



Investing in care. Delivering returns.

Annual Report and
Financial Statements 2017



targethealthcarereit.co.uk

Our Annual Report

and Financial Statements

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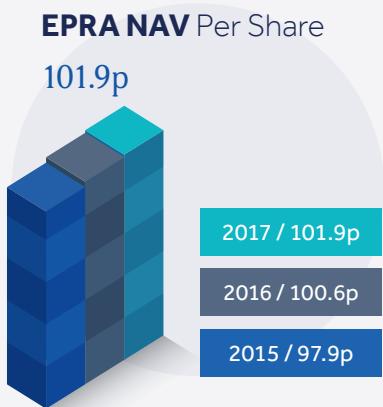
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This document is important and requires your immediate attention.

If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in Target Healthcare REIT Limited, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

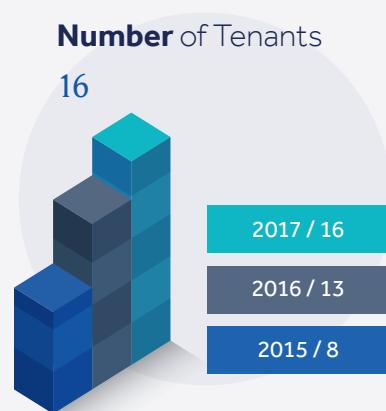
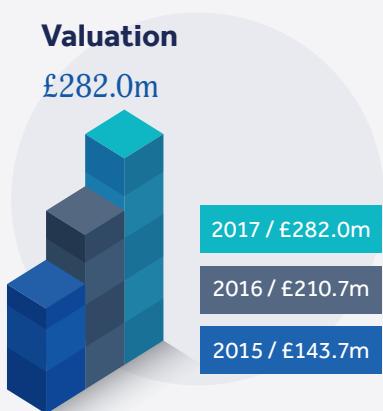
Performance Highlights

For more information Go to page 10



Portfolio Highlights

For more information Go to page 16



*based on EPRA NAVs

At a Glance

Target Healthcare REIT Limited and its subsidiaries ('the Group') is the UK's leading care home Real Estate Investment Trust. The Group aims to provide investors with attractive quarterly dividend income from specialist investment in modern, purpose-built care homes which are best-in-class properties in their local market.

The Group's portfolio is designed to deliver predictable and stable returns, with potential for income and capital growth. Assets are let to a diversified group of tenants on long-duration, inflation-linked leases with rents set at sustainable rental levels.

The investment manager's rigorous investment appraisal process seeks to create strong asset/tenant combinations to provide the targeted portfolio returns. Well-designed homes in locations with favourable supply/demand characteristics and population demographics are matched with tenants who offer high quality care to residents supported by strong operational capabilities.

Our Locations

The Group's portfolio comprises 45 properties within the UK let to 16 tenants. The Group has added 8 assets and 3 tenants to the portfolio during the year.



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:

- Always acting with **integrity**;
- Placing **diligence** at the heart of our business;
- Performing detailed **analysis**; and
- Being 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.



Strategy

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



Our Investment Case

Demographic changes

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 20 years generating an increased demand for care home residency. A recent study has concluded in excess of 70,000 new beds are required in the next 8 years.

Supply of Care Homes

The UK elderly healthcare market remains deeply fragmented and dominated by small owner-managed providers, many using either converted properties or older purpose-built homes. These buildings represent a large proportion of the UK's existing care home stock, yet each can present a difficult environment in which to provide effective and financially viable care. Beds in these properties continue to be deregistered by care providers as the sectoral challenges described by the Investment Manager on pages 6 and 7 are exacerbated by working in properties suffering from poor design and sub-par facilities.

Opportunity

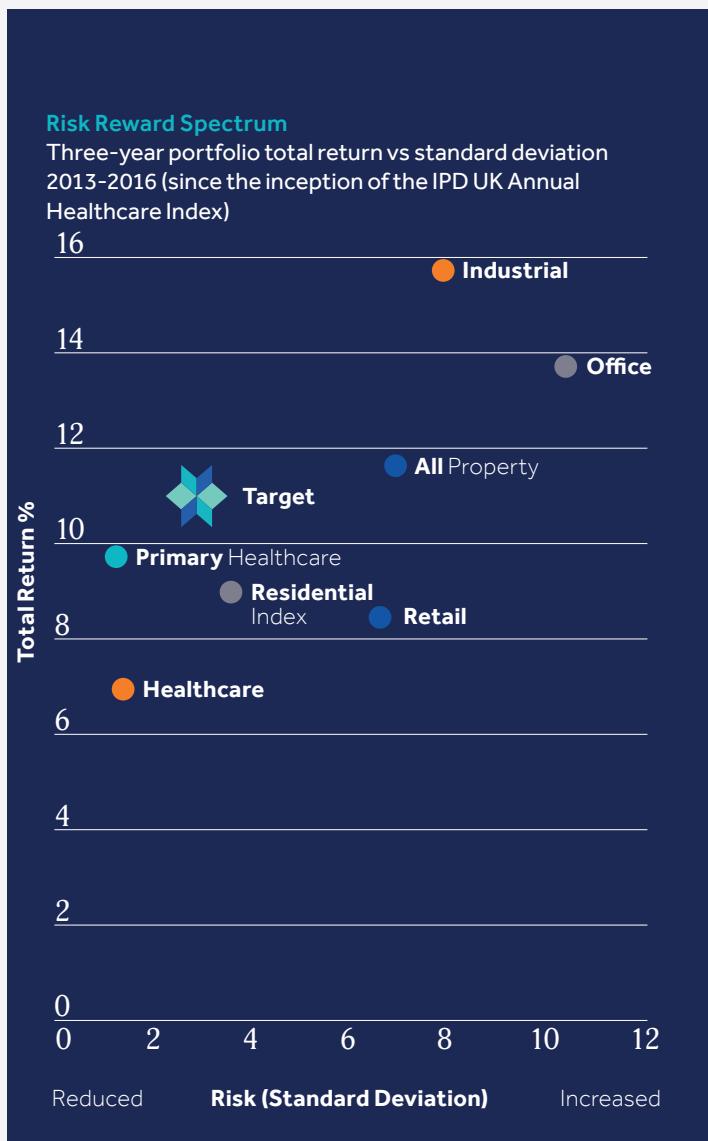
Significant investment is required to provide modern homes sufficient to meet both the organic demand increase arising from demographic changes, and to replenish the closure of older stock. We believe that our modern, best-in-class homes, let to tenants who know their local market and can demonstrate 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 demographic and demand/supply imbalances.

Spotlight: Tonbridge

The Abbeyfield Kent Society, a charitable organisation, had a desire to close an existing property in Tonbridge, Kent and replace it with a newly-built care home, specifically designed to improve the facilities available to residents and the Charity's care professionals.

Prior to construction starting, the Group committed to acquire the property upon construction completion and regulator registration. This was at an agreed price and on a pre-let basis, with the Abbeyfield Kent Society entering into a 30 year lease consistent with the Group's commercial terms.

The Group's investment manager was closely involved in planning and completing the build. Initial design input was complemented by regular site inspections. This close engagement, through supporting our tenant's operational plans, continues to this day.



Chairman's Statement



Welcome to 2017's Annual Report. Target Healthcare REIT has continued to assemble a portfolio of UK care homes capable of delivering stable rental returns through diversification by tenant, location, service and resident-choice. We retain a conviction that placing long-term investment capital in purpose-built properties which offer suitably modern and well-equipped environments for residents and their carers, is the right thing to do.

The Group has continued to be patient and disciplined in placing shareholder capital: 8 transactions completed during the year, and a further 2 since June, totalling £79.9 million of new investment. Each of these assets, and the tenants entrusted to run them, has the essential characteristics identified by our specialist investment manager which drive our investment policy. The Manager continues to see many potential deals which do not meet these strict quality criteria.

With the Group nearing full investment, the balance sheet is better able to support our long-term performance objectives. Dividend cover has improved to 77 per cent¹ and we expect this to near 100 per cent in the coming year, dependent on future growth. The portfolio Net Initial Yield (NIY), a good indicator of the Group's prospects, has remained stable. Despite the competitive investment market, positive valuation movements have been more influential than acquisition yields in moving the portfolio NIY to 6.75 per cent from 7.0 per cent.

The Group's increased scale has, subsequent to year-end, allowed an increase of debt facilities to £90 million, adding a new debt provider at a competitive interest cost. Making full use of available debt would increase the Group's gearing ratio above the 20 per cent stated longer-term level. Whilst increased gearing can enhance portfolio returns, the Board will continue to monitor the gearing ratio and make use of the flexibility within the facilities with respect to investment opportunities to manage gearing within an appropriate range.

The Company has declared and paid dividends of 6.28 pence per share in respect of the year. This was an increase of 1.6 per cent on 2016, 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 2018 by 2.71 per cent to 1.6125 pence per share, in-line with recent inflation data and providing an annual total of 6.45 pence.

We remain grateful for the support of our shareholders, both long-term holders and those new to the register as we continue to increase in scale. We are proud of our role in helping the UK modernise its care home real estate for those using it, whilst achieving stable returns for investors. The fundamentals of increasing demand alongside mixed-quality and dwindling supply make a compelling investment case, however we recognise the market as being challenging for care providers to operate in, particularly for those dependent on public funding. That said, efficient operators caring for publicly funded residents in well-equipped modern homes sit firmly within our investment criteria alongside self-funded premium homes in affluent locations. We will continue to look for opportunities in each in building a diversified portfolio, as well as supporting tenants in actively managing the assets.

Policy ideas announced during the recent general election campaign, whilst not progressing to the stage of firm policy, were useful in prompting wider public discussion of elderly care funding. Divergence on the extent of private vs. public funding, and the apparent generational divide, were prominent during the debate. We welcome the discussion and hope to see the issues and challenges remain high on the priority list of those in power.

Finally, I would like to take this opportunity to welcome Ian Webster onto the Board. Ian brings skills and experience relevant to the Company's Jersey domicile and has provided a valued contribution thus far.

Malcolm Naish

Chairman
3 October 2017

¹ 83 per cent excluding Manager performance fee

Investment Manager's Report

Portfolio review

We are pleased to have continued to grow and diversify the portfolio to 45 assets (30 June 2016: 37) let to 16 tenants (2016: 13) with a net initial yield of 6.75 per cent (30 June 2016: 7 per cent). The South East (16.4 per cent) and Ideal Carehomes (16.9 per cent) retain the largest share of geographical and tenant concentration respectively, with each having reduced during the year. The portfolio is further diversified through a balanced mix of bed registrations (nursing, residential) and of private and publicly funded residents.

The portfolio has outperformed its benchmark, the IPD UK annual healthcare property index, since launch, with an annualised total return of 10.4 per cent. 92 per cent of properties have maintained or increased in value in the year, providing like-for-like capital growth of 5.0 per cent. WAULT of 29.5 years on passing rent of £20.3 million provides long-term indexed income. 100 per cent of portfolio rent has been collected.

With a growing and increasingly diversified portfolio, we anticipate property-specific challenges to arise. For example, one home has closed temporarily to allow a registration change from nursing to residential in response to local staffing difficulties. We have also arranged a tenant change in a separate home which has under-performed in respect of regulatory/quality reviews. Rental income and valuation have been maintained on each, and we have considered detailed business plans in respect of future trading.

UK Care home investment and transactions overview

The UK care home market remains highly fragmented. The top four independent care home groups account for less than 15 per cent of the overall market and the industry continues to be dominated by smaller operators. Whilst the much-speculated HC-One/Bupa transaction has been making the headlines in recent months, this transfer of a group of older assets from one large group to another does not reflect the current focus of market activity, which is focused on either new developments, single assets or small portfolios where purchasers are willing to consider a mix of prime and secondary assets.

A number of new REITs (both specialist and generalist funds) have launched over the last twelve months and Sterling's recent devaluation post-EU referendum has made all classes of UK real estate more attractive to international investors. Key overseas buyers include Asian and Middle Eastern private investment groups and developers as well as US buyers, albeit appetite in the sector from US REITs remains muted. These new entrants have all been active in the UK care home market which has resulted in significant investor demand, in particular for high quality, purpose-built care homes in prime locations with a focus on the self-funded market, such as the South East of England. This demand is further accentuated where strong operator covenants are on offer and which have led to some substantial prices being paid for highly sought-after assets.

Despite the competitive landscape, we continue to identify attractive opportunities through our long-term relationships with operators experienced in providing high-quality care. These relationships extend across the UK and include national, regional and local operators alike. Our focus on tenant selection remains a core tenet of our business, ensuring those operators who we choose to support demonstrate the local knowledge, robust operational management and market presence to deliver both high quality care and strong financial performance. As well as working with the Group's existing tenants, we are also proactively developing new relationships with operators who both share our caring ethos and have a desire to build strong, long-term relationships in order to deliver their growth strategies which will further support our investment pipeline.

Health/social care

Once again the last year has been a challenging and frustrating one for the UK care sector. Political uncertainty, staffing shortages whether Brexit-induced or not, public funding and a challenging regulatory regime continue to challenge operators, particularly those working in poorly-equipped properties and reliant on local authority funding.

Publicly-funded fee increases

LaingBuisson, the sector analysts, confirmed in July that the average English council had raised its 2017/18 fees paid for residents in privately-owned homes by 3.6 per cent, stating this does little more than cover National Living Wage (NLW) costs than inflation costs in general. This would appear to have been funded by councils again, utilising the full 3 per cent 'Adult Social Care Precept' Council Tax (CT) rise sanctioned by the Chancellor on top of their standard CT rise.

Scotland, Wales and Northern Ireland have had similar experiences. Fee increases in Scotland, though nominally higher, have been decried as inadequate by Scottish Care given the higher than NLW 'care-worker' minimum wage of £8.45. Scottish Care have for many years successfully negotiated a national fee via COSLA, the umbrella organisation for most Scottish councils, but worries abound that this era is coming to an end.

In contrast, LaingBuisson note that private fees have been relatively buoyant, and are likely to continue to experience faster growth than public fees.

Margin erosion contributing to closures

Operators are finding staff costs, the single highest expense for any home, challenging to manage to achieve profitability improvements. Alongside the hourly rate increases from NLW, regulators, particularly the English CQC, are rightfully pressing for robust staffing levels, increasing the number of hours required. The lack of qualified nurses is an additional problem, with many operators facing high agency rates to adequately staff homes.

Homes who are overly-exposed to public fee payers are seeing margins eroded year on year, as they lose the traditional ability to achieve savings by tailoring and careful planning, something being taken out of their hands by the regulator's demands. Whilst the practical impact of the regulator driving higher standards is to be welcomed, commentators continue to note an increasing number of smaller home closures as these often single 'mom and pop' operators (as they are known in the sector) throw in the towel after 20 or 30 years in business. Most of these smaller establishments are unsellable as going concerns, both due to their inability to achieve economies of scale operationally, and also due to their unsuitable and dated facilities (for example, greater than 25 per cent of beds have no en-suite facility at all, never mind full wet-room shower facilities).

Politics and long-term funding of social care

The recent general election campaign demonstrated clearly the sensitivities inherent in sector funding with adult social care and the NHS featuring heavily. The Conservative party's manifesto launch featured a controversial proposal which would fundamentally change funding, consistent with growing calls from think tanks for the public to either pay for their own care via housing wealth, through such additional taxation of their estates, or for the public as a whole to pay into social care through increases in taxation or national insurance. The plans were shelved in reaction to widespread criticism, most memorably a 'dementia tax' branding. It is worth noting that a 2010 proposal by Labour to introduce a property tax for older home owners was similarly branded a 'death tax' by the Conservatives. Politics does, perhaps, slow the pace of essential social care policy changes.

And yet the problem will persist, and grow, as the number of over-85s is set to double over the next 20 years and an estimated 1.2 million people are expected to be living with dementia by 2040 relative to today's 0.85 million. The sector is promised another 'Green Paper' on funding in the autumn, cynics note there have been a dozen such reviews of Social Care in the last 20 years!

Conclusion

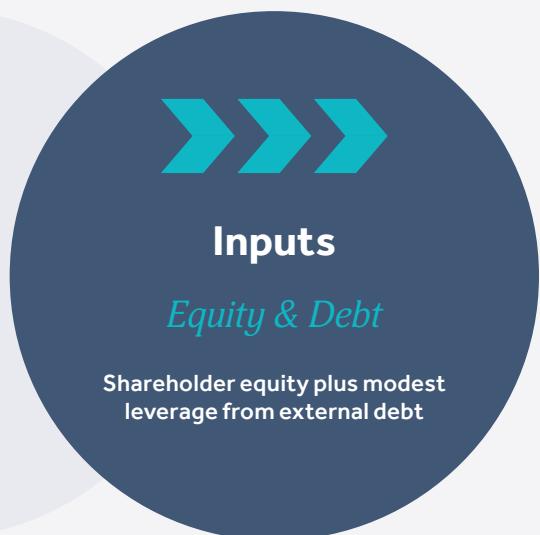
We retain our conviction that operators utilising purpose built, modern properties and managing their operations effectively with a focus on staff training, retention and care quality can continue to perform well. Those who also have an element of control over fee-setting are particularly well placed to serve a sector with such fundamental demand drivers.

Target Advisers LLP

3 October 2017

Business Model

Our investment objective is to provide shareholders with an attractive level of income together with the potential for capital and income growth. We will achieve this through the assembly and management of a portfolio of modern care homes, using our Investment Manager's unique knowledge and expertise within this specialist investment sector.



Fund Management

01.

Grow portfolio through selective and careful acquisition of high quality homes

Target REIT *What we do differently:*

We believe specialist investment management is required to make solid investment decisions in the right properties operated by the best people and that allocating investment capital to modern real estate, well-equipped for residents and their care professionals, is the right thing to do.

The Group's Investment Manager has extensive experience investing exclusively in care home real estate. It will use its reputation and network to source the best opportunities, before applying a detailed, 'bottom-up' investment appraisal focussed on:

- Comprehensive consideration of the design of the home and its suitability for residents and care providers;
- Projected financial sustainability of the home based on a complete analysis of the local market; and
- Selection of a suitable tenant (see 02).

Target REIT *What we do differently:*

We choose only tenants who can demonstrate prioritisation of high quality care and an ability to deliver it through effective operational capability. An in-depth assessment of potential tenants is an integral part of the investment appraisal, where the Manager assesses the tenant by:

- Meetings with senior management;
- Home visits (the home being considered and others run by the prospective tenant);
- Review of track record – regulatory and commercially; and
- Promotion of the Group as a long-term collaborative partner.

Care homes operated by tenants compliant with our criteria tend to perform more profitably. Tenants who are secure in their long-term position will more positively invest in staff training and retention and maintain and improve properties with landlord support. This contributes to the bottom line and the long-term sustainability of the home.



03.

Manage assets to maximise total returns to shareholders

Target REIT *What we do differently:*

The Group is an engaged landlord, actively monitoring and supporting tenants to provide the best care to their residents and to ensure property quality. The Manager's healthcare and portfolio team performs regular visits to:

- Observe and note care quality;
- Assess capital expenditure and repair/maintenance requirements;
- Discuss commercial performance with tenant senior management; and
- Discuss home performance, including regulatory findings, with local/regional management (as appropriate).

This is complemented by desktop analysis of asset financial performance, inclusive of key metrics such as:

- Cost base fluctuations;
- Rent cover;
- Average weekly fee; and
- Occupancy trends.

Data is assessed against investment appraisal expectations and current market conditions, using the Manager's specialist sector knowledge, with follow-up action taken where appropriate. 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.



Outputs

Quarterly Dividend

Dividend paid quarterly to shareholders

To ensure that our Group operations are efficiently managed and our strategic objectives met, we follow industry best practices:

- Set the strategy and ensure objectives are delivered;
- 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 other 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; and
- Maintain an appropriate risk management and governance framework, allowing meaningful assessment of adequacy of the Group's strategy.

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.



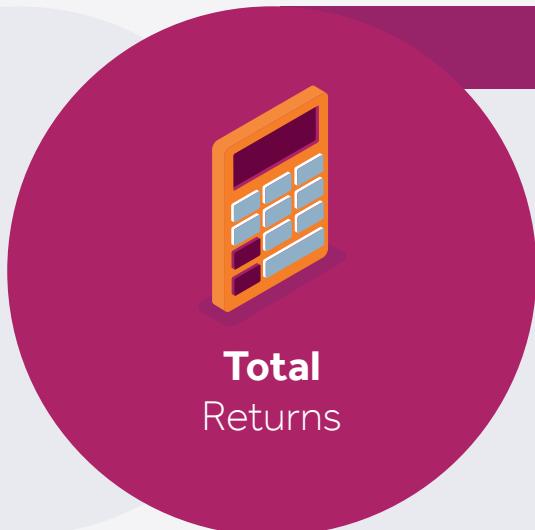
Definition

To pay a progressive dividend fully covered when the Group is fully invested.

KPIs and performance

- **Dividend rates** Progressive annual dividend of 6.28 pence, 1.6 per cent increase on 2016
- **Dividend cover** of 77 per cent (2016: 72 per cent)
- **Control of operating costs** Ongoing charges ratio 1.48 per cent (2016: 1.42 per cent)
- **Growth in earnings** see objective 4

See page 14 for more



Definition

To maximise total returns to shareholders by complementing dividends with capital appreciation.

KPIs and performance

- Annual **NAV total return** of 7.8 per cent (2016: 9.3 per cent)
- **Share price total return** 14.1 per cent (2016: 7.8 per cent)
- **Portfolio performance relative to benchmark** Annualised portfolio total return (excluding acquisition costs) per IPD of 9.1 per cent vs. Index return of 7.9 per cent (year to 31 December 2016)
- **Asset valuations** Like-for-like revaluation gains of 5.0 per cent (2016: 5.3 per cent)

See page 14 for more



Definition

To fund the business through shareholder equity enhanced by modest leverage within predetermined risk thresholds.

KPIs and performance

- Equity capital is fully invested
- Existing debt at low weighted-average cost of 2.2 per cent
- Group loan-to-value (LTV) of 14.2 per cent (total gross debt as a proportion of gross property value, excluding cash), within 35 per cent limit.
- New £40 million facility arranged in August 2017. Capacity to gear to 26 per cent.

See page 15 for more

Progress made and areas of 2018 focus**Key risks****Maximise rental income profits during period of growth.**

Dividend cover on recurring EPRA earnings improved to 83 per cent¹ as the Group moved to full equity investment during the year. The impact of cash drag from capital awaiting investment continues to reduce as the portfolio grows to scale. Full dividend cover is expected to be achieved for the year to June 2018², subject to timely completion of near-term opportunities to be funded by available debt capital.

A key focus for 2018 and beyond will be to sensitively match acquisition opportunities with capital availability, minimising cash drag without sacrificing other benefits expected to result from a larger Group.

Control costs to provide a fully covered dividend when the Group is fully invested.

The OCF, a ratio of recurring expenses relative to NAV, has increased slightly. Costs directly linked to portfolio value have increased in the year as the portfolio has grown. 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

Progress made and areas of 2018 focus**Key risks****Active management of portfolio.**

The portfolio continues to provide like-for-like growth as rent reviews and individual asset performance are reflected in valuations. 92 per cent of assets held at the start of the year maintained or increased in value.

Into 2018, the Manager will continue to closely manage properties to ensure they meet tenants' needs, and to identify opportunities to enhance where supported by their local markets – such as refurbishments/extensions.

- Property valuations could adversely affect returns

Progress made and areas of 2018 focus**Key risks****Debt facilities arranged to support portfolio and capital structure objectives.**

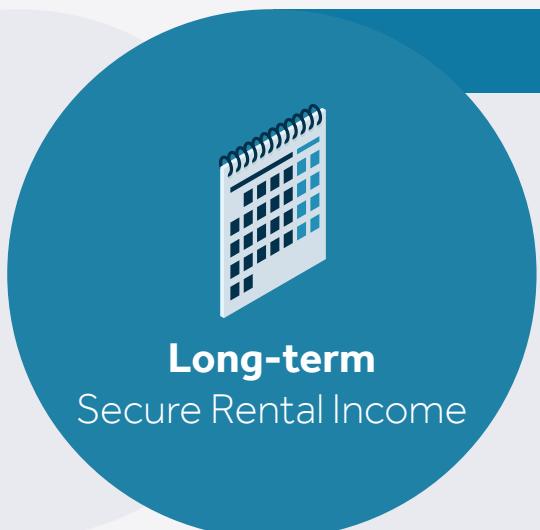
Utilisation of the Group's existing facilities has increased to £40 million as at 30 June 2017. 100 per cent of fixed term debt has had its interest cost fixed at 2.35 per cent. £10 million was available to be drawn flexibly as required.

In August 2017, a new £40 million debt facility was arranged with a new lender. Pricing was obtained at an attractive margin, with funds available to be drawn immediately for acquisition opportunities. The new facility allows the Group to meet its stated gearing target, whilst the combined facilities provide management flexibility to efficiently manage capital structure in response to investment opportunities and overall capital availability.

The key focus for 2018 is to invest available debt as allocated to near-term opportunities, and to fix interest costs in-line with the Group's hedging strategy.

- Lack of equity and debt capital
- Interest rate risk

Strategic Objectives



Long-term Secure Rental Income

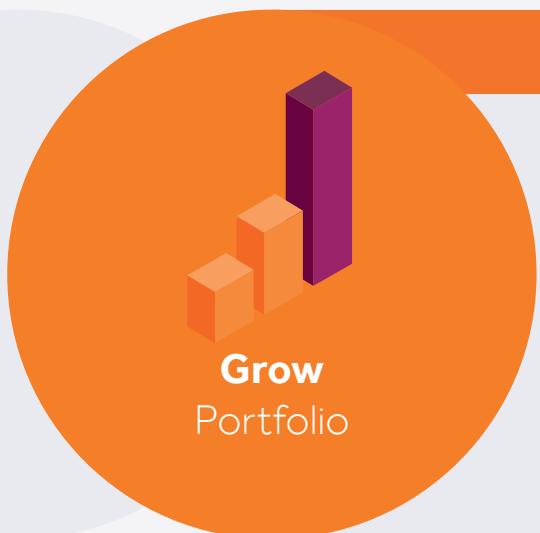
Definition

To have high quality care providers as tenants with secure, sustainable rental income giving long-term growth.

KPIs and performance

- Like-for-like passing **rental growth** of 1.8 per cent (2016: 2.0 per cent)
- **Overall rent roll increase** of 31.3 per cent
- Addition of 3 **new tenants**, to 16
- **WAULT** of 29.5 years (2016: 28.6 years)

See page 15 for more



Grow Portfolio

Definition

To acquire a diversified portfolio of high quality modern care homes providing excellent accommodation standards for residents.

KPIs and performance

- 8 assets with total commitment value of £63.3 million (inc. costs) completed during the year
- All acquired assets are modern, the majority being less than 4 years old
- Substantially all rooms are single occupancy with en-suite facilities including wet room showers

See page 16 for more

“Clear and concise strategic objectives are essential in allowing us to grow the Group in a disciplined and sustainable manner.”

Malcolm Naish
Chairman

Progress made and areas of 2018 focus**Key** risks**Continued improvement in portfolio balance and continued support to our tenants.**

Portfolio diversification will be retained as a focus into 2018, as contributor to stable performance. Increased tenant base despite acquiring 4 assets for 3 existing tenants to support the expansion plans of their businesses.

100 per cent rent collected, with growing rent roll from acquisitions, asset management and rent reviews.

- Government policies/funding of elderly care
- Concentration risk

Progress made and areas of 2018 focus**Key** risks**Continue to invest in attractively-priced assets which meet the Group's investment criteria and support investment objectives.**

The market is competitive, with mainstream investors active and low yields being seen for certain assets. The Group has acquired further quality assets at NIYs which allow achievement of our investment objectives, with a continued aim of portfolio assembly at attractive pricing whilst seeking appropriate diversification.

An additional £16.6 million has been committed subsequent to 30 June 2017. As at the date of this report the Group has uncommitted capital to deploy of approximately £39 million, available from undrawn debt facilities. The Investment Manager is performing diligence on near-term acquisitions of a value in excess of capital available, and is also assessing on wider pipeline opportunities.

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

Strategy in Action

Dividend

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

Total dividends of 6.28 pence per share were declared and paid in respect of the year to 30 June 2017, an increase of 1.6 per cent on 2016. This represents a yield of 5.33 per cent based on the 30 June 2017 closing share price of 117.75 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 2018 by 2.71 per cent to 1.6125 pence per share, in the absence of unforeseen circumstances. This will provide an annualised dividend of 6.45 pence per share.

Annual Dividend (pence)

2017 / 6.28p
2016 / 6.18p
2015 / 6.12p



The Group has increased its EPRA earnings by 49 per cent to £12.2 million (2016: £8.1 million), being 4.8 pence per share (5.2 pence per share adjusted to exclude performance fee payable by the Group). This has provided dividend cover of 77 per cent and 83 per cent respectively. The level of cover has increased from 2016 as the Group has fully invested its equity and moves towards full investment on a geared basis. Dividends are expected to be fully covered when the Group operates on a fully invested basis.

Group operating expenses are represented by an ongoing charges figure of 1.48 per cent (2016: 1.42 per cent).

Summarised results

	2017 £m	2016 £m
Rental income	17.8	12.7
Admin expenses	(5.0)	(3.6)
Net financing costs	(0.8)	(0.9)
EPRA earnings	12.2	8.1
EPRA EPS	4.8p	4.7p
Performance fee	1.0	0.9
Adjusted EPRA earnings	13.2	9.0
Adjusted EPRA EPS	5.2p	5.2p

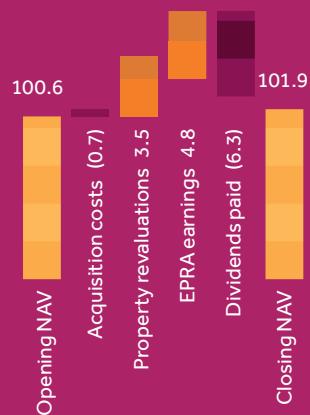
Total Returns

The performance of the Group's portfolio has contributed to NAV total return for the year of 7.8 per cent and a growth in EPRA NAV per share of 1.3 per cent. Share price total return for the year was 14.1 per cent.

Annualised NAV total return since the Group's launch has been 6.4 per cent, reflecting not just the regular dividends generated from the portfolio's rental income, but also portfolio valuation increases in response to rental increases, asset management activities and individual asset performance.

A detailed analysis of the EPRA NAV movement in the year is presented in the chart below. Asset valuation growth at 3.5 pence per share was the principal driver of growth after considering that all earnings (4.8 pence) are distributed to shareholders as dividends (6.3 pence). Acquisition costs have declined in their relative significance to NAV as the portfolio continues to be grown, 34 per cent by value following a 47 per cent increase in 2016. Further portfolio details can be found on page 16.

EPRA NAV per share (pence)



The Group's portfolio total return is calculated by IPD and benchmarked to the IPD UK Annual Healthcare Index. The IPD methodology excludes the effect of acquisition costs and fund expenses to measure the contribution of assets held for the full year. For the year to 31 December 2016, the portfolio's total return of 9.1 per cent was 1.2 percentage points ahead of the index's 7.9 per cent. The portfolio's three-year annualised total return of 10.4 per cent also exceeds that of the index's 9.1 per cent, demonstrating the stable and consistent performance anticipated from a diversified portfolio of quality assets and leases. The next performance period will be measured from January to December 2017.

NAV total return

2017 / 7.8 per cent
2016 / 9.3 per cent
2015 / 10.3 per cent



Business 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).

Over the medium term the Group is committed to maintaining a gearing ratio of approximately 20 per cent, as described in its Investment Policy. This stood at 14 per cent but will increase as available debt is invested in pipeline assets. Access to additional equity and debt allows the Group to capitalise on investment opportunities.

During the year, the focus has been on investing unallocated equity and debt capital, and thereafter in arranging further debt facilities to allow gearing targets to be met. As of 30 June 2017, all equity was invested and the Group's existing debt facility substantially drawn. Interest rate swaps are used to fix interest costs on the fixed term element of the Group's facility with Royal Bank of Scotland PLC.

In August 2017, the Group entered into a new five year £40 million committed term loan facility with First Commercial Bank, Limited (the 'FCB Facility'). This facility can be drawn flexibly over a 24 month period, and the Group intends to hedge a significant part of its interest rate exposure on the facility once it has drawn sufficient funds.

The Group's debt arrangements as at 30 June 2017 and the date of this report are summarised below:

30 June 2017

Lender	Facility amount (£m)	Drawn (£m)	Weighted average Interest rate	Maturity	Percentage Hedged to 23/6/19	Hedged rate 23/6/19 to 1/9/21
RBS – Fixed term	30	30	2.35%	1/9/21	100%	2.2%
RBS – Revolving credit facility	20	10	1.76%	1/9/21	0%	–
TOTALS – 30 June 2017	50	40	2.21%			

3 October 2017

RBS – Fixed term	30	30	2.35%	1/9/21	100%
RBS – Revolving credit facility	20	14	1.76%	1/9/21	0%
FCB – Fixed term	40	5	2.03%	30/8/22	0%
TOTALS – 3 October 2017	90	49	2.16%		

Looking forward, the Investment Manager is actively assessing a wider pipeline of opportunities, which, if considered to meet the Group's high quality criteria, further equity will then be sought to match these opportunities as they arise. The Board will continue to manage the Group's debt/equity balance to generate the required level of leveraged returns.

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.

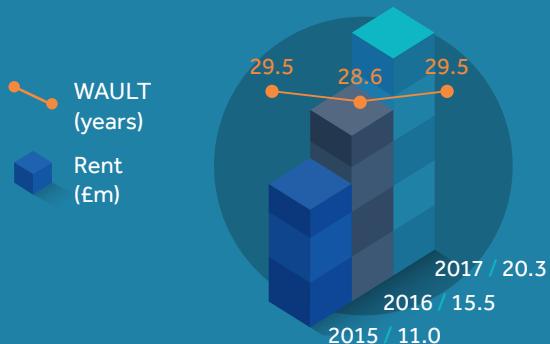
The Group's portfolio of completed assets is 100 per cent let (2016: 100 per cent) to 16 tenants (2016: 13). All properties are subject to upwards-only annual rent reviews, the majority being RPI-linked, with a small proportion of leases containing fixed uplifts and variable rental arrangements. Portfolio passing rent has increased by 31.3 per cent during the year to £20.3 million, 29.5 per cent of this from acquisitions and asset management activity. Like-for-like rental growth from rent reviews, inclusive of variable rental arrangements, has contributed 1.8 per cent (2016: 2.0 per cent) adding an additional £0.28 million (2016: £0.22 million) per annum to rent-roll.

Rent roll growth analysis



The portfolio's weighted-average unexpired lease term ('WAULT') of 29.5 years remains one of the longest duration income in the REIT sector.

Three-year rent roll vs WAULT



Strategy in Action



Grow and Manage Diversified Portfolio

Eight care homes have been acquired during the year, with a development asset completed and let, providing a diversified portfolio of 45 assets, 100 per cent let on long-term FRI leases to Group's 16 tenants.

Care home acquisitions

During the year, the Group committed funds of £63.3 million inclusive of acquisition costs, to add eight care homes to the portfolio, and bringing the annualised rent-roll to £20.3 million. These property acquisitions are consistent with the Group's strategy of acquiring high quality modern care homes.

Five of the acquisitions were newly-opened, immature homes, and the remaining three being operationally mature serving their local markets. Two further acquisitions totalling £16.6 million have been committed to subsequent to the year-end, bringing the Group's portfolio to 46 completed assets let to 17 tenants, plus one asset under development, as of the date of this report.

Homes

The Group continues its selective approach, ensuring that all care home acquisitions meet the high-quality specification criteria including en suite facilities, large bedrooms, and open, spacious communal areas to provide a pleasant environment for residents. All 3,097 bedrooms in the portfolio are equipped with en-suites and the vast majority (97 per cent) boast modern wet-room facilities. A programme of works is in place to upgrade most of the remaining en-suites to wet-room standard.

Diversification

The geographical spread of the portfolio continues to evolve, with the South East region being the portfolio's largest, at 17.1 per cent by portfolio value. Similarly, diversification of the tenant base continues, with three new tenants added. Our conviction in the quality of the portfolio's tenants has led to our leasing four new homes to existing tenants.

The pre-let development site acquired post-year end will also be let to a current tenant once the property is complete and ready for residents.

Asset management

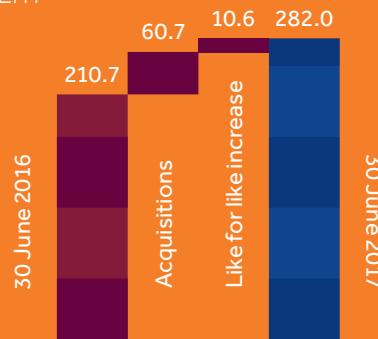
The Manager continues to create opportunities to grow and enhance the portfolio. One substantial renovation project was completed during the year, with rental income coming online at an attractive yield. An extension and refurbishment project on one property is currently being considered, and the pre-let development site acquired post-year end is another which will provide high quality facilities to the local community and bring benefits to the portfolio.

Valuation growth

The property portfolio was externally valued at 30 June 2017 at a market value of £282.0 million, as defined by the Royal Institution of Chartered Surveyors, by Colliers International Healthcare Property Consultants Limited. This is an increase of 34 per cent during the year, achieved through revaluations and acquisitions and asset management initiatives. Revaluations contributed £10.6 million (15 per cent of the total increase) with acquisitions and asset management accounting for the remaining £60.7 million increase.

The tightening of the portfolio EPRA net initial yield of 6.75 per cent at 30 June 2017 (2016: 7.0 per cent) is largely attributable to positive portfolio performance, with the effect of acquisitions in the year having a less significant influence.

Increase in portfolio valuation £m



**Northern Ireland**

No. of properties 4
Rent roll (£m) £1.6
Value (£m) £22.3

North West

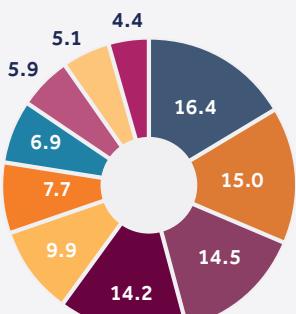
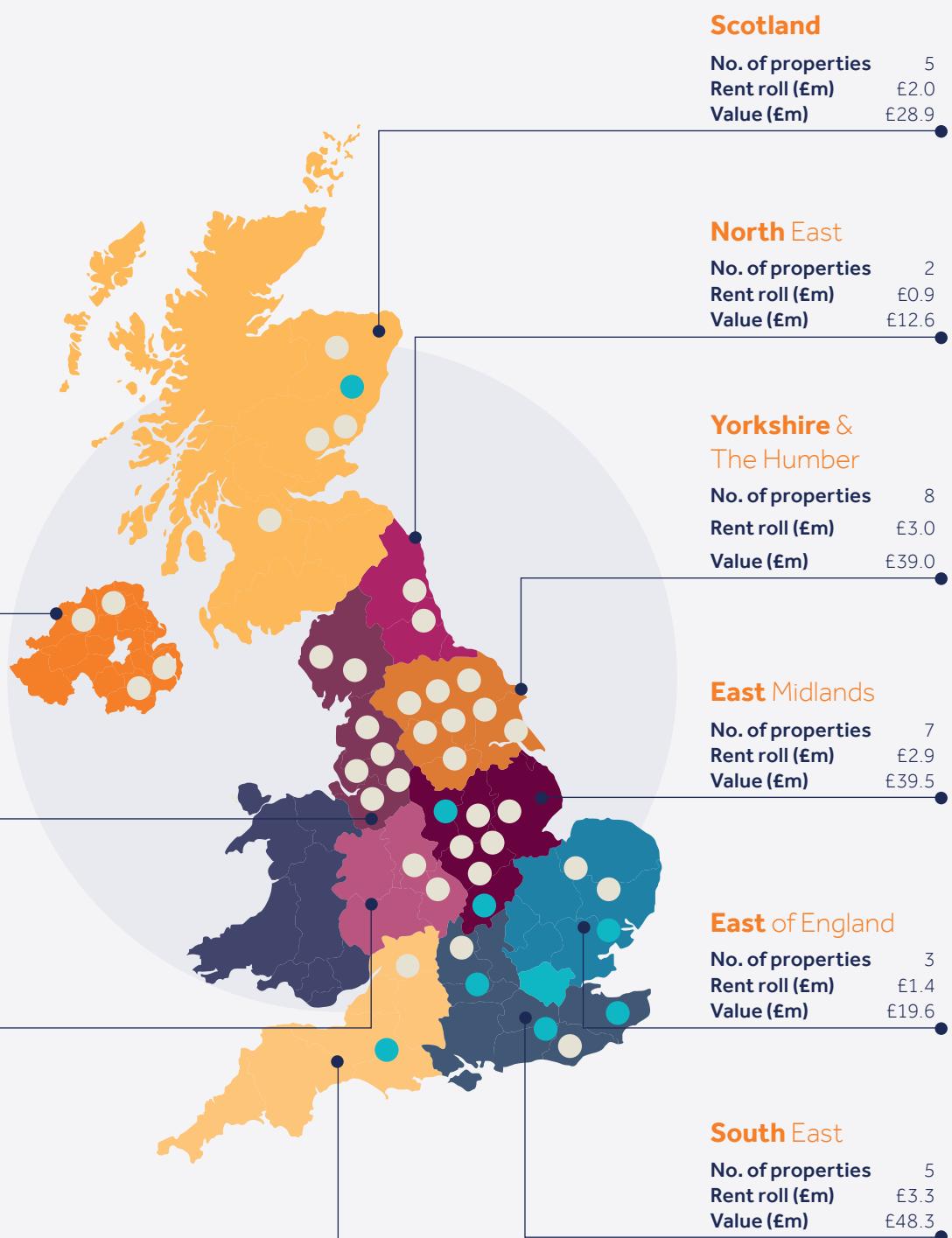
No. of properties 7
Rent roll (£m) £3.0
Value (£m) £41.0

West Midlands

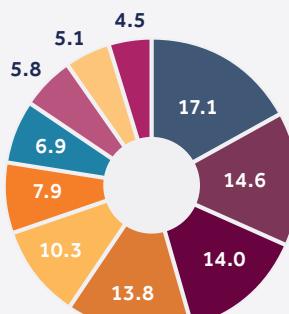
No. of properties 2
Rent roll (£m) £1.2
Value (£m) £16.4

South West

No. of properties 2
Rent roll (£m) £1.0
Value (£m) £14.3



Rent roll
by region per cent



Valuation
by region per cent

- **North West**
- **Yorkshire & The Humber**
- **East Midlands**
- **South East**
- **South West**
- **West Midlands**
- **North East**
- **East of England**
- **Northern Ireland**
- **Scotland**

Risk Rating

Strategic Objectives	Risk and impact	Change to risk rating
 Dividend	<ul style="list-style-type: none"> 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. 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. 	
 Total Returns	<ul style="list-style-type: none"> 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. 	
 Business Funding	<ul style="list-style-type: none"> 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. Interest rate fluctuations could increase the Group's costs and increase the likelihood of non-compliance with lender covenants. 	
 Long-term Secure Rental Income	<ul style="list-style-type: none"> 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. Concentration risk. Significant exposure to a single tenant group or geographical area could adversely affect Group performance in certain circumstances. 	
 Grow Portfolio	<ul style="list-style-type: none"> Lack of attractive investment opportunities and/or an inability to invest on acceptable terms in suitable timeframes will hamper the Group's growth prospects. 	
General	<ul style="list-style-type: none"> 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. 	

Factors affecting risk rating

- Dividend cover has improved in the year as acquisitions have reduced non-deployed capital, portfolio performance has been positive, and operating costs have remained low. With its current portfolio scale and the anticipated meeting of the stated gearing target, dividend cover is expected to improve further in the year to June 2018.
- The Group remains fully compliant with the REIT regulations.

Ongoing mitigation

- All key service providers, including the Investment Manager, are subject to performance assessment at least annually. If performance is assessed as not meeting expectations the provider will either be provided with feedback to facilitate improved service levels or replaced.
- 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 during the year, >90 per cent of properties have maintained or increased in value. The portfolio NIY is stable.
- LTV remains at a conservative level, increasing to 14 per cent as the Group draws debt to fund acquisitions.
- 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.

- Political and economic uncertainty exists in relation to the UK's decision to leave the EU. The Group's ability to access the capital markets to meet its strategic objectives could be impacted in the longer-term.
- The Group has, subsequent to the year-end, increased its available debt facilities by £40 million, providing capital to fund pipeline acquisitions and investment commitments.
- The Group has fixed interest costs on 100 per cent of its drawn fixed term borrowings as at 30 June 2017 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.

- Whilst the care sector continues to face challenges, the associated pressures are tending to be felt most by businesses reliant on local authority funding of residents. The Group's portfolio is diversified in respect of the fee income received by its tenants, with a significant proportion being self-funded.
- The Group's portfolio diversification has improved with continued growth. The Group's largest tenant is now 17 per cent from 22 per cent, and largest geographical region is 16 per cent from 19 per cent.
- Activity levels in the market remain competitive, particularly for premium assets exclusively aimed at self-funded residents in prime locations. The Group continues to see opportunities which meet its criteria, as identified by the Investment Manager, and is actively pursuing these.

- 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.

- The Investment Manager has bolstered its team further during the year.

- 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.
- The Board monitors the Group's pace of deployment of capital via regular reporting by the Investment Manager.

- Directors are subject to annual performance assessment, and are subject to re-election by shareholders. The Board has a succession strategy in place which is subject to regular review and discussion.
- 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 2017

	Notes	Year ended 30 June 2017			Year ended 30 June 2016		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		17,760	5,127	22,887	12,677	4,136	16,813
Other income	2	221	450	671	61	–	61
Total revenue		17,981	5,577	23,558	12,738	4,136	16,874
Gains on revaluation of investment properties	10	–	2,211	2,211	–	425	425
Cost of corporate acquisitions	12	–	(626)	(626)	–	(998)	(998)
Total income		17,981	7,162	25,143	12,738	3,563	16,301
Expenditure							
Investment management fee							
– base fee	3	(2,761)	–	(2,761)	(1,783)	–	(1,783)
– performance fee	3	(997)	–	(997)	(871)	–	(871)
Other expenses	4	(1,236)	–	(1,236)	(992)	–	(992)
Total expenditure		(4,994)	–	(4,994)	(3,646)	–	(3,646)
Profit before finance costs and taxation		12,987	7,162	20,149	9,092	3,563	12,655
Net finance costs							
Interest receivable	5	113	–	113	173	–	173
Interest payable and similar charges	6	(921)	–	(921)	(1,102)	–	(1,102)
Profit before taxation		12,179	7,162	19,341	8,163	3,563	11,726
Taxation	7	25	(244)	(219)	(24)	–	(24)
Profit for the year		12,204	6,918	19,122	8,139	3,563	11,702
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swaps	14	–	307	307	–	(316)	(316)
Total comprehensive income for the year		12,204	7,225	19,429	8,139	3,247	11,386
Earnings per share (pence)	9	4.84	2.74	7.58	4.74	2.07	6.81

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 2017

	Notes	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Non-current assets			
Investment properties	10	266,219	200,720
Trade and other receivables	11	3,988	3,742
		270,207	204,462
Current assets			
Trade and other receivables	11	25,629	13,222
Cash and cash equivalents	13	10,410	65,107
		306,246	282,791
Total assets			
Non-current liabilities			
Bank loan	14	(39,331)	(20,449)
Interest rate swaps	14	(9)	(316)
Trade and other payables	15	(3,988)	(3,742)
		(43,328)	(24,507)
Current liabilities			
Trade and other payables	15	(5,981)	(5,002)
		(49,309)	(29,509)
Net assets		256,937	253,282
Stated capital and reserves			
Stated capital account	16	241,664	246,533
Hedging reserve		(9)	(316)
Capital reserve		11,616	4,698
Revenue reserve		3,666	2,367
		256,937	253,282
Net asset value per ordinary share (pence)	9	101.9	100.4

The financial statements on pages 20 to 42 were approved by the Board of Directors and authorised for issue on 3 October 2017 and were signed on its behalf by:

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 2017

	Notes	Stated capital account £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2016		246,533	(316)	4,698	2,367	253,282
Total comprehensive income for the year		–	307	6,918	12,204	19,429
Transactions with owners recognised in equity:						
Dividends paid	8	(4,869)	–	–	(10,905)	(15,774)
At 30 June 2017		241,664	(9)	11,616	3,666	256,937

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
Total comprehensive income for the year		–	(316)	3,563	8,139	11,386
Transactions with owners recognised in equity:						
Dividends paid	8	(1,973)	–	–	(7,723)	(9,696)
Issue of ordinary shares	16	114,438	–	–	–	114,438
Buyback of ordinary shares into treasury	16	–	–	(14,159)	–	(14,159)
Resale of ordinary shares from treasury	16	–	–	14,799	–	14,799
Expenses of issue		(2,778)	–	–	–	(2,778)
At 30 June 2016		246,533	(316)	4,698	2,367	253,282

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Notes	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities			
Profit before tax		19,341	11,726
Adjustments for:			
Interest receivable		(113)	(173)
Interest payable		921	1,102
Revaluation gains on property portfolio	10	(7,339)	(4,787)
Cost of corporate acquisitions		626	998
Increase in trade and other receivables		(9,062)	(233)
Increase in trade and other payables		20	1,271
		4,394	9,904
Interest paid		(728)	(854)
Interest received		113	173
Tax paid		(543)	(164)
		(1,158)	(845)
Net cash inflow from operating activities		3,236	9,059
Cash flows from investing activities			
Purchase of investment properties		(37,698)	(34,833)
Acquisition of subsidiaries including acquisition costs, net of cash acquired		(25,552)	(28,089)
Repayment/(grant) of development loan		2,170	(2,170)
Net cash outflow from investing activities		(61,080)	(65,092)
Cash flows from financing activities			
Issue of ordinary share capital		–	100,279
Expenses of issue paid		–	(2,778)
Resale of ordinary shares from treasury		–	14,799
Drawdown/(repayment) of bank loan facility, net of costs		18,736	(10,638)
Dividends paid		(15,589)	(9,681)
Net cash inflow from financing activities		3,147	91,981
Net (decrease)/increase in cash and cash equivalents		(54,697)	35,948
Opening cash and cash equivalents		65,107	29,159
Closing cash and cash equivalents	13	10,410	65,107
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		5,786	4,362
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 and updated in January 2017 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:

– IAS 1 'Disclosure Initiative – Amendments to IAS 1'

The amendments to IAS 1 clarify, rather than significantly change, the existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments do not have any significant impact on the Group.

– Annual Improvements for IFRSs 2012-2014 Cycle

This cycle of annual improvements for IFRSs became effective for the Group in the current year but do not have any significant impact on the Group.

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 15 'Revenue from Contracts with Customers'

In May 2014, the IASB published the final version of IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

IFRS 15 does not apply to lease contracts within the scope of IAS 17 'Leases' or, from its date of application, IFRS 16 'Leases' (see below).

The standard will be effective for annual periods beginning on or after 1 January 2018. The Group is yet to assess IFRS 15'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 2017. Subsidiaries are those entities, including special purpose entities, controlled by the Company and further information is provided in note 12. 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 taking account of the following:

- Any rental income from fixed and minimum guaranteed rent review uplifts is recognised on a straight line basis over the lease term;
- 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 received.

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.

Notes to the Consolidated Financial Statements *continued*

1. Accounting policies *continued*

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 IPD UK Annual Healthcare Index. The performance fee is measured over a rolling three year period.

(e) Dividends

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

(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. The Group's subsidiaries all enter the Group REIT regime on acquisition/incorporation. 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.

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. 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 Healthcare Property Consultants Limited, in their capacity as external valuers, 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 fair value of the consideration transferred at the acquisition date together with 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 amortised cost less impairment 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 Consolidated Statement of Financial Position 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.

The effective portion of the 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. The ineffective portion is recognised in the Income Statement. 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;
- 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; and
- At the inception of the hedge there must be formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.

Notes to the Consolidated Financial Statements *continued*

1. Accounting policies *continued*

(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;
- Taxation arising on the acquisition or disposal of investment properties;
- Recovery of any cost/tax where the original expense/tax has also been charged to capital; 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.

2. Other income

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Contribution towards tax charge	450	–
Development loan interest	175	–
Other sundry income	46	61
Total	671	61

The Group suffered a taxation charge during the year which principally related to the taxation of a capital gain arising in connection with the acquisition of a subsidiary company. The Group's previous tax adviser provided a contribution towards the tax charge arising from the gain.

During February 2016, the Group exchanged contracts to acquire a 12-bed specialist care home in Bricket Wood, St Albans. As part of this acquisition, the Group entered into a secured loan facility agreement with HSN Care ('HSN'), the specialist care provider who would have been the tenant of the home on completion. The Company provided HSN with a loan of £2,170,000 for the purposes of carrying out the development of the property. The acquisition did not subsequently complete and the Group received full repayment of the loan including interest due at the contracted rate of 8.85 per cent per annum.

3. Fees paid to Target Advisers LLP

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Base management fee	2,761	1,783
Performance fee	997	871
Total	3,758	2,654

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 IPD 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.

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 2016 totalling £946,000 (year to 31 December 2015: £636,000) has been paid of which £345,000 (2016: £110,000) was accrued in the prior period accounts. At the year-end an accrual of £396,000 (inclusive of estimated irrecoverable VAT) in relation to the year to 31 December 2017 has been made based on the Group's historic portfolio performance relative to the Index.

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.

4. Other expenses

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Valuation and other professional fees	348	209
Secretarial and administration fees	204	157
Directors' fees	165	115
Auditor's remuneration for:		
– statutory audit of the Company	47	44
– statutory audit of the subsidiaries	51	44
– assurance related services	6	6
Other taxation compliance and advisory	85	55
Listing & Registrar fees	75	63
Printing, postage and website	56	35
Public relations	45	22
Direct property costs	22	112
Other	132	130
Total	1,236	992

The valuers of the investment properties, Colliers International Healthcare 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 did not pay any additional amounts to EY during the year (2016: £41,000 of non-audit fees were included within the expenses of issue of shares). Expenses are inclusive of VAT as the Company is not VAT registered. Details of the services provided by EY and the fees for their services is provided within the Report of the Audit Committee on page 54.

5. Interest receivable

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Deposit interest	113	173
Total	113	173

6. Interest payable and similar charges

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Bank loan	921	1,102
Total	921	1,102

Notes to the Consolidated Financial Statements *continued*

7. Taxation

	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Current tax	—	24
Adjustment to tax charge for prior years	219	—
Total tax charge	219	24

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 2017 £'000	Year ended 30 June 2016 £'000
Profit before tax	19,341	11,726
Tax at 19.75% (2016: 20.0%)	3,820	2,345
Effects of:		
REIT exempt profits	(3,997)	(2,543)
REIT exempt gains	(437)	(85)
Cost of corporate acquisitions	124	200
Adjustment to tax charge for prior years	219	—
Excess expenses carried forward	490	107
Total tax charge	219	24

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.

The Group's adjustment to tax for prior years was principally related to the taxation of a capital gain which arose in connection with the acquisition of a subsidiary company in the prior year. A contribution towards the tax charge arising in relation to the gain was received from the Group's previous tax adviser (see note 2).

The Group has unutilised tax losses carried forward in its residual business of £3.0 million at 30 June 2017 (2016: £0.5 million). No deferred tax asset has been recognised on this amount as the Group cannot be certain that there will be taxable profits arising within its residual business from which the future reversal of the deferred tax asset could be deducted.

8. Dividends

Amounts paid as distributions to equity holders during the year to 30 June 2017.

	Dividend rate (pence per share)	Year ended 30 June 2017 £'000
Fourth interim dividend for the year ended 30 June 2016	1.545	3,897
First interim dividend for the year ended 30 June 2017	1.570	3,959
Second interim dividend for the year ended 30 June 2017	1.570	3,959
Third interim dividend for the year ended 30 June 2017	1.570	3,959
Total	6.255	15,774

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
Total	6.165	9,696

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 2017, of 1.57 pence per share, was paid on 25 August 2017 to shareholders on the register on 4 August 2017 amounting to £3,959,000. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

9. 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 2017		Year ended 30 June 2016	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	12,204	4.84	8,139	4.74
Capital earnings	6,918	2.74	3,563	2.07
Total earnings	19,122	7.58	11,702	6.81
Average number of shares in issue	252,180,851		171,734,587	

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 2017 £'000	Year ended 30 June 2016 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	19,122	11,702
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives	(5,127)	(4,136)
Adjusted for revaluations of investment properties	(2,211)	(425)
Adjusted for cost of corporate acquisitions and other capital items	420	998
EPRA earnings	12,204	8,139
Adjusted for performance fee	997	871
Group specific adjusted EPRA earnings	13,201	9,010
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	7.58	6.81
EPRA EPS	4.84	4.74
Group specific adjusted EPRA EPS	5.23	5.25

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 101.9 pence (2016: 100.4 pence) is based on equity shareholders' funds of £256,937,000 (2016: £253,282,000) and on 252,180,851 (2016: 252,180,851) 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 swaps, which were recognised as a liability of £9,000 under IFRS as at 30 June 2017 (2016: liability of £316,000).

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 2017	As at 30 June 2016
NAV per financial statements (pence per share)	101.9	100.4
Valuation of interest rate swaps	—	0.2
EPRA NAV (pence per share)	101.9	100.6

Notes to the Consolidated Financial Statements *continued*

10. Investments

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Freehold and leasehold properties		
Opening market value	210,666	143,748
Opening fixed or guaranteed rent reviews and lease incentives	(9,946)	(5,584)
Opening carrying value	200,720	138,164
 Purchases	35,622	32,912
Purchase of property through a business combination	25,590	27,298
Acquisition costs capitalised	2,076	1,921
Acquisition costs written off	(2,076)	(1,921)
Revaluation movement - gains	11,660	7,724
Revaluation movement - losses	(1,587)	(1,016)
Movement in market value	71,285	66,918
Movement in fixed or guaranteed rent reviews and lease incentives	(5,786)	(4,362)
Movement in carrying value	65,499	62,556
 Closing market value	281,951	210,666
Closing fixed or guaranteed rent reviews and lease incentives	(15,732)	(9,946)
Closing carrying value	266,219	200,720
 Changes in the valuation of investment properties		
	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Revaluation movement	10,073	6,708
Acquisition costs written off	(2,076)	(1,921)
Movement in lease incentives	(658)	–
	7,339	4,787
Movement in fixed or guaranteed rent reviews	(5,128)	(4,362)
Gains on revaluation of investment properties	2,211	425

The properties were valued at £281,951,000 (2016: £210,666,000) by Colliers International Healthcare 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 £266,219,000 (2016: £200,720,000). The adjustment consisted of £14,847,000 (2016: £9,719,000) relating to fixed or guaranteed rent reviews and £885,000 (2016: £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 11).

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.

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 around 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 1.

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 £10.8 million (2016: £7.8 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 £10.1 million (2016: £7.3 million) and reduce the Group's income.

11. Trade and other receivables

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Non-current trade and other receivables		
Cash held for tenants	3,988	3,742
Total	3,988	3,742

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Current trade and other receivables		
Fixed rent reviews	14,847	9,719
Cash deposits held in escrow for property purchases	9,483	910
Lease incentives	885	227
Corporation tax recoverable	311	–
Development loan	–	2,170
Accrued income	–	173
Other debtors and prepayments	103	23
Total	25,629	13,222

At the year-end, trade and other receivables include a fixed rent review debtor of £14,847,000 (2016: £9,719,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £885,000 (2016: £227,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease. Both such balances are in accordance with the Group's accounting policies which spread uplifts and incentives over the lease term.

Notes to the Consolidated Financial Statements *continued*

12. Investment in subsidiary undertakings

The Group included 14 subsidiary companies as at 30 June 2017. All subsidiary companies were wholly owned, either directly or indirectly, by the Company and, from the date of acquisition onwards, the principal activity of each company within the Group was to act as an investment and property company. Other than two subsidiaries, which are incorporated in Gibraltar, all subsidiaries are incorporated within the United Kingdom.

The Group acquired THR Number 7 Limited ('THR7') and THR Number 8 Limited ('THR8') on 26 August 2016 and acquired THR Number 9 Limited ('THR9') on 24 October 2016.

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 2017 were:

	THR7 £'000	THR8 £'000	THR9 £'000
Investment property	8,050	5,650	11,890
Cash and cash equivalents	–	–	192
Trade and other receivables	2	1	73
Total assets	8,052	5,651	12,155
Trade and other payables	(26)	(4)	(710)
Total liabilities	(26)	(4)	(710)
Total identifiable net assets at fair value	8,026	5,647	11,445
Purchase consideration transferred	8,026	5,647	11,598
 Cash flow on acquisition	 THR7 £'000	 THR8 £'000	 THR9 £'000
Net cash acquired with the subsidiary	–	–	192
Cash paid	(8,026)	(5,647)	(11,598)
Net cash flow on acquisition	(8,026)	(5,647)	(11,406)
 Cost of corporate acquisitions (including goodwill)	 143	 143	 279

In addition to the cost of corporate acquisitions stated above, there were costs of £61,000 charged to the Income Statement which related to acquisitions which completed in the prior year, giving total costs of £626,000 recognised during the year (2016: £998,000).

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

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 2017 were as follows:

	THR7 £'000	THR8 £'000	THR9 £'000
Revenue	472	329	480
Capital	(182)	(130)	990
Total	290	199	1,470

In addition to the acquisitions above, the Group acquired four newly established companies during the year to 30 June 2017: THR Number 10 Limited, THR Number 12 plc, THR Number 13 Limited and THR Number 14 Limited. As they were newly established, there were no identifiable assets or liabilities recognised on the acquisition of these companies, nor was there any comprehensive income from these companies included within the Consolidated Statement of Comprehensive Income for the year ended 30 June 2017.

13. Cash and cash equivalents

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

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Cash at bank and in hand	299	1,284
Short-term deposits	10,111	63,823
Total	10,410	65,107

14. Bank loan

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Principal amount outstanding	40,000	21,000
Set-up costs	(1,100)	(836)
Amortisation of set-up costs	431	285
Total	39,331	20,449

At 30 June 2016, the Group had a £50.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which was repayable on 23 June 2019. Interest accrued on the bank loan at a variable rate, based on three month LIBOR plus margin and mandatory lending costs, and was payable quarterly. At 30 June 2016, the margin was 2.0 per cent per annum for the duration of the loan and a non-utilisation fee of 1.0 per cent per annum was payable on any undrawn element of the facility.

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. The non-utilisation fee payable on any undrawn element of the facility was reduced to 0.75 per cent per annum. There were no other material amendments to the facility. The Group drew down a further £19.0 million under this facility during the year ended 30 June 2017.

The Group has 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 three month LIBOR. On 21 September 2016, the Group entered into a second interest rate swap, also for a notional value of £21.0 million, 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 three month LIBOR.

On 27 March 2017, the Group entered into a third interest rate swap for a notional value of £9.0 million, with a starting date of 7 April 2017 and a termination date of 1 September 2021. Under the terms of the third interest rate swap, the Group will pay quarterly a fixed rate of interest of 0.86 per cent per annum and will receive three month LIBOR.

Inclusive of all three interest rate swaps, the interest rate on £30.0 million of the Group's borrowings is fixed at an all-in rate of 2.36 per cent per annum until 23 June 2019 and 2.25 per cent per annum from 24 June 2019 to 1 September 2021. The remaining £10.0m of debt is drawn from the revolving credit facility with interest payable at a variable rate equal to three month LIBOR plus the lending margin of 1.50 per cent per annum.

The fair value of the interest rate swaps at 30 June 2017 was an aggregate liability of £9,000 (2016: liability of £316,000).

This bank loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number One PLC Group ('THR1 Group') which consists of THR1 and its three subsidiaries; THR Number Two Limited, THR Number 3 Limited and THR Number 9 Limited. 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.

Subsequent to the year end, the Group entered into an additional £40.0 million five year loan facility. See note 23 for details.

Notes to the Consolidated Financial Statements *continued*

15. Trade and other payables

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Non-current trade and other payables		
Rental deposits	3,988	3,742
Total	3,988	3,742
Current trade and other payables		
Rental income received in advance	3,520	2,806
Investment Manager's fees payable including performance fees	941	885
Loan interest payable	223	176
Tax payable	519	73
Other payables	778	1,062
Total	5,981	5,002

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

16. Stated capital movements

	As at 30 June 2017	
	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of no par value		
Opening balance	252,180,851	246,533
Dividends allocated to capital		(4,869)
Balance as at 30 June 2017	252,180,851	241,664

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

During the year to 30 June 2017, the Company did not repurchase any ordinary shares into treasury (2016: 14,229,822 ordinary shares at a total cost of £14,159,000). The Company did not resell any ordinary shares from treasury (2016: 14,229,822 ordinary shares raising gross proceeds of £14,799,000).

During the year to 30 June 2017, the Company did not issue any ordinary shares (2016: 109,882,625 ordinary shares raising gross proceeds of £114,438,000).

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.

17. Financial instruments

Consistent with its objective, the Group holds UK care home property investments. In addition, the Group's financial instruments comprise cash, a bank loan and receivables and payables that arise directly from its operations. The Group's exposure to derivative instruments consists of interest rate swaps 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 £20.3 million (2016: £68.4 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 2017 (2016: 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. As the cash balance held had reduced by the year end, monies were held with a single financial institution. At 30 June 2017 the Group held £10.4 million (2016: £26.0 million) with The Royal Bank of Scotland plc and £nil (2016: £39.1 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.

Notes to the Consolidated Financial Statements *continued*

17. Financial instruments *continued*

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

Financial assets as at 30 June 2017	Three months or less	More than three months but less than one year	1-2 years	2-5 years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash	10,410	—	—	—	—	10,410
Cash held for tenants	—	—	—	—	3,988	3,988
Other debtors and prepayments	9,897	—	—	—	—	9,897
Total	20,307	—	—	—	3,988	24,295

Financial assets as at 30 June 2016	Three months or less	More than three months but less than one year	1-2 years	2-5 years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cash	65,107	—	—	—	—	65,107
Development loan	2,170	—	—	—	—	2,170
Cash held for tenants	—	—	—	—	3,742	3,742
Other debtors and prepayments	1,106	—	—	—	—	1,106
Total	68,383	—	—	—	3,742	72,125

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

Financial liabilities as at 30 June 2017	Three months or less	More than three months but less than one year	1-2 years	2-5 years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank loan and interest rate swaps	242	719	943	42,041	—	43,945
Rental deposits	—	—	—	—	3,988	3,988
Other payables	2,461	—	—	—	—	2,461
Total	2,703	719	943	42,041	3,988	50,394

Financial liabilities as at 30 June 2016	Three months or less	More than three months but less than one year	1-2 years	2-5 years	More than five years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Bank loan and interest rate swap	224	665	889	21,871	—	23,649
Rental deposits	—	—	—	—	3,742	3,742
Other payables	2,196	—	—	—	—	2,196
Total	2,420	665	889	21,871	3,742	29,587

The total amount due to RBS under the interest-bearing £50 million bank facility includes the expected hedged interest payments due under both the loan and interest rate swaps combined (see note 14 for further details) assuming that both the drawn element of the loan and the notional value of the interest rate swaps remain unchanged from 30 June 2017 until expiry on 1 September 2021 (2016: original expiry of 23 June 2019). The interest rate on the unhedged element of the loan is based on the rate of three month LIBOR at 30 June 2017 plus the lending margin. The commitment fee payable on the undrawn element of the facility is included.

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 a variable rate of 0.01 per cent (2016: 0.50 per cent and 0.55 per cent). 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 (2016: £50 million) committed term loan and revolving credit facility which at 30 June 2017 was charged interest at a rate of three month LIBOR plus a margin of 1.5 per cent per annum (2016: 2.0 per cent per annum). At the year-end £40.0 million of the facility was drawn down (2016: £21.0 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 £30.0 million (2016: £21.0 million) of the loan drawn down at 30 June 2017 through entering into fixed rate Interest Rate Swaps (see note 14). Fixing the interest rate exposes the Group to fair value interest rate risk. At 30 June 2017, 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 £0.3 million (2016: £0.2 million). A decrease in interest rates would have had an equal and opposite effect.

The Group has not hedged its exposure on £10.0 million of the loan drawn down at 30 June 2017 (2016: £nil) on which interest is payable at a variable rate equal to three month LIBOR plus the lending margin of 1.50 per cent per annum. This balance exposes 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 following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

	As at 30 June 2017		As at 30 June 2016	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	—	10,410	65,107	—
Development loan	—	—	2,170	—
Bank loan	(30,000)	(10,000)	—	(21,000)

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 £1,000 (2016: £116,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2017 (30 June 2016) and are not representative of the year as a whole 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 10.

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 10. A 10 per cent increase in the value of the investment properties held as at 30 June 2017 (30 June 2016) would have increased net assets available to shareholders and increased the net income for the year by £26.6 million (2016: £20.1 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.

Notes to the Consolidated Financial Statements *continued*

18. Capital commitments

At 30 June 2017, the Group had no capital commitments (2016: £1.5 million).

Update on commitments previously reported:

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 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. The loan facility attracted an accrued coupon of 8.85 per cent per annum and the loan capital and accrued interest was expected to be repaid from the consideration proceeds once the acquisition completed. This loan was included in trade and other receivables at 30 June 2016. HSN subsequently notified the Group that they did not wish to complete this transaction. The loan was repaid in full, including accrued interest, on 14 February 2017 and the Company discharged its security over the company and property and released HSN of their obligations under the forward sale contract.

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 was to be acquired for £9.2 million, including acquisition costs, once works had been undertaken to complete the home to the Group's specification. Completion of the transaction on the terms expected occurred on 30 March 2017.

In November 2016, the Company exchanged contracts to acquire a purpose-built care home located in the town of Sutton-in-Ashfield, Nottinghamshire. The home was to be acquired for £5.6 million, including acquisition costs, once the build had been completed. Completion of the transaction on the terms expected occurred on 31 March 2017.

19. 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 2017 £'000	As at 30 June 2016 £'000
Less than one year	20,290	15,283
Between two and five years	86,139	63,788
Over five years	683,270	505,704
Total	789,699	584,775

The largest single tenant at the year-end accounted for 17.4 per cent (2016: 22.2 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 13 and 35 years.

20. 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, who retired as a Director following the Annual General Meeting on 10 November 2016, was a director of the Company Secretary and the Administrator, R&H Fund Services (Jersey) Limited and R&H Fund Services Limited, each of which receive fees from the Company. Mr Webster, who was appointed as a Director of the Company with effect from 11 November 2016, is an employee of the Company Secretary, R&H Fund Services (Jersey) Limited. 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 4.

The Directors of the Company received fees for their services. Total fees for the year were £165,000 (2016: £115,000) of which £18,000 (2016: £16,000) remained payable at the year-end.

Target Advisers LLP, the Investment Manager, received £3,758,000 (2016: £2,654,000) in relation to the year of which £997,000 (2016: £871,000) related to the performance fee. Of this amount £941,000 (2016: £885,000) (inclusive of VAT) remained payable at the year-end.

21. 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 9.

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.

22. Contingent assets and liabilities

Update on contingent assets/liabilities reported in previous Annual Report

On 30 June 2016, one property within the portfolio had met contracted performance conditions. This triggered a deferred payment of £2.0 million to the vendor, which was paid during the year ended 30 June 2017. The Group received an uplift in rental income consistent with the net initial yield of the original acquisition commencing from the date the deferred payment was made.

23. Post Balance Sheet Events

On 6 July 2017, the Group completed the acquisition of an 88 bed home in Melton Mowbray, Leicestershire for £8.4 million, including acquisition costs. The home opened its doors to residents in March 2017 and boasts very large lounges and well laid out gardens providing good outdoor space for residents and visitors. The home was leased back to Melton Care Limited and is subject to a 35 year lease with RPI-linked uplifts with a cap and collar. Melton Care is a joint venture between Magnum Care, a Leicestershire-based operator, and the principals behind Care Concern, the national operator with whom the Group have worked in a number of homes.

On 11 July 2017, the Group acquired a development site, with planning permission, in Birkdale, Merseyside, and entered into a capped development contract to develop a home with 55 large bedrooms and good public space in an impressive building on this corner location. The development will be carried out by Athena Healthcare, who have also contracted to pre-let the property on completion at an agreed rental level. The lease will be for 35 years with RPI uplifts subject to a cap and collar. The home will target the premium residential market and, once completed, will become the third home in the Group's portfolio with Athena, a growing operator with three operational homes and several further in development. The home is expected to complete by March 2019, with a total development price of around £8.2 million including costs.

On 30 August 2017, the Group entered into a new five year £40 million committed term loan facility with First Commercial Bank, Limited (the 'FCB Facility'). The FCB Facility can be drawn down flexibly over the period to 30 August 2019 with £5.0 million of the facility having been drawn to date. Interest is payable quarterly in arrears at a margin of 175 basis points over three month LIBOR. The Group intends to hedge a significant part of its interest rate exposure on the facility once it has drawn sufficient funds. The facility agreement contains a typical security package including loan to value and interest cover ratio covenants which are broadly in-line with the Group's existing debt arrangements.

Notes to the Consolidated Financial Statements *continued*

24. Alternative Investment Fund Managers ('AIFM') Directive

With effect from 22 July 2014, the Company's Investment Manager was authorised as an AIFM by the FCA under the AIFMD regulations. 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. The Manager has provided disclosures on its website, www.targetadvisers.co.uk, incorporating the requirements of the AIFMD regulations regarding remuneration.

The Group's maximum and average actual leverage levels at 30 June 2017 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	1.25	1.29

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 swaps 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 and is a current director of Anchor Trust.

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, Hersha Hospitality Trust, Marriot Vacation Worldwide Corporation 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

Ian Webster

Independent Non-Executive Director

Mr Webster is a Chartered Accountant and has over 15 years' experience of the offshore funds sector. He joined R&H's fund administration business in Jersey in 2016. Mr Webster previously worked for BlackRock (Channel Islands) Limited where he provided management oversight for a wide range of funds promoted within the BlackRock group and was a director of several BlackRock Real Estate vehicles and other BlackRock entities.

Date of appointment: 11 November 2016

Country of residence: Jersey

All other public company directorships: None

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 Augentius Depositary Company Limited to act as the Company's depositary.

Key personnel of the Investment Manager

The key personnel who are responsible for managing the Group's activities are:

Kenneth MacKenzie MA CA

Kenneth MacKenzie is founder and managing partner of Target Advisers. He is a Chartered Accountant with over 40 years of business leadership experience, last fourteen 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

John Flannelly is investment partner of Target Advisers. He is a Chartered Accountant with 20 years' experience, last eleven 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

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 BAcc CA CTA

Donald Campbell is portfolio partner at Target Advisers. Donald is a Chartered Accountant with 29 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

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, serving asset management and financial services clients in the UK, Canada and Australia.

The Directors present their report, along with the financial statements of the Group on pages 20 to 42, for the year ended 30 June 2017.

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 1.57 pence per share, to shareholders in relation to the year ended 30 June 2017.

Directors' Report

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.

An analysis of the Company's property portfolio at 30 June 2017 is shown on page 17.

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 for any quarter over which the Company has been fully invested and the Investment Manager seeks to assemble and manage a portfolio which will generate profits to fully cover dividends in periods of full investment. 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

Biographical details of the Directors, all of whom are non-executive, can be found on page 43. As explained in more detail in the Corporate Governance Statement on page 49, any new appointment by the Board is subject to election by shareholders at the AGM following the appointment. Thereafter the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. Accordingly Mr Webster, who was appointed on 11 November 2016, will be subject to election at the AGM on 29 November 2017, while the other Directors will be subject to re-election. Having considered the knowledge, experience and contribution of each Director putting themselves forward the Board has no hesitation in recommending their election/ re-election to shareholders. Mr Webster's appointment on 11 November 2016 was made following the retirement of Mr Ross. The Company did not employ, or pay any remuneration to, any external recruitment consultant in relation to this appointment.

Directors' Report

continued

Mrs Jones and Mr Webster are, respectively, a director and an employee of the Company Secretary, R&H Fund Services (Jersey) Limited. The Board has concluded that their appointment as Directors is the most efficient means of ensuring both that the Company fulfils its obligation to have two Jersey-based Directors and that the Board has sufficient knowledge and experience of the Jersey sector to ensure that it understands and follows the best practice recommendations within that regime. The Board does not consider that either Mrs Jones' or Mr Webster's relationship with the Company Secretary has any impact on their independence.

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 51, 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 2017 the Company had received notification of the following holdings of voting rights (under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules):

	Number of Ordinary Shares held	Percentage held*
Investec Wealth & Investment Limited	23,385,150	9.3
CCLA Investment Management Limited	12,524,146	5.0
Blackrock, Inc	9,435,473	3.7
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

* Based on 252,180,851 Ordinary Shares in issue as at 30 June 2017.

There have been no changes notified to the Company in respect of the above holdings, and no new holdings notified since 30 June 2017.

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. As set out in more detail under the heading 'Continuation Vote' below, at each fifth Annual General Meeting of the Company, including the AGM to be held on 29 November 2017, shareholders are given the opportunity to vote on an ordinary resolution to continue the Company. Based on all the information considered 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, notwithstanding that the Company is subject to a continuation vote within the twelve month period.

Resolutions to be proposed at the AGM

Resolutions 1 to 9 are self-explanatory.

Continuation Vote

In accordance with the Articles of Association, an ordinary resolution is required to be put to shareholders at every fifth annual general meeting to seek their approval to the continuation of the Company. As the forthcoming AGM is the fifth annual general meeting since the launch of the Company, such resolution is put forward as resolution 11. If passed, such resolution will next be proposed at the tenth annual general meeting of the Company, which would be expected to be held in 2022. If the continuance vote were not to be passed, the Directors will be required to convene a general meeting of the Company within six months thereafter at which a special resolution will be proposed to either wind up voluntarily or reconstruct the Company. As set out in the Strategic Report, the Board believes that the Company has continued to assemble a portfolio of UK care homes capable of delivering stable rental returns, has a balance sheet able to support its long-term performance objectives and operates in a sector in which the fundamentals continue to make a compelling investment case. The Board therefore believes it is in the interests of shareholders as a whole that the Company should continue. As at 3 October 2017, the Directors are not aware of any reason why the continuation vote would not be passed.

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 12 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 3 October 2017).

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 13 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 13. 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 56 and 57, 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. Shareholders will again be asked to approve the Directors' Remuneration Policy, which is unchanged, at the AGM in 2017 (resolution 2). Shareholders will also be asked to approve the Directors' Annual Report on Remuneration for the year ended 30 June 2017(resolution 3).

Auditor

The Independent Auditor's Report can be found on pages 58 to 61. 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 10).

Recommendation

The Directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do in respect of their own beneficial holdings of shares which amount in aggregate to 140,000 ordinary shares representing approximately 0.06 per cent of the current issued share capital of the Company.

On behalf of the Board

Malcolm Naish

Chairman

3 October 2017

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 the key outputs from 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 2017 which has long leases and a weighted average unexpired lease term of 29.5 years. The Company has borrowings of £30.0 million on which the interest rate has been fixed at 2.36 per cent per annum through the use of interest rate swaps, £10.0 million which carries a variable rate of interest at three month LIBOR plus lending margin of 1.5 per cent and access to a further £50.0 million of available debt under committed loan facilities. Of these borrowings, £50.0 million is committed to 1 September 2021 and £40.0 million is committed to 30 August 2022.

The Director's assessment of the Group's principal risks are highlighted on pages 18 and 19. 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 the key outputs from 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

Malcolm Naish
Chairman
3 October 2017

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 Healthcare Property Consultants Limited.

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 50 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 2016 to consider strategic issues. In addition to these scheduled meetings, there were a further nine 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 Webster includes twelve months' notice of termination by either party. Mrs Jones' and Mr Webster's 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.

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.

Corporate Governance Statement

continued

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.

	Board		Audit Committee		Management Engagement Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Malcolm Naish	5	4	3	2	3	2	1	1
June Andrews OBE	5	5	3	3	3	3	1	1
Gordon Coull	5	5	3	3	3	3	1	1
Tom Hutchison	5	5	3	3	3	3	1	1
Hilary Jones	5	4	3	3	3	3	1	1
Ian Webster*	2	2	2	2	2	2	—	—
Graeme Ross*	3	2	1	1	1	1	1	1

* Graeme Ross retired with effect from 10 November 2016 with Ian Webster being appointed to the Board with effect from 11 November 2016.

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 45. 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 52.

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. In particular during the year, the Nomination Committee considered whether any new appointments would be required following Mr Ross' retirement. After review, the Nomination Committee concluded that the appointment of an additional Jersey-based Director with similar skills, knowledge and experience was required to ensure that a balanced Board was maintained. The Nomination Committee concluded that Mr Webster was a suitable replacement and recommended that he be appointed to the Board.

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 29 November 2017 is set out on pages 64 and 65. 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 emission-producing sources.

On behalf of the Board

Malcolm Naish

Chairman

3 October 2017

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 which 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

Consideration of the half-year and annual financial statements, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions.

Evaluation of the effectiveness of the risk management and internal control procedures.

Consideration of dividend calculations both in relation to PID/ non-PID payments made by the Company and other dividends paid internally within the Group.

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.

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.

Evaluation of reports received from the Auditor with respect to the annual financial statements.

Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.

Management of the relationship with the external Auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their audit.

How they have been discharged

The Committee has met three times during the year and has reviewed the contents of the half-yearly and annual reports. The Investment Manager, Administrator and Auditor attended both meetings at which the contents of the half-yearly and annual reports were reviewed. Significant matters considered by the Group are listed on page 54.

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.

The Committee has reviewed the calculation of the split of distributions between PID and non-PID, including consideration of the suitability of the allocation of the costs of the Group between its property rental business and its residual business. The Committee has also reviewed the suitability and legitimacy of all dividends proposed to be paid by the Group's subsidiaries during the year.

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.

The Committee has reviewed the content and presentation of the annual financial report and discussed how well it achieves the three criteria opposite. As part of this review, the Committee considered the nine characteristics of good corporate reporting set out in the FRC's Annual Review of Corporate Reporting.

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.

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 implementation of the Market Abuse Regulations, which took effect on 3 July 2016, there were no significant developments that became effective during the year to 30 June 2017.

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

The principal risks faced by the Group together with the procedures employed to manage them are described in the Strategic Report on pages 18 and 19.

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;
- Raising finance, including debt and facilities and equity fund-raising;
- 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 on page 52, in relation to the year ended 30 June 2017, the Group engaged a reporting accountant to undertake a review and report on the operation of certain of these internal controls. This review included checking that the controls over the integrity of information technology systems and data were as described by the Investment Manager, with the Audit Committee having concluded that the controls as described appropriately covered the risks faced by the Group. No significant 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, including information technology systems.

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 reviewing EY's independence, the Committee noted that EY no longer provided tax services to the Group. 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. As the current audit principal will have exceeded five years by the conclusion of the coming year, a successor has been proposed by EY and has been recommended by the Committee to assume the role of audit principal for the year ending 30 June 2018. On this basis and having considered the effectiveness of the audit the Audit Committee has also 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. The Board does not intend to conduct a tender of audit services to the Company during the forthcoming year.

Report of the Audit Committee

continued

The Auditor continued

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 below do not constitute such a threat. The auditors are no longer engaged to provide tax services to the Group, which are instead provided by Deloitte LLP.

Service provided	Fee (£'000)
Statutory audit	98
Review of interim financial information	6
Total	104

The fees quoted above are inclusive of irrecoverable VAT.

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
Valuation and ownership of the investment property portfolio	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 2017 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.
Income recognition	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.
Calculation and payment of management and performance fees	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.
Internal Controls	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 2017, 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.

Gordon Coull

Chairman of the Audit Committee
3 October 2017

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 to each Director during the year ended 30 June 2017 are shown below.

The Board considers the level of Directors' fees at least annually. After review, the Board concluded that the level of Directors' fees would remain unchanged for the year ending 30 June 2018 being: Mr Naish, the Chairman, £40,000 per annum, Mr Coull, the Audit Committee Chairman, £35,000 per annum, £30,000 per annum to each of Professor Andrews and Mr Hutchison. Mrs Jones and Mr Webster will each receive a fee of £15,000 per annum.

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 2018.

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 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.

The remuneration policy was last approved by shareholders at the Company's Annual General Meeting in November 2014, with 100 per cent of votes cast being in favour. An ordinary resolution for the approval of this remuneration policy will be put to shareholders at the forthcoming Annual General Meeting.

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 2017 £'000	Year ended 30 June 2016 £'000
Malcolm Naish (Chairman)	40	30
Gordon Coull (Audit Committee Chairman)	35	25
June Andrews	30	20
Tom Hutchison	30	20
Hilary Jones	15	10
Ian Webster*	10	—
Graeme Ross*	5	10
Total	165	115

*Graeme Ross retired with effect from 10 November 2016 with Ian Webster being appointed with effect from 11 November 2016.

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

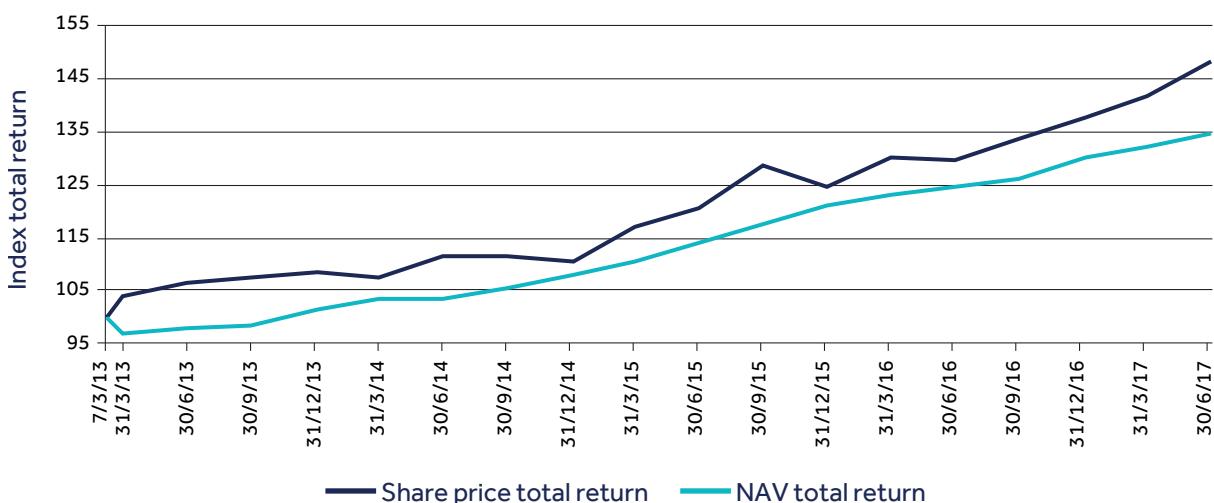
The Directors who held office at the year-end and their interests (all beneficial) in the ordinary shares of the Company as at 30 June 2017 and as at 3 October 2017 were as follows:

	Ordinary shares 3 October 2017	Ordinary shares 30 June 2017
Malcolm Naish	40,000	40,000
June Andrews	—	—
Gordon Coull	30,000	30,000
Tom Hutchison	70,000	70,000
Hilary Jones	—	—
Ian Webster	—	—
Total	140,000	140,000

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 44.

The graph below compares, from launch to 30 June 2017, the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the NAV total return.



Source: Maitland Administration Services (Scotland) Limited

Voting at Annual General Meeting

At the Company's last AGM, held on 10 November 2016, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2016. 100 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

Malcolm Naish
Chairman
3 October 2017

Independent Auditor's Report

To the Members of Target Healthcare REIT Limited

Opinion

In our opinion:

- Target Healthcare REIT Limited's group financial statements (the "financial statements") give a true and fair view of the state of the Group's affairs as at 30 June 2017 and of the Group's 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 properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

We have audited the financial statements of Target Healthcare REIT Limited which comprise:

Group

- Consolidated Statement of Comprehensive Income for the year ended 30 June 2017
- Consolidated Statement of Financial Position as at 30 June 2017
- Consolidated Statement of Changes in Equity for the year then ended
- Consolidated Statement of Cash Flows for the year then ended
- Related notes 1 to 24 to the consolidated financial statements, including a summary of significant accounting policies

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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 18 and 19 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 47 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;
- the Directors' statement set out on page 46 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;
- whether the Directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 47 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.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> Incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts Incorrect valuation of investment properties
Audit scope	<ul style="list-style-type: none"> We performed an audit of the complete financial information of the Group including all subsidiaries. The subsidiaries where we performed full or specific audit procedures accounted for 97.5 per cent of total Group profit before tax, 95.9 per cent of revenue and 95.3 per cent of total assets.
Materiality	<ul style="list-style-type: none"> Overall Group materiality of £2.57 million which represents 1.0 per cent of net assets

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts. (As described on page 54 in the Report of the Audit Committee.) <p>The rental income receivable by the Group during the period directly drives the Group's ability to make a dividend payment to shareholders. Rental income from the investment properties is recognised on an accrual basis with the exception of contingent rents which are recognised on a receipt basis. The lease agreements 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.</p> <p>During the year ended 30 June 2017, £22.89 million (2016: £16.81 million) has been recognised as rental income. Of this £17.76 million (2016: £12.68 million) has been recorded as revenue in the consolidated statement of comprehensive income and £5.13 million (2016: £4.14 million) as capital relating to fixed rental uplifts which are being spread over the applicable lease term.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> We have 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. We have verified the rental rates to tenancy agreements and recalculated the rental income recognised in the Group's consolidated financial statements. We have 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. We re-performed the calculations of the rental adjustments required for fixed rental uplifts under IAS 17 for all tenants and considered the allocation between revenue and capital. We have verified that contingent rents including performance related payments have been recognised in the period in which the payment is received. We have reviewed the accounting treatment for significant terms of the tenancy agreements including fixed rental uplifts to confirm they are in line with IFRS and that we consider the capital and revenue allocation to be appropriate. 	<p>The results of our procedures are:</p> <ul style="list-style-type: none"> We noted no issues in our review of the Group's accounting policies in respect to revenue recognition. We noted no issues when verifying the rental rates to tenancy agreements or in our recalculation of the rental income recognised in the Group's consolidated financial statements. 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. We noted no issues when calculating contingent rents including performance related payments and agreed with the recognition of this income in the period received. We noted no issues with the accounting treatment adopted for treatment of significant terms of the tenancy agreements including fixed rental uplifts and confirm they are in line with IFRS. We consider the allocation of rental income arising from rental uplifts to the capital column of the Consolidated Statement of Comprehensive Income to be appropriate.

Independent Auditor's Report

To the Members of Target Healthcare REIT Limited *continued*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Incorrect valuation of investment properties (as described on page 54 in the Report of the Audit Committee).</p> <p>The valuation of the property assets held is the key driver of the Group's net asset value and total return.</p> <p>The properties are valued externally on behalf of the Group by Colliers International Healthcare Property Consultants Limited ('Colliers') and recorded in the consolidated financial statements at their carrying value, being the Colliers open market valuation adjusted for the impact of lease incentives and fixed rental uplifts.</p> <p>At 30 June 2017, the Group's investment portfolio consists of UK healthcare properties, with a market value of £281.95 million and carrying value of £266.22 million, which is net of a deduction of £15.73 million to account for lease incentives and fixed rental uplifts.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • We have 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 rental uplifts. • We have agreed a sample of inputs used by Colliers in the valuation to source data. <p>We have engaged our property valuation specialists to perform a review of the property valuations which included:</p> <ul style="list-style-type: none"> • A review of the assumptions used by Colliers in undertaking their valuation and an assessment of the valuation methodology adopted; • A detailed review of a sample of 16 individual property valuations examining key valuation input and assumptions applied; • A review of the full portfolio of property valuations for any anomalies or outliers; • 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 • 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>The results of our procedures are:</p> <ul style="list-style-type: none"> • 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. • We noted no issues when agreeing a sample of inputs used by Colliers in the valuation to source data. • We noted that no significant issues were raised in the review performed by our property valuation specialists. • 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.

In the prior year, our auditor's report included a key audit matter in relation to the calculation of performance fees. In the current year, this has not been included as a key audit matter as past experience demonstrates that there is a low risk of material misstatement.

An overview of the scope of our audit

Tailoring the scope

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, changes in the business environment and other relevant factors when assessing the level of work to be performed at each entity.

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 £2.57 million (2016: £2.53 million), which is 1.0 per cent (2016: 1.0 per cent) of net assets. We believe that net assets provides us with an appropriate basis for materiality 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 per cent (2016: 75 per cent) of our planning materiality, namely £1.93 million (2016: £1.90 million). 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 at component locations 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 component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.01 million to £1.7 million (2016: £0.28 million to £1.7 million).

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 £0.13 million (2016: £0.13 million), which is set at 5 per cent 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.

Other information

The other information comprises the information included in the annual report set out on pages 1 to 19, 43 to 57 and 62 to 66, including the Strategic Report, Corporate Governance and Company Information sections other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 48 – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting set out on pages 52 to 55 – the section describing the work of the audit committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 49 – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- 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
- the financial statements are not in agreement with the Company's accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Susan Dawe

for and on behalf of Ernst & Young LLP, Edinburgh
3 October 2017

Glossary of Terms and Definitions

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The APMs used by the Company are highlighted in the glossary below.

Corporate Terms

AIC	Association of Investment Companies. This is the trade body for Closed-end Investment Companies (www.theaic.co.uk).
AIFMD	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.
Closed-end Investment Company	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.
CQC	Care Quality Commission. The independent regulator of all health and social care services in England.
Depositary	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.
Discount/Premium*	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 expressed as a percentage of the net asset value per share.
Dividend	The income from an investment. The Company currently pays dividends to shareholders quarterly.
Dividend Cover*	EPRA Earnings per Share divided by Dividends per share expressed as a ratio.
Dividend Yield*	The annual Dividend expressed as a percentage of the share price at the date of calculation.
EPRA Best Practice	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. (www.epra.com). EPRA also issue best practice recommendations to enhance the financial reporting of listed property companies.
EPRA Earnings per Share*	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. A reconciliation of the earnings per IFRS and the EPRA earnings is contained in note 9.
EPRA NAV*	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. A reconciliation of the NAV per IFRS and the EPRA NAV is contained in note 9.
EPRA Net Initial Yield	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.
GAAP	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.
Gearing	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.
Investment Manager	The Company's Investment Manager at 30 June 2017 was Target Advisers LLP. Further details are set out on page 44 and in note 3 to the accounts.
Leverage	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.

Loan-to-Value ('LTV')	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.
MSCI	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 IPD index which is used to calculate any performance fee payable by the Company to the Investment Manager.
Net Asset Value or NAV	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities.
Net Asset Value ('NAV') per Ordinary Share	This is calculated as the NAV divided by the number of shares in issue, excluding any shares held in treasury.
Ongoing Charges Ratio*	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, non-recurring costs and the costs of buying back or issuing ordinary shares.
Ordinary Shares	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 2017 the Company had only Ordinary Shares in issue.
Share Price	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.
SOPR	Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the AIC.
Total Return*	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

Break Option	A clause in a lease which provides the landlord or tenant with an ability to terminate the lease before its contractual expiry date.
Covenant Strength	This refers to the quality of a tenant's financial status and its ability to perform the covenants in the lease.
EBITDA lease	Lease arrangement which constitutes a fixed base rental amount plus variable top up rental payments based on the trading Estimated Rental Value performance of the underlying property.
Estimated Rental Value ('ERV')	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.
Fixed and Minimum Uplift Rents	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.
Forward Commitment	A contract pertaining to the future purchase of a property.
Lease	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.
Lease Incentive	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.
Lease Renewal	The renegotiation of a lease with the existing tenant at its contractual expiry.
Net Initial Yield	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.
Occupancy Rate	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.
Passing Rent*	The annual rental income currently receivable on a property as at the balance sheet date, excluding rental income where a rent free period is in operation. The gross rent payable by a tenant at a point in time.
Rent Review	A periodic review of rent during the term of a lease, as provided for within a lease agreement.
Reversion	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.
Valuer	An independent external valuer of a property. The Company's Valuer is Colliers International Healthcare Property Consultants Limited and detailed information regarding the valuation of the Company's properties is included in note 10 to the accounts.
WAULT*	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

*Alternative Performance Measure

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the fifth Annual General Meeting ('AGM') of Target Healthcare REIT Limited (the 'Company') will be held on Wednesday 29 November 2017 at 4pm at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW for the following purposes:

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 2017, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 30 June 2017.
4. To elect Ian Webster as a Director.
5. To re-elect, a Director retiring by rotation, June Andrews as a Director.
6. To re-elect, a Director retiring by rotation, Gordon Coull as a Director.
7. To re-elect, a Director retiring by rotation, Tom Hutchison III as a Director.
8. To re-elect, a Director retiring by rotation, Hilary Jones as a Director.
9. To re-elect, a Director retiring by rotation, Malcolm Naish as a Director.
10. That Ernst & Young LLP be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.
11. That, pursuant to Article 167 of the Company's Articles of Association, the Company shall continue until the conclusion of the Company's tenth annual general meeting.

To consider and, if thought fit, to pass resolutions 12 and 13 as special resolutions:

12. 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 3 October 2017.
13. 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 2018, 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
3 October 2017

Registered Office
Ordnance 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 27 November 2017 (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 3 October 2017 (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 3 October 2017 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 Guidance 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
8. The authority sought by Resolution 12 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

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

Malcolm Naish (Chairman)
 June Andrews OBE
 Gordon Coull*
 Thomas Hutchison III**
 Hilary Jones
 Ian Webster

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

Maitland Administration Services (Scotland) 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 Healthcare 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

Depositary

Augentius Depositary 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



Ordnance House
31 Pier Road
St Helier
Jersey
JE4 8PW

targethealthcarereit.co.uk