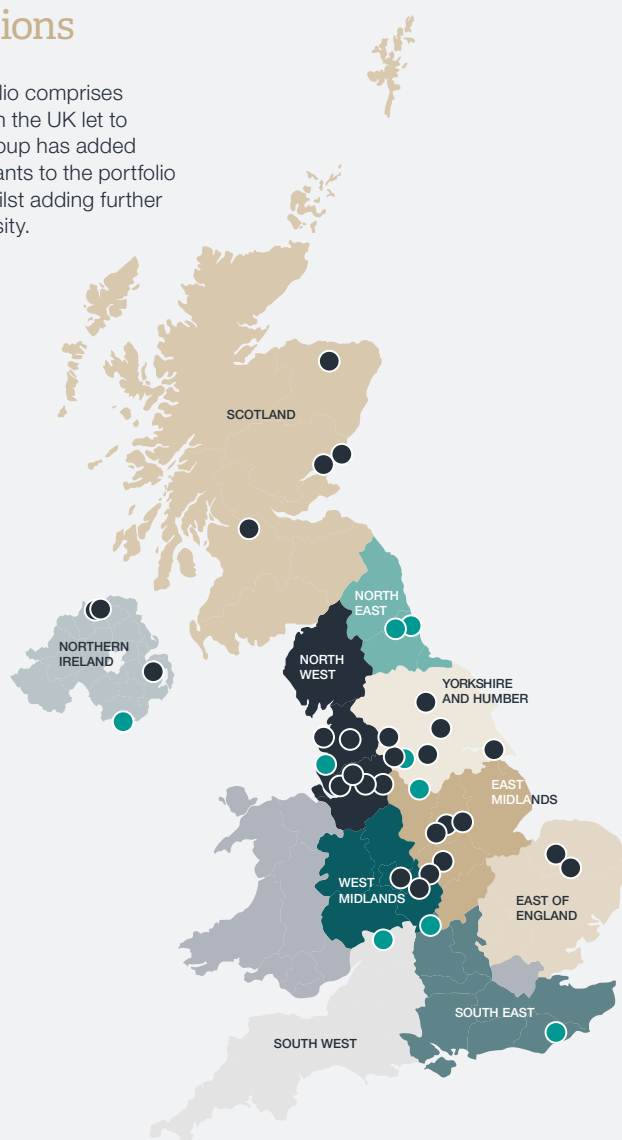
# At a glance

Target Healthcare REIT Limited and its subsidiaries ('the Group') is a specialist long-term investor in modern, purpose-built care homes in the UK. By investing in best-in-class assets let to quality operators at sustainable rental levels, the Group aims to provide investors with an attractive level of income with the potential for stable income and long-term capital growth.

The Group invests in properties in locations underpinned by favourable dynamics (population demographics and supply/demand). This approach is fundamental to the investment selection process and has proven to be vital in attaining good rental covers from tenants who display excellent operational capabilities and a strong care ethos.

## Our Locations

The Group's portfolio comprises 37 properties within the UK let to 13 tenants. The Group has added 9 assets and 5 tenants to the portfolio during the year, whilst adding further geographical diversity.



## Our Ethos

The concept of Target Healthcare REIT is to bring much needed investment into the elderly care sector to improve the quality of the lives of the growing numbers of vulnerable elderly members of society.

We know from personal experience that care is a 24/7 vocation and that, done properly, it can significantly enhance the quality of life of those whose acuity of needs require residential care. We invest significant time in understanding the culture of healthcare providers and choose to invest only in those whose values are consistent with our own.

- We are focused on behaving;
- We always act with **integrity**;
- We place **diligence** at the heart of our business;
- We perform detailed **analysis**;
- We are genuinely **passionate** about what we do; because we believe life is **precious**.

## Business Model



The Group's business model centres on applying the Investment Manager's specialist knowledge of the UK care home market to carefully invest shareholder equity, plus modest leverage, to generate attractive returns.

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## Strategy



The Group is focussed on achieving well-defined strategic objectives, and measures success by reference to key performance indicators.

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## Our Investment Case

### Demographics

As the population of the UK grows and its age profile becomes more weighted towards the elderly through increased life expectancy, more people will find themselves needing care and support than has been the case historically.

The number of over-85s (the primary users of care homes) is projected to double within the next 23 years generating increased demand for care home residency.

### Supply

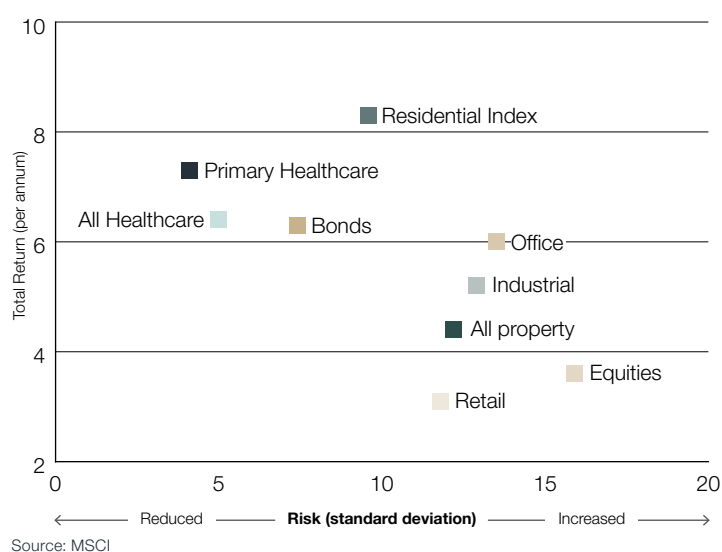
The UK elderly healthcare market remains deeply fragmented and dominated by small owner-managed providers. Much of the existing stock is comprised of older purpose built and converted properties that are increasingly considered unfit for purpose or financially unviable. Obsolescence of stock and economic viability have been blamed for large numbers of closures by Local Authorities in recent times. An increasingly robust regulatory environment and public sensitivity around care home failings have also seen the number of deregistrations rise as small providers find sustainability challenging, particularly in poorer quality buildings.

### Opportunity

Returns from the, "All Healthcare" index are depressed by the effects of the poorer quality existing stock, which is not future-proof. We believe that our modern, best-in-class homes, let to tenants with a strong care ethos and excellent operational capabilities provide a compelling investment case. Our lease structures, which are long-term with upwards only rent reviews, provide a stable income obtained at attractive pricing and backed by the demographics and demand/supply imbalances as described above.

### RISK REWARD SPECTRUM

Nine-year Total Return vs standard deviation 2007-2015 (since the inception of the MSCI UK Healthcare Index)



## Spotlight: Parklands Lodge

Parklands Lodge is a 67 bed care home in Southport, Merseyside. Southport is a traditional seaside town which grew quickly during the 19th century as a popular holiday destination, and remains one of the UK's most popular seaside resorts.

It has a predominance of large detached and semi-detached Victorian villas, and the town centre boasts attractive tree-lined boulevards.

As a result of its tradition of seaside living and in common with other similar towns around the UK, Southport has become a focal point for an elderly demographic, and as a consequence has a large number of care homes. Statistically this can suggest the town appears oversupplied – however, closer inspection reveals that the majority of these homes are older, converted Victorian buildings. Many lack modern facilities such as en-suite wet room facilities. Despite this, research on the local area shows that occupancy of care homes is high. As a result, the local market has the right characteristics for a new purpose-built care home, aimed at the upper end of the market.

Athena Healthcare, owned by a local family, secured a site near the centre of Southport in a pleasant residential location. Having commenced construction, the Investment Manager visited the home with the operator and discussed at length their plans. We liked what we saw, both in terms of the building itself and the care ethos of Athena, and agreed to acquire the home and lease it back to Athena on completion. One of our conditions of acquisition was that Athena should change three rooms previously earmarked as bedrooms into quiet lounges, providing additional public space for the residents.

Parklands Lodge opened its doors in early May 2016 and has been trading ahead of plan since that time. Feedback from residents and relatives alike has been very positive. The home has been fitted out to a very high standard with all rooms having en-suite wetroom facilities, and features large lawned gardens. The atmosphere is friendly and welcoming, reflecting the approach of the operator and home manager, and is a strong addition to the Group's portfolio.

The home was purchased for a price of £6.6 million (including acquisition costs) and at a yield consistent with the Group's overall portfolio.

**"One of our conditions of acquisition was that Athena should change three rooms previously earmarked as bedrooms into quiet lounges, providing additional public space for the residents."**



FOR MORE INFORMATION PLEASE VISIT  
[targetthehealthcarereit.co.uk](http://targetthehealthcarereit.co.uk)

# Chairman's Statement



I am pleased to present the Group's annual report for 2016, a year in which we have continued to deliver on our key goal of growing the Group in a disciplined and sustainable manner. Accretive acquisitions have further diversified the Group's portfolio, both by tenant and geography of asset, whilst maintaining rental income and lease length at levels we believe provide a solid basis for the Group to continue to deliver its strategy.

## Performance Highlights

The Group's EPRA NAV per share increased by 2.8 per cent to 100.6 pence. When combined with dividends paid during the year, this has provided a NAV total return of 9.3 per cent. EPRA earnings have increased by 20 per cent to £8.1 million delivering EPRA earnings per share of 4.7 pence (2015: 5.7 pence).

These figures reflect another year of growth. Passing rent has increased by 40 per cent to £15.5 million, and new shareholder capital of £115.1 million has been issued. Whilst having significant capital awaiting investment does temporarily detract from revenue returns, shown by reductions in EPS and dividend cover, we believe the longer-term benefits to shareholders from growing the Group outweigh this short-term drag. When the Group is fully invested, net rental income is expected to fully cover intended dividend levels as a result of careful asset selection process and control of the Group's costs.

Significant cost savings have been obtained for future periods from a renegotiation of the Group's debt facilities. A reduction to borrowing margin of 50 basis points has been obtained alongside an extension of the now £50 million RBS facility to 1 September 2021. Exposure to interest rate risk has been actively managed, with protection obtained through an interest rate swap arrangement relating to £21 million of debt.

## Dividends

The Company has declared and paid dividends of 6.18 pence per share in respect of the year. This is an increase of 1 per cent on 2015, and meets our objective of a progressive dividend policy. In the absence of unforeseen circumstances, I am delighted to announce that the Board intends to increase the quarterly dividend in respect of the year ending June 2017 by 1.6 per cent to 1.570 pence per share, in-line with inflation and providing an annual total of 6.28 pence.

## Outlook

We are operating in an environment of political and economic uncertainty, both worldwide and more locally as demonstrated by the EU referendum result. Dividends payable by property companies with long lease terms and annual rental uplifts provide an attractive investment case, reflected in robust share price responses by the healthcare investment market. We believe the underlying fundamentals of population demographics and supply/demand imbalance of quality UK care home stock remain compelling.

As in previous years, the care sector in the UK is facing various headwinds, including: introduction of the living wage; nursing shortages; mediocre fee increases from government; and, the ongoing challenges of a more engaged regulatory regime. Our Investment Manager expands on these on page 5. We believe specialist investment management is key for this

sector, the performance of an informed 'bottom-up' investment appraisal process enables long-term investment, providing a stable yield for our shareholders and a platform for our tenants to provide a quality care service to their residents.

Our primary challenge is in continuing to craft a portfolio which meets our investment objectives and is balanced by region, tenant and size. I am pleased that we are investing our capital well, with over £57 million of the £84 million raised in May 2016 having been committed to assets which meet our quality requirements at pricing which is accretive to portfolio returns. The Investment Manager is working diligently on a pipeline of opportunities in which to place our remaining capital.

Finally, Graeme Ross has indicated his intention to retire from the Board following the AGM and I would like to take this opportunity to thank him for his valuable contribution to the Company during a period of considerable growth. Recognising the skills and experience that Graeme provided, the Board intends to appoint another Jersey-resident Director shortly.

**Mr Malcolm Naish**  
Chairman

28 September 2016

# UK Healthcare Investment

## Market/transactions overview

The investment case for high quality recently built care homes in the UK remains compelling. Good levels of investment activity in the elderly care sector have continued during the year although the volume of transactions has dipped slightly recently and there has been somewhat of a post-Brexit, summer lull in new opportunities coming to market. However, we expect to see an uptick in transaction activity in the Autumn.

We had seen a reduction in investment appetite from US REITs who had been very active investors in the UK market for the past couple of years, however, the recent favourable exchange rate on the back of the pound falling in value against the dollar has made the UK market more attractive again for US buyers.

Traditional real estate investors have been active recently making direct investment in UK care homes for pension and annuity funds attracted by income producing assets in a low interest rate economy.

We continue to see some very keen yields paid for the most highly desirable assets particularly in the South East of England. The Company has a selective interest in such opportunities although we continue to follow our strategy of seeking out value in the mid-market, single asset/smaller portfolio categories with regional operators. We retain our conviction that they can best apply their local knowledge and market presence to deliver high quality care within their communities which in turn we believe allows them to achieve excellent financial performance.

We continue to identify and assess a wider pipeline of potential opportunities.

## Brexit

So far, we have not seen any significant movement in yields following voters' decision of 23 June to leave the European Union, one of the most significant political decisions in decades. Whilst the initial reaction has been well documented, and the UK real estate market now faces a period of significant uncertainty, the fundamentals of the Health & Social Care market have not changed. The demographics will continue to shift towards a greater proportion of elderly people creating the supply-demand imbalance that will require greater investment into care home development.

In the four weeks following the vote, Healthcare REITs outperformed core real estate by a significant margin due to their long lease terms and annual rent uplifts providing good visibility of future revenues and cash flows. Care home

leases with terms of approximately 30 years compare very favourably with shorter term office leases. Also, the movement in gilt pricing making long income real estate more attractive.

The effects of the Brexit vote cannot be predicted with any certainty or accuracy. The UK will experience a period of uncertainty, however, due to the demographic imperative, businesses in the UK healthcare sector are more likely to be insulated from the worst effects of any such market uncertainty.

## Continued headwinds: National living wage; funding; staffing; regulatory pressures; home closures

As reported in 2015 the new living wage came into effect in April 2016. Care homes, while welcoming the sentiment of staff being better rewarded, were initially concerned about individual local authorities having the resources and/or inclination to match the uplift in fees paid to reflect this additional cost of caring for state-funded residents. The government went some way in easing the situation by introducing the 'Adult Social Care Precept' allowing Local Authorities to raise council tax bills by a further 2%, with these funds allocated toward social care, albeit not exclusively for care homes. Laing & Buisson subsequently announced in July 2016 that the average rise in state funded fees across the UK equated to 4%, (3.4% in England) and this has essentially balanced the 3.5% rise in costs experienced by homes. Operators however continue to have longer term concerns as the Living Wage is pushed toward its 2020 target of £9.00 per hour from the initial £7.20. Operators have noted that wages at all levels have often had to be adjusted, as staff at higher levels expected a realignment of their own pay grade.

From a wider funding perspective research by Prestige Nursing released in Aug 2016, showed that despite the base need for a 3.5% rise in fees to cover costs, the average annual rise had been 5.2% over the last year, showing that care homes had been using the time honoured route of using private fee payers to subsidise local authority residents. This reinforces the sophisticated operator's viewpoint that there is a requirement for a good percentage of a home's residents to be self-funders, both as a safety net against austerity in the public sector and as a route to create a more attractive environment via suitable buildings and services offered to meet the expectations of a more discerning public. This private fee payer requirement also sees operators continuing to favour the more southerly and wealthy regions when it comes to new development, potentially creating a bed crisis in future years for areas with poorer demographics.

As far as individuals requiring care are concerned, those reliant on state funded care will continue to see less choice available to them, with 'top-ups' more likely to become the norm, rather than the exception. Private fee payers also continue to be exposed to losing significant elements of their net worth as the 'Dilnot' protection against 'catastrophic care costs', while still said to be on the government's agenda, is now regarded by most as unlikely to be implemented, not least as a close aide to the May government has recently indicated that people should use their housing wealth to pay for care.

Despite the introduction of the living wage, operators continue to experience staffing difficulties, with many believing that Brexit will further compound the problem. Some operators are noted to be choosing to move away from nursing care, and a number of high profile closures have cited staffing pressure as the 'final nail in the coffin' for their decision.

As reported in 2015, Care Commissions, particularly the English CQC remain challenging. Most homes have now experienced their first check under the new CQC standards, and many have found it a frustrating and challenging experience. The CQC themselves have noted some improvements in those found wanting in the first round of inspections, with the majority making the required improvements deemed necessary by the inspectorate. It is noted anecdotally by Target that there is a significant 'casualty' rate amongst managers in connection with these inspections, and also a growing reluctance by deputies to step up to the manager role with the extra scrutiny and responsibility that the role entails.

Home closures continue to be a theme in the sector, with closures noted on virtually a daily basis. Many of these closures are of homes in the 'mom and pop' operator category, which dominates this sector. These homes are typically sub 30 residents, housed in older, dated conversions. Some operators have little scope to market their homes due to poor or impractical building environments, and trade past their preferred retirement date due to the dilemma of disposing of the business. For some, the final straw is a poor CQC inspection which seals the decision to close. The raft of closures is seen as useful to most continuing operators, with increased pressure from demand for beds and ultimately less opportunity for local authorities to dictate low fee scenarios.

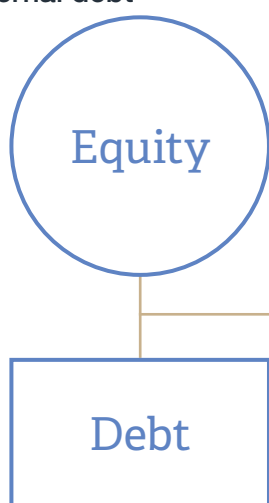
**Target Advisers LLP**  
28 September 2016

# Business Model

Our investment objective is to provide shareholders with an attractive level of income together with the potential for capital and income growth.

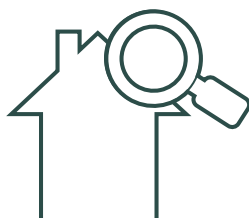
## Inputs

Shareholder equity plus modest leverage from external debt



## Fund Management

**1. Grow portfolio through selective and careful acquisition of high quality homes**



**2. Grow rental income from a high quality and diversified tenant base**



### Utilise Investment Manager's specialist knowledge to identify attractive assets

The Manager applies its specialist healthcare asset and fund management expertise to identify target investments which are likely to benefit from the following:

- Changing UK demographics resulting in higher numbers of the elderly;
- Resident choice, expectations as to the quality of care homes and the expectation of growth in the private pay market;
- The forecast rise in acute chronic illness and dementia.

The Manager's approach to investment analysis and appraisal focuses on:

- Geographical regions and local markets with acceptable economic fundamentals;
- A demand/supply imbalance for 'best in class' care homes;
- The extent of support from both the state and self-pay markets.

The Group's investments can include: single care homes; portfolios of care homes; pre-let development funding for care homes; and, other healthcare assets where a robust investment opportunity exists.

### Selecting quality operators at sustainable rents

To provide shareholders with sustainable and long-term income returns, one of the Group's key investment policies involves the careful selection of care home operators as tenants, choosing only those that have a focus on high quality care. Accepting a tenant involves careful consideration of not only their ability and track record in providing such care but also their ability to meet financial obligations.

There is a sound underlying commercial benefit from this approach. Care homes with good standards tend to perform much more profitably than those without. Investment in maintaining the quality of facilities and training of staff is reflected in the bottom line.

The Manager develops and maintains relationships with operators throughout the industry, identifying those we would like to partner with. It is intended that tenants see the Group as a stable and reliable long-term partner, allowing the tenant to focus on their core business, the provision of quality care. Sustainable rental levels reduce the risk of default and, alongside the reputational benefits from being an engaged landlord, increase the opportunity for further growth of the Group.



## Outputs

### 3. Manage assets to maximise total returns to shareholders



**The Group is an engaged landlord, actively monitoring and supporting tenants to provide the best care to their residents.**

The Investment Manager, on the Group's behalf, undertakes regular analysis of the financial and operational performance of each home. Key financial metrics include: profitability; cost base fluctuations; rent cover; average weekly fee; and occupancy.

The Investment Manager also undertakes operational inspections, carried out by its Healthcare team. These bi-annual inspections, which can be in conjunction with the Group's external building surveyors, assess capital expenditure and repairs and maintenance requirements, together with observing and noting the quality of care at each home.

The Investment Manager continues to monitor and assess opportunities for more comprehensive capital expenditure projects such as extensions and major refurbishments as well as keeping abreast of market developments through its knowledge, experience and network of contacts.

This approach is key to maintaining and enhancing the capital value of the properties, ensuring they are aligned with the strategy of holding modern homes which are fit for purpose and future proof.

### 4. Efficiently manage Group operations to meet strategic objectives



Promote the business and its investment case to the market.

Manage investor relations to ensure a high standard of communication.

Establish and maintain collaborative relationships with key stakeholders, tenants and service providers.

Translate income from growing portfolio into progressive, covered dividend (when fully invested) through effective cost control and management of capital structure.

Maintain an appropriate risk management and governance framework, allowing meaningful assessment of adequacy of the Group's strategy.

Dividend paid quarterly to shareholders

Quarterly Dividend

# Strategic Objectives

The Group aims to provide ordinary shareholders with an attractive level of income with the potential for capital and income growth from investing in best-in-class care home assets with attractive financial characteristics.

Objectives	Definition	KPIs and performance
 <b>Dividend</b>	To pay a progressive dividend fully covered when the Group is fully invested.	<ul style="list-style-type: none"> <li>– <b>Dividend rates</b> Progressive annual dividend of 6.18 pence, 1 per cent increase on 2015</li> <li>– <b>Dividend cover</b> of 72 per cent (2015: 84 per cent)</li> <li>– <b>Control of operating costs</b> on-going charges ratio 1.42 per cent (2015: 1.58 per cent)</li> <li>– <b>Growth in earnings</b> see objective 4</li> </ul> <p> <a href="#">READ MORE ON PAGE 10 &gt;&gt;</a></p>
 <b>Total returns</b>	To maximise total returns to shareholders through a combination of dividends and capital appreciation.	<ul style="list-style-type: none"> <li>– Annual <b>EPRA NAV total return</b> of 9.3 per cent (2015: 10.3 per cent)</li> <li>– <b>Portfolio performance relative to benchmark</b> Annualised portfolio total return (excluding acquisition costs) per IPD of 13.6 per cent vs. Index return of 9.5 per cent (to 31 December 2015)</li> <li>– <b>Asset valuations</b> Like-for-like revaluation gains of 5.3 per cent (2015: 6.0 per cent)</li> </ul> <p> <a href="#">READ MORE ON PAGE 10 &gt;&gt;</a></p>
 <b>Funding</b>	To fund the business through shareholder equity enhanced by modest leverage within predetermined risk thresholds.	<ul style="list-style-type: none"> <li>– Gross equity of £115.1 million raised during year</li> <li>– Group loan-to-value (LTV) of 10.0 per cent (total gross debt as a proportion of gross property value, excluding cash), within 35 per cent limit</li> </ul> <p> <a href="#">READ MORE ON PAGE 11 &gt;&gt;</a></p>
 <b>Long-term secure rental income</b>	To have high quality care providers as tenants with secure, sustainable rental income giving long-term growth.	<ul style="list-style-type: none"> <li>– Like-for-like growth of 2.0 per cent (2015: 2.2 per cent)</li> <li>– <b>Rent roll increase</b> of 40 per cent</li> <li>– Addition of <b>5 new tenants</b>, to 13</li> <li>– <b>WAULT</b> of 28.6 years (2015: 29.5 years)</li> </ul> <p> <a href="#">READ MORE ON PAGE 11 &gt;&gt;</a></p>
 <b>Grow portfolio</b>	To acquire a diversified portfolio of high quality modern care homes providing excellent accommodation standards for residents.	<ul style="list-style-type: none"> <li>– 9 assets with total commitment value of £64.4 million (inc. costs) completed during the year</li> <li>– All acquired assets are modern, the majority being less than 4 years old</li> <li>– Substantially all rooms are single occupancy with en-suite facilities including wet room showers</li> </ul> <p> <a href="#">READ MORE ON PAGES 12 AND 13 &gt;&gt;</a></p>



READ MORE ABOUT OUR  
KEY RISKS ON PAGES 14 AND 15 >>

## Progress made and current focus

## Key risks

- **Maximise rental income from efficient deployment of capital.**
- **Control costs to provide a fully covered dividend when the Group is fully invested.**

The Group's investment objective, when fully invested, is to provide a progressive dividend to shareholders which is fully covered by EPRA earnings. When not fully invested, as has been the case during the year as the Group has grown through significant equity issuance, there can be a drag on earnings whilst transaction diligence and comprehensive appraisal of investment opportunities takes place.

Pace of deployment of capital will continue to be a focus in 2017 and whilst the Group is in growth phase, however the quality of assets and sustainability of their long-term returns will not be compromised.

Efficiencies of operations and value for money will continue to be sought from service providers.

- Reliance on third party service providers
- Market opportunities, or performance of Investment Manager, limit efficient deployment of capital
- Breach of REIT regulations

- **Continue to invest in attractively-priced assets which meet the Group's investment criteria.**

The Board is pleased with assets acquired in the year (and subsequent to) which meet the investment objectives and collectively have been acquired at a NIY broadly consistent with the Group's existing portfolio. This will continue to be a focus in 2017.

- **Active management of portfolio.**

The Investment Manager will continue to manage the portfolio to ensure returns are optimised with capital values maintained and enhanced where possible.

- Property valuations could adversely affect returns

- **Continue to monitor debt terms available to the Group.**

The Group has entered into an amended agreement with RBS to improve its interest costs and extend the duration of its debt. The Group will actively consider the most appropriate composition of debt facilities and instruments to manage its interest rate exposure.

- Lack of equity and debt capital
- Interest rate risk

- **Continued diversification of tenants as the portfolio grows.**

The Group has added 5 new tenants in the year, and 1 subsequent to the year-end. The Group's largest tenant accounted for 22 per cent of passing rent at 30 June 2016, with new acquisitions since 30 June 2016 adding tenants who further diversify the Group's portfolio.

- Government policies/funding of elderly care
- Concentration risk

- **To convert the current pipeline, and continue to source new opportunities, through the Investment Manager.**

Over £64 million has been committed during the year, with an additional £21 million having been invested subsequent to 30 June 2016. As at the date of this report the Group has uncommitted capital to deploy of approximately £40 million (including undrawn debt) with near-term opportunities, inclusive of development funded acquisitions, of £44 million. The Investment Manager is also assessing a wider pipeline of potential opportunities.

- Lack of available properties
- Inability to invest on acceptable terms

# Strategy in Action

## Dividend



The company continues to deliver on its objective to have a progressive dividend.

Total dividends of 6.18 pence per share were declared and paid in respect of the year to 30 June 2016, an increase of 1 per cent on 2015. This represents a yield of 5.7 per cent based on the 30 June 2016 closing share price of 109 pence.

In recognition of the Group's prospects, the directors are delighted to announce their intention to increase quarterly dividends for the year ended 30 June 2017 by 1.6 per cent to 1.570 pence per share, in the absence of unforeseen circumstances. This will provide an annualised dividend of 6.28 pence per share.

### ANNUAL DIVIDEND (PENCE)

2016	6.18p
2015	6.12p
2014*	6.00p

\* Annualised.

The Group's EPRA earnings of £8.1 million (2015: £6.8 million), being 4.7 pence per share (5.2 pence per share adjusted to exclude performance fee payable by the Group) have provided dividend cover of 72 per cent and 79 per cent respectively. The level of cover has decreased from 2015 as a result of the Group's enhanced levels of investment activity as it deploys the proceeds of significant equity issuances during the year. Dividends are expected to progress towards being fully covered when the Group operates on a fully invested basis.

The Group's like-for-like passing rent has increased by an above-inflation rate of 2.0 per cent as a result of rent reviews during the year. Group operating expenses are represented by an ongoing charges figure of 1.42 per cent, a reduction from 2015's 1.58 per cent.

The portfolio EPRA net initial yield of 7.0 per cent at 30 June 2016 is consistent with that modelled at launch. This has tightened during the year due to the effects of: passing rent increases from the fixed and inflation-linked, upwards-only annual rent reviews; valuation increases to portfolio, as well as the revision to SDLT impacting purchaser's costs.

### SUMMARISED RESULTS

	2016 £m	2015 £m
Rental income	12.7	9.9
Admin expenses	(3.6)	(2.4)
Net financing (costs)/income	(0.9)	(0.7)
EPRA earnings	8.2	6.8
EPRA EPS	4.7 pence	5.7 pence
Performance fee	0.9	0.5
Adjusted EPRA earnings	9.1	7.3
Adjusted EPRA EPS	5.2 pence	6.1 pence

## Total returns



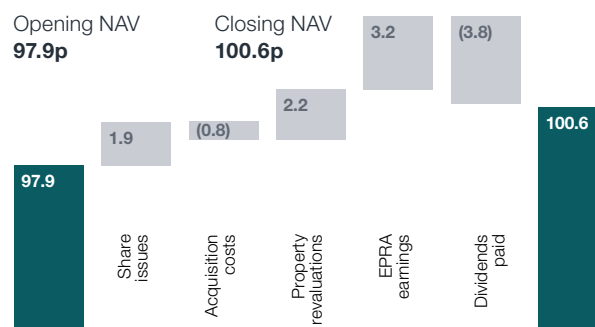
The Group's disciplined investment appraisal and portfolio management activities have contributed to a growth in EPRA NAV per share of 2.8 per cent.

A detailed analysis of drivers is presented in the chart below, with asset valuation growth (5.4 per cent on assets held for the full year) having contributed 2.2 pence per share. Further detail on the portfolio itself can be seen on page 12.

The Group's portfolio total return is calculated by IPD and benchmarked to the IPD UK Healthcare Index. The IPD methodology excludes the effect of acquisition costs and fund expenses to measure the contribution of assets held for the full period. For the year to 31 December 2015, the portfolio's total return of 13.6 per cent outperformed the Index by 4.1 per cent.

The next performance period will be measured from January to December 2016. The Manager's unique investment analysis comprises a detailed 'bottom-up' analysis of property and tenant fundamentals which focuses on long-term sustainability of rents as well as care standards. This has delivered strong results to date and is expected to continue to deliver matching long-term sustainable returns for investors.

### EPRA NAV PER SHARE (PENCE)



### EPRA NAV TOTAL RETURN

2016	9.3%
2015	10.3%
2014	3.5%





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## Funding



The Group aims to combine shareholder equity with an appropriate level of external debt to generate its stated return objectives (see objectives 1 and 2).

A modest gearing level at around 20 per cent of property value is considered appropriate to deliver on the Group's investment objectives. Access to additional equity and debt is key in allowing the Group to capitalise on investment opportunities to continue growing the portfolio (See strategic objective 5).

The Group has raised £115.1 million through equity issuance in the year.

The Group's loan-to-value (gross debt drawn/gross property value) of 10.0 per cent at 30 June 2016 reflects the repayment of the Group's revolving credit facility using the proceeds of the May share issue. It is anticipated that this will be maintained at near 20.0 per cent once the Group has fully invested available equity and debt. Further equity will then be sought to match investment opportunities as they arise, priced sensitively to market conditions and accretive to existing shareholders. The Board will continue to manage the Group's debt/equity balance to generate the required level of leveraged returns.

Subsequent to the year-end, a review of the Group's debt strategy resulted in the Group agreeing improved financing terms with RBS. The £50 million term loan and revolving credit facility, which was due to expire in June 2019, was amended to extend the duration to 1 September 2021, with options exercisable by the Group to extend by an additional year on two occasions. The amended arrangements also provide the Group with improved terms, including a significant reduction in the borrowing margin to 1.5 per cent per annum from 2 per cent per annum.

The Group's available borrowings are £50 million comprising a £30 million term loan and a £20 million revolving credit facility. Interest payable on £21 million is fixed at an all-in rate of 2.35 per cent from 7 July 2016 to 23 June 2019 and 2.2 per cent from 23 June 2019 to 1 September 2021 through interest rate swap agreements with RBS.

Interest on amounts drawn in excess of £21 million will be 3 month LIBOR plus the 1.5 per cent margin, which based on current LIBOR would be 1.9 per cent.

### RBS FACILITY

	Facility (£m)	Utilised (£m)
Opening	35.0	31.5
Increase to facility	15.0	–
Debt drawn/(repaid)	–	(10.5)
<b>Closing</b>	<b>50.0</b>	<b>21.0</b>

## Long-term secure rental income



The Group is committed to providing modern, purpose-built care homes at sustainable rental levels allowing tenants to focus on providing high quality care whilst being able to meet their rental commitments.

During the tenancy, the Manager actively engages with tenants to ensure the properties continue to meet their operational needs. This collaborative approach to relations with the Group's tenants, and potential tenants, facilitates entry into long-term leases with upwards-only annual rental reviews.

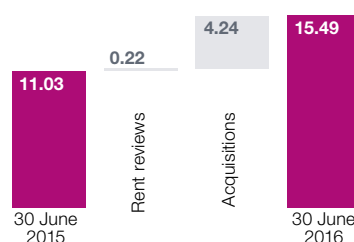
The Group's portfolio of completed assets is 100 per cent let (2015: 100 per cent) to 13 tenants (2015: 8). All properties are subject to upwards-only annual rent reviews, the majority being RPI-linked, with a small proportion of leases containing fixed uplifts and EBITDA top-up arrangements. Like-for-like rental growth during the year was 2.0 per cent (2015: 2.2 per cent) contributing an additional £0.22 million (2015: £0.15 million) per annum to rent-roll.

The weighted-average unexpired lease term ("WAULT") is 28.6 years.

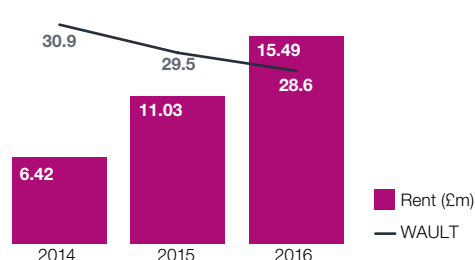
The Group continues to diversify the portfolio both in terms of the tenant mix and geography. The highest proportion of income generated by a single operator, namely Ideal Carehomes, is currently 22 per cent.

Through its bi-annual inspections, and often in conjunction with external building surveyors, the Manager assesses the requirement for capital maintenance expenditure which tenants are contractually obliged to adhere to under the terms of the FRI leases, protecting asset quality and capital values.

### ANNUAL RENT-ROLL GROWTH (£M)



### 3-YEAR RENT ROLL VS WAULT



# Strategy in Action

## (continued)

### Grow portfolio

Nine care homes have been acquired during the year, growing the portfolio to 37 assets. 36 of these properties are currently being operated and are let to the Group's 13 tenants. One of these properties was acquired with the intention to complete a short-term substantial refurbishment with a pre-let tenancy agreed on completion of these works. The building works on this property are substantially complete with the first residents expected to be welcomed, following the home's CQC registration, this autumn.

Although the Group is not intending to focus on development funding, we believe that opportunities exist to allow us to acquire high quality homes in good locations, whilst allowing us to significantly upgrade the care environment and standards in the sector. We will continue to assess development funding schemes, and will pursue opportunistically where we believe they are accretive to the Group's objectives.

Consistent with the Group's strategy of investing in 'best in class' properties, the homes provide a combination of residential and nursing care and benefit from excellent facilities and amenities for residents.

#### Care home acquisitions

During the year, the Group committed funds of £64.4 million inclusive of acquisition costs, to add nine care homes to the portfolio, and bringing the annualised rent-roll to £15.5 million. These property acquisitions are consistent with the Group's strategy of acquiring high quality modern care homes.



READ MORE ON PAGE 11 >>

The Group continues to diversify its tenant base, having added five new tenants to the portfolio. Our conviction in the quality of the existing tenant base has led to our leasing two new homes to existing tenants

and an agreement for a current tenant to enter a lease once a development is complete.

The geographical spread of the portfolio continues to evolve, extending to the South West of England with the purchase of Summerfield Nursing Home, Cheltenham. Additionally, two of the properties acquired are leased to tenants on a base rent plus a variable top-up rent. The total number of beds within the portfolio has risen to 2,506 (2015: 1,846). All the bedrooms are single occupancy with en-suite facilities including wet room\* showers and are housed in modern, purpose-built homes.

The Group seeks to add both new tenants and new geographies as the portfolio increases, further diversifying the risk profile of the portfolio.

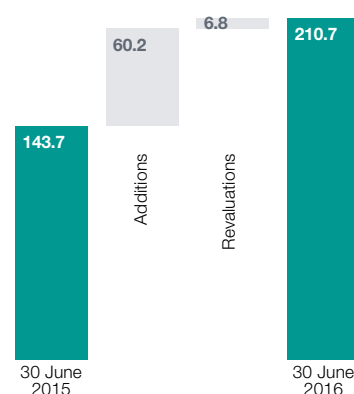
#### Asset valuation growth

The property portfolio was externally valued at 30 June 2016 at a market value of £210.7 million, as defined by the Royal Institution of Chartered Surveyors by Colliers International Property Consultants Limited. This is an increase of 47 per cent during the year, achieved through revaluations and acquisitions. Revaluations contributed £6.7 million (10 per cent of the total increase) despite the impact of the increase in SDLT in the March 2016 budget with acquisitions accounting for the remaining £60.2 million increase.

The majority of properties within the portfolio have performed well in the year. One home, on a EBITDA lease, saw a reduction in variable top-up rent payable resulting in a decrease in valuation. The home remains profitable and the Investment Manager is actively reviewing strategies with the home's tenant to improve performance and align the future EBITDA top-up rent with the original investment case expectations.

Subsequent to the year end, three further care homes have been acquired for £20.5 million including costs.

#### PORTFOLIO VALUATION (£M)



\* 60 beds in the portfolio do not currently have wet-room showers. It is intended to upgrade these in due course.

#### NEW TENANTS

5

#### NO. OF PROPERTIES

37

#### RENT ROLL

£15.5m

#### VALUE

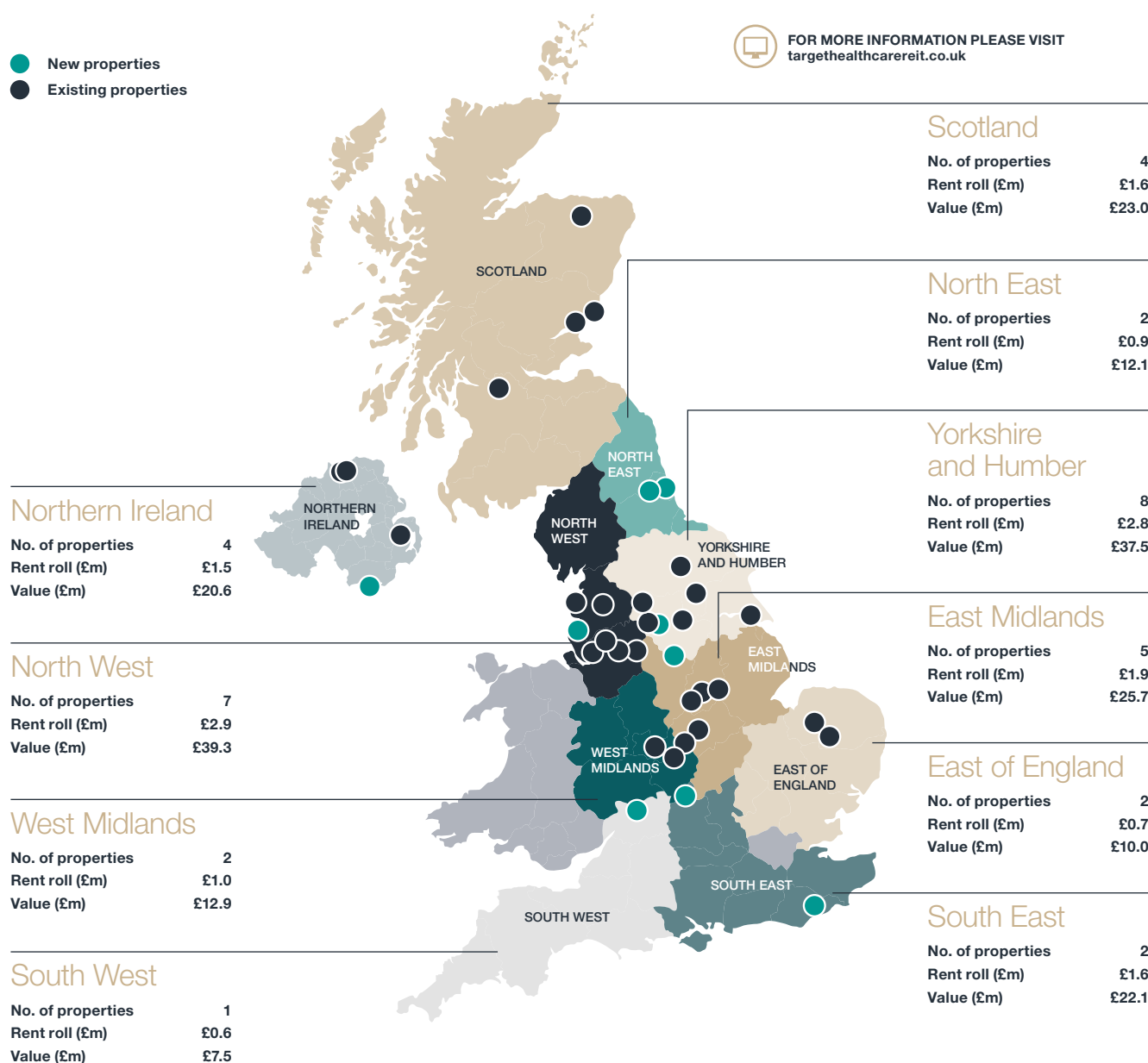
£210.7m



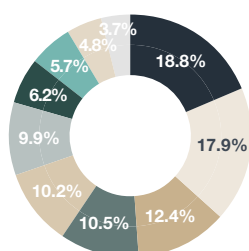
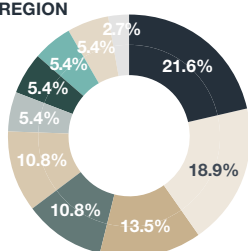
- New properties
- Existing properties



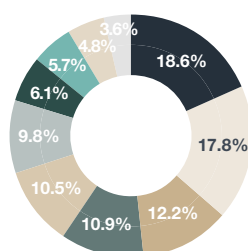
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RENT BY REGION

NUMBER OF PROPERTIES  
BY REGION

VALUATION BY REGION



- North West
- Yorkshire and Humber
- East Midlands
- South East
- Scotland
- Northern Ireland
- West Midlands
- North East
- Eastern
- South West

# Risks

Strategic objectives	Risk and impact	Change to risk rating
 <b>Dividend</b>	<ul style="list-style-type: none"> <li>The Group has no employees and relies on third parties such as the Investment Manager to effectively manage operations. Poor performance by providers may result in reduced return to shareholders.</li> <li>A breach of REIT regulations in relation to payment of dividends may result in loss of tax advantages derived from the Group's REIT status.</li> </ul>	 
 <b>Total returns</b>	<ul style="list-style-type: none"> <li>Property valuations are inherently subjective and can fluctuate dependent on market conditions and assumptions. Falls in property valuations could adversely affect the Group's borrowing capacity which is linked to the value of its properties.</li> </ul>	
 <b>Funding</b>	<ul style="list-style-type: none"> <li>Without access to equity capital (or further debt) the Group may be unable to grow through acquisition of attractive investment opportunities, and may be unable to meet future financial commitments. This is likely to be driven by investor demand which will reflect Group performance, competitor performance and the relative attractiveness of investment in UK healthcare property.</li> <li>Interest rate fluctuations could increase the Group's costs and increase the likelihood of non-compliance with lender covenants.</li> </ul>	 
 <b>Long-term secure rental income</b>	<ul style="list-style-type: none"> <li>Changes in government policies, including specific policies affecting local-authority funding of elderly care, may render the Group's strategy inappropriate. Secure income will be at risk if tenant finances suffer from policy changes, and property valuations would be impacted in the case of a demand downturn.</li> <li>Concentration risk, Significant exposure to a single tenant group or geographical area could adversely affect Group performance in certain circumstances.</li> </ul>	 
 <b>Grow portfolio</b>	<ul style="list-style-type: none"> <li>Lack of attractive investment opportunities and/or an inability to invest on acceptable terms in suitable timeframes will hamper the Group's growth prospects.</li> </ul>	
<b>General</b>	<ul style="list-style-type: none"> <li>People. Recruitment and retention of Board members and key personnel at the Investment Manager with relevant and appropriate skills and experience is vital to the Group's ability to meet its objectives. Failure to do so could result in the Group failing to meet its objectives.</li> </ul>	





## Factors affecting risk rating

## Ongoing mitigation

- The pace of deployment of capital has dragged on investment returns in the period as the Investment Manager has encountered a number of transactions which have taken longer than average to progress through the diligence process to completion. There is no change to the risk rating as the associated complexities are assessed to be deal specific. The Investment Manager retains a robust and comprehensive investment appraisal and diligence process, and has a pipeline of identified assets in excess of available capital in which to place shareholder funds.
- The Group's costs have been managed effectively, demonstrated by a decrease in the Ongoing Charges Figure to 1.42 per cent for the year.
- The Group remains fully compliant with the REIT regulations.

- All key service providers, including the Investment Manager, are subject to performance assessment at least annually.
- The Board monitors the Group's pace of deployment of capital via regular reporting by the Investment Manager of: status of diligence on agreed deals; progress on conversion on pipeline assets to agreed deals; and, details of pipeline assets.
- The Group's activities are monitored to ensure all conditions are adhered to. The REIT rules are considered during investment appraisal and transactions structured to ensure conditions are met.

- The Group's portfolio has increased on a like-for-like basis by 5.3 per cent.
- LTV has decreased to 10 per cent while the Group has capital awaiting investment.
- Debt facility covenants have been complied with during the year, with adequate headroom at year-end.

- Loan covenants are closely monitored for compliance, with headroom projected.
- All investments are subject to a detailed investment appraisal and approval process prior to acquisition.
- The finished portfolio is 100 per cent let with sustainable rental levels and upwards-only annual rental reviews which support asset values.

- The Group has successfully increased its levels of equity, by £115.1 million, and its debt availability, by £15 million, during the year.
- Political and economic uncertainty exists in relation to the UK's decision late in the year to leave the EU. Whilst initial market volatility has eased, the Group's ability to access the capital markets to meet its strategic objectives could be impacted in the longer-term.
- The Group has reduced its borrowing margin, extended access to its facilities until 1 September 2021, and fixed interest costs on £21 million of its debt until September 2021.

- The Group maintains regular communication with investors, and, with the assistance of its broker and sponsor, regularly monitors the Group's capital requirements and investment pipeline alongside opportunities to raise equity.
- Liquidity available from income, equity and debt is kept under constant review to ensure the Group can meet any forward commitments as they fall due.

- The care sector continues to face challenges: The National Living Wage has increased costs, these not universally matched by fee increases from Local Authorities; nursing shortages; and, the ongoing difficulty of more engaged regulators.
- Tenant concentration has reduced as portfolio diversification increases. Single largest tenant exposure is 22 per cent.

- Government policy is monitored by the Group so as to increase ability to anticipate changes.
- Tenants typically have a multiplicity of income sources, thereby not being totally dependent on government pay.
- The Group's properties are let on long-term leases at sustainable rent levels, providing security of income.

- Activity levels in the market remain competitive, particularly for the most desirable assets in the South East of England. The Group continues to see opportunities which meet its criteria, as identified by the Investment Manager, and is actively pursuing these.

- The Investment Manager develops and maintains a network of relationships with property owners and developers which it is expected will provide the Group with the best possible opportunity to acquire suitable properties.
- Demographics are such that many new homes require to be built to satisfy demand. The Group is well-positioned to participate in acquiring a share of these.

- The Investment Manager has bolstered its team, with additions of investment and healthcare professionals as well as a dedicated portfolio management team.

- Directors are subject to annual performance assessment, and are subject to re-election by shareholders.
- The Investment Manager is subject to regular performance appraisal; has its remuneration aligned with group performance; and, there is a key man provision within the investment management agreement between the manager and the Group.

# Consolidated Statement of Comprehensive Income

## For the year ended 30 June 2016

		Year ended 30 June 2016			Year ended 30 June 2015		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Revenue</b>							
Rental income		12,677	4,136	16,813	9,898	3,760	13,658
Other income		61	–	61	66	–	66
<b>Total revenue</b>		<b>12,738</b>	<b>4,136</b>	<b>16,874</b>	9,964	3,760	13,724
Gains/(losses) on revaluation of investment properties	9	–	425	425	–	(839)	(839)
Cost of corporate acquisitions	11	–	(998)	(998)	–	(174)	(174)
<b>Total income</b>		<b>12,738</b>	<b>3,563</b>	<b>16,301</b>	9,964	2,747	12,711
<b>Expenditure</b>							
Investment management fee							
– base fee	2	(1,783)	–	(1,783)	(1,140)	–	(1,140)
– performance fee	2	(871)	–	(871)	(466)	–	(466)
VAT refund on management fees		–	–	–	82	–	82
Other expenses	3	(992)	–	(992)	(880)	–	(880)
<b>Total expenditure</b>		<b>(3,646)</b>	<b>–</b>	<b>(3,646)</b>	(2,404)	–	(2,404)
<b>Profit before finance costs and taxation</b>		<b>9,092</b>	<b>3,563</b>	<b>12,655</b>	7,560	2,747	10,307
<b>Net finance costs</b>							
Interest receivable	4	173	–	173	99	–	99
Interest payable and similar charges	5	(1,102)	–	(1,102)	(815)	–	(815)
<b>Profit before taxation</b>		<b>8,163</b>	<b>3,563</b>	<b>11,726</b>	6,844	2,747	9,591
Taxation	6	(24)	–	(24)	(39)	–	(39)
<b>Profit for the year</b>		<b>8,139</b>	<b>3,563</b>	<b>11,702</b>	6,805	2,747	9,552
<b>Other comprehensive income:</b>							
<b>Items that are or may be reclassified subsequently to profit or loss</b>							
Movement in valuation of interest rate swap	13	–	(316)	(316)	–	–	–
<b>Total comprehensive income for the year</b>		<b>8,139</b>	<b>3,247</b>	<b>11,386</b>	6,805	2,747	9,552
<b>Earnings per share (pence)</b>	8	<b>4.74</b>	<b>2.07</b>	<b>6.81</b>	5.71	2.31	8.02

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement are derived from continuing operations.

No operations were discontinued in the year.

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	As at 30 June 2016 £'000	As at 30 June 2015 £'000
<b>Non-current assets</b>			
Investment properties	9	200,720	138,164
Trade and other receivables	10	3,742	2,530
		<b>204,462</b>	140,694
<b>Current assets</b>			
Trade and other receivables	10	13,222	6,457
Cash and cash equivalents	12	65,107	29,159
<b>Total assets</b>		<b>282,791</b>	176,310
<b>Non-current liabilities</b>			
Bank loan	13	(20,449)	(30,865)
Interest rate swap	13	(316)	–
Trade and other payables	14	(3,742)	(2,530)
		<b>(24,507)</b>	(33,395)
<b>Current liabilities</b>			
Trade and other payables	14	(5,002)	(3,623)
<b>Total liabilities</b>		<b>(29,509)</b>	(37,018)
<b>Net assets</b>		<b>253,282</b>	139,292
<b>Stated capital and reserves</b>			
Stated capital account	15	246,533	136,846
Hedging reserve		(316)	–
Capital reserve		4,698	495
Revenue reserve		2,367	1,951
<b>Equity shareholders' funds</b>		<b>253,282</b>	139,292
<b>Net asset value per ordinary share (pence)</b>	8	<b>100.4</b>	97.9

The financial statements on pages 16 to 36 were approved by the Board of Directors and authorised for issue on 28 September 2016 and were signed on its behalf by:

**Mr Malcolm Naish**  
Chairman

The accompanying notes are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Notes	Stated capital account £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2015		136,846	–	495	1,951	139,292
<b>Total comprehensive income for the year:</b>		–	(316)	3,563	8,139	11,386
<b>Transactions with owners recognised in equity:</b>						
Dividends paid	7	(1,973)	–	–	(7,723)	(9,696)
Issue of ordinary shares	15	114,438	–	–	–	114,438
Buyback of ordinary shares into treasury	15	–	–	(14,159)	–	(14,159)
Resale of ordinary shares from treasury	15	–	–	14,799	–	14,799
Expenses of issue	15	(2,778)	–	–	–	(2,778)
<b>At 30 June 2016</b>		<b>246,533</b>	<b>(316)</b>	<b>4,698</b>	<b>2,367</b>	<b>253,282</b>

For the year ended 30 June 2015

	Notes	Stated capital account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2014		91,516	(2,252)	954	90,218
<b>Total comprehensive income for the year:</b>		–	2,747	6,805	9,552
<b>Transactions with owners recognised in equity:</b>					
Dividends paid	7	(1,313)	–	(5,808)	(7,121)
Issue of ordinary shares		47,802	–	–	47,802
Expenses of issue		(1,159)	–	–	(1,159)
<b>At 30 June 2015</b>		<b>136,846</b>	<b>495</b>	<b>1,951</b>	<b>139,292</b>

The accompanying notes are an integral part of these financial statements.



# Consolidated Statement of Cash Flows

## For the year ended 30 June 2016

	Notes	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		11,726	9,591
Adjustments for:			
Interest receivable		(173)	(99)
Interest payable		1,102	815
Revaluation gains on property portfolio		(4,787)	(2,921)
Increase in trade and other receivables		(233)	(308)
Increase in trade and other payables		1,271	1,003
		8,906	8,081
Interest paid		(854)	(613)
Interest received		173	99
Tax paid		(164)	(47)
		(845)	(561)
<b>Net cash inflow from operating activities</b>		<b>8,061</b>	<b>7,520</b>
<b>Cash flows from investing activities</b>			
Purchase of investment properties		(34,833)	(51,736)
Acquisition of subsidiaries		(27,091)	(5,845)
<b>Net cash outflow from investing activities</b>		<b>(61,924)</b>	<b>(57,581)</b>
<b>Cash flows from financing activities</b>			
Issue of ordinary share capital		100,279	47,802
Expenses of issue paid		(2,778)	(1,158)
Resale of ordinary shares from treasury		14,799	–
(Repayment)/drawdown of bank loan facility		(10,638)	19,225
(Grant)/repayment of development loan		(2,170)	3,300
Dividends paid		(9,681)	(7,074)
<b>Net cash inflow from financing activities</b>		<b>89,811</b>	<b>62,095</b>
<b>Net increase in cash and cash equivalents</b>		<b>35,948</b>	<b>12,034</b>
Opening cash and cash equivalents		29,159	17,125
<b>Closing cash and cash equivalents</b>	12	<b>65,107</b>	<b>29,159</b>
<b>Transactions which do not require the use of cash</b>			
Movement in fixed or guaranteed rent reviews and lease incentives		4,362	3,760
Issue of ordinary share capital		14,159	–
Buyback of ordinary shares into treasury		(14,159)	–

The accompanying notes are an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

## 1. Accounting policies

### (a) Basis of preparation

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

#### Basis of accounting

These consolidated financial statements have been prepared and approved in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU, interpretations issued by the International Financial Reporting Standards Committee, applicable legal and regulatory requirements of the Companies (Jersey) Law 1991 (as amended), and the Listing Rules of the UK Listing Authority.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in November 2014 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

#### Significant estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant estimates and assumptions are made in the valuation of the investment properties held. Further information on market risk and sensitivity to market changes is provided in the notes.

#### Applicable standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the following new standards have become effective in the current year:

- IFRS 3 'Business Combinations'  
The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.
- IAS 24 'Related Party Disclosures'  
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- IAS 40 'Investment Property'  
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

#### Standards issued but not yet effective

The following standards have been issued but are not effective for this accounting year and have not been adopted early:

- IFRS 9 'Financial Instruments'  
In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement'.

The IFRS 9 requirements represent a change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

For financial liabilities, IFRS 9 largely carries forward without substantive amendment the guidance on classification and measurement from IAS 39. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss.

The standard introduces new requirements for hedge accounting that align hedge accounting more closely with risk management and establishes a more principles-based approach to hedge accounting. The standard also adds new requirements to address the impairment of financial assets and means that a loss event will no longer need to occur before an impairment allowance is recognised.

The standard will be effective for annual periods beginning on or after 1 January 2018, and is required to be applied retrospectively with some exemptions. The Group is yet to assess IFRS 9's full impact but it is not currently anticipated that this standard will have any material impact on the Group's financial statements as presented for the current year.

#### – IFRS 16 ‘Leases’

In January 2016, the IASB published the final version of IFRS 16 ‘Leases’. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The Group is yet to assess IFRS 16’s full impact but it is not currently anticipated that this standard will have any material impact on the Group’s financial statements as presented for the current year.

The Group does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented except for changes to disclosures.

#### Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

After making enquiries, and bearing in mind the nature of the Group’s business and assets, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 30 June 2016. Subsidiaries are those entities, including special purpose entities, controlled by the Company and are detailed in note 11. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, intra group balances, transactions and unrealised gains or losses have been eliminated in full. Uniform accounting policies are adopted for all companies within the Group.

#### (c) Revenue recognition

##### Rental Income

Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income on a straight line basis over the lease term as adjusted for the following:

- Any rental income from fixed and minimum guaranteed rent review uplifts is recognised on a straight line basis over the shorter of the term to lease expiry or to the first tenant break option;
- Lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option; and
- Contingent rents are recognised in the period in which they are earned.

Where income is recognised in advance of the related cash flows due to fixed and minimum guaranteed rent review uplifts or lease incentives, an adjustment is made to ensure that the carrying value of the relevant property including the accrued rent relating to such uplifts or lease incentives does not exceed the external valuation.

Any rental income arising in the period due to the recognition of fixed and minimum guaranteed rent review uplifts on a straight line basis is charged to the capital column of the Statement of Comprehensive Income.

##### Interest Receivable

Interest receivable is accounted for on an accruals basis.

##### Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are included gross of the related costs, as the Directors consider the Group acts as principal in this respect.

#### (d) Expenses

Expenses are accounted for on an accruals basis and are inclusive of VAT. The Group’s investment management and administration fees, finance costs and all other expenses are charged through the Statement of Comprehensive Income and are charged to revenue.

Performance fees are charged through the Statement of Comprehensive Income and are charged to revenue. The annual performance fee is based on 10 per cent of the amount by which the total return of the Group’s portfolio is in excess of the total return of the MSCI Healthcare Index. The performance fee is measured over a rolling three year period, commencing from the acquisition of the first property.

#### (e) Dividends

Dividends are accounted for in the period in which they are paid.

# Notes to the Consolidated Financial Statements

## (continued)

### 1. Accounting policies continued

#### (f) Taxation

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 Statement of Comprehensive Income 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 the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Group will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

#### Entry to UK-REIT Regime

The Company's conversion to UK-REIT status was effective from 1 June 2013. With effect from 11 April 2014, the Company withdrew from the single company REIT regime and entered into the Group REIT regime.

Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Company's property rental business comprising both income and capital gains, being exempt from UK taxation.

Target Healthcare REIT (Mossvale) Limited joined the Group REIT regime with effect from 12 April 2014. THR Number One PLC and THR Number Two Limited entered the Group REIT regime when they both commenced trading on 17 June 2014. THR Number 3 Limited entered the Group REIT regime on 29 July 2014 when acquired by the Company.

THR Number 4 Limited, THR Number 5 Limited and THR Number 6 Limited entered the Group REIT regime on 6 October 2015, 3 February 2016 and 23 June 2016 respectively, being the dates that each was acquired by the Company during the year.

The Group ensures that it complies with the UK-REIT regulations through monitoring the on-going conditions required to maintain REIT status.

#### (g) Property acquisitions

Where property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business or the acquisition of an asset.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations associated with the investment property which are charged through the statement of comprehensive income in the period of the acquisition. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations. Acquisition related costs are written off as incurred.

#### (h) Investment properties

Investment properties consist of land and buildings (principally care homes) which are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property. Acquisition related costs are written off in the period in which they are incurred.

For properties subject to deferred consideration clauses within their purchase agreements if certain performance measures are met, the deferred consideration is recognised in the period in which it falls due and payable or, if later, the date on which the related uplift in the property valuation is recognised.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the Statement of Comprehensive Income. Fair value is based on the open market valuation, as provided by Colliers International Property Consultants Limited, Chartered Surveyors, at the balance sheet date using recognised valuation techniques, appropriately adjusted for unamortised lease incentives, lease surrender premiums and rental adjustments.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the balance sheet date.

On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve. Recognition and derecognition occurs on the completion of a sale between a willing buyer and a willing seller.

**(i) Business combinations**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

**(j) Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

**(k) Rent and other receivables**

Rents receivable, which are due to be received in advance at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Other incentives provided to tenants and fixed or guaranteed rental uplifts are recognised as an asset and amortised over the period from the date of lease commencement to the earliest termination date.

Loans receivable have fixed or determinable payments and are recognised at cost plus any interest accrued.

**(l) Interest-bearing bank loans and borrowings**

All bank loans and borrowings are initially recognised at cost, being fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

**(m) Derivative financial instruments**

The Group uses derivative financial instruments to hedge its risk associated with interest rate fluctuations. The Group's policy is not to trade in derivative instruments.

Derivative instruments are initially recognised in the Balance Sheet at their fair value. Fair value is determined by using a model to calculate the net present value of future market interest rates or by using market values for similar instruments. Transaction costs are expensed immediately.

Gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments are reported through Other Comprehensive Income and are recognised through the Hedging Reserve. On maturity, or early redemption, the unrealised gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in Other Comprehensive Income, are reclassified to profit or loss.

The Group considers that its interest rate swaps qualify for hedge accounting when the following criteria are satisfied:

- The instruments must be related to an asset or liability;
- They must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- They must match the principal amounts and maturity dates of the hedged items; and
- As cash-flow hedges the forecast transactions (incurring interest payable on the bank loans) that are subject to the hedges must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedges must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedges were designated.

**(n) Reserves**

The Company is able to pay a dividend out of the Stated Capital Account in accordance with the requirements of the Companies (Jersey) Law 1991 (as amended).

**Hedging Reserve**

The following are accounted for in the hedging reserve:

- Increases and decreases in the fair value of interest rate swaps held at the period end;

**Capital Reserve**

The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investment properties;
- Increases and decreases in the fair value of investment properties held at the period end;
- Rent adjustments which represent the effect of spreading uplifts and incentives; and
- The buyback of shares into, and resale of shares from, treasury.

**Revenue Reserve**

The net profit/(loss) arising in the revenue column of the Statement of Comprehensive Income is added to or deducted from this reserve which, in addition to the Stated Capital Account, is available for paying dividends.



# Notes to the Consolidated Financial Statements

## (continued)

### 2. Fees paid to Target Advisers LLP

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Base management fee	1,783	1,140
Performance fee	871	466
<b>Total</b>	<b>2,654</b>	<b>1,606</b>

The Company's Investment Manager is Target Advisers LLP (the 'Investment Manager' or 'Target') and is responsible for the day-to-day management of the Company. Target has also been appointed as the Company's Alternative Investment Fund Manager (the 'AIFM'). The Investment Manager is entitled to an annual base management fee of 0.90 per cent of the net assets of the Group and an annual performance fee calculated by reference to 10 per cent of the outperformance of the Group's portfolio total return relative to the MSCI UK Annual Healthcare Index ('the Index'). The maximum amount of total fees payable by the Group to the Investment Manager is limited to 1.25 per cent of the average net assets of the Group over a financial year.

The first performance fee period was 8 March 2013 to 31 December 2014. Subsequent performance fee periods will be annually to 31 December, in line with the Index. Portfolio performance is measured over three cumulative rolling performance periods whereby any performance fees paid to the Investment Manager are subject to clawback if cumulative performance underperforms the Index.

A performance fee in respect of the year to 31 December 2015 totalling £636,000 (period to 31 December 2014: £506,000) has been paid of which £110,000 (2015: £150,000) was accrued in the prior period accounts. At the year-end an accrual of £345,000 (inclusive of estimated irrecoverable VAT) has been made based on the Group's historic portfolio performance relative to the Index.

With effect from 30 September 2016, the Investment Management Agreement can be terminated by either party on 12 months' written notice provided that such notice shall not expire earlier than 30 September 2019. Should the Company terminate the Investment Management Agreement earlier than 30 September 2019 then compensation in lieu of notice will be payable to the Investment Manager. The Investment Management Agreement may be terminated immediately without compensation if the Investment Manager: is in material breach of the agreement; is guilty of negligence, wilful default or fraud; is the subject of insolvency proceedings; or there occurs a change of Key Managers to which the Board has not given its prior consent.

### 3. Other expenses

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Secretarial and administration fee	157	147
Valuation and other professional fees	209	242
Directors' fees	115	113
Direct property costs	112	–
Auditor's remuneration for:		
– statutory audit of the Company	44	37
– statutory audit of the subsidiaries	44	35
– assurance related services	6	5
– other services related to taxation compliance*	–	52
– other services relating to tax advisory*	–	28
Other taxation compliance and advisory	55	–
Listing & Registrar fees	51	54
Public relations	22	26
Other	177	141
<b>Total</b>	<b>992</b>	<b>880</b>

The valuers of the investment properties, Colliers International Property Consultants Limited, have agreed to provide valuation services in respect of the property portfolio. The valuation agreement states that annual fees will be payable quarterly based on rates of 0.05 per cent of the aggregate value of the property portfolio up to £30 million, 0.04 per cent up to £60 million and 0.035 per cent greater than £60 million.

\* The Company paid a further £41,000 to EY as non-audit fees in relation to expenses of issue of shares during the year and these are included in note 15. Expenses are inclusive of VAT as the Company is not VAT registered. A split of the services provided by EY and the fees for their services is provided within the Report of the Audit Committee on page 48.

### 4. Interest receivable

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Deposit interest	173	61
Development loan interest	–	38
<b>Total</b>	<b>173</b>	<b>99</b>

## 5. Interest payable and similar charges

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Bank loan	1,102	815
<b>Total</b>	<b>1,102</b>	<b>815</b>

## 6. Taxation

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Current tax	24	39
<b>Total tax charge</b>	<b>24</b>	<b>39</b>

A reconciliation of the corporation tax charge applicable to the results at the statutory corporation tax rate to the charge for the year is as follows:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Profit before tax	11,726	9,591
Tax at 20.0% (2015: 20.76%)	2,345	1,991
Effects of:		
REIT exempt profits	(2,436)	(2,167)
REIT exempt (gains)/losses	(85)	174
Cost of corporate acquisitions	200	36
Capital allowances claimed	–	5
<b>Total tax charge</b>	<b>24</b>	<b>39</b>

The Directors intend to conduct the Company's affairs such that management and control is exercised in the United Kingdom and so that the Company carries on any trade in the United Kingdom.

Subject to continuing relevant UK-REIT criteria being met, the profits from the Group's property rental business, arising from both income and capital gains, are exempt from corporation tax.

## 7. Dividends

Amounts paid as distributions to equity holders during the year to 30 June 2016.

	Dividend rate (pence per share)	Year ended 30 June 2016 £'000
Fourth interim dividend for the year ended 30 June 2015	1.530	2,177
First interim dividend for the year ended 30 June 2016	1.545	2,199
Second interim dividend for the year ended 30 June 2016	1.545	2,660
Third interim dividend for the year ended 30 June 2016	1.545	2,660
<b>Total</b>	<b>6.165</b>	<b>9,696</b>

Amounts paid as distributions to equity holders during the year to 30 June 2015.

	Dividend rate (pence per share)	Year ended 30 June 2015 £'000
Sixth interim dividend for the period ended 30 June 2014	1.50	1,428
First interim dividend for the year ended 30 June 2015	1.53	1,721
Second interim dividend for the year ended 30 June 2015	1.53	1,795
Third interim dividend for the year ended 30 June 2015	1.53	2,177
<b>Total</b>	<b>6.09</b>	<b>7,121</b>

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. The fourth interim dividend in respect of the year ended 30 June 2016, of 1.545 pence per share, was paid on 26 August 2016 to shareholders on the register on 12 August 2016 amounting to £3,896,000. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

# Notes to the Consolidated Financial Statements

## (continued)

### 8. Earnings per share and Net Asset Value per share

EPRA is an industry body which issues best practice reporting guidelines and the Group report an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below.

#### Earnings per share

	Year ended 30 June 2016		Year ended 30 June 2015	
	£'000	Pence per share	£'000	Pence per share
<b>Revenue earnings</b>	<b>8,139</b>	<b>4.74</b>	6,805	5.71
<b>Capital earnings</b>	<b>3,563</b>	<b>2.07</b>	2,747	2.31
<b>Total earnings</b>	<b>11,702</b>	<b>6.81</b>	9,552	8.02
<b>Average number of shares in issue</b>	<b>171,734,587</b>		119,160,560	

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties and other items of a capital nature and represents the revenue earned by the Group.

The Group's specific adjusted EPRA earnings adjusts the EPRA earnings for the performance fee.

The reconciliations are provided in the table below:

	Year ended 30 June 2016	Year ended 30 June 2015
<b>Earnings per IFRS Consolidated Statement of Comprehensive Income</b>	<b>11,702</b>	9,552
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives	<b>(4,136)</b>	(3,760)
Adjusted for revaluations of investment properties	<b>(425)</b>	839
Adjusted for cost of corporate acquisitions	<b>998</b>	174
<b>EPRA earnings</b>	<b>8,139</b>	6,805
Adjusted for performance fee	<b>871</b>	466
<b>Group specific adjusted EPRA earnings</b>	<b>9,010</b>	7,271
<b>Earnings per share ('EPS') (pence per share)</b>		
<b>EPS per IFRS Consolidated Statement of Comprehensive Income</b>	<b>6.81</b>	8.02
<b>EPRA EPS</b>	<b>4.74</b>	5.71
<b>Group specific adjusted EPRA EPS</b>	<b>5.25</b>	6.10

#### Net Asset Value per share

The Group's Net Asset Value per ordinary share of 100.4 pence (2015: 97.9 pence) is based on equity shareholders' funds of £253,282,000 (2015: £139,292,000) and on 252,180,851 (2015: 142,298,226) ordinary shares, being the number of shares in issue at the year-end.

The EPRA Net Asset Value ('EPRA NAV') per share is arrived at by adjusting the net asset value ('NAV') calculated under International Financial Reporting Standards ('IFRS'). The EPRA NAV provides a measure of the fair value of a company on a long-term basis. The only adjustment required to the NAV is that the EPRA NAV excludes the fair value of the Group's interest rate swap, which was recognised as a liability of £316,000 under IFRS as at 30 June 2016 (2015: nil).

EPRA believes that, under normal circumstances, the financial derivatives which property investment companies use to provide an economic hedge are held until maturity and so the theoretical gain or loss at the balance sheet date will not crystallise.

	As at 30 June 2016	As at 30 June 2015
<b>NAV per financial statements (pence per share)</b>	<b>100.4</b>	97.9
Valuation of interest rate swap	<b>0.2</b>	—
<b>EPRA NAV (pence per share)</b>	<b>100.6</b>	97.9

## 9. Investments

### Freehold and leasehold properties

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
<b>Opening market value</b>	<b>143,748</b>	83,246
Opening fixed or guaranteed rent reviews and lease incentives	(5,584)	(1,824)
<b>Opening carrying value</b>	<b>138,164</b>	81,422
Purchases	32,912	49,424
Purchase of property through a business combination	27,298	5,845
Acquisition costs capitalised	1,921	2,312
Acquisition costs written off	(1,921)	(2,312)
Revaluation movement	6,708	5,233
<b>Movement in market value</b>	<b>66,918</b>	60,502
Movement in fixed or guaranteed rent reviews and lease incentives	(4,362)	(3,760)
<b>Movement in carrying value</b>	<b>62,556</b>	56,742
<b>Closing market value</b>	<b>210,666</b>	143,748
Closing fixed or guaranteed rent reviews and lease incentives	(9,946)	(5,584)
<b>Closing carrying value</b>	<b>200,720</b>	138,164

### Changes in the valuation of investment properties

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Revaluation movement	6,708	5,233
Acquisition costs written off	(1,921)	(2,312)
Movement in fixed or guaranteed rent reviews and lease incentives	(4,362)	(3,760)
<b>Gains/(losses) on revaluation of investment properties</b>	<b>425</b>	(839)

The properties were valued at £210,666,000 (2015: £143,748,000) by Colliers International Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation – Professional Standards, incorporating the International Valuation Standards January 2014 ('the Red Book') issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The quarterly property valuations are reviewed by the Board at each Board meeting. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £200,720,000 (2015: £138,164,000). The adjustment consisted of £9,719,000 relating to fixed or guaranteed rent reviews and £227,000 of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the accounts as current assets within 'trade and other receivables' (see note 10).

All leasehold properties are carried at fair value rather than amortised over the term of the lease. The same valuation criteria are therefore applied to leasehold as freehold properties. All leasehold properties have more than 990 years remaining on the lease term.

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 'Fair Value Measurement'. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

- Level 1 – unadjusted quoted prices in active markets;
- Level 2 – observable inputs other than quoted prices included within level 1;
- Level 3 – unobservable inputs.

The Group's investment properties are valued by Colliers on a quarterly basis. The valuation methodology used is the yield model, which is a consistent basis for the valuation of investment properties within the healthcare industry. This model has regard to the current investment market and evidence of investor interest in properties with income streams secured on healthcare businesses. On an asset-specific basis, the valuer makes an assessment of: the quality of the asset; recent and current performance of the asset; and the financial position and performance of the tenant operator. This asset specific information is used alongside a review of comparable transactions in the market and an investment yield is applied to the asset which, along with the contracted rental level, is used to derive a market value.

# Notes to the Consolidated Financial Statements

## (continued)

### 9. Investments (continued)

In determining what level of the fair value hierarchy to classify the Group's investments within, the Directors have considered the content and conclusion of the position paper on IFRS 13 prepared by the European Public Real Estate Association ('EPRA'), the representative body of the publicly listed real estate industry in Europe. This paper concludes that, even in the most transparent and liquid markets, it is likely that valuers of investment property will use one or more significant unobservable inputs or make at least one significant adjustment to an observable input, resulting in the vast majority of investment properties being classified as level 3.

Observable market data is considered to be that which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. In arriving at the valuation Colliers make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this involves the use of considerable judgement.

Considering the Group's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Group's investment properties within level 3 of the fair value hierarchy.

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield on these assets is ahead of the blended 7 per cent modelled at the time of launch. The yield on individual assets ranges from 6.25 per cent to 8.0 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

The key unobservable inputs made in determining the fair values are:

- Estimated rental value ('ERV'): The rent at which space could be let in the market conditions prevailing at the date of valuation; and
- Yield: The equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.

The ERV for the total portfolio is materially the same as the passing rent which is disclosed on page 12.

A decrease in the ERV applied to an asset will decrease the fair value of the asset, and consequently decrease the Group's reported income from unrealised gains on investments. An increase in the ERV will increase the fair value of an asset and increase the Group's income.

A decrease of 0.25 per cent in the investment yield applied to the portfolio will increase the fair value of the portfolio by £7.8 million (2015: £5.1 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the yield will decrease the fair value of the portfolio by £7.3 million (2015: £4.8 million) and reduce the Group's income.

### 10. Trade and other receivables

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
<b>Non-current trade and other receivables</b>		
Cash held for tenants	3,742	2,530
<b>Total</b>	<b>3,742</b>	<b>2,530</b>
	As at 30 June 2016 £'000	As at 30 June 2015 £'000
<b>Current trade and other receivables</b>		
Fixed rent reviews	9,719	5,584
Development loan	2,170	–
Cash deposits held in escrow for property purchases	910	605
Lease incentives	227	223
Accrued income	173	–
Other debtors and prepayments	23	45
<b>Total</b>	<b>13,222</b>	<b>6,457</b>

At the year-end, trade and other receivables include a fixed rent review debtor of £9,719,000 (2015: £5,584,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the shorter of the term to lease expiry or to the first tenant break option, in accordance with the Group's accounting policies spreading uplifts and incentives over the lease term.

During February 2016, the Group exchanged contracts to acquire a 12-bed specialist care home in Bricket Wood, St Albans (see note 17). As part of this acquisition, the Group entered into a secured loan facility agreement with HSN Care ('HSN'), the specialist care provider who will be the tenant of the home on completion. The Company had agreed to provide HSN with a loan of £2,170,000 for the purposes of carrying out the development of the property and this was fully drawn down at the year end. The loan carries interest at 8.85 per cent per annum and the loan capital and accrued interest will be repayable from the consideration proceeds once the acquisition completes.

## 11. Investment in subsidiary undertakings

The Company owns 100 per cent of the issued ordinary share capital of Target Healthcare REIT (Mossvale) Limited ('THRM'), a company registered in Scotland. The principal activity of Target Healthcare REIT (Mossvale) Limited is that of an investment and property company.

The Company owns 100 per cent of the issued ordinary share capital of THR Number One PLC ('THR1'), a company registered in England and Wales. The principal activity of THR1 is that of an investment and property company.

THR1 owns 100 per cent of the share capital of THR Number Two Limited ('THR2'), a company registered in England & Wales. The principal activity of THR2 is that of an investment and property company. THR1 also owns 100 per cent of the share capital of THR Number 3 Limited ('THR3'), a company registered in England & Wales. The principal activity of THR3 is that of an investment and property company.

### Acquisition of THR Number 4 Limited ('THR4')

On 6 October 2015, the Company acquired 100 per cent of the voting shares of THR Number 4 Limited, a company registered in England and Wales. Prior to acquisition, the company owned and operated a care home. As part of the transaction, the operation of the care home was sold to a third party specialist elderly care home operator, who entered into an agreement with the company to lease the care home property. Therefore from the date of acquisition onwards, the company has been an investment and property company.

### Acquisition of THR Number 5 Limited ('THR5')

On 3 February 2016, the Company acquired 100 per cent of the voting shares of THR Number 5 Limited, a company registered in England and Wales. Prior to acquisition, the company owned and operated a care home. As part of the transaction, the care home continued to be operated by the incumbent operator, who entered into an agreement with the company to lease the property. Therefore from the date of acquisition onwards, the company has been an investment and property company.

### Acquisition of THR Number 6 Limited ('THR6')

On 23 June 2016, the Company acquired 100 per cent of the voting shares of Hi-Hand Limited, a company registered in England and Wales. Prior to acquisition, the company owned and operated a care home. As part of the transaction, the operation of the care home was sold by the company to a UK-wide care home operator, who entered into an agreement with the company to lease the property. Therefore from the date of acquisition onwards, the company has been an investment and property company. Subsequent to the year end, the name of the company was changed from Hi-Hand Limited to THR Number 6 Limited.

### Fair value recognised on acquisition

The fair value of the identifiable assets and liabilities of the subsidiaries acquired by the Company during the year ended 30 June 2016 were:

	THR4 £'000	THR5 £'000	THR6 £'000
Investment property	6,048	13,750	7,500
Cash and cash equivalents	28	521	1
Trade and other receivables	–	–	–
<b>Total assets</b>	<b>6,076</b>	<b>14,271</b>	<b>7,501</b>
Trade and other payables	–	(207)	–
<b>Total liabilities</b>	<b>–</b>	<b>(207)</b>	<b>–</b>
<b>Total identifiable net assets at fair value</b>	<b>6,076</b>	<b>14,064</b>	<b>7,501</b>
<b>Purchase consideration transferred</b>	<b>6,076</b>	<b>14,064</b>	<b>7,501</b>

### Cash flow on acquisition

	THR4 £'000	THR5 £'000	THR6 £'000
Net cash acquired with the subsidiary	28	521	1
Cash paid	(6,076)	(14,064)	(7,501)
<b>Net cash flow on acquisition</b>	<b>(6,048)</b>	<b>(13,543)</b>	<b>(7,500)</b>
<b>Cost of corporate acquisitions</b>	<b>142</b>	<b>398</b>	<b>458</b>

The Group sought independent valuations by Colliers of the investment property held within each of the companies at the time of acquisition.



# Notes to the Consolidated Financial Statements

## (continued)

### 11. Investment in subsidiary undertakings (continued)

From the date of acquisition, the profit and total comprehensive income of each company included within the Consolidated Statement of Comprehensive Income for the year ended 30 June 2016 were as follows:

	THR4 £'000	THR5 £'000	THR6 £'000
Revenue	341	407	6
Capital	(798)	(90)	(11)
<b>Total</b>	<b>(457)</b>	<b>317</b>	<b>(5)</b>

### 12. Cash and cash equivalents

All cash balances at the year-end were held in cash, current accounts or deposit accounts.

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Cash at bank and in hand	1,284	1,159
Short-term deposits	63,823	28,000
<b>Total</b>	<b>65,107</b>	<b>29,159</b>

### 13. Bank loan

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Principal amount outstanding	21,000	31,510
Set-up costs	(836)	(708)
Amortisation of set-up costs	285	63
<b>Total</b>	<b>20,449</b>	<b>30,865</b>

At 30 June 2015, the Group had a £35.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which was repayable on 23 June 2019. With effect from 1 April 2016, the quantum of the facility was increased to £50.0 million, with other significant terms of the loan remaining unchanged. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. At 30 June 2016, the margin was 2 per cent per annum for the duration of the loan. A non-utilisation fee of 1 per cent per annum was payable on any undrawn element of the facility.

This bank loan is secured by way of a fixed and floating charge over the whole of the assets of the THR Number One PLC Group ('THR1 Group') which consists of THR1 and its two directly held subsidiaries, THR2 and THR3. Under the bank covenants related to this loan, the Group is to ensure that for THR1 Group:

- The loan to value percentage does not exceed 50 per cent; and
- The interest cover is greater than 300 per cent on any calculation date.

THR1 Group has complied with all the bank loan covenants during the year.

On 22 June 2016, the Group entered into an interest rate swap for a notional value of £21.0 million, with a starting date of 7 July 2016 and a termination date of 23 June 2019. Under the terms of the interest rate swap, the Group will pay quarterly a fixed rate of interest of 0.85 per cent per annum and will receive 3-month LIBOR. The fair value of the interest rate swap at 30 June 2016 was a liability of £316,000 (2015: nil).

On 1 September 2016, the Group extended its loan facility to 1 September 2021, with an option of two further one year extensions thereafter, subject to the consent of RBS. The margin on the extended facility was reduced from 2.0 per cent to 1.5 per cent per annum for the duration of the loan. On 21 September 2016, the Group entered into a second interest rate swap under which, for the period from 24 June 2019 to 1 September 2021, the Group will pay quarterly a fixed rate of interest of 0.70 per cent per annum and will receive 3-month LIBOR. Inclusive of both the interest rate swaps, the interest rate on the Group's £21.0 million of drawn down borrowings was therefore fixed at an all-in rate of 2.35 per cent per annum until 23 June 2019 and 2.20 per cent per annum from 24 June 2019 to 1 September 2021. There were no other material amendments to the loan facility.

### 14. Trade and other payables

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
<b>Non-current trade and other payables</b>		
Rental deposits	3,742	2,530
<b>Total</b>	<b>3,742</b>	<b>2,530</b>

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
<b>Current trade and other payables</b>		
Rental income received in advance	2,806	2,272
Investment Manager's fees payable including performance fees	885	450
Loan interest payable	176	150
Tax payable	73	6
Other payables	1,062	745
<b>Total</b>	<b>5,002</b>	<b>3,623</b>

The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

## 15. Stated Capital Movements

	As at 30 June 2016	
	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of no par value		
Opening balance	142,298,226	136,846
Issued on 27 August 2015	14,229,822	14,159
Issued on 20 November 2015	15,652,803	16,279
Issued on 12 May 2016	80,000,000	84,000
		251,284
Expenses of issue		(2,778)
		248,506
Dividends allocated to capital		(1,973)
<b>Balance as at 30 June 2016</b>	<b>252,180,851</b>	<b>246,533</b>

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of ordinary shares.

During the year to 30 June 2016, the Company repurchased 14,229,822 ordinary shares (2015: nil) into treasury at a total cost of £14,159,000. During the year to 30 June 2016, the Company resold 14,229,822 ordinary shares (2015: nil) from treasury raising gross proceeds of £14,799,000. At 30 June 2016, the Company did not hold any ordinary shares in treasury (2015: nil). Transactions through treasury are recorded through the capital reserve and are not included in the stated capital movements above.

During the year, the Company issued 109,882,625 ordinary shares raising gross proceeds of £114,438,000. The total expenses of issuing these shares were £2,778,000.

### Capital management

The Company's capital is represented by the stated capital account, hedging reserve, capital reserve and revenue reserve. The Company is not subject to any externally-imposed capital requirements.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective. The Company is able to pay a dividend out of the Stated Capital Account as permitted by the Companies (Jersey) Law 1991 (as amended).

### Capital risk management

The objective of the Group is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified portfolio of freehold and long leasehold care homes that are let to care home operators; and other healthcare assets in the UK.

The Board has responsibility for ensuring the Group's ability to continue as a going concern. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the Board on a regular basis.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury.

Where ordinary shares are held in treasury these are available to be sold to meet on-going market demand. The ordinary shares will be sold only at a premium to the prevailing NAV per share. The net proceeds of any subsequent sales of shares out of treasury will provide the Company with additional capital to enable it to take advantage of investment opportunities in the market and make further investments in accordance with the Company's investment policy and within its appraisal criteria. Holding shares in treasury for this purpose assists the Company in matching its on-going capital requirements to its investment opportunities and therefore reduces the negative effect of holding excess cash on its balance sheet over the longer term.

No changes were made in the objectives, policies or processes during the year.

# Notes to the Consolidated Financial Statements

## (continued)

### 16. Financial instruments

Consistent with its objective, the Group holds UK care home property investments. In addition, the Group's financial instruments comprise cash and receivables and payables that arise directly from its operations. The Group's exposure to derivative instruments consists of an interest rate swap used to fix the interest rate on the Group's variable rate borrowings.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There is no foreign currency risk as all assets and liabilities of the Group are maintained in pounds sterling.

The Board reviews and agrees policies for managing the Group's risk exposure. These policies are summarised below and have remained unchanged for the year under review. These disclosures include, where appropriate, consideration of the Group's investment properties which, whilst not constituting financial instruments as defined by IFRS, are considered by the Board to be integral to the Group's overall risk exposure.

#### Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. At the reporting date, the Group's financial assets exposed to credit risk amounted to £68.4 million (2015: £29.8 million).

In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Group will suffer a rental shortfall and incur additional expenses until the property is relet. These expenses could include legal and surveyor's costs in reletting, maintenance costs, insurances, rates and marketing costs and may have a material adverse impact on the financial condition and performance of the Group and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

There were no financial assets which were either past due or considered impaired at 30 June 2016 (2015: nil).

All of the Group's cash is placed with financial institutions with a long-term credit rating of BBB or better. Bankruptcy or insolvency of such financial institutions may cause the Group's ability to access cash placed on deposit to be delayed, limited or lost. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

During the year, due to the quantum of cash balances held, counterparty risk was spread by placing cash across two different financial institutions and at the year-end the Group held £26.0 million (2015: £14.1 million) with The Royal Bank of Scotland plc and £39.1 million (2015: £15.0 million) with Lloyds Bank plc.

#### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The Group's investments comprise UK care homes. Property and property-related assets in which the Group invests are not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Group's liquidity risk is managed on an on-going basis by the Investment Manager and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Group aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

At the reporting date, the maturity of the financial assets was:

#### Financial assets as at 30 June 2016

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Cash	65,107	–	–	65,107
Development loan	2,170	–	–	2,170
Cash held for tenants	–	–	3,742	3,742
Other debtors and prepayments	1,333	–	–	1,333
<b>Total</b>	<b>68,610</b>	<b>–</b>	<b>3,742</b>	<b>72,352</b>

**Financial assets as at 30 June 2015**

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Cash	29,159	–	–	29,159
Cash held for tenants	–	–	2,530	2,530
Other debtors and prepayments	873	–	–	873
<b>Total</b>	<b>30,032</b>	<b>–</b>	<b>2,530</b>	<b>32,562</b>

At the reporting date, the maturity of the financial liabilities was:

**Financial liabilities as at 30 June 2016**

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan and interest rate swap	224	665	22,760	23,649
Rental deposits	–	–	3,742	3,742
Other payables	2,196	–	–	2,196
<b>Total</b>	<b>2,420</b>	<b>665</b>	<b>26,502</b>	<b>29,587</b>

**Financial liabilities as at 30 June 2015**

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan	228	678	37,693	38,599
Rental deposits	–	–	2,530	2,530
Other payables	1,351	–	–	1,351
<b>Total</b>	<b>1,579</b>	<b>678</b>	<b>40,223</b>	<b>42,480</b>

The total amount due to RBS under the interest-bearing £50 million bank facility (30 June 2015: £35 million bank facility) includes the expected hedged interest payments due under both the loan and interest rate swap combined (see note 13 for further details) assuming that both the drawn element of the loan and the notional value of the interest rate swap remain unchanged at £21 million from 30 June 2016 until the original expiry on 23 June 2019. The commitment fee payable on the undrawn element of the facility is included. The extension of the loan facility on 1 September 2016 (see note 13) is not reflected in these figures.

In the prior year, at which date the interest rate on the loan had not been hedged, the amount payable under the bank loan included the expected interest payments due based on the rate of 3 month LIBOR at 30 June 2015. This assumed the facility had been fully drawn down from 30 June 2015 until expiry on 23 June 2019.

**Interest rate risk**

Some of the Company's financial instruments are interest-bearing. Interest-rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates.

The Group's policy is to hold cash in variable rate or short term fixed rate bank accounts. Interest is received on cash at fixed rates of 0.50 per cent and 0.55 per cent and earns interest at these fixed rates for six months. Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

The Group has a £50 million (2015: £35 million) committed term loan and revolving credit facility which at 30 June 2016 was charged interest at a rate of 3 month LIBOR plus a margin of 2 per cent per annum and at the year-end £21.0 million was drawn down (2015: £31.5 million). The bank borrowings are carried at amortised cost and the Group considers this to be a close approximation to fair value. The fair value of the bank borrowings is affected by changes in the market interest rate.

The Group has hedged its exposure on the £21.0 million loan drawn down at 30 June 2016 through entering into a fixed rate Interest Rate Swap (see note 13). Fixing the interest rate exposes the Group to fair value interest rate risk. At 30 June 2016, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swap and the reported total comprehensive income for the year by £0.2 million (2015: nil). A decrease in interest rates would have had an equal and opposite effect.

# Notes to the Consolidated Financial Statements

## (continued)

### 16. Financial instruments (continued)

#### Interest rate risk (continued)

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

	As at 30 June 2016		As at 30 June 2015	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	65,107	–	29,159	–
Development loan	2,170	–	–	–
Bank loan	–	21,000	–	31,510

Based on the Group's exposure to cash flow interest rate risk, an increase of 0.25 per cent in interest rates would have increased the reported profit for the year and the net assets at the year-end by £116,000 (2015: a decrease of £6,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2016 (30 June 2015) and may not be reflective of actual future conditions.

#### Market price risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 9.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Group's investment property portfolio held at the balance sheet date are disclosed in note 9. A 10 per cent increase in the value of the investment properties held as at 30 June 2016 (30 June 2015) would have increased net assets available to shareholders and increased the net income for the year by £20.1 million (2015: £13.8 million); an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

The calculations are based on the investment property valuations at the respective balance sheet date and are not representative of the year as a whole, nor reflective of future market conditions.

### 17. Capital commitments

In December 2014, the Company entered into a forward commitment agreement to acquire a purpose-built care home in Tonbridge, Kent, for a consideration of £12.5 million, including acquisition costs. The property is currently being built with the development expected to reach practical completion later in 2016, at which point payment will become due.

In February 2016, the Company exchanged contracts to acquire a 12-bed specialist care home in Bricket Wood, St Albans for approximately £2.3 million including acquisition costs. As part of the agreed terms, the Group has provided a short-term loan facility to HSN Care, the tenant operator who holds the lease on the property, in order to fund the land acquisition and refurbishment of the property with any delays in timing or cost overruns remaining the responsibility of HSN. The loan facility attracts an accrued coupon of 8.85 per cent per annum and the loan capital and accrued interest will be repayable from the consideration proceeds once the acquisition completes. This loan is included in trade and other receivables at 30 June 2016 (see note 10).

In June 2016, the Company exchanged contracts to acquire a purpose-built care home in the village of Kirby Cross near Frinton-on-Sea, Essex. The home will be acquired for approximately £9.2 million, including acquisition costs, once works have been undertaken to complete the home to the Group's specification. Completion of the transaction is expected in January 2017, at which point payment will become due.

The Company had other capital commitments of approximately £1.5 million at 30 June 2016 in relation to asset acquisitions.

### 18. Lease length

The Group leases out its investment properties under operating leases.

The minimum lease payments based on the unexpired lessor lease length at the year-end were as follows (based on annual rentals):

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Less than one year	15,283	11,151
Between two and five years	63,788	42,289
Over five years	505,704	395,847
<b>Total</b>	<b>584,775</b>	<b>449,287</b>

The largest single tenant at the year-end accounted for 22.2 per cent (2015: 31.7 per cent) of the current annual rental income.

There were no unoccupied properties at the period end.

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with lease terms of between 14 and 35 years.

## 19. Related Party Transactions

The Board of Directors is considered to be a related party. No Director has an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Company.

Mr Ross is a director of the Company Secretary and the Administrator, R&H Fund Services (Jersey) Limited and R&H Fund Services Limited respectively, which each receive fees from the Company. Mrs Jones is a director of the Company Secretary, R&H Fund Services (Jersey) Limited. Secretarial and administration fees for the period are disclosed in note 3.

The Directors of the Company received fees for their services. Total fees for the year were £115,000 (2015: £113,000) of which £16,000 (2015: £16,000) remained payable at the year-end.

Target Advisers LLP is considered to be a related party. Target Advisers LLP received £2,654,000 (2015: £1,606,000) in relation to the year of which £871,000 (2015: £466,000) related to performance fee. Of this amount £885,000 (2015: £450,000) (inclusive of VAT) remained payable at the year-end.

## 20. Operating segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the EPRA NAV. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NAV is detailed in note 8.

The view that the Group is engaged in a single segment of business is based on the following considerations:

- One of the key financial indicators received and reviewed by the Board is the total return from the property portfolio taken as a whole;
- There is no active allocation of resources to particular types or groups of properties in order to try to match the asset allocation of the benchmark; and
- The management of the portfolio is ultimately delegated to a single property manager, Target.

## 21. Contingent assets and liabilities

One property within the portfolio met contracted performance conditions during the period and this is expected to trigger a deferred payment of £2.0 million to the vendor. The Group will become entitled to receive an uplift in rental income from the property commencing at the date the deferred payment is made. All other things being equal, this will result in an increase in the market value of the property by a value equivalent to the deferred payment made. Therefore, in order to ensure that the cost is matched against the benefit that will accrue and ensure that the Group's net assets are not misstated, the deferred consideration has not been accrued at 30 June 2016 and will instead be recognised on the date of payment, with the offsetting increase in the market value of the property being recognised on the same date.

## 22. Post Balance Sheet Events

On 26 August 2016, the Group completed the acquisition of two modern, purpose built care homes located in Dundee, Scotland and Sandiacre, Derbyshire for approximately £14.0 million including acquisition costs. The Group acquired the properties through the Company's corporate acquisition of two existing property-holding companies incorporated in Gibraltar.

The properties comprise a total of 151 bedrooms with full en-suite bathrooms including wetrooms and opened in 2007 and 2015. A refurbishment programme on the older property will be completed imminently with both properties due to reach operational maturity by the year end. The homes will continue to be operated by the incumbent operator, Hudson Healthcare. The homes are subject to 35-year leases with RPI-linked cap and collar. The net initial yield on the transaction is broadly consistent with the overall average of the Group's portfolio.

On 1 September 2016, the Group completed the acquisition of a modern, purpose built care home in Mytchett near Camberley, Surrey, for approximately £6.5 million including acquisition costs. Kingsmead House was completed in 2015 and has 40 bedrooms over three floors. Upon acquisition, the home was leased back to the existing tenant, Care Concern Group, who has operated the home since its opening. The lease is for a term of 35-years and is subject to an RPI-linked cap and collar. The net initial yield on the transaction is broadly consistent with the overall average of the Group's portfolio.



# Notes to the Consolidated Financial Statements

## (continued)

### 23. Alternative Investment Fund Managers ('AIFM') Directive

In accordance with the AIFM Directive, information in relation to the Group's leverage and the remuneration of the Company's AIFM, Target Advisers LLP, is required to be made available to investors. In accordance with the Directive, the AIFM's remuneration policy is available from Target Advisers LLP on request and the numerical remuneration disclosures in relation to the AIFM's first relevant accounting period will be made available in due course.

The Group's maximum and average actual leverage levels at 30 June 2016 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	0.91	1.17

For the purposes of the AIFM Directive, leverage is any method which increases the Group's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Group's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other. Both methods include the Group's interest rate swap measured at notional value.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Incorporation. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Detailed regulatory disclosures to investors in accordance with the AIFM Directive are contained on the Company's website.

# Board of Directors

## Malcolm Naish

### Independent Non-Executive Chairman

Mr Naish was a director of Real Estate at Scottish Widows Investment Partnership ("SWIP") until 2012, with responsibility for a portfolio of commercial property assets spanning the UK, Continental Europe and North America, and for SWIP's real estate investment management business. Mr Naish has over 40 years' experience of working in the real estate industry and qualified as a Chartered Surveyor in 1976. Immediately prior to joining SWIP he was director and head of DTZ Investment Management, where he also led new business development in the UK and international markets. He was a founding partner of Jones Lang Wootton Fund Management, and UK Managing Director of LaSalle Investment Management. In 2002, he co-founded Fountain Capital Partners, a pan-European real estate investment manager and adviser. Mr Naish was also Chairman of the Scottish Property Federation for 2010/2011. He now holds a number of non-executive positions and roles in the charity sector.

**Date of appointment:** 30 January 2013

**Country of residence:** UK

**All other public company directorships:** GCP Student Living Plc, Ground Rents Income Fund Plc

## Professor June Andrews OBE

### Independent Non-Executive Director

Professor Andrews is a Fellow of the Royal College of Nursing and a world renowned dementia specialist. She set up and directed the Centre for Change and Innovation in the Scottish Executive Health Department and was the director of the Dementia Services Development Centre at the University of Stirling. Professor Andrews is a former trade union leader, NHS manager and senior civil servant.

**Date of appointment:** 30 January 2013

**Country of residence:** UK

**All other public company directorships:** None

## Gordon Coull

### Independent Non-Executive Director and Chairman of Audit Committee

Mr Coull was formerly a partner at Ernst & Young LLP where he specialised in investment trusts and property. He has served as an audit committee member at the Universities Superannuation Scheme since April 2012 and as a director of Cornelian Asset Managers Group from May 2015.

**Date of appointment:** 30 January 2013

**Country of residence:** UK

**All other public company directorships:** None

## Thomas Hutchison III

### Independent Non-Executive Director and Senior Independent Director

Mr Hutchison has more than 40 years of experience focused in the lodging, hospitality, real estate development, seniors' housing and financial services industries. He is the principal founder of Legacy Hotel Advisors, LLC and Legacy Healthcare Properties, LLC where he served as the Chairman of both companies. In January 2000, he joined CNL Financial Group, Inc. where he held several key executive positions over an eight year period: CEO of each of CNL Retirement Properties, Inc., CNL Hotels & Resorts, Inc., CNL Real Estate Group, Inc., CNL Realty and Development, Inc. and CNL Income Properties, Inc. Mr Hutchison is currently a director for KSL Capital Partners LLC, ClubCorp, Inc., Hersha Hospitality Trust and Trinity Forum Europe. He is also a member of The Real Estate Roundtable, Leadership Council for Communities in Schools and the Advisory Council of the Erickson School of Aging Studies. Additionally, he serves as a senior adviser to various service industry public companies. He is a former Director of Zapata Corporation, General Development Corporation, Vision360 and Trinity Forum.

**Date of appointment:** 30 January 2013

**Country of residence:** United States of America

**All other public company directorships:** None

## Hilary Jones

### Independent Non-Executive Director

Mrs Jones joined Rawlinson & Hunter's ('R&H') fund administration business in Jersey in 1999 and was promoted to the role of Principal Manager in 2005. Since 2009 she has been a director of R&H Jersey and leads a team responsible for a wide range of corporate services, in particular for property funds. Mrs Jones is a fellow of the Association of Chartered Certified Accountants and a past member of the Legal & Technical Committee of the Jersey Funds Association; she also sat on the Authorisation Users panel which liaised with the JFSC on behalf of the funds industry regarding specific matters relating to the authorisation of funds.

**Date of appointment:** 22 July 2014

**Country of residence:** Jersey

**All other public company directorships:** None

## Graeme Ross

### Independent Non-Executive Director

Mr Ross is a Chartered Accountant and has over 25 years' experience of the offshore funds sector. He joined R&H's fund administration business in Jersey in 1986 and became a partner in 1995. In 2010 Mr Ross was appointed as Senior Partner of R&H in Jersey with responsibility for the firm's overall business strategy.

**Date of appointment:** 22 July 2014

**Country of residence:** Jersey

**All other public company directorships:** ETFS Commodity Securities Limited, ETFS Equity Securities Limited, ETFS Foreign Exchange Limited, ETFS Hedged Commodity Securities Limited, ETFS Hedged Metal Securities Limited, ETFS Metal Securities Limited, ETFS Oil Securities Limited, Gold Bullion Securities Limited, Genagro Limited, RHFS Growth & Income Funds Limited, Swiss Commodity Securities Limited.

# Investment Manager

## The Investment Manager

The Company has appointed Target Advisers LLP ('Target' or the 'Investment Manager') as its investment manager pursuant to the Investment Management Agreement. The Investment Manager is a limited liability partnership which is authorised and regulated by the FCA and has the responsibility for the day-to-day management of the Group and advises the Group on the acquisition of its investment portfolio and on the development, management and disposal of UK care homes and other healthcare assets in the portfolio. It comprises a team of experienced individuals with expertise in the operation of and investment in healthcare property assets.

## Alternative Investment Fund Managers Directive ('AIFMD')

The Board has appointed Target as the Company's AIFM and Target has received FCA approval to act as AIFM of the Company; your Company is therefore fully compliant with the AIFMD. An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the property transactions and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed Augustus Depositary Company Limited to act as the Company's depositary.

## Key personnel of the Investment Manager

The Investment Manager's team comprises eight healthcare investment professionals. The key healthcare personnel who are responsible for managing the portfolio are:

### Kenneth MacKenzie MA CA

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Kenneth MacKenzie is founder and managing partner of Target Advisers. He is a Chartered Accountant with 40 years of business leadership experience, last thirteen in healthcare. He is the founder of Kames Target Healthcare Fund and as well as the Company each of which are long term income funds with conservative and profitable track records and Target Advisers the premier niche senior living fund managers in the UK. In 2005, he led the acquisition of Independent Living Services ('ILS'), Scotland's largest independent domiciliary care provider. Kenneth grew this business by acquisition and put in place a new senior management team before exiting via a disposal to a private equity house. Prior to his involvement with ILS, Kenneth negotiated the proposed acquisition of a UK independent living business in a JV with the large US care home operator, Sunrise Senior Living, as they looked to enter the UK. Prior to his involvement in the healthcare sector, Kenneth has owned businesses in the publishing, IT, shipping and accountancy sectors and he holds a number of pro-bono charitable roles.

### John Flannelly BAcc FCA

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John Flannelly is investment partner of Target Advisers. He is a Chartered Accountant with 19 years' experience, last ten in real estate investment management. He is the investment partner at Target Advisers since inception in 2010 with primary responsibility for all investment activity for the Kames Target Healthcare Fund and the Company. John has been involved in the appraisal of several hundred care home opportunities resulting in the acquisition of circa 60 properties for those client funds. Prior to joining Target Advisers, John held board positions at a UK top-10 care home operator and a care home development business during his time as investment director for an institutional investor. John started his career at Arthur Andersen where he worked on audits, financial due diligence and corporate finance projects before moving to the Bank of Scotland initially to structure finance packages for management buy-outs and latterly to a role in real estate investment management.

### Andrew Brown

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Andrew Brown is healthcare partner of Target Advisers. Andrew has spent most of his life in the senior care sector, currently visiting circa 100 homes per year in his current role as Healthcare Partner at Target Advisers, of which he is one of the founding partners. Prior to joining Target Advisers he and his family developed one of the largest and most unique continuing care retirement communities in the UK, Auchlochan Trust. Andrew has played the role of developer, builder and operator of care homes resulting in a community of approximately 350 care beds, almost 100 retirement properties and a staff of over 300. These facilities included both residential care homes and nursing homes and Andrew was directly responsible for operations. Auchlochan Trust was also involved in Trinity Care plc as an investor.

### Donald Campbell

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Donald Campbell is portfolio partner at Target Advisers. Donald is a Chartered Accountant with 28 years' experience. He was a partner with Deloitte LLP for 16 years specialising in private markets tax advisory work, where his clients included care home operators, property investors and fund managers. Donald's role at Target Advisers involves reviewing monthly financial performance data provided by the operators to ensure compliance with the lease terms. He is also responsible for reporting financial information and Key Performance Indicators on a quarterly basis to the Board.

In addition to the healthcare investment professionals:

### Gordon Bland BAcc CA

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Gordon Bland is finance director at Target Advisers. He is a Chartered Accountant with extensive experience of financial reporting within the asset management industry. Gordon's responsibilities at Target Advisers extend to: advising on strategic planning and formulating business plans, financial modelling and budget analysis, regulatory control, managing relationships with debt partners, and ensuring provision of financial reporting to stakeholder groups. Prior to joining Target Advisers, Gordon worked at PricewaterhouseCoopers for almost ten years, including two years in their Toronto office, serving asset management and financial services clients in the UK, Canada and Australia.

# Directors' Report

The Directors present their report, along with the financial statements of the Group on pages 16 to 36, for the year ended 30 June 2016.

## Results and dividends

The results for the year are set out in the attached financial statements. The Group declared four quarterly interim dividends, each of 1.545 pence per share, to shareholders in relation to the year ended 30 June 2016.

## The Company

The Company is a Jersey registered closed-ended property investment company and its shares have a premium listing on the Official List of the UK Listing Authority and are traded on the main market of the London Stock Exchange.

## Investment Objective

The Group's investment objective is to provide shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified portfolio of freehold and long leasehold care homes that are let to care home operators; and other healthcare assets in the UK.

## Investment Policy

The Group pursues its objective by investing in a portfolio of care homes, predominantly in the UK, that are let to care home operators on full repairing and insuring leases that are subject to annual uplifts based on increases in the UK retail prices index (subject to caps and collars) or fixed uplifts. The Group is also able to generate up to 15 per cent of its gross income, in any financial year, from non-rental revenue or profit related payments from care home operators under management contracts in addition to the rental income due under full repairing and insuring leases.

In order to spread risk and diversify its portfolio, the Group is also permitted to invest up to: (i) 15 per cent of its gross assets, at the time of investment, in other healthcare assets, such as properties which accommodate GP practices and other healthcare related services including occupational health and physiotherapy practices, pharmacies, special care schools and hospitals; and (ii) 25 per cent of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Group. The Directors have no current intention to acquire other healthcare assets or indirect property investment funds. The Group may also acquire or establish companies, funds or other SPVs which themselves own assets falling within the Group's investment policy.

The Group may either invest in assets that require development or that are under development, which when completed would fall within the Group's investment policy to invest in UK care homes and other healthcare assets, including by means of the forward funding of developments and forward commitments to purchase completed developments, provided that the Company will not undertake speculative development and that the gross budgeted development costs to the Group of all such developments, including forward funding and forward commitments, does not exceed 25 per cent. of the Group's gross assets on the commencement of the relevant development. Any development will only be for investment purposes.

In order to manage risk in the portfolio, at the time of investment, no single asset shall exceed in value 20 per cent of the Group's gross asset value and, in any financial year beginning after the Group is fully invested, the rent received from a single tenant or tenants within the same group (other than from central or local government, or primary health trusts) is not expected to exceed 30 per cent of the total income of the Group, at the time of investment.

The Group will not acquire any asset or enter into any lease or related agreement if that would result in a breach of the conditions applying to the Group's REIT status.

The Group is permitted to invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds.

Gearing, calculated as borrowings as a percentage of the Group's gross assets, may not exceed 35 per cent at the time of drawdown. The Board currently intends that, over the medium term, borrowings of the Group will represent approximately 20 per cent. of the Group's gross assets at the time of drawdown. However, it is expected that Group borrowings will exceed this level from time to time as borrowings are incurred to finance the growth of the Group's Property Portfolio.

Any material change to the investment policy will require the prior approval of shareholders.

The investment policy was amended during the year and the policy as stated above was approved by shareholders, by ordinary resolution, at a general meeting held on 6 May 2016.

An analysis of the Company's property portfolio at 30 June 2016 is shown on page 13.

## Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to Shareholders on a quarterly basis. The dividends paid by the Company have been fully covered during periods when the Company has been fully invested and the Investment Manager seeks to execute transactions which are expected to assist in achieving a fully covered dividend. In order to ensure that the Company continues to pay the required level of distribution to maintain Group REIT status and to allow consistent dividends to be paid on a regular quarterly basis, the Board intends to continue to pay all dividends as interim dividends. The Company does not therefore announce a final dividend. The Board believes this policy remains appropriate to the Group's circumstances and is in the best interests of shareholders.

# Directors' Report

## (continued)

### Directors

Biographical details of the Directors, all of whom are non-executive, can be found on page 37. As explained in more detail under the Corporate Governance Statement on pages 43 and 44, all new appointments by the Board are subject to election by shareholders at the next AGM thereafter the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. Accordingly, all Directors except Mr Ross will be subject to re-election at the AGM on 10 November 2016. Having considered the knowledge and experience of each Director standing for re-election the Board has no hesitation in recommending their re-election to shareholders.

Mr Ross intends to retire from the Board immediately following the conclusion of the AGM on 10 November 2016 and will therefore not be standing for re-election. In order to ensure that the Board continues to have the necessary range of skills and expertise, and fulfil the requirement of the Company to have two Jersey-based Directors, the Board intends to appoint an additional Jersey-resident Director with effect from 10 November 2016 subject to the receipt of the necessary JFSC approval. Such Director will then be subject to election by shareholders at the AGM to be held in 2017. The Company does not expect to employ, or pay any remuneration to, any external recruitment consultant in relation to this appointment.

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Group to enable it to provide effective strategic leadership and proper guidance of the Group. The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 44, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. There are no service contracts in existence between the Company and any Directors but each of the Directors has been issued with, and accepted, the terms of a letter of appointment that sets out the main terms of his or her appointment. Amongst other things, the letter includes confirmation that the Directors have a sufficient understanding of the Group and the sector in which it operates, and sufficient time available to discharge their duties effectively taking into account their other commitments. These letters are available for inspection upon request at the Company's registered office.

### Substantial Interests in Share Capital

As at 30 June 2016 the Company had received notification of the following holdings of voting rights (under the Financial Conduct Authority's Disclosure Guidelines and Transparency Rules):

	Number of Ordinary Shares held	Percentage held*
Investec Wealth & Investment Limited	23,385,150	9.3
CCLA Investment Management Limited	10,616,222	4.2
Blackrock, Inc	9,435,473	3.7
Two Sigma Holdings VC Acquisition Vehicle II, LLC	7,000,000	2.8
Rathbone Brothers plc	6,801,183	2.7
Alder Investment Management Limited	6,375,044	2.5
Premier Fund Managers Limited	5,075,000	2.0
Henderson Global Investors Limited	4,500,000	1.8

\* Based on 252,180,851 Ordinary Shares in issue as at 30 June 2016.

There have been no changes notified to the Company in respect of the above holdings, and no new holdings notified, since 30 June 2016.

### Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Group, forecast rental income and other forecast cash flows. The Group has agreements relating to its borrowing facilities with which it has complied during the year. Based on this information the Directors believe that the Group has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements. For this reason, the Board continue to adopt the going concern basis in preparing the financial statements.

### Resolutions to be proposed at the AGM

Resolutions 1 to 8 are self-explanatory.

### Authority to issue shares on a non-pre-emptive basis

In accordance with the provisions of the Company's articles of association and the Listing Rules, the directors of an overseas premium listed company are not permitted to allot new shares (or grant rights over shares) for cash without first offering them to existing shareholders in proportion to their existing holdings. Resolution 9 which is a special resolution therefore seeks to provide the Directors with the authority to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an amount of 25,218,085 shares (representing 10 per cent of the issued ordinary share capital of the Company as at 28 September 2016).

This authority will expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, unless it is previously renewed, varied or revoked. It is expected that the Company will seek this authority on an annual basis.

This authority will only be used to issue shares at a premium to net asset value and only when the Directors believe that it would be in the best interests of the Company to do so.

### Authority to make market purchases of ordinary shares

Given the Company is currently in an investment phase, it is unlikely in the short term that the Directors will buy back any of the ordinary shares currently in issue. Thereafter any of the buy back of ordinary shares will be subject to the Companies (Jersey) Law 1991 (as amended), the Listing Rules and within guidelines established by the Board from time to time (which take into account the income and cashflow requirements of the Company).

Resolution 10 will be proposed as a special resolution and seeks to provide the Directors with the authority to purchase up to 37,801,909 ordinary shares or, if less, the number representing approximately 14.99 per cent of the Company's ordinary shares in issue at the date of the passing of resolution 10. Any shares purchased shall either be cancelled or held in treasury.

This authority will expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution unless it is previously renewed, varied or revoked.

### Directors' remuneration reports

The Directors' remuneration policy and annual report, which can be found on pages 50 and 51, provides detailed information on the remuneration arrangements for Directors of the Company. Included is the Directors' Remuneration Policy which shareholders approved at the AGM in November 2014 and will again be put to shareholders at the AGM in 2017. Shareholders will be asked to approve the Directors' Annual Report on Remuneration (resolution 2).

### Auditor

The Independent Auditor's Report can be found on pages 52 to 55. Ernst & Young LLP ('EY') has indicated its willingness to continue in office and a resolution will be proposed at the Annual General Meeting to re-appoint EY as the Auditor and for the Directors to determine their remuneration (resolution 8).

On behalf of the Board

### Mr Malcolm Naish

Chairman

28 September 2016

### Viability Statement

The UK Code of Corporate Governance requires the Board to assess the Group's prospects, including a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. This assessment is undertaken with the aim of stating that the Directors have a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the period of their assessment.

The Board has conducted this review over a five year time horizon, which is a period thought to be appropriate for a company investing in UK care homes with a long-term investment outlook. At each Board Meeting, the Directors consider a detailed financial model covering a similar five year rolling period, as this is considered the maximum timescale over which the performance of the Group can be forecast with a reasonable degree of accuracy. The Group has a property portfolio at 30 June 2016 which has long leases and a weighted average unexpired lease term of 28.6 years and borrowings of £21.0 million on which the interest rate has been fixed at 2.85 per cent per annum through the use of an interest rate swap. At 30 June 2016, these borrowings were committed to 23 June 2019, within the five year time horizon, however, since the year end the loan facility has been extended to 1 September 2021 (see page 30), and the borrowing margin has decreased.

The Director's assessment of the Group's principal risks are highlighted on pages 14 and 15. The most significant risks identified as relevant to the viability statement were those relating to:

- Rental income. The risks are that a fall in rental income could impact the level of income received, the capital value of the property portfolio, the Group's cash resources and compliance with its financial covenants, and
- Funding. The risks are that the Group is unable to meet future financial commitments or that there is an increase in the Group's costs and/or ability to comply with its financial covenants through interest rate fluctuations.

In assessing the Group's viability, the Board has considered a detailed model of the Group's expected cashflows over the coming five years under both normal and stressed conditions. The stressed conditions, which were intended to represent severe but plausible scenarios, included modelling increases in interest rates, movements in the capital value of the property portfolio and a significant default on rental receipts from the Group's tenants.

Based on the results of the scenario analysis outlined above, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period of its assessment.



# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements, in accordance with applicable Jersey law and International Financial Reporting Standards ('IFRS') as adopted by the EU.

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit and loss of the Group for that period. In addition the Directors must not approve the financial statements unless they are satisfied that they present a fair, balanced and understandable report and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Under Jersey law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU. 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;
- state whether applicable International Financial Reporting 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 Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Jersey) Law 1991 (as amended). They are responsible 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.

Under applicable regulations, the Directors are also responsible for preparing a Statement of Corporate Governance that complies with those regulations.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Group's position and performance, business model and strategy; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

On behalf of the Board

**Mr Malcolm Naish**

**Chairman**

28 September 2016

# Corporate Governance Statement

## Introduction

The Board has considered the principles set out in the UK Corporate Governance Code ('the UK Code') and the AIC Code of Corporate Governance (the 'AIC Code')\*. The Company is a member of the AIC. The Board believes that during the period under review the Company has complied with the provisions of the UK Code, in so far as they relate to the Company's business. The Board is also adhering to the principles and recommendations of the AIC Code.

## The Board

The Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision, which are categorised under various headings. These include investment strategy, investment policy, finance, risk, investment restrictions, performance, marketing, adviser appointments and the constitution of the Board. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters which are all reviewed regularly. The Board as a whole is responsible for authorising all purchases and sales within the Group's portfolio and for reviewing the quarterly independent property valuation reports produced by Colliers International Property Consultants.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting investment and gearing limits within which the Investment Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Investment Manager.

The table on page 44 sets out the number of scheduled Board and Committee meetings held during the year and the number of meetings attended by each Director. The Board held a strategy meeting in October 2015 to consider strategic issues. In addition to these scheduled meetings, there were a further 16 Board Committee meetings held during the year.

Each of the above Directors has signed a letter of appointment with the Company which in all cases other than for Mrs Jones and Mr Ross includes twelve months' notice of termination by either party. Mrs Jones' and Mr Ross' letters of appointment include no notice period on termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Company maintains appropriate directors' and officers' liability insurance. The Board has direct access to company secretarial advice and services. The Company Secretary is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with.

## Investment management

Target provides investment management and other services to the Group. Details of the arrangements between the Group and the Investment Manager in respect of management services are provided in the financial statements. The Board keeps the appropriateness of the Investment Manager's appointment under review. In doing so the Board reviews performance quarterly and considers the past investment performance of the Group and the capability and resources of the Investment Manager to deliver satisfactory investment performance in the future. It also reviews the length of the notice period of the investment management agreement and the fees payable to the Investment Manager, together with the standard of the other services provided. Following such review, the Board concluded that the term of the Investment Management Agreement be amended such that it could be terminated by either party on 12 months' written notice provided that such notice shall not expire earlier than 30 September 2019. Should the Company terminate the Investment Management Agreement earlier than 30 September 2019 then compensation in lieu of notice will be payable to the Investment Manager.

The Directors are satisfied with the Investment Manager's ability to deliver satisfactory investment performance and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole.

## Appointments, diversity and succession planning

Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next AGM following their appointment. The Company's Articles of Incorporation require all Directors to retire by rotation at least every three years. However, in accordance with the recommendations of the AIC Code and the UK Corporate Governance Code the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

The Board believes in the benefits of having a diverse range of skills and backgrounds, including gender and length of service, on its Board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed.

\* Copies of both codes may be found on the respective websites: [www.frc.org.uk](http://www.frc.org.uk) and [www.theaic.co.uk](http://www.theaic.co.uk)

# Corporate Governance Statement

## (continued)

### Appointments, diversity and succession planning (continued)

	Board		Audit Committee		Management Engagement Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Naish	5	5	3	3	1	1	1	1
Professor Andrews	5	4	3	2	1	—	1	—
Mr Coull	5	5	3	3	1	1	1	1
Mr Hutchison	5	5	3	3	1	1	1	1
Mrs Jones	5	5	3	3	1	1	1	1
Mr Ross	5	4	3	3	1	1	1	1

### Removal of Directors

The Company may by special resolution remove any Director before the expiration of his or her period of office and may by ordinary resolution appoint another person who is willing to act to be a Director in his or her place.

### Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. Mr Hutchison performs the role of Senior Independent Director. All the Directors have been assessed by the Board as remaining independent of the Investment Manager and of the Company itself; none has a past or current connection with the Investment Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement.

The basis on which the Company aims to generate value over the longer term is set out in its objective and investment policy as contained on page 39. A management agreement between the Company and Target sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including investment and dividend policies, corporate strategy, gearing, corporate governance procedures and risk management, are reserved for the approval of the Board of Directors.

The Board meets at least quarterly and receives full information on the Group's investment performance, assets, liabilities and other relevant information in advance of Board meetings. Throughout the year a number of committees have been in place. The committees operate within clearly defined terms of reference which are available on request or for inspection at the Company's registered office during normal business hours.

### Audit Committee

The Board has established an Audit Committee, the role and responsibilities of which are set out in the report on page 46.

### Management Engagement Committee

The Board has established a Management Engagement Committee. The Management Engagement Committee comprises all the Directors and is chaired by Mr Naish. The Committee reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof on a regular basis. It also reviews the terms and quality of service received from other service providers on a regular basis.

### Nomination Committee

The Board has established a Nomination Committee which comprises all the Directors and is chaired by Mr Naish. The Board considers that, given its size, it would be unnecessarily burdensome to establish a separate nomination committee which did not include the entire Board and believes that this enables all Directors to be kept fully informed of any issues that arise. The Nomination Committee is responsible for reviewing the size, structure and skills of the Board and considering whether any changes are required or new appointments are necessary to meet the requirements of the Company's business or to maintain a balanced Board. During the year the performance of the Board, Committees and individual Directors was evaluated through an assessment process led by the Chairman. This process involved the completion of questionnaires tailored to suit the nature of the Company, discussions with individual Directors and individual feedback from the Chairman to each of the Directors. The evaluation of the Chairman was led by the Senior Independent Director in consultation with all the other Directors. Subsequent to the year end, as discussed on page 40, the Nomination Committee considered whether any new appointments were required given the forthcoming retirement of Mr Ross. After review, the Nomination Committee considered that, following the retirement of Mr Ross, the appointment of an additional Jersey-based Director with similar skills, knowledge and experience would ensure that a balanced Board was retained and recommended such appointment be made as soon as possible after the AGM at which Mr Ross was due to retire, subject to the necessary JFSC approvals having been obtained.

Whenever there are new appointments, these Directors receive an induction from the Investment Manager and Company Secretary on joining the Board. All Directors receive other relevant training, collectively or individually, as necessary.

All of the Nomination Committee's responsibilities have been carried out over the period of review.

### Relations with shareholders

The Company proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports from the Investment Manager and Broker on the views of shareholders, and the Chairman and other Directors make themselves available to meet shareholders when required to discuss any significant issues that have arisen and address shareholder concerns and queries. The Notice of Annual General Meeting to be held on 10 November 2016 is set out on pages 58 and 59. It is hoped that this will provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and the Investment Manager. The Annual Report and Notice of Annual General Meeting are posted to shareholders at least 21 clear days before the Annual General Meeting.

### Environmental, Social and Human Rights Issues

The Company has no employees and therefore no disclosures are required to be made in respect of employees.

The Company has no greenhouse gas emissions to report nor does it have responsibility for any other emissions producing sources.

On behalf of the Board

**Mr Malcolm Naish**

**Chairman**

28 September 2016

# Report of the Audit Committee

## Composition of the Audit Committee

An Audit Committee comprised of all of the Directors and chaired by Mr Coull has been established with written terms of reference which are reviewed at each meeting and are available on request.

## Role of the Audit Committee

The Committee's responsibilities are shown in the table below together with a description of how they have been discharged. More detailed information on certain aspects of the Committee's work is given in the subsequent text.

Responsibilities of the Audit Committee	How they have been discharged
Consideration of the half-year and annual financial statements, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions.	The Committee has met twice during the year and has reviewed the contents of the half-yearly and annual reports. The Investment Manager, Administrator and Auditor attended both meetings. Significant matters considered by the Group are listed on page 48.
Evaluation of the effectiveness of the risk management and internal control procedures.	The Investment Manager maintains a risk matrix which summarises the Group's key risks and an internal control matrix which shows the Group's key controls over its principal financial systems (including the relevant procedures operated by the Administrator). The Committee also appointed a reporting accountant to review and report on the operation of certain internal controls in place within the Investment Manager. From a review of the matrices, a review of the outcome of the procedures undertaken by the reporting accountant, a review of regular management information and discussion with the Investment Manager the Committee has satisfied itself on the effectiveness of the risk and control procedures.
Assessment of the prospects of the Company, taking account of the Company's position and principal risks, and consideration of the period of time over which such evaluation can be made.	The Committee has reviewed the assessment described in more detail under the section 'Viability Statement' within the Directors' Report, and the underlying data on which such assessment is based, to ensure that the work undertaken, the conclusions reached and the disclosures included within the Annual Report are appropriate.
Consideration of the narrative elements of the annual financial report, including whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's business model, strategy and performance.	The Committee has reviewed the content and presentation of the annual financial report and discussed how well it achieves the three criteria opposite.
Evaluation of reports received from the Auditor with respect to the annual financial statements.	The Auditor's planning report and related timetable were discussed with the Auditor in advance of work commencing, together with the areas of audit focus. At the conclusion of the audit the Committee discussed the audit results report with the Auditor, Administrator and Investment Manager.
Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.	The Company ensures through its Legal Adviser, Administrator, Investment Manager and Auditor, that any developments impacting on its responsibilities are tabled for discussion at Committee or Board meetings. Other than the changes to the UK Code of Corporate Governance, of which one significant requirement is the Viability Statement detailed on page 41, there were no significant developments that became effective during the year to 30 June 2016.
Management of the relationship with the external Auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their audit.	The Auditor attended the meeting of the Committee at which the Company's year end accounts were reviewed and also met separately with the chairman of the Committee on two occasions, to discuss the findings of their interim review, the audit plan for the year and the findings of their annual audit. The scope of the audit was discussed at the planning stage along with the staffing and timing of audit procedures to ensure that an effective audit could be undertaken. The Committee has also reviewed the independence and objectivity of the Auditor and has considered the effectiveness of the audit.

## Risk management and internal controls

### Risks

The principal risks faced by the Group together with the procedures employed to manage them are described in the Strategic Report on pages 14 and 15.

### Internal controls

The Board is responsible for the internal financial control systems of the Group and for reviewing their effectiveness. It has contractually delegated to external agencies the services the Group requires, but the Directors are fully informed of the internal control framework established by the Investment Manager and the Administrator to provide reasonable assurance on the effectiveness of internal financial control in the following areas:

- income flows, including rental income;
- expenditure, including operating and finance costs;
- capital expenditure, including pre-acquisition diligence and authorisation procedures;
- dividend payments, including the calculation of Property Income Distributions;
- data security;
- the maintenance of proper accounting records; and
- the reliability of the financial information upon which business decisions are made and which is used for publication, whether to report Net Asset Values or used as the basis for the annual report.

As the Group has evolved, the Investment Manager has developed a system of internal controls covering the processes listed above which it has subsequently presented in the form of a controls matrix and which it has discussed with the Committee. As referred to above, in relation to the year ended 30 June 2016, the Group engaged a reporting accountant to undertake a review and report on the operation of certain of these internal controls. No issues were noted.

Committee members receive and consider quarterly reports from the Investment Manager, giving full details of the portfolio and all transactions and of all aspects of the financial position of the Group. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Investment Manager reports in writing to the Board on operations and compliance issues prior to each meeting, and otherwise as necessary. The Investment Manager reports directly to the Audit Committee concerning the internal controls applicable to the Investment Manager's investment and general office procedures.

In addition, the Board keeps under its own direct control, through the Investment and Property Valuation Committee, all property transactions. The Board also retains direct control over any decisions regarding the Group's long-term borrowings.

The review procedures detailed above have been in place throughout the year and up to the date of this report and the Board is satisfied with their effectiveness and that they are in accordance with the guidance in the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in so far as applicable given the Company's size and structure. There were no significant weaknesses or failings to report. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Investment Manager and the Administrator, and the work carried out by the Group's Reporting Accountant, provide sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary.

### The Auditor

As part of the review of auditor independence and effectiveness, EY has confirmed that they are independent of the Group and have complied with relevant auditing standards. In evaluating EY's performance, the Audit Committee has taken into consideration the standing, skills and experience of the firm and of the audit team.

The Committee assessed the effectiveness of the audit process through the quality of the formal reports it received from EY at the planning and conclusion of the audit, together with the contribution which EY made to the discussion of any matters raised in these reports or by Committee members. The Committee also took into account any relevant observations made by the Investment Manager and the Administrator. The Committee is satisfied that EY provides an effective independent challenge in carrying out its responsibilities.

EY have been the auditors to the Group since its launch in 2013. Following professional guidelines, the audit principal rotates after five years. The current audit principal is in the third year of her appointment. On this basis and having considered the effectiveness of the audit the Audit Committee has recommended the continuing appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

In relation to the provision of non-audit services by the auditor, it has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance so as not to endanger the independence of EY as auditor. In this respect it considers that the provision of the non-audit services shown in the table on the following page do not constitute such a threat.



# Report of the Audit Committee

## (continued)

### The Auditor (continued)

Service provided	Fee (£'000)
Statutory audit	88
Review of interim financial information	6
Tax compliance and advice	–
Assurance on accounting and tax information in prospectuses	41
<b>Total</b>	<b>135</b>

During the year ended 30 June 2016, being cognisant of the regulations that would shortly take effect restricting the ability of the auditors to provide certain tax services, the Board decided to appoint Deloitte LLP as the main tax adviser to the Group, replacing Ernst & Young LLP who had provided such services in prior years.

### Annual Report and Financial Statements

The Board of Directors is responsible for preparing the Annual Report and financial statements. The Audit Committee advises the Board on the form and content of the Annual Report and financial statements, any issues which may arise and any specific areas which require judgement. The Audit Committee considered certain significant issues during the year. These are noted in the table below.

Matter	Audit Committee action
<b>Valuation and ownership of the investment property portfolio</b> The Group's property portfolio accounted for 71.0 per cent of its total assets as at 30 June 2016. Although valued by an independent firm of valuers, Colliers International Property Consultants Limited ('Colliers'), the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group's net asset value. Further information about the property portfolio and inputs to the valuations are set out in note 9 to the financial statements.	The Investment Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation process throughout the year and discussed the detail of each of the quarterly valuations with the Investment Manager. Members of the Committee had the opportunity to discuss the valuation as at 30 June 2016 with Colliers to ensure that they understood the assumptions underlying the valuation and the sensitivities inherent in the valuation and any significant area of judgement.  The Committee also discussed with the Auditor the work performed to confirm the valuation and ownership of the properties in the portfolio.
<b>Income recognition</b> Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share, its level of dividend cover and compliance with REIT regulations.	The Audit Committee reviewed the Investment Manager's processes and controls around the recording of investment income. It also compared the final level of income received for the year to forecasts. Particular attention was paid to any variable income recognised, such as that arising on leases where the rental level paid may be partially based on the earnings of the underlying tenant operator.  The Audit Committee assessed the appropriateness of the accounting treatment of the fixed rental uplifts and other lease incentives and how this impacted the Property Income component of dividends paid or payable by the Company.
<b>Calculation and payment of management and performance fees</b> Incorrect interpretation of the relevant provisions in the Investment Management Agreement ('IMA') and/or incorrect calculation of the fees payable to the Investment Manager could result in an error in the financial statements and an incorrect payment to the Investment Manager.	The Committee has discussed the provisions in the IMA relating to both components of the fee and the controls over fee payments. It has also reviewed in detail the period end estimate for the performance fee accrued in the financial statements and satisfied itself that the underlying calculations and assumptions which lie behind it are in accordance with the IMA, as is the proposed timing of payment.
<b>Internal Controls</b> Incomplete design or ineffective operation of internal controls may result in a loss of the Group's assets, a misstatement of the financial statements or a breach of legal, tax or other regulations.	The Audit Committee reviewed the Group's internal control environment, considering its completeness and efficiency and identifying any areas where the Board, or Committees, did not have direct means of ensuring that the internal controls in place within the Investment Manager were operating as designed. An external Reporting Accountant was appointed to complete agreed-upon-procedures over the operation of these controls and they reported their findings directly to the Audit Committee. There were no material control deficiencies or weaknesses identified through this review.

The Audit Committee considered the unadjusted errors reported by the Auditors and concluded that, both individually and cumulatively, these errors did not indicate any systemic weaknesses in the Group's internal controls or financial reporting processes and that no adjustments were required to the financial statements as presented.

### **Conclusion with respect to the Annual Report and Financial Statements**

The Audit Committee has concluded that the report and financial statements for the year ended 30 June 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's business model, strategy and performance.

The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document, discussion, and enquiries of the various parties involved in the preparation of the report and financial statements.

### **Mr Gordon Coull**

**Chairman of the Audit Committee**

28 September 2016

# Directors' Remuneration Report

The Board comprises only independent non-executive Directors. The Company has no executive Directors or employees. For these reasons, it is not considered appropriate to have a separate Remuneration Committee. The full Board determines the level of Directors' fees.

## Directors' Fees

Full details of the Group's policy with regards to Directors' fees and fees paid during the year ended 30 June 2016 are shown below. The level of Directors' fees was last increased with effect from 1 July 2014, with the size of the Company having increased significantly since that date resulting in a commensurate increase in the responsibilities and time commitment required of the Directors. Therefore, the Board concluded after detailed review that, in line with the policy set out below and considering the level of Directors' fees paid by the Company's peers, the level of Directors' fees should be increased to the following with effect from 1 July 2016: Mr Naish, the Chairman, £40,000 per annum (previously £30,000 per annum), Mr Coull, the Audit Committee Chairman, £35,000 per annum (previously £25,000 per annum), £30,000 per annum (previously £20,000 per annum) to each of Professor Andrews and Mr Hutchison. Mrs Jones and the Director appointed to replace Mr Ross will each receive a fee of £15,000 per annum (previously £10,000 per annum).

The remuneration policy, which was approved by shareholders at the Company's AGM in November 2014, with 100.0 per cent of votes cast being in favour, will again be put to shareholders at the AGM in 2017.

The Board considers the level of Directors' fees at least annually.

The Board has not received any direct communications from the Company's Shareholders in respect of the levels of Directors' remuneration.

## Remuneration policy

The Group's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required, and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Group properly and to reflect its specific circumstances. There were no changes to the policy during the year and it is intended that this policy will continue to apply for the year ending 30 June 2017.

The fees for the Directors are determined within the limit set out in the Company's Articles of Incorporation. The present limit is an aggregate of £200,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming Annual General Meeting. The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment and in accordance with the recommendations of the UK Corporate Governance Code, the Board has agreed that all Directors will retire annually.

## Annual Report on Directors' Remuneration

### Directors' emoluments for the year

The Directors who served during the year received the following emoluments in the form of fees:

	Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
Mr Naish (Chairman)	30	30
Mr Coull (Audit Committee Chairman)	25	25
Professor Andrews	20	20
Mr Hutchison	20	20
Mrs Jones*	10	9
Mr Ross*	10	9
<b>Total</b>	<b>115</b>	<b>113</b>

\* Appointed 22 July 2014.

### Relative importance of spend on pay

As the Company has no employees, no table can be presented which compares remuneration paid to employees with distribution to shareholders.

### Directors' shareholdings

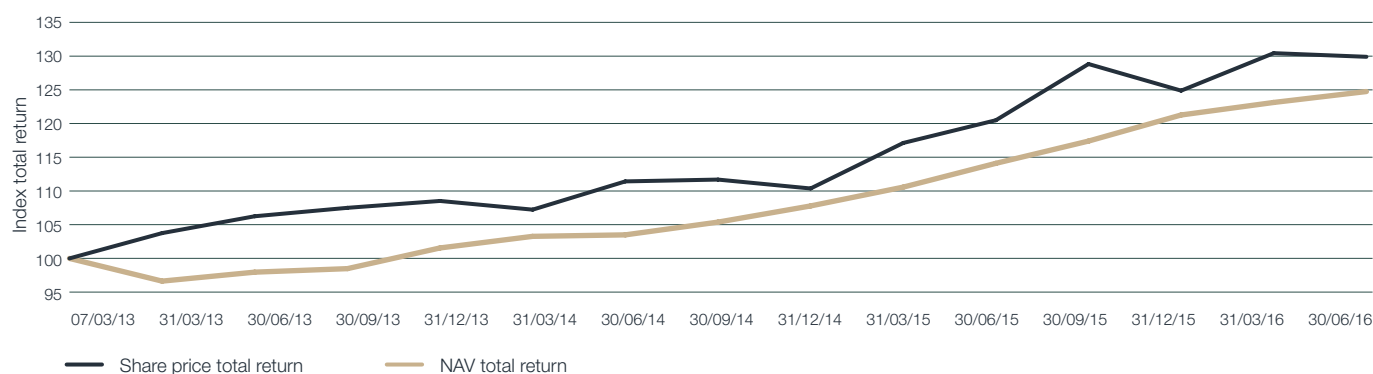
The Directors who held office at the year-end and their interests (all beneficial) in the ordinary shares of the Company as at 30 June 2016 and as at 28 September 2016 were as follows:

	Ordinary shares 28 September 2016	Ordinary shares 30 June 2016
Mr Naish	40,000	40,000
Professor Andrews	-	-
Mr Coull	30,000	30,000
Mr Hutchison	70,000	70,000
Mrs Jones	-	-
Mr Ross	-	-
<b>Total</b>	<b>140,000</b>	<b>140,000</b>

### Group performance

The Board is responsible for the Group's investment strategy and performance, although the management of the Group's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to on page 38.

The graph below compares, from launch to 30 June 2016, the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the NAV total return.



Source: R&H Fund Services Limited

### Voting at Annual General Meeting

At the Company's last AGM, held on 12 November 2015, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2015. 100.0 per cent of the votes cast were in favour of the resolution.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

**Mr Malcolm Naish**

**Chairman**

28 September 2016

# Independent Auditor's Report

## To the Members of Target Healthcare REIT Limited

### Our opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's affairs as at 30 June 2016 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

### What we have audited

Target Healthcare REIT Limited's financial statements comprise the:

- Consolidated Statement of Comprehensive Income for the year ended 30 June 2016
- Consolidated Statement of Financial Position as at 30 June 2016
- Consolidated Statement of Changes in Equity for the year ended 30 June 2016
- Consolidated Statement of Cash Flows for the year ended 30 June 2016
- Related notes 1 to 23 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

### Overview of our audit approach

<b>Risks of material misstatement</b>	<ul style="list-style-type: none"> <li>– Incomplete or inaccurate recognition of rental income.</li> <li>– Incorrect valuation of investment properties.</li> <li>– Incorrect calculation of performance fees or misinterpretation of the documented methodology.</li> </ul>
<b>Audit scope</b>	<ul style="list-style-type: none"> <li>– We performed an audit of the complete financial information of the Group including all the subsidiaries.</li> <li>– The subsidiaries where we performed full or specific audit procedures accounted for 100% of Profit before tax, Revenue and Total assets.</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>– Overall Group materiality is £2.5m which represents 1% net assets.</li> </ul>

### Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we reported to the Audit Committee
<b>Incomplete or inaccurate recognition of rental income</b> (as described on page 48 in the Report of the Audit Committee).  Revenue is earned in the form of rental income from the investment properties and is recognised on an accrual basis. The lease agreements tend to have durations of multiple years and minimum and maximum fixed annual rental increase clauses. IAS 17 'Leases' requires that income or expenditure on an operating lease is adjusted to ensure that the total value of the lease is spread evenly over the term of the lease.  During the year ended 30 June 2016, £16.81m has been recognised as rental income. Of this £12.68 million has been recorded as revenue in the consolidated statement of comprehensive income and £4.13m as capital relating to fixed rental uplifts which are being spread over the applicable lease term.	We have performed the following procedures:  Reviewed the Group's accounting policies in respect of revenue recognition to ensure they have been consistently applied throughout the year and are in accordance with applicable accounting standards.  Agreed the rental rates to tenancy agreements and recalculated the rental income recognised in the Group consolidated financial statements.  Performed a review of the tenancy agreements to ensure that all relevant clauses and covenants have been reflected in recognising rental income in the Group's consolidated financial statements.  Re-calculated the rental adjustments required for fixed rental uplifts for all applicable tenants and considered the allocation between revenue and capital.	The results of our procedures are:  We noted no issues in our review of the Group's accounting policies in respect to revenue recognition.  We noted no issues when agreeing the rental rates to tenancy agreements or in our recalculation of the rental income.  We noted no issues in our review of the tenancy agreements and ensured that all relevant clauses and covenants have been reflected in recognising rental income in the Group's consolidated financial statements.  We noted no issues with the rental adjustment calculations for fixed rental uplifts under IAS 17 and we are satisfied that the capital and revenue allocation is appropriate.

Risk	Our response to the risk	What we reported to the Audit Committee
<p><b>Incorrect valuation of investment properties</b> (as described on page 48 in the Report of the Audit Committee).</p> <p>At 30 June 2016, the Group's investment portfolio consists of UK healthcare properties, with a market value of £210.67m and carrying value of £200.72m, which is net of a deduction of £9.95m for the straight lining of fixed rent review uplifts.</p> <p>The properties are valued externally on behalf of the Group by Colliers International Property Consultants Limited ('Colliers') and recorded in the consolidated financial statements at their carrying value, being the Colliers market valuation adjusted for the impact of the rental uplift adjustments required by IAS 17.</p>	<p>We performed the following procedures:</p> <p>Agreed the value of all properties held at the year end to the open market valuations included in the valuation report provided by Colliers as adjusted for the impact of the rental uplift.</p> <p>Agreed a sample of inputs used by Colliers in the valuation to source data.</p> <p>Engaged our property valuation specialists to perform a review of the property valuations which included:</p> <ul style="list-style-type: none"> <li>– Review of the assumptions used by Colliers in undertaking their valuation and an assessment of the valuation methodology adopted;</li> <li>– Discussion with Colliers which included a high level overview of the portfolio, covenant strength of the tenants within the portfolio and occupancy and historic rent cover for a sample of properties;</li> <li>– A detailed review of a sample of the individual property valuations examining key valuation input and assumptions applied;</li> <li>– A review of the full portfolio of property valuations for any anomalies or outliers;</li> <li>– An analysis of key changes in the property valuation as a whole including a review of the reasonableness of the income yields for the properties; and</li> <li>– Discussions with Target Advisers LLP (the 'Manager') on the results and findings of their work.</li> </ul> <p>Ensured the financial statements contain adequate disclosures regarding the assumptions made in the valuation of properties, including the sensitivity analysis required under IFRS 13 'Fair value measurement'.</p>	<p>The results of our procedures are:</p> <p>We noted no issues when agreeing the value of all properties held at the year end to the open market valuations included in the valuation report provided by Colliers as adjusted for the impact of the rental uplift.</p> <p>We noted no issues when agreeing the inputs used by Colliers in the valuation to source data.</p> <p>We noted that no significant issues were raised in the review performed by our property valuation specialists.</p> <p>We noted no issues in relation to the disclosures within the financial statements regarding the assumptions made in the valuation of properties, including the sensitivity analysis required by IFRS 13.</p>
<p><b>Incorrect calculation of performance fees or misinterpretation of the documented methodology</b> (as described on page 48 in the Report of the Audit Committee).</p> <p>The Manager is remunerated by both a base management fee of 0.90% of the net assets of the Group and a performance fee, amounting to 10% of the outperformance of the portfolio against the IPD UK Annual Healthcare Index, on a total return basis.</p> <p>The total fee payable to the Manager is capped at 1.25% of the average net assets for the year.</p> <p>The performance fee methodology is not overly complex however the availability of suitable benchmark data results in an element of estimation and judgement in the calculation of the performance fee accrual.</p>	<p>We performed the following procedures:</p> <p>Recalculated the performance fee charge and ensured the calculations are in line with the Investment Management Agreement ('IMA').</p> <p>Agreed the key external inputs and the fee rates used in the calculations to relevant source data.</p> <p>Reviewed and challenged the approach applied in calculating accrued performance fees in the absence of benchmark data covering the full period.</p> <p>Reviewed the paper prepared for the Board by the Manager setting out the basis of the performance fee accrual for the year ended 30 June 2016 and held discussions with the Manager and Board on any areas of interpretation within the performance fee calculation methodology.</p>	<p>The results of our procedures are:</p> <p>We noted no issues when recalculating the performance fee charge and we are satisfied that the calculations are in line with the IMA.</p> <p>We noted no issues when agreeing the key external inputs and the fee rates used in the calculations to relevant source data.</p> <p>We noted no issues in our review and challenge of the approach applied in calculating accrued performance fees.</p> <p>We noted no issues in our review of the paper prepared for the Board by the Manager or in our discussions with the Manager and the Board.</p>



# Independent Auditor's Report

## (continued)

### The scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors relevant for the Group.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we have included all subsidiaries of the Group in the scope of our audit.

### Changes from the prior year

There are no changes in the risks reported in the prior year. Our audit covered additional components acquired during the year.

All audit work was performed directly by the audit engagement team.

### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £2.53m (2015: £1.39m), which is 1% (2015: 1%) of net assets. We derived our materiality calculation from a proportion of total equity as this is the key measurement of the Group's performance.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2015: 75%) of our planning materiality, namely £1.90m (2015: £1.04m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Audit work related to subsidiaries for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each subsidiary is based on the relative scale and risk of the subsidiary to the Group as a whole and our assessment of the risk of misstatement for that subsidiary. In the current year, the range of performance materiality allocated to subsidiaries was £0.28m to £1.7m (2015: £0.31m to £1.0m).

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.13m (2015: £0.07m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 42, 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.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. 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.

## Matters on which we are required to report by exception

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>– otherwise misleading.</li> </ul> <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p>	We have no exceptions to report.
<b>Companies (Jersey) Law 1991 reporting</b>	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>– proper accounting records have not been kept by the company, or proper returns adequate for our audit have not been received from branches not visited by us; or</li> <li>– the company's financial statements are not in agreement with the accounting records and returns; or</li> <li>– we have not received all the information and explanations we require for our audit.</li> </ul>	We have no exceptions to report.
<b>Listing Rules review requirements</b>	<p>We are required to review:</p> <ul style="list-style-type: none"> <li>– the directors' statement in relation to going concern, set out on page 40 and longer-term viability, set out on page 41; and</li> <li>– the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.</li> </ul>	We have no exceptions to report.

## Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> <li>– the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;</li> <li>– the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;</li> <li>– the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and</li> <li>– the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.
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**Susan Dawe**  
**for and on behalf of Ernst & Young LLP**  
 Edinburgh  
 28 September 2016

### Notes:

1. The maintenance and integrity of the Target Healthcare REIT Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Glossary of Terms and Definitions

## Corporate Terms

<b>AIC</b>	Association of Investment Companies. This is the trade body for Closed-end Investment Companies ( <a href="http://www.theaic.co.uk">www.theaic.co.uk</a> ).
<b>AIFMD</b>	Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Closed-end Investment Companies, must have appointed a Depositary and an Alternative Investment Fund Manager. The Board of Directors of a Closed-end Investment Company, nevertheless, remains fully responsible for all aspects of the company's strategy, operations and compliance with regulations.
<b>Closed-end Investment Company</b>	A company with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the Net Asset Value of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the Net Asset Value.
<b>CQC</b>	Care Quality Commission. The independent regulator of all health and social care services in England.
<b>Depositary</b>	Under AIFMD rules, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary's oversight duties include, but are not limited to, oversight of share buy backs, dividend payments and adherence to investment limits. The Company's Depositary is Augentius Depositary Limited.
<b>Discount/Premium</b>	The amount by which the market price per share of Closed-end Investment Company is lower or higher than the net asset value per share. The discount or premium is normally expressed as a percentage of the net asset value per share.
<b>Dividend</b>	The income from an investment. The Company currently pays dividends to shareholders quarterly.
<b>Dividend Cover</b>	EPRA Earnings per Share divided by Dividends per share expressed as a ratio.
<b>Dividend Yield</b>	The annual Dividend expressed as a percentage of the share price.
<b>EPRA Best Practice</b>	European Public Real Estate Association. A not-for-profit organisation which aims to foster trust for, and encourage greater investment in, listed real estate in Europe. ( <a href="http://www.epra.com">www.epra.com</a> ). EPRA also issue best practice recommendations to enhance the financial reporting of listed property companies.
<b>EPRA Earnings per Share</b>	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings.
<b>EPRA NAV</b>	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. Makes adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.
<b>EPRA Net Initial Yield</b>	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. EPRA's purpose is to provide a comparable measure around Europe for portfolio valuations.
<b>GAAP</b>	Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union). The Company's financial statements are prepared in accordance with IFRS.
<b>Gearing</b>	Unlike open-ended investment companies, Closed-end Investment Companies have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Company has undertaken. The higher the level of borrowings, the higher the gearing ratio. The gearing figure is calculated as debt divided by the market value of the properties held.
<b>Investment Manager</b>	The Company's Investment Manager is Target Advisers LLP. Further details are set out on page 38 and in note 2 to the accounts.
<b>Leverage</b>	As defined under AIFMD rules, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Company's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.
<b>Loan-to-Value ('LTV')</b>	A measure of the Group's Gearing level. This is calculated as total gross debt as a proportion of gross property value. As the Group expects to invest the majority of its current cash balance in new care homes, cash is excluded from the calculation.
<b>MSCI</b>	Produces indexes for both privately-held real estate portfolios, as well as publicly-listed organisations which provides a long performance history and which are mostly appraised quarterly. MSCI produces the index which is used to calculate any performance fee payable by the Company to the Investment Manager.
<b>Net Asset Value or NAV</b>	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities.
<b>Net Asset Value ('NAV') per Ordinary Share</b>	This is calculated as the NAV divided by the number of shares in issue, excluding those shares held in treasury.
<b>On-going Charges Ratio</b>	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.
<b>Ordinary Shares</b>	The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Company, and any capital growth. As at 30 June 2016 the Company had only Ordinary Shares in issue.
<b>Share Price</b>	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.
<b>SORP</b>	Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the AIC.
<b>Total Return</b>	The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.

## Property Terms

<b>Break Option</b>	A clause in a lease which provides the landlord or tenant with an ability to terminate the lease before its contractual expiry date.
<b>Covenant Strength</b>	This refers to the quality of a tenant's financial status and its ability to perform the covenants in the lease.
<b>EBITDA lease</b>	Lease arrangement which constitutes a fixed base rental amount plus variable top up rental payments based on the trading performance of the underlying property.
<b>Estimated Rental Value ('ERV')</b>	The estimated annual market rental value of a property as determined by the Company's External Valuer. This will normally be different from the actual rent being paid.
<b>Fixed and Minimum Uplift Rents</b>	Rents subject to fixed uplifts at an agreed level on agreed dates stipulated within the lease, or rents subject to contracted minimum uplifts at specified review dates.
<b>Forward Commitment</b>	A contract pertaining to the future purchase of a property.
<b>Lease</b>	A legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the lease length.
<b>Lease Incentive</b>	A payment used to encourage a tenant to take on a new lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.
<b>Lease Renewal</b>	The renegotiation of a lease with the existing tenant at its contractual expiry.
<b>Net Initial Yield</b>	The initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
<b>Occupancy Rate</b>	The occupancy rate calculates the number of occupied rooms as a percentage of the overall capacity of the care home. This is an important measure in determining the quality of the property held, the strength of the tenant and the sustainability of the rental income received.
<b>Rent Review</b>	A periodic review of rent during the term of a lease, as provided for within a lease agreement.
<b>Reversion</b>	Increase in rent estimated by the Company's Valuer, where the passing rent is below the ERV. The increases to rent arise on rent reviews and lettings.
<b>Valuer</b>	An independent external valuer of a property. The Company's Valuer is Colliers International Property Consultants Limited and detailed information regarding the valuation of the Company's properties is included in note 9 to the accounts.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the fourth Annual General Meeting ('AGM') of Target Healthcare REIT Limited (the 'Company') will be held on Thursday 10 November 2016 at 4pm at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW for the following purposes:

## Ordinary business

To consider and if thought fit to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Directors' report and financial statements of the Company for the year ended 30 June 2016, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Report.
3. To re-elect, a Director retiring by rotation, Professor J Andrews as a Director.
4. To re-elect, a Director retiring by rotation, Mr G Coull as a Director.
5. To re-elect, a Director retiring by rotation, Mr T Hutchison III as a Director.
6. To re-elect, a Director retiring by rotation, Mrs H Jones as a Director.
7. To re-elect, a Director retiring by rotation, Mr M Naish as a Director.
8. That Ernst & Young LLP, be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.

To consider and, if thought fit, to pass resolutions 9 and 10 as special resolutions:

9. That, in addition to any existing power and authority granted to the Directors, the Directors be and are hereby generally empowered to allot Ordinary Shares of no par value (the 'Ordinary Shares') carrying the rights, privileges and subject to the restrictions attached to the Ordinary Shares or to grant rights to subscribe for, or to convert securities into Ordinary Shares ('equity Securities') for cash, including by way of a sale of Ordinary Shares held by the Company as treasury shares, as if any pre-emption rights in relation to the issue of shares as set out in Article 10(B) of the articles of association of the Company (the 'Articles') and the listing rules made by the Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (as amended) (the 'Listing Rules') did not apply to any such allotment of or grant of rights to subscribe for or to convert into equity securities, provided that this power:
  - (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
  - (b) shall be limited to the allotment of equity securities up to 25,218,085 ordinary shares of no par value representing approximately 10 per cent of the issued share capital of the Company, as at 28 September 2016.
10. That the Company be authorised in accordance with the Companies (Jersey) Law 1991 (as amended) (the 'Law'), to make market purchases pursuant to Article 57 of the Law of its own ordinary shares ('Shares') (either for retention as treasury shares in accordance with Article 58A (1) (b) of the Companies (Jersey) Law, 1991 (as amended) (the 'Law') for future resale or transfer, or cancellation), provided that:
  - (a) the maximum number of Shares hereby authorised to be purchased shall be equal to 14.99 per cent of the Company's issued share capital on the date on which this resolution is passed;
  - (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 1 pence;
  - (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
    - (i) 5 per cent above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
    - (ii) the higher of the last Independent trade and the highest current independent bid on the London Stock Exchange;
  - (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in respect of the year ended 30 June 2017, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract; and
  - (e) the Directors of the Company provide a statement of solvency in accordance with Articles 55 and 57 of the Law.

By order of the Board

## R&H Fund Services (Jersey) Limited

### Company Secretary

28 September 2016

### Registered Office

Ordinance House  
31 Pier Road  
St. Helier  
Jersey JE4 8PW

## Notes:

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the general meeting. A proxy need not be a member of the Company but must attend the general meeting to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the circular and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at Computershare Investor Services (Jersey) Limited, Queensway House, Hilgrove Street, St. Helier, Jersey JE1 1ES no later than 48 hours (excluding non-working days) before the time of the meeting or any adjourned meeting.
3. The return of a completed proxy form or other instrument of proxy will not prevent you attending the general meeting and voting in person if you wish.
4. The Company specifies that only those shareholders registered in the register of members of the Company at 4pm on 8 November 2016 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. In each case, changes to entries on the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. As at 28 September 2016 (being the last business day prior to the publication of this notice) the Company's issued share capital consisted of 252,180,851 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 28 September 2016 were 252,180,851 votes.
6. Any person holding 3 per cent or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure Guidelines and Transparency Rules.
7. Electronic receipt of proxies  
To appoint one or more proxies or give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) no later than the deadline specified in note 2. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertified Securities Regulations 2001. Instructions on how to vote through CREST can be found on the website [www.euroclear.com](http://www.euroclear.com)
8. The authority sought by Resolution 9 will only be used to issue shares at a price that represents a premium to the last published net asset value per share and only when the Directors believe that it would be in the best interests of the Company to do so.
9. Information regarding the general meeting is available from the Company's webpage at [www.targethealthcarereit.co.uk](http://www.targethealthcarereit.co.uk)



# Notes

# Corporate Information

Target Healthcare REIT Limited ('the Company') is a Jersey registered closed-ended property investment company which was launched in March 2013.

## Directors

Mr Malcolm Naish (Chairman)  
Professor June Andrews OBE  
Mr Gordon Coull\*  
Mr Thomas Hutchison III\*\*  
Mrs Hilary Jones  
Mr Graeme Ross

## Registered Office

Ordnance House  
31 Pier Road  
St. Helier  
Jersey JE4 8PW

## Investment Manager

### Target Advisers LLP

Laurel House  
Laurelhill Business Park  
Laurelhill  
Stirling FK7 9JQ

## Company Secretary

### R&H Fund Services (Jersey) Limited

Ordnance House  
31 Pier Road  
St. Helier  
Jersey JE4 8PW

## Administrator

### R&H Fund Services Limited

20 Forth Street  
Edinburgh EH1 3LH

## UK Legal Adviser

### Dickson Minto W.S.

Broadgate Tower  
20 Primrose Street  
London EC2A 2EW

## Broker

### Stifel Nicolaus Europe Limited

150 Cheapside  
London EC2V 6ET

## Jersey Legal Adviser

### Ogier

44 Esplanade  
St. Helier  
Jersey JE4 9WG

## Valuers

### Colliers International Property Consultants Limited

50 George Street  
London W1U 7GA

## Auditors

### Ernst & Young LLP

Ten George Street  
Edinburgh EH2 2DZ

## Tax Adviser

### Deloitte LLP

Athene Place  
66 Shoe Lane  
London  
EC4A 3BQ

## Depository

### Argentius Depository Limited

Two London Bridge  
London SE1 9RA

## Registrars

### Computershare Investor Services (Jersey) Limited

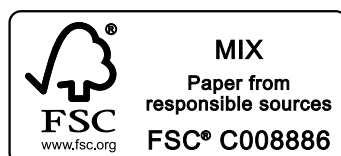
Queensway House  
Hilgrove Street  
St. Helier  
Jersey JE1 1ES

## Website

[www.targethealthcarereit.co.uk](http://www.targethealthcarereit.co.uk)

\* Chairman of Audit Committee

\*\* Senior Independent Director





**Target Healthcare REIT**

Ordnance House  
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**[www.targethealthcarereit.co.uk](http://www.targethealthcarereit.co.uk)**