

Investing in care. Delivering returns.

Annual Report and Financial Statements 2018



Performance Highlights

Contents

Strategic Report

- 01 Performance Highlights
- 02 At a Glance
- 04 Chairman's Statement
- 06 Investment Manager's Report
- 08 Business Model
- 10 Strategic Objectives
- 14 Strategy in Action
- 18 Portfolio
- 20 Risk Rating

Financial Statements

- 22 Consolidated Statement of Comprehensive Income
- 23 Consolidated Statement of Financial Position
- 24 Consolidated Statement of Changes in Equity
- 25 Consolidated Statement of Cash Flows
- 26 Notes to the Consolidated Financial Statements

Corporate Governance

- 45 Board of Directors
- 46 Investment Manager
- 47 Directors' Report
- 50 Statement of Directors' Responsibilities
- 51 Corporate Governance Statement
- 54 Report of the Audit Committee
- 58 Directors' Remuneration Report
- 60 Independent Auditor's Report

Additional Information

- 65 Glossary of Terms and Definitions
- 67 Notice of Annual General Meeting
- 69 Corporate Information

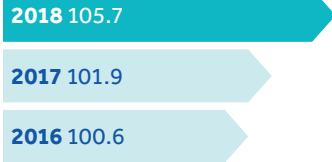
This document is important and requires your immediate attention.

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.

Financial Highlights

EPRA NAV Per share
(pence)

105.7 +3.7%



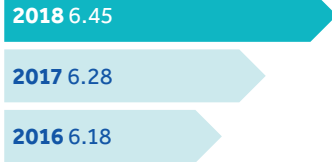
NAV Total Return¹
(per cent)

10.5



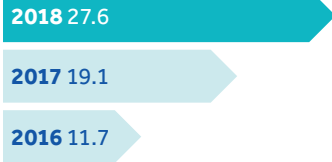
Dividend Per Share
(pence)

6.45 +2.7%



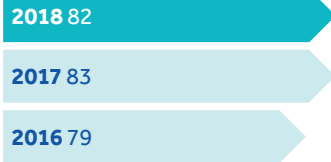
IFRS Profit
(£ millions)

27.6 +44.5%



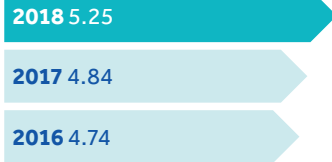
Dividend Cover²
(per cent)

82



EPRA EPS
(pence)

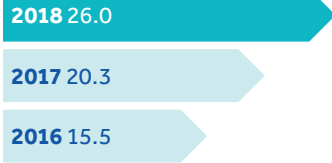
5.25 +8.5%



Portfolio Highlights

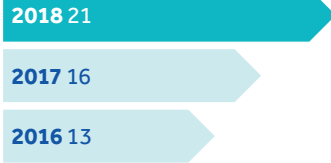
Portfolio Rent
(£ millions)

26.0 +27.7%



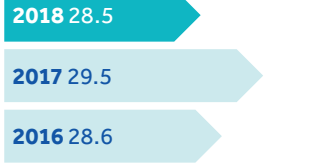
Number of Tenants

21 +31.3%



WAULT
(years)

28.5



¹ Based on EPRA NAV movement and dividends paid ² Based on adjusted earnings, see note 9 of the financial statements

At a Glance

Target Healthcare REIT Limited and its subsidiaries ('the Group') is a leading investor in modern, purpose-built UK care homes. The Group aims to provide investors with attractive quarterly dividend income through returns generated by a portfolio diversified by tenant, geography and end-user payment profile.



Our investment case

We believe long-term investment in care home real estate can benefit from:

- The demographic shift to **an ageing population** which drives increasing demand for care home places
- The **existing undersupply of modern, well designed homes fully equipped with en-suite wetrooms and suitable public spaces, inside and out**. Such assets are the core focus of our investment policy
- Our **sector specialist investment manager**, who invests exclusively in the UK care home market
- Our experience in matching homes with **tenants who have a proven track record** in the provision of quality care to residents and can support this with strong operational capabilities
- Our strategy to **assemble a portfolio that is strongly diversified by tenant, geography and end-user payment profile**. This is designed to provide long duration, sustainable rental streams to support our dividend objectives

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**.

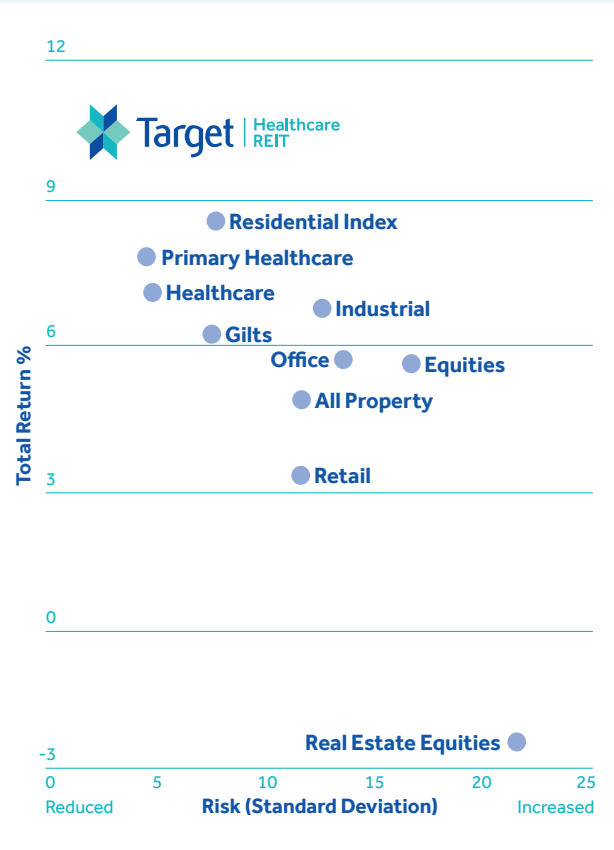
We know from personal experience that care is a 24/7 vocation and that, when done properly, it can significantly enhance the quality of life of those whose acuity of needs require residential care. We invest significant time in understanding the culture of healthcare providers and choose to invest only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

Risk Reward Spectrum

Four-year portfolio total return vs standard deviation 2014-2017 (IPD UK Annual Healthcare Property Index)

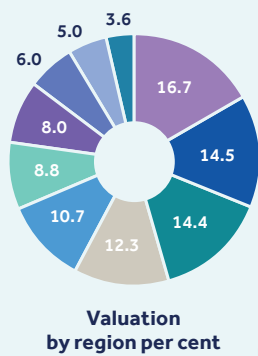
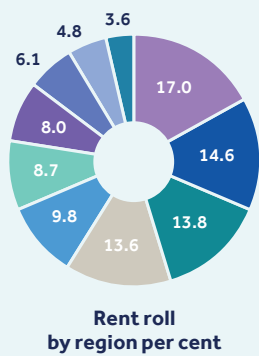
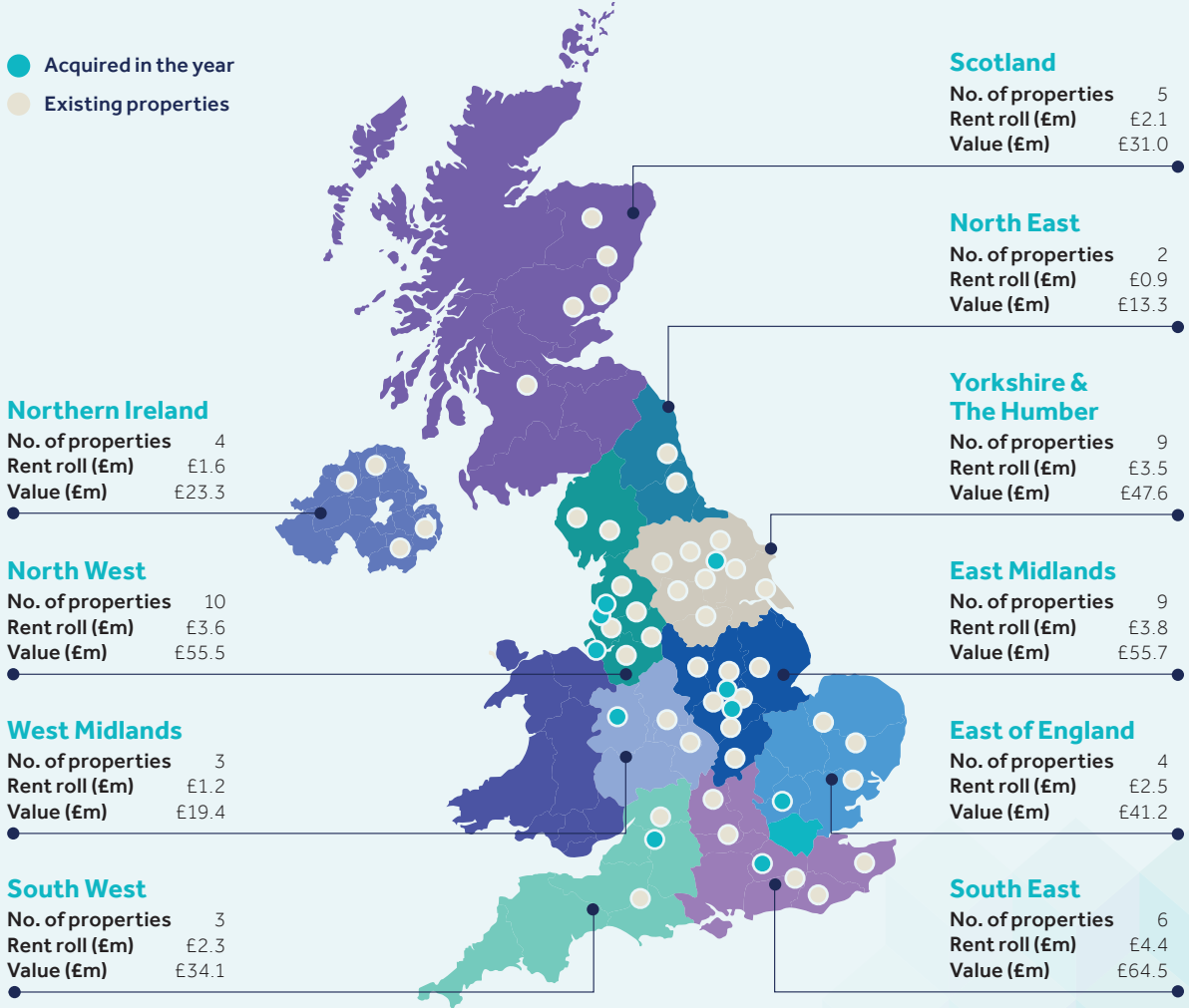


Dividend

Progressive, covered and sustainable dividend from highly visible, long duration portfolio income



- Acquired in the year
- Existing properties



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

¹ Based on 2 October share price and proposed 2019 dividend rates

Chairman's Statement

Welcome to 2018's Annual Report

"Our approach to care home investment is focused on the quality of the physical asset, alongside a comprehensive assessment of tenant capabilities before and after investment."

Malcolm Naish
Chairman



Introduction

On behalf of the Board, I am pleased to report on another year of progress. The portfolio has performed in-line with expectations and with the support of shareholders and lenders we have raised further capital to continue our assembly of a diversified portfolio of significant scale. Our approach to care home investment is focused on the quality of the physical asset, alongside a comprehensive assessment of tenant capabilities before and after investment. We expect the portfolio to provide stable and sustainable long duration rental income to support our dividend objectives.

During the year we marked the fifth anniversary since our launch in March 2013. Up to 30 June 2018, the Group has provided an annualised NAV total return of 7.8 per cent inclusive of dividends to shareholders. Annualised share price total return for the same period has been 7.7 per cent.

Performance & Dividend

The investment manager reports on the portfolio performance in more detail at page six.

The Group's EPRA NAV per share has increased by 3.7 per cent to 105.7 pence, delivering a NAV total return of 10.5 per cent when combined with dividends paid. Portfolio valuation growth of 5.2 pence per share has been the principal driver of NAV growth.

EPRA Earnings per share has continued to grow, with an 8.5 per cent increase to 5.25 pence per share. The Company has paid or declared dividends in respect of the year ended 30 June 2018 of 6.45 pence per share, an increase of 2.7 per cent year on year. Dividends were 82 per cent covered by adjusted earnings¹, and we expect future dividends to be fully covered when the Group is fully invested in operational assets on a geared basis.

The Board remains committed to its strategy to provide a progressive dividend, with an increase to the quarterly dividend in respect of the year ending June 2019 of 2.0 per cent to 1.64475 pence per share, providing an annual total of 6.579 pence which reflects a dividend yield of 5.8 per cent on the share price of 112.5 pence as at 2 October.

Outlook

The care home investment market remains competitive, with several buyers and a shortage of high-quality homes resulting in tightening investment yields. The Manager continues to see acquisition opportunities which are attractive based on long-term sustainability of rental income and their ability to contribute to the diversification of the portfolio. Given activity levels in the market and the underlying demand/supply imbalance of modern beds with full wetroom provision for residents, the Manager remains confident and optimistic about our portfolio and the wider care home investment market.

In recognition of this outlook and noting the benefits to shareholders of a larger Group, we have agreed with the Manager to amend the management fee arrangements, moving to a tiered fee basis which has the benefit of reducing rates at increasing NAV levels and allows shareholders to benefit from the increasing economies of scale that a larger portfolio provides. In addition, the Manager has been entitled to a performance fee based on achieving certain targets, which have been met in every year since launch. As part of the amendment to the fee structure, this performance fee will be removed as we do not believe it provides effective and long-term alignment and creates additional financial uncertainty. The new arrangements will provide a significantly lower fee for shareholders than that

The Manager continues to see acquisition opportunities which are attractive based on long-term sustainability of rental income and their ability to contribute to the diversification of the portfolio.

achieved each year since launch, which has averaged 1.23 per cent per annum, and will support our objectives to provide shareholders with progressive and sustainable dividends via patient and disciplined growth.

NAV	Fee rate applicable to tier
First £500m	1.05%
£500m to £750m	0.95%
£750m to £1,000m	0.85%
£1,000m to £1,500m	0.75%
£1,500m +	0.65%

Financing & portfolio growth

Since the Company issued £94.0 million of ordinary shares in February, it has acquired, or committed to acquiring, £83.6 million of new investments.

As at 2 October, the Group has £21.2 million of cash and £64.0 million of debt available to be drawn. £35.8m of this is allocated to upcoming commitments of the Group's development program, which will support the construction of seven brand new care homes adding £3.8 million to portfolio rent annually once operational. In addition, the Group has £18.5 million of potential deferred consideration payments on eight previously acquired assets, this investment being contingent on stringent performance targets being met, and prudently requires £11.4 million of cash for general corporate purposes, including dividends and working capital.

The Group continues to see some attractive investment opportunities in the market, with five assets in advanced negotiations, which would total £79.1m if acquired. In light of these opportunities, and the Group's current cash position, the Directors are considering the optimum way to finance any further asset acquisitions, including issuance of new equity. Whilst a coupon is earned on

forward funding developments, the Group is cognisant of the negative effect of cash drag on its returns. Accordingly, if an equity raise is launched, the Directors expect it to be relatively small allowing the Group to quickly invest the proceeds. Any equity raise in the near term is likely to be carried out under the remaining placing programme authorities. The Group is progressing with due diligence on these acquisition opportunities and will only look to raise new equity when this is at an advanced stage. A further update will be made in the next NAV statement, expected on 15 October.

Board

A comprehensive Board appraisal process has recently been performed by an external party. This has focused on succession planning with an emphasis on maintaining the various property, financial and care expertise that the skills and experience of the current Board currently provide. The recommendations arising are being assessed and will form the basis of the Board's succession plans over the medium term.

We have welcomed Craig Stewart to the Board during the year, and thank him for his contribution thus far, in particular his knowledge of the Jersey regulatory environment.

Malcolm Naish
Chairman

3 October 2018

¹ See note 9 of the financial statements for a reconciliation of EPRA earnings to adjusted earnings

Investment Manager’s Report

Portfolio review

The three core tenets of how the portfolio is managed, described in the business model on page 8, are the key drivers of portfolio returns. Modern, well designed homes are attractive to residents and tenants alike, supporting occupancy, care quality levels, trading performance and value. Assembly of a diversified portfolio drives sustainability of returns, as does our sector specialist knowledge and experience through ongoing dialogue with and support provided to our tenants.

The portfolio continues to perform in line with our expectations, outperforming its benchmark, the IPD UK Annual Healthcare Property Index, since IPO with an annualised total return of 11.9 per cent (benchmark 9.4 per cent). Our upwards-only rent reviews, trading performance and market yield tightening have each contributed to a like-for-like valuation increase of 6.6 per cent in the year.

Portfolio rent¹ has increased by 3.2 per cent on a like-for-like basis and by 27.7 per cent inclusive of acquisitions and portfolio management activities, now standing at £26.0 million.

We are pleased to have continued diversification of the portfolio. The Group now owns 55 assets (30 June 2017: 45) let to 21 tenants (2017: 16) with an EPRA topped-up net initial yield of 6.44 per cent (30 June 2017: 6.75 per cent). The South East region at 17 per cent and Ideal Carehomes at 14 per cent retain the largest share of geographical and tenant concentration by income respectively; the South East’s share of the portfolio has remained steady. The portfolio is further diversified through a balanced mix of bed registrations (nursing, residential) and with a mix of private and publicly funded residents which is more heavily in favour of private funding than the national average.

The majority of the portfolio continues to perform well, with 96 per cent of properties having maintained or increased in value. As previously reported, with a portfolio of scale there is the increased potential for challenges to arise, with two assets currently subject to more focused asset management. Asset performance can suffer from poor management at home level, and staffing pressures can arise from a shortage of qualified nurses, or homes being wholly reliant on local authority funding finding inflation-protecting fee increases hard to come by. Both scenarios put pressure on margins, and the ability of the tenant to provide the high levels of care expected. Stable and talented local strong leadership can do much to mitigate these problems, and is something we focus on at investment appraisal and in managing the portfolio.

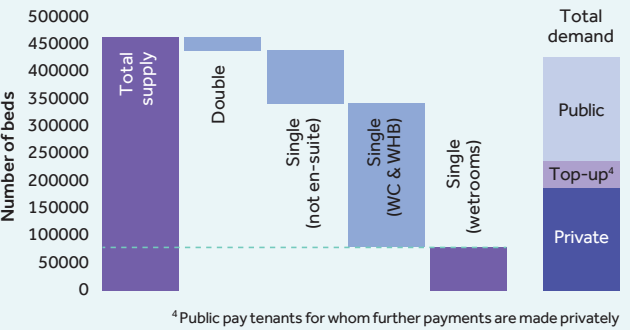
As part of our continued engagement with tenants, we consider the results of regulator quality assessments as part of the underwriting process in forming our overall view of tenant and asset performance. The results of the current portfolio compared to national averages is presented in the table below.

	Over 40 beds		THRL ²	
Outstanding	2.9%	71.7%	5.9%	74.5%
Good	68.8%		68.6%	
Requires Improvement	25.7%	28.3%	23.5%	25.5%
Inadequate	2.6%		2.0%	

It is pleasing to see performance ahead of the average. We engage with our tenants to an unusual degree as landlord to ensure our healthcare team has visibility of standards of care and operational management. What is important to us are trends as opposed to snapshots, being able to discuss findings with our tenants to fully understand their business, and local home management presenting plans of substance to improve as required, as our healthcare team sees areas for improvement.

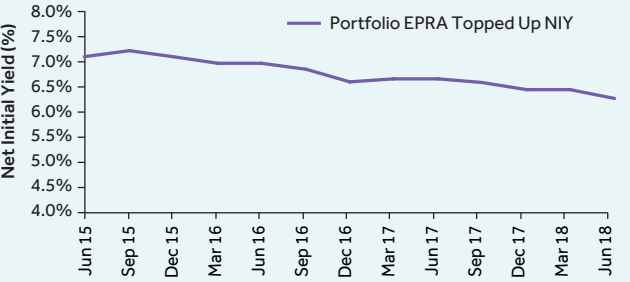
UK Care home investment market

The market for investment properties in the UK elderly care sector continues to be very active, particularly in the segment of the market in which we operate – modern purpose-built homes with flexible layouts and excellent resident facilities, including single occupancy bedrooms complete with en-suite shower or wetroom. What may be surprising to many is that this proportion of the sector comprises only approximately 100,000 of the overall 450,000 beds with an alarming 100,000 without any form of en-suite and 250,000 with WC and washbasin en-suite only.



This relative paucity of appropriate quality buildings that meet our appropriate investment criteria has resulted in our pipeline including a larger number of forward funding and forward commitment opportunities to construct brand new properties. We remain very selective about the development partners we work with and all of our development projects are pre-let and include a maximum funding commitment ensuring that developers’ profit is at risk before any further capital is needed from the Group. The current commitment to forward funding and forward commitment projects represents 13 per cent³ of the gross assets, well within the 25 per cent limit set out in the Group’s investment policy.

There has been a general inward movement in investment yields in the sector, largely driven by the search for yield. Sharper yield tightening has followed for the best assets let to the strongest financial covenants, often acquired by more generalist property/annuity investors who lack sector specialism.



There is an active current M&A landscape with three of the five largest operators currently for sale. HC1, Care UK and Barchester make up just 9 per cent of beds which underlines how fragmented the UK elderly care market is. Much of this activity is driven by normal private equity market exit requirements and we think endorses our favouring of good local operators with longer term operational horizons to whom we bring stable capital.

Health and social care

Politics

‘What a difference a day makes’ - the old idiom held true at the turn of the year when Jeremy Hunt, then Health Secretary, came out of a No10 reshuffle as head of the “Department of Health and Social Care”. A change widely unnoticed by the general public, but of significance to the Social Care sector who had felt unloved for decades. 2018 of course heralded the

70th ‘birthday’ of the NHS and the government duly announced a £20bn ‘birthday present’ albeit as an IOU, and the sourcing of which is a matter of ongoing debate. Closer cooperation between Health and Social Care is much discussed, as it has been for decades, with wide recognition that if the NHS is to cope with the demands of an ageing society, better resourcing and coordination of services is urgently required. This provides at least one issue for the long promised ‘Green Paper’ which unfortunately seems to have taken a backseat while Downing Street grapples with Brexit.

Funding

The elephant in the room is Local Authority funding of carehome residents with low savings/assets. Much new carehome development is now polarising around geographical areas which can support a helpful degree of private fees, and established homes which are heavily reliant on public funding are feeling stretched. Most councils in April 2018 exercised the Adult Social Care Council Tax legislation allowing up to 3 per cent extra on council tax to be collected, and while this has no doubt been helpful for their social care budgets, little has found its way through to carehome operators. This issue should be a high priority in the aforementioned Green Paper, but there is a general consensus within the sector that other political matters will divert attention.

Operation

Care remains a challenging sector to operate in; a constantly changing regulatory landscape; difficulties with staff recruitment and retention (particularly nurses); and profit margins in services with a high proportion of local-authority funded residents continue to be eroded. Social media quickly highlights any deficiencies, genuine, misguided or scurrilous, and a popular press is often happy to expand thereon. Many questions abound regarding the impact of Brexit, not least from a staffing perspective. Overall however, we feel that operators will find a way through, perhaps even with more open availability of staff from the ‘old’ geographies of India, the Philippines and Asia more widely.

Despite the apparent gloom, well managed and forward-thinking operators continue to thrive and they value our specialist support.

¹ Excluding the effect of short-term rent-free periods ² Inspection ratings issued by other regulatory bodies have been converted to the most appropriate CQC rating.

Homes which do not have a current rating are assumed to be Good unless there is an earlier CQC rating for that location issued to the same provider ³ Date of this report




Business Model

Our investment objective is to provide shareholders with an attractive level of income, together with the potential for capital and income growth, from a portfolio of UK care homes, diversified by tenant, geography and resident payment profile. We only invest in modern, purpose-built homes.



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	KPIs and performance	Progress made and areas of 2019 focus	Key risks
 Dividend	To pay a progressive dividend fully covered when the Group is fully invested.	<ul style="list-style-type: none"> Dividend rates Progressive annual dividend of 6.45 pence, a 2.7 per cent increase on 2017 Dividend cover of 82 per cent (2017: 83 per cent)¹ Control of operating costs Ongoing charges ratio 1.48 per cent (2017: 1.48 per cent) Growth in earnings see objective 4 <p>➤ More on this on page 14.</p>	<p>Maximise rental income profits during period of growth. The Group's focus on long duration, sustainable income may result in reduced dividend cover in the short-term as capital is deployed and developments are completed. The Group will aim to conservatively match capital availability with its investment pipeline, and to obtain commercial rates of return on capital advanced to fund the construction of assets.</p> <p>Achieve dividend cover when fully invested. The Group has revised remuneration arrangements with its investment manager, removing the performance fee element of the existing arrangement and introducing a NAV-based tiered fee. This will limit the overall fee paid to the Manager to 1.05 per cent of NAV at the Group's current size, relative to the 1.20 per cent paid in respect of the 2017 calendar year.</p> <p>The Group's OCF will increase in the year to 30 June 2019 to reflect the higher "fixed" fee element.</p>	<ul style="list-style-type: none"> Reliance on third party service providers Market opportunities, or performance of Investment Manager, limit efficient deployment of capital Breach of REIT regulations
 Total Returns	To sustain total returns to shareholders by complementing dividends with capital appreciation.	<ul style="list-style-type: none"> Annual NAV total return of 10.5 per cent (2017: 7.8 per cent) Share price total return (0.6) per cent (2017: 14.1 per cent) Portfolio performance relative to benchmark Calendar year portfolio total return (excluding acquisition costs) per IPD of 11.9 per cent vs. Index return of 11.7 per cent (year to 31 December 2017) Asset valuations Like-for-like revaluation gains of 6.6 per cent (2017: 5.0 per cent) <p>➤ More on this on page 14.</p>	<p>Active management of portfolio. The portfolio continues to provide like-for-like valuation growth as the effects of upwards-only rent reviews and positive individual asset performance are reflected. 96 per cent of assets held at the start of the year maintained or increased in value.</p> <p>In 2019, the Manager will continue to closely manage properties to ensure they meet tenants' needs, and to identify opportunities to enhance them where supported by tenants and their local markets, for example by way of refurbishments/extensions.</p>	<ul style="list-style-type: none"> Property valuations could adversely affect returns
 Business Funding	To fund the business through shareholder equity enhanced by modest leverage within predetermined risk thresholds.	<ul style="list-style-type: none"> £94 million (gross) equity capital provided by shareholders in February 2018 Additional £80 million debt facilities arranged with new lenders Drawn debt fixed at weighted-average all-in cost (inclusive of amortisation of arrangement costs) of 3.12 per cent Group loan-to-value (LTV) of 17.1 per cent (total gross debt as a proportion of gross property value, excluding cash), within 35 per cent limit <p>➤ More on this on page 15.</p>	<p>Flexible debt to complement of shareholder equity. The Group issued £94 million of ordinary shares in February 2018. The Group also arranged new debt facilities from two new lenders, a £40 million fully revolving facility with HSBC Bank PLC (HSBC) and a £40 million fixed term facility from First Commercial Bank, Limited (FCB).</p> <p>£64 million remained available for drawdown from debt facilities at 30 June 2018. If fully drawn to meet development commitments, the Group's gearing would increase to 26 per cent. The use of flexible debt facilities to match capital requirements is a key part of the Group's strategy to manage its dividend cover objective.</p> <p>The Group will carefully assess its portfolio commitments and investment pipeline with respect to capital availability, as well as actively assessing opportunities to obtain longer term debt facilities at competitive pricing.</p>	<ul style="list-style-type: none"> Lack of equity and debt capital/refinance risk Interest rate risk

¹ Based on adjusted earnings, see note 9

Strategic Objectives

"We expect the portfolio to provide stable and sustainable long duration rental income to support our dividend objectives."

Malcolm Naish
Chairman

	Definition	KPIs and performance	Progress made and areas of 2019 focus	Key risks
 Long-term Secure Rental Income	To have high quality care providers as tenants with secure, sustainable rental income giving long-term growth.	<ul style="list-style-type: none">Like-for-like rental growth of 3.2 per cent (2017: 1.8 per cent)¹Overall rent roll increase of 28.1 per cent to £26.0 million¹Addition of 5 new tenants, to 21WAULT of 28.5 years (2017: 29.5 years) <p>➤ More on this on page 17.</p>	<p>Enhancements to portfolio balance and continued support to our tenants.</p> <p>Consistent with the core focus on long-term sustainable income, acquisitions and portfolio management have delivered an increase in portfolio rent and enhancements to diversification.</p> <ul style="list-style-type: none">5 new tenantsLargest tenant, 14 per cent of portfolio rent (2017: 17 per cent)Largest region, South East, 17 per cent of portfolio rent (2017: 17 per cent) <p>Pipeline opportunities will continue to be assessed by their ability to contribute to portfolio diversification by each or all of tenant, geography and resident payment profile.</p>	<ul style="list-style-type: none">Government policies/funding of elderly careConcentration risk
 Grow Portfolio	To acquire a diversified portfolio of high quality modern care homes providing excellent accommodation standards for residents.	<ul style="list-style-type: none">10 assets with total commitment value of £106.5 million (inc. costs) completed during the year£31.0 million of acquisitions by commitment value (inc. costs) completed or exchanged since year-endThe portfolio is purpose-built and modern, 85 per cent of homes having been built since 2008Substantially all rooms are single occupancy with en-suite facilities including wetroom showers <p>➤ More on this on page 16.</p>	<p>Continue to invest in attractively-priced assets which meet the Group's investment criteria and support investment objectives.</p> <p>The Group committed to £106.5 million of acquisitions during the year, and an additional £31.0 million subsequent to 30 June 2018. As at the date of this report the Group has £38.1 million capital available for new investment, with undrawn debt facilities earmarked to meet funding requirements for assets under construction.</p> <p>In what is a competitive market, the Group has increased its pipeline of development assets in the year. As well as allowing the Group to influence design at the build stage, this mechanic allows the Group to secure long-term rental income from newly built assets. At the date of this report, the Group has commitments in respect of seven pre-let assets which will provide an aggregate of £3.8 million annual rental income on completion of construction.</p>	<ul style="list-style-type: none">Lack of available propertiesInability to invest on acceptable terms

¹ Based on portfolio rent

Strategy in Action

Dividend

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

Total dividends of 6.45 pence per share were declared and paid in respect of the year to 30 June 2018, an increase of 2.7 per cent on 2017. This represents a yield of 5.84 per cent based on the 30 June 2018 closing share price of 110.5 pence.

In recognition of the Group's prospects, the Directors announce their intention to increase quarterly dividends for the year ended 30 June 2019 by 2.0 per cent to 1.64475 pence per share, in the absence of unforeseen circumstances. This will provide an annualised dividend of 6.579 pence per share.

Annual Dividend (pence)



The dividend was 82 per cent covered by adjusted earnings¹. Consistent with its focus on long-term sustainability of returns, the Company believes it appropriate to (i) include interest earned on funds advanced for development contracts and (ii) to exclude the effects of non-recurring performance fee from EPRA earnings when considering the level of cover achieved. The relative cash drag impact of future equity issuances is anticipated to reduce as the portfolio increases in scale and is better able to manage acquisitions using the flexible debt capacity now in place.

Group operating expenses are represented by an ongoing charges figure of 1.48 per cent.

Summarised results

	2018 £m	2017 £m
Rental income	22.0	18.0
Admin expenses	(5.2)	(5.0)
Net financing (costs)/income	(2.0)	(0.8)
EPRA earnings	14.8	12.2
EPRA EPS	5.3p	4.8p
Performance fee	0.6	1.0
Development interest income	0.3	–
Adjusted EPRA earnings	15.7	13.2
Adjusted EPRA EPS	5.5p	5.2p

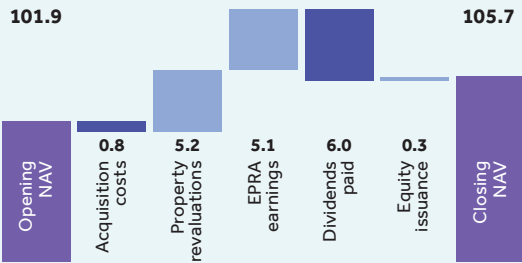
Total returns

- NAV total return of 10.5 per cent (2017 7.8 per cent)
- EPRA NAV per share growth of 3.7 per cent. (2017: 1.3 per cent)
- Share price total return (0.6) per cent (2017: 14.1 per cent)

Annualised NAV total return since the Group's launch has been 7.8 per cent (2017 7.2 per cent), reflecting the regular dividends generated from the portfolio's rental income, and portfolio valuation increases.

Asset valuation growth at 5.2 pence per share was the principal driver of growth after considering that all earnings (5.1 pence) are distributed to shareholders as dividends (6.0 pence). This growth is derived from a combination of rent and growth, asset performance and market pricing movement.

EPRA Nav per share (pence)



The Group's portfolio total return is calculated by IPD and benchmarked to the IPD UK Annual Healthcare Property Index. For the year to 31 December 2017, the portfolio's total return of 11.9 per cent was 0.2 percentage points ahead of the index's 11.7 per cent. The portfolio's three-year annualised total return of 12.3 per cent also exceeds that of the Index's 10.0 per cent, demonstrating the stable and consistent performance anticipated from a diversified portfolio of quality assets and leases.

NAV total return (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 believes gearing of approximately 25 per cent provides the appropriate capital structure to meet performance objectives at a suitably conservative risk level. Gross LTV was 17.1 per cent at 30 June 2018, and would increase to 26 per cent if all available debt was drawn to satisfy investment commitments and pipeline.

During the year, £94 million of gross equity was issued and the Directors would like to thank shareholders for their continued support.

Debt funding and interest rate management

New debt facilities totalling £80 million were arranged with two new lenders to the Group during the year; a £40 million fixed term facility with First Commercial Bank, Limited (FCB)

and a £40 million fully revolving facility with HSBC. Each facility agreement contains a typical security package including loan to value and interest cover ratio covenants, in line with the Group's existing facility.

The FCB facility has been substantially drawn to finance portfolio acquisitions, with the HSBC facility providing flexible capital to complete pipeline deals currently in diligence.

Interest rate swaps are used to fix interest costs on the Group's fixed term debt, with 100 per cent of the Group's drawn debt subject to swaps as at 30 June 2018. The Group's weighted average cost on its drawn debt, inclusive of the amortisation of arrangement costs, was 3.12 per cent at 30 June 2018. The weighted average term to maturity was 3.3 years.

The Group's debt arrangements as at 30 June 2018 are summarised below.

The Investment Manager is actively assessing a wider pipeline of potential investments, which, if considered to meet the Group's high quality criteria, will require further equity 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.

Summary table (as at June 2018)

	RBS	FCB	HSBC
Facility (£m)	50	40	40
- Fixed term	30	40	0
- Revolving	20	0	40
Drawn (£m)	30	36	0
Interest fixed through swaps	30	36	0
Years to Maturity	3.2	4.2	2.6
Current interest rate (including margin)	2.36%	3.08%	2.46%
All-in (interest plus costs amortisation)	2.71%	3.47%	3.03%
Facility LTV	23%	41%	0%
Number of assets as security	21	12	13
Repayment terms	Interest only	Interest only	Interest only
ICR covenants	3x	3x	3x
LTV covenants	50%	60%	50%
OVERALL WEIGHTED AVERAGE	Years to maturity	3.3 years	
	Interest	2.75%	
	All-in	3.12%	

¹ See note 9 of the financial statements

Strategy in Action

Grow and manage a diversified portfolio of modern care homes



10 new assets acquired in the year, increasing the total number of properties to 55, all let (or pre-let) on long-term FRI leases to one of the Group's 21 selected tenants.

Acquisitions

During the year the Group added a further 10 assets, increasing the portfolio to 55 properties. 6 of the acquisitions are trading care homes, let to quality operators on long-term, FRI leases. These were a mix of mature and immature homes. The other 4 acquisitions are development sites, with fixed price or capped development agreements in place, and pre-let on long (30 years plus) FRI leases to trusted operators. These acquisitions are consistent with the Group objective of investing in purpose-built care homes that meet our strict criteria in terms of home design, quality and facilities, let to carefully selected tenants.

Subsequent to the year-end the Group has completed on transactions totalling £31.0 million of investment commitments (inc. costs) which will add four homes to the portfolio. These transactions comprise: the acquisition of an operational home, let to an existing tenant of the Group; the acquisition of two development sites with entry into forward fund agreements to fund construction of a new care home on each; and, the exchange of contracts committing to the purchase of a newly constructed care home at practical completion.

Homes

The Group continues to ensure that all care homes meet our high-quality specification criteria, including large bedrooms, en-suite wetroom facilities as well as spacious communal areas. By investing in well designed, modern homes it allows our tenants to use their operational abilities to provide the highest standard of care in environments that are suitable and pleasant for residents. All 3,552 bedrooms in the portfolio are equipped with en-suites, the vast majority of which (96 per cent) have modern en-suite wetrooms. Plans are in place to upgrade most of the remaining rooms, which will increase the provision of en-suite wetrooms to 99 per cent.

Diversification

As the Group has grown, the portfolio has continued to diversify. At the end of the financial year the Group had 21 tenants, up from 16 a year ago. The tenant count will increase to 23, once the works have completed at the development sites. The portfolio is geographically well spread with no individual region accounting for more than 17 per cent of the portfolio, either by value or income, the South East being the largest for each. The portfolio is also split by service provision, with 58 per cent of the homes providing predominantly nursing care and 42 per cent focused on residential care. The income generated from each home is also diversified. Some of the homes derive substantially all their income from private, self-paying residents. Others have a majority of their income from publicly funded bodies. However, most of the homes have a combination of the two.

Asset Management

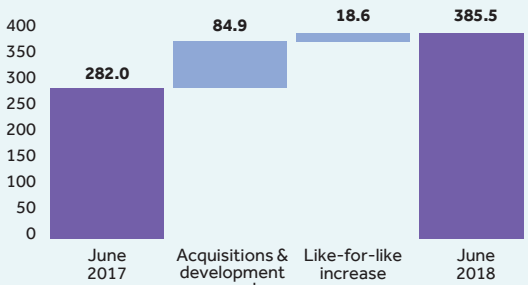
The Manager continues to seek out opportunities to strengthen the portfolio and work in partnership with its tenants. During the year the Group committed capital to undertake enhancement works at 8 of the existing homes, including the provision of 30 new en-suite wetrooms. There are plans in place to make further investment in specific homes, including the provision of further en-suite wetroom facilities and a comprehensive refurbishment programme for one of the homes. On the occasion when a problem arises, the Manager works collaboratively with our partners to support them and deliver the best, long-term solution. During the year an issue arose that required the Group to seek a new operator for one of the homes, which, by working supportively with both the incumbent and new tenant, resulted in the smooth transition without impact on the residents and maintained returns for the Group's shareholders. As a highly engaged landlord, the Group will continue to liaise closely with its tenants to ensure the homes are supporting sustainable businesses that help raise the standard of care.

Valuation Growth

The property portfolio was independently valued on the 30 June 2018 at a market value of £385.5m, by Colliers International Healthcare Property Consultants Limited in accordance with the Royal Institution of Chartered Surveyors Valuation Professional Standards. This represents a 36.7 per cent increase in portfolio value during the year, achieved through a combination of acquisitions, revaluations and asset management initiatives. The portfolio's upwards-only rent reviews, individual asset performance, and a general tightening of market investment yields delivered a valuation increase of £18.6 million (6.6 per cent) on a like-for-like basis. New assets acquired during the year, inclusive of development spend and portfolio commitments by way of deferred consideration payments (each of which provide an income return to the Group) accounted for £84.9 million (30.1 per cent) of portfolio growth.

The movement in the portfolio EPRA topped-up net initial yield to 6.44 per cent at 30 June 2018 (2017: 6.75 per cent) arose primarily from valuation movements of existing assets, new acquisitions accounting for a smaller proportion of the change.

Valuation movement (£ millions)



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.

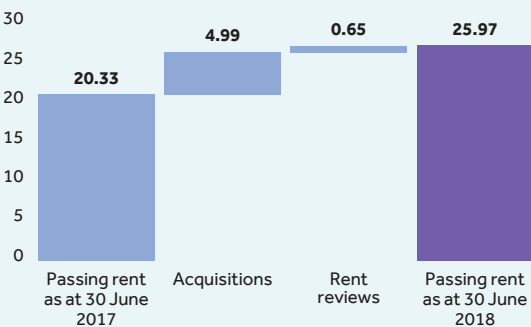
The Group's portfolio of completed assets is 100 per cent let (2017: 100 per cent) to 21 tenants (2017: 16). All properties are subject to upwards-only rent reviews, the majority being RPI-linked, with a small proportion of leases containing fixed uplifts and variable rental arrangements.

Portfolio rent, inclusive of rental levels upon expiry of rent-free periods, has increased by 27.7 per cent during the year to £26.0 million, (2017: £20.3 million), 24.5 per cent of this from acquisitions and asset management activity. The Group's current cash passing rent is £23.8 million.

Like-for-like rental growth from rent reviews, inclusive of variable rental arrangements, has contributed 3.2 per cent (2017: 1.8 per cent) adding an additional £0.65 million (2017: £0.28 million) per annum to passing rent.

Completion of the Group's development assets held at 30 June 2018 will add £2.1 million to portfolio rent.

Rent roll growth analysis (£ millions)



Portfolio

We have clear criteria for home design, quality and facilities to provide great environments for residents and care providers. We invest in homes the length and breadth of the UK, with portfolio diversification being key.

The home and development site described below demonstrate the Group's tenant diversity. One tenant has a long history and reputation, with the other being new to elderly care but having assembled a team with relevant skills and experience.



Kings Lodge

Camberley South East

Kings Lodge is an impressive home set in 15 acres of mature woodland near Camberley, Surrey. It was designed by the operator Aura Care Living, who created a facility in which to provide high quality care in stunning surroundings.

The building is unique in the level of luxury provided, which belies the underlying practicality of layout and service provision required by the residents and those who care for them. Large bedrooms, impressive en-suite wetroom facilities, wide corridors and large lounges all meet the criteria of the Group. Private terraces and balconies enhance the environment and several boutique hotel-type flourishes add to the overall feel of the home.

During diligence, the Group worked with Aura Care Living to ensure that they have appropriate structures and experience in place within their operations team to provide high quality care to mirror the environment and reflect the high level of fees provided. As the home matures the Group will closely monitor progress to ensure that this relationship works for our investors, tenants, and most importantly the residents.

- 1 Pleasant, accessible and secure outdoor space for residents
- 2 Impressive exterior
- 3 Bright, airy corridors and public spaces provide a hotel-like environment in which to provide care, without compromising on practicalities
- 4 Bedrooms provide a luxurious feel and reflect the premium fee approach to market



55
properties, making a
diverse portfolio



3,552
beds across the whole
of the United Kingdom



21
tenants deliver high
quality care

Development site

Preston North West

The principals behind L&M Healthcare have been well known to the Group for a number of years, having a long history and strong reputation in the sector. When they wanted to grow further and decided to construct a new facility in the suburbs of Preston, the Group were happy to provide funding.

After carrying out careful diligence on the location and underlying demographics of the area, the Group acquired the land with planning consent and entered into a development agreement to construct the home. At the same time, the Group entered into an agreement to provide a 30-year lease to L&M on completion of the property. This approach has the benefits of securing the property and tenant in advance, obtaining a return for the Group during the construction phase, and ensuring the development reflects the strict investment criteria.

The end product will reflect the quality which the Group evidenced on visiting existing L&M homes, with a similar resident-centric approach to care.

Construction is progressing to time and budget, with an expectation that the home will open doors for the first residents in mid-2019. The Group and its advisers inspect the site regularly throughout the build and will continue to do so after commencing operations, ensuring high quality provision of facilities and services for those who live there.



- 1 Public spaces will be similar to other facilities provided by the operator, creating a pleasant and calm environment
- 2 Corridors will be wide and practical, providing useful rest areas for residents
- 3 Bedrooms will have large windows and good space, along with wetroom showers
- 4 The layout of the home is practical with a good balance of public space and gardens



Risk Rating





Strategic objectives

Risk and impact

Risk rating & change

Factors affecting risk rating

Ongoing mitigation

 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 returns 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. 	<p>Medium </p> <p>High </p>	<ul style="list-style-type: none"> Group profitability improved during the year with earnings per share increasing by 9 per cent to 5.25p (2017 4.84p). This was achieved by strong portfolio performance, an increase in gearing and ongoing cost control. Changes to management fee arrangements have been implemented to remove the variable cost performance fee and introduce a tiered fee basis. The Group remains fully compliant with the REIT regulations. 	<ul style="list-style-type: none"> 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 be either be provided 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.
 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. 	<p>Medium </p>	<ul style="list-style-type: none"> The Group's portfolio value has increased on a like-for-like basis by 6.6 per cent, 96 per cent of properties have maintained or increased in value. Portfolio NIY tightening is consistent with high market demand for assets such as those within the portfolio. LTV remains at a conservative level, increasing to 17 per cent at the end of the year with an increased number of properties in the Group against which borrowing is secured. Covenants for each of the three debt facilities have been complied with during the year, with adequate headroom at year-end. 	<ul style="list-style-type: none"> 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.
 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. 	<p>Medium </p> <p>Medium </p>	<ul style="list-style-type: none"> The Group has successfully raised new equity funding of £94 million and arranged £80 million of debt facilities during the year. Political and economic uncertainty exists in relation to the UK's imminent withdrawal from the EU and no clarity on the details. The Group's ability to access the capital markets to meet its strategic objectives could be impacted in the longer-term. The Group has fixed interest costs on 100 per cent of its drawn fixed term borrowings as at 30 June 2018 until September 2021. 	<ul style="list-style-type: none"> 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.
 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. 	<p>Medium </p> <p>Medium </p>	<ul style="list-style-type: none"> Whilst the care sector continues to face challenges, the associated pressures are tending to be felt most by businesses wholly 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 14 per cent from 17 per cent, and largest geographical region remains at 17 per cent. 	<ul style="list-style-type: none"> 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.
 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. Counterparties to forward fund arrangements do not honour their commitments to complete construction of assets. 	<p>Medium </p> <p>Medium New</p>	<ul style="list-style-type: none"> Activity levels in the market remain competitive, particularly for premium assets exclusively aimed at self-funded residents in prime locations. While there have been new entrants into the market within the last year increasing competition, the Investment Manager continues to identify opportunities that meet its criteria, and is actively pursuing these. The Group has increased its exposure to such assets during the year as a method of adding new build homes on long leases to its portfolio. 	<ul style="list-style-type: none"> The Manager's network and reputation will provide the Group with opportunities to acquire suitable properties. The Board monitors the Group's pace of deployment of capital via regular reporting by the Investment Manager. The Group's business model is underpinned by forecast demographic data and trends. The accuracy of these are regularly reviewed and their suitability assessed. Deals are entered on a pre-let basis with all planning approvals in place and with development contracts capped. The Group acquires title to the site/asset.
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. 	<p>Medium </p>	<ul style="list-style-type: none"> The Manager and the Board have each retained key personnel since the Group's IPO, and have succession plans established. The Manager has successfully hired further skilled individuals as required to bolster its resource. 	<ul style="list-style-type: none"> Directors are subject to annual performance assessment, and are subject to re-election by shareholders. The Board has established a succession strategy 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 2018

		Year ended 30 June 2018			Year ended 30 June 2017		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		22,029	6,334	28,363	17,760	5,127	22,887
Other income	2	3	–	3	221	450	671
Total revenue		22,032	6,334	28,366	17,981	5,577	23,558
Gains on revaluation of investment properties	10	–	6,434	6,434	–	2,211	2,211
Cost of corporate acquisitions		–	–	–	–	(626)	(626)
Total income		22,032	12,768	34,800	17,981	7,162	25,143
Expenditure							
Investment management fee							
– base fee	3	(3,184)	–	(3,184)	(2,761)	–	(2,761)
– performance fee	3	(550)	–	(550)	(997)	–	(997)
Other expenses	4	(1,458)	–	(1,458)	(1,236)	–	(1,236)
Total expenditure		(5,192)	–	(5,192)	(4,994)	–	(4,994)
Profit before finance costs and taxation		16,840	12,768	29,608	12,987	7,162	20,149
Net finance costs							
Interest receivable	5	67	–	67	113	–	113
Interest payable and similar charges	6	(2,077)	–	(2,077)	(921)	–	(921)
Profit before taxation		14,830	12,768	27,598	12,179	7,162	19,341
Taxation	7	12	(1)	11	25	(244)	(219)
Profit for the year		14,842	12,767	27,609	12,204	6,918	19,122
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swaps	14	–	(106)	(106)	–	307	307
Total comprehensive income for the year		14,842	12,661	27,503	12,204	7,225	19,429
Earnings per share (pence)	9	5.25	4.52	9.77	4.84	2.74	7.58

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 2018

	Notes	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Non-current assets			
Investment properties	10	362,918	266,219
Trade and other receivables	11	27,139	19,701
		390,057	285,920
Current assets			
Trade and other receivables	11	3,365	9,916
Cash and cash equivalents	13	41,400	10,410
Total assets		434,822	306,246
Non-current liabilities			
Bank loans	14	(64,182)	(39,331)
Interest rate swaps	14	(115)	(9)
Trade and other payables	15	(4,558)	(3,988)
		(68,855)	(43,328)
Current liabilities			
Trade and other payables	15	(7,360)	(5,981)
Total liabilities		(76,215)	(49,309)
Net assets		358,607	256,937
Stated capital and reserves			
Stated capital account	16	330,436	241,664
Hedging reserve		(115)	(9)
Capital reserve		24,383	11,616
Revenue reserve		3,903	3,666
Equity shareholders' funds		358,607	256,937
Net asset value per ordinary share (pence)	9	105.7	101.9

The financial statements on pages 22 to 44 were approved by the Board of Directors and authorised for issue on 3 October 2018 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 2018

	Notes	Stated capital account £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2017		241,664	(9)	11,616	3,666	256,937
Total comprehensive income for the year		–	(106)	12,767	14,842	27,503
Transactions with owners recognised in equity:						
Dividends paid	8	(2,957)	–	–	(14,605)	(17,562)
Issue of ordinary shares	16	94,000	–	–	–	94,000
Expenses of issue	16	(2,271)	–	–	–	(2,271)
At 30 June 2018		330,436	(115)	24,383	3,903	358,607

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

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Notes	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Cash flows from operating activities			
Profit before tax		27,598	19,341
Adjustments for:			
Interest receivable		(67)	(113)
Interest payable		2,077	921
Revaluation gains on property portfolio	10	(12,768)	(7,339)
Cost of corporate acquisitions		–	626
Decrease/(increase) in trade and other receivables		5,981	(9,062)
Increase in trade and other payables		806	20
		23,627	4,394
Interest paid		(1,433)	(728)
Interest received		67	113
Tax paid		(122)	(543)
		(1,488)	(1,158)
Net cash inflow from operating activities		22,139	3,236
Cash flows from investing activities			
Purchase of investment properties		(89,981)	(37,698)
Acquisition of subsidiaries including acquisition costs, net of cash acquired		–	(25,552)
Repayment of development loan		–	2,170
Net cash outflow from investing activities		(89,981)	(61,080)
Cash flows from financing activities			
Issue of ordinary share capital	16	94,000	–
Expenses of issue paid	16	(2,271)	–
Drawdown of bank loan facilities, net of costs		24,456	18,736
Dividends paid		(17,353)	(15,589)
Net cash inflow from financing activities		98,832	3,147
Net increase/(decrease) in cash and cash equivalents		30,990	(54,697)
Opening cash and cash equivalents		10,410	65,107
Closing cash and cash equivalents	13	41,400	10,410
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		6,892	5,786

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 Interpretations Committee, applicable legal and regulatory requirements of the Companies (Jersey) Law 1991, 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 February 2018 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 7 'Disclosure Initiative – Amendments to IAS 7'
The amendments to IAS 7 require additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These additional disclosures have been included in note 14.
- Annual Improvements for IFRSs 2014-2016 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'. This was endorsed by the EU on 2 November 2016.

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. This standard will not have any material impact on the Group's financial statements as presented for the current year as, under IFRS 9, financial instruments will remain at amortised cost and the expected credit loss model is not expected to lead to a material increase in impairment due to the nature and size of the Group's financial assets and there will be no material impact on the accounting for the Group's derivatives.

- 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. This standard will not have any material impact on the Group's financial statements as presented for the current year as the majority of the Group's revenue consists of rental income from the Group's investment properties which is outside the scope of IFRS 15.

- IFRS 16 'Leases'
In January 2016, the IASB published the final version of IFRS 16 'Leases' and it was endorsed by the EU on 31 October 2017. 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 2018. 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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies (continued)

(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 was 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 was 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. Property acquisition related costs are written off in the period in which they are 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.

For properties subject to contingent payment clauses within their purchase agreements, which will result in a further payment if certain performance measures are met, this payment is recognised as a liability when it is probable that it will be paid and a reliable estimate can be made of the amount. Any payment made will result in an increase in rental income receivable from the tenant, to maintain the investment yield from the property, and therefore an asset of approximately equal value is recognised to reflect the fair value of this increase in rental income.

Development interest (where income is receivable from a developer in respect of a forward-funding agreement) is deducted from the cost of investment and shown as a receivable until settled.

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.

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and so accounts for all such leases as operating leases.

(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. Dividends which, on a group basis, are not funded from net revenue earnings will be allocated to this reserve.

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 2018 £'000	Year ended 30 June 2017 £'000
Contribution towards tax charge	-	450
Development loan interest	-	175
Other sundry income	3	46
Total	3	671

3. Fees paid to the Investment Manager

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Base management fee	3,184	2,761
Performance fee	550	997
Total	3,734	3,758

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') was Target Advisers LLP. With effect from 2 November 2017, the Investment Management Agreement was novated to Target Fund Managers Limited (the 'Investment Manager' or 'Target') reflecting a transfer in the Investment Manager's fund management business from a limited liability partnership to a newly incorporated limited company. The key contractual arrangements, as set out below, remained unchanged.

The Investment Manager was 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 Property Index ('the Index'). The maximum amount of total fees payable by the Group to the Investment Manager was limited to 1.25 per cent of the average net assets of the Group over a financial year.

Performance fee periods were annually to 31 December, in line with the Index. Portfolio performance was 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 performance period to 31 December 2017 totalling £946,000 has been paid of which £396,000 was accrued in the accounts as at 30 June 2017. Subsequent to the period end, an amendment was agreed to the Investment Management Agreement which adjusted the annual base management fee to a tiered fee basis based on the Group's net assets. As part of this amendment, the performance fee ceased to apply from 1 January 2018. See note 23 for further details.

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 2018 £'000	Year ended 30 June 2017 £'000
Valuation and other professional fees	392	348
Other taxation compliance and advisory	231	85
Secretarial and administration fees	203	204
Directors' fees	165	165
Auditor's remuneration for:		
– statutory audit of the Company	52	47
– statutory audit of the subsidiaries	101	51
– assurance related services	14	6
Listing & Registrar fees	76	75
Public relations	69	45
Printing, postage and website	42	56
Direct property costs	-	22
Other	113	132
Total	1,458	1,236

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.

Expenses are inclusive of VAT as the Company is not VAT registered.

5. Interest receivable

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Deposit interest	67	113
Total	67	113

6. Interest payable and similar charges

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Bank loan	2,077	921
Total	2,077	921

Notes to the Consolidated Financial Statements (continued)

7. Taxation

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Current tax	—	—
Adjustment to tax charge for prior years	(11)	219
Total tax charge	(11)	219

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 2018 £'000	Year ended 30 June 2017 £'000
Profit before tax	27,598	19,341
Tax at 19.0% (2017: 19.75%)	5,244	3,820
Effects of:		
REIT exempt profits	(4,465)	(3,997)
REIT exempt gains	(1,173)	(437)
Cost of corporate acquisitions	—	124
Adjustment to tax charge for prior years	(11)	219
Excess expenses carried forward	394	490
Total tax charge	(11)	219

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 has unutilised tax losses carried forward in its residual business of £4.4 million at 30 June 2018 (2017: £3.0 million). The movement in the year consists of excess tax losses arising in the year of £2.1 million and a downwards adjustment of the estimated tax losses carried forward at 30 June 2017 by £0.7 million following the finalisation of the tax computations for that year. 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 2018.

	Dividend rate (pence per share)	Year ended 30 June 2018 £'000
Fourth interim dividend for the year ended 30 June 2017	1.5700	3,959
First interim dividend for the year ended 30 June 2018	1.6125	4,066
Second interim dividend for the year ended 30 June 2018	1.6125	4,067
Third interim dividend for the year ended 30 June 2018	1.6125	5,470
Total	6.4075	17,562

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

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 2018, of 1.6125 pence per share, was paid on 31 August 2018 to shareholders on the register on 10 August 2018 amounting to £5,470,000. 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 2018		Year ended 30 June 2017	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	14,842	5.25	12,204	4.84
Capital earnings	12,767	4.52	6,918	2.74
Total earnings	27,609	9.77	19,122	7.58
Average number of shares in issue	282,464,971		252,180,851	

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 and for development interest in respect of forward fund agreements. The reconciliations are provided in the table below:

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	27,609	19,122
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives	(6,334)	(5,127)
Adjusted for revaluations of investment properties	(6,434)	(2,211)
Adjusted for cost of corporate acquisitions and other capital items	1	420
EPRA earnings	14,842	12,204
Adjusted for development interest under forward fund agreements	261	—
Adjusted for performance fee	550	997
Group specific adjusted EPRA earnings	15,653	13,201

Earnings per share ('EPS') (pence per share)

EPS per IFRS Consolidated Statement of Comprehensive Income	9.77	7.58
EPRA EPS	5.25	4.84
Group specific adjusted EPRA EPS	5.54	5.23

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 105.7 pence (2017: 101.9 pence) is based on equity shareholders' funds of £358,607,000 (2017: £256,937,000) and on 339,217,889 (2017: 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 £115,000 under IFRS as at 30 June 2018 (2017: liability of £9,000).

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 2018	As at 30 June 2017
NAV per financial statements (pence per share)	105.7	101.9
Valuation of interest rate swaps	—	—
EPRA NAV (pence per share)	105.7	101.9

Notes to the Consolidated Financial Statements (continued)

10. Investments

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Freehold and leasehold properties		
Opening market value	281,951	210,666
Opening fixed or guaranteed rent reviews and lease incentives	(15,732)	(9,946)
Opening carrying value	266,219	200,720
Purchases	87,515	35,622
Purchase of property through a business combination	–	25,590
Acquisition costs capitalised	2,750	2,076
Acquisition costs written off	(2,750)	(2,076)
Revaluation movement – gains	21,852	11,660
Revaluation movement – losses	(5,776)	(1,587)
Movement in market value	103,591	71,285
Movement in fixed or guaranteed rent reviews and lease incentives	(6,892)	(5,786)
Movement in carrying value	96,699	65,499
Closing market value	385,542	281,951
Closing fixed or guaranteed rent reviews and lease incentives	(22,624)	(15,732)
Closing carrying value	362,918	266,219

Changes in the valuation of investment properties

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Revaluation movement	16,076	10,073
Acquisition costs written off	(2,750)	(2,076)
Movement in lease incentives	(558)	(658)
	12,768	7,339
Movement in fixed or guaranteed rent reviews	(6,334)	(5,128)
Gains on revaluation of investment properties	6,434	2,211

The investment properties can be analysed as follows:

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Standing assets	378,062	281,951
Developments under forward fund agreements	7,480	–
Closing market value	385,542	281,951

The properties were valued at £385,542,000 (2017: £281,951,000) 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 June 2017 ('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 £362,918,000 (2017: £266,219,000). The adjustment consisted of £21,181,000 (2017: £14,847,000) relating to fixed or guaranteed rent reviews and £1,443,000 (2017: £885,000) 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 non-current or 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 ('NIY') on these assets, as measured by the EPRA NIY, is 6.4 per cent. The yield on the majority of the individual assets ranges from 6.0 per cent to 8.5 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 net initial yield is defined as 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.

The ERV for the total portfolio is materially the same as the passing rent which is disclosed on page 17.

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 net initial yield applied to the portfolio will increase the fair value of the portfolio by £15.4 million (2017: £10.8 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £14.3 million (2017: £10.1 million) and reduce the Group's income.

11. Trade and other receivables

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Non-current trade and other receivables		
Fixed rent reviews	21,181	14,847
Rental deposits held in escrow for tenants	4,558	3,988
Lease incentives	1,400	866
Total	27,139	19,701

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Current trade and other receivables		
Cash deposits held in escrow for property purchases	2,496	9,483
Lease incentives	43	19
Corporation tax recoverable	14	311
VAT recoverable	312	–
Accrued income	124	–
Accrued development interest under forward fund agreements	261	–
Other debtors and prepayments	115	103
Total	3,365	9,916

At the year-end, trade and other receivables include a fixed rent review debtor of £21,181,000 (2017: £14,847,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £1,443,000 (2017: £885,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease.

Notes to the Consolidated Financial Statements (continued)

12. Investment in subsidiary undertakings

The Group included 22 subsidiary companies as at 30 June 2018. 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 17 (Holdings) Limited ('THR17 Holdings') and its wholly owned subsidiary, THR Number 17 Limited ('THR17') on 22 November 2017 and acquired THR Number 20 Limited ('THR20') and THR Number 21 Limited ('THR21') on 28 June 2018. These acquisitions were accounted for as Investment Property acquisitions.

In addition, the Group established four newly incorporated companies during the year to 30 June 2018: THR Number 15 plc ('THR15'), THR Number 16 Limited ('THR16'), THR Number 18 Limited ('THR18') and THR Number 19 Limited ('THR19').

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 2018 £'000	As at 30 June 2017 £'000
Cash at bank and in hand	2,024	299
Short-term deposits	39,376	10,111
Total	41,400	10,410

14. Bank loans

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Principal amount outstanding	66,000	40,000
Set-up costs	(2,644)	(1,100)
Amortisation of set-up costs	826	431
Total	64,182	39,331

The Group has a £50.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable on 1 September 2021, with the option of two further one year extensions thereafter subject to the consent of RBS. Interest accrues on the bank loan at a variable rate, based on three month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.5 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 30 June 2018, the Group had drawn £30.0 million under this facility (30 June 2017: £40.0 million).

On 30 August 2017, the Group entered into a new five year £40.0 million committed term loan facility with First Commercial Bank, Limited ('FCB'). Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin was initially 1.75 per cent but was subsequently reduced to 1.65 per cent per annum for the duration of the loan. The undrawn element of the facility does not incur a non-utilisation fee. As at 30 June 2018, the Group had drawn £36.0 million under this facility.

On 29 January 2018, the Group entered into a new five year £40.0 million revolving credit facility with HSBC Bank plc ('HSBC'). Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.70 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 30 June 2018, this facility was undrawn.

The Group has entered into the following interest rate swaps:

Notional Value	Starting Date	Ending Date	Interest paid	Interest received	Counterparty
21,000,000	7 July 2016	23 June 2019	0.85%	3-month LIBOR	RBS
21,000,000	24 June 2019	1 September 2021	0.70%	3-month LIBOR	RBS
9,000,000	7 April 2017	1 September 2021	0.86%	3-month LIBOR	RBS
36,000,000	9 July 2018	30 August 2022	1.43%	3-month LIBOR	FCB

Inclusive of all interest rate swaps, the interest rate on £66.0 million of the Group's borrowings is fixed, inclusive of the amortisation of arrangement costs, at an all-in rate of 3.12 per cent per annum until 23 June 2019 and 3.07 per cent per annum from 24 June 2019 to 1 September 2021. The remaining £64.0m of debt, if drawn, would carry interest at a variable rate equal to three month LIBOR plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.12 per cent per annum.

The fair value of the interest rate swaps at 30 June 2018 was an aggregate liability of £115,000 (30 June 2017: liability of £9,000) and all interest rate swaps are categorised as level 2 in the fair value hierarchy (see note 10 for further explanation of the fair value hierarchy).

The RBS 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. The FCB loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consists of THR12 and its three subsidiaries: THR Number 5 Limited, THR Number 6 Limited and THR Number 7 Limited. The HSBC loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 15 plc Group ('THR15 Group') which consists of THR15 and three of its subsidiaries: THR Number 8 Limited, THR Number 10 Limited and THR Number 17 Limited.

Under the bank covenants related to the loans, the Group is to ensure that:

- the loan to value percentage for each of THR1 Group and THR15 Group does not exceed 50 per cent;
- the loan to value percentage for THR12 Group does not exceed 60 per cent; and
- the interest cover for each of THR1 Group, THR12 Group and THR15 Group is greater than 300 per cent on any calculation date.

All bank loan covenants have been complied with during the year.

Analysis of net debt:

	Cash and cash equivalents 2018 £'000	Borrowing 2018 £'000	Net debt 2018 £'000	Cash and cash equivalents 2017 £'000	Borrowing 2017 £'000	Net debt 2017 £'000
Opening balance	10,410	(39,331)	(28,921)	65,107	(20,449)	44,658
Cash flows	30,990	(24,456)	6,534	(54,697)	(18,736)	(73,433)
Non-cash flows	–	(395)	(395)	–	(146)	(146)
Closing balance as at 30 June	41,400	(64,182)	(22,782)	10,410	(39,331)	(28,921)

15. Trade and other payables

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Non-current trade and other payables		
Rental deposits	4,558	3,988
Total	4,558	3,988

	As at 30 June 2018 £'000	As at 30 June 2017 £'000
Current trade and other payables		
Rental income received in advance	3,819	3,520
Investment Manager's fees payable including performance fees	960	941
Corporate acquisition fees accrued	545	–
Interest payable	472	223
Tax payable	89	519
Other payables	1,475	778
Total	7,360	5,981

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

Notes to the Consolidated Financial Statements (continued)

16. Stated capital movements

	As at 30 June 2018	
	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of no par value		
Opening balance	252,180,851	241,664
Issued on 27 February 2018	87,037,038	94,000
Expenses of issue		(2,271)
Dividends allocated to capital		(2,957)
Balance as at 30 June 2018	339,217,889	330,436

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

During the year to 30 June 2018, the Company issued 87,037,038 ordinary shares raising gross proceeds of £94,000,000 (2017: nil). The Company did not repurchase any ordinary shares into treasury (2017: nil) or resell any ordinary shares from treasury (2017: nil).

Capital management

The Group's capital is represented by the stated capital account, hedging reserve, capital reserve, revenue reserve and long-term borrowings. The Group is not subject to any externally-imposed capital requirements, other than the financial covenants on its loan facilities as detailed in note 14.

The capital of the Group 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.

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. The Company may also increase or decrease its level of long-term borrowings.

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 £44.7 million (2017: £20.3 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.

As at 30 June 2018, the Company had fully provided for overdue rental income from a single tenant totalling £170,000 (2017: £nil). There were no other financial assets which were either past due or considered impaired at 30 June 2018 (2017: 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 different financial institutions. At 30 June 2018 the Group held £20.9 million (2017: £10.4 million) with The Royal Bank of Scotland plc, £20.0 million (2017: £nil) with HSBC Bank plc and £0.5 million with First Commercial Bank, Limited (2017: £nil).

Liquidity risk

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

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

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

	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Financial assets as at 30 June 2018						
Cash	41,400	—	—	—	—	41,400
Cash held for tenants	—	—	—	—	4,558	4,558
Other debtors and prepayments	3,322	—	—	—	—	3,322
Total	44,722	—	—	—	4,558	49,280

	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Financial assets as at 30 June 2017						
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

Notes to the Consolidated Financial Statements (continued)

17. Financial instruments (continued)

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

	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Financial liabilities as at 30 June 2018						
Bank loans and interest rate swaps	571	1,651	1,725	70,701	–	74,648
Rental deposits	–	–	–	–	4,558	4,558
Other payables	3,541	–	–	–	–	3,541
Total	4,112	1,651	1,725	70,701	4,558	82,747

	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Financial liabilities as at 30 June 2017						
Bank loans 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

The total amount due under the bank facilities 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 loans and the notional value of the interest rate swaps remain unchanged from 30 June 2018 until the repayment date of the relevant loan and expiry date of the related interest rate swap. The interest rate on any unhedged element of the loans is based on the rate of three month LIBOR at 30 June 2018 (30 June 2017) plus the relevant lending margin. The commitment fee payable on the undrawn element of any facility is included, where applicable.

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 weighted average variable rate of 0.24 per cent (2017: 0.01 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 £130 million (2017: £50 million) of committed term loans and revolving credit facilities which at 30 June 2018 were charged interest at a rate of three month LIBOR plus the relevant margin (see note 14). At the year-end £66.0 million of these facilities was drawn down (2017: £40.0 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 £66.0 million (2017: £30.0 million) of the loans drawn down at 30 June 2018 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 2018, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swaps and the reported total comprehensive income for the year by £0.6 million (2017: £0.3 million). A decrease in interest rates would have had an equal and opposite effect.

The Group has hedged its exposure on the entire £66.0 million of loans drawn down at 30 June 2018. As at 30 June 2017, the Group had not hedged its exposure on £10.0 million of the loans drawn down on which interest was payable at a variable rate equal to three month LIBOR plus the lending margin of 1.50 per cent per annum. This balance exposed the Group to cash flow interest rate risk as the Group's income and operating cash flows would 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 2018		As at 30 June 2017	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	–	41,400	–	10,410
Bank loan	(66,000)	–	(30,000)	(10,000)
	(66,000)	41,400	(30,000)	410

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 £104,000 (2017: £1,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2018 (30 June 2017) 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 2018 (30 June 2017) would have increased net assets available to shareholders and increased the net income for the year by £36.3 million (2017: £26.6 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 may not be reflective of future market conditions.

18. Capital commitments

The Group had capital commitments as follows:

	30 June 2018 £'000	30 June 2017 £'000
Amounts due to complete forward fund developments	19,982	–
Other capital expenditure commitments	2,443	–
Total	22,425	–

Notes to the Consolidated Financial Statements (continued)

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 2018 £'000	As at 30 June 2017 £'000
Less than one year	24,262	20,290
Between two and five years	109,944	86,139
Over five years	868,980	683,270
Total	1,003,186	789,699

The largest single tenant at the year-end accounted for 14.1 per cent (2017: 17.4 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 12 and 34 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 Webster, who retired as a Director on 22 January 2018, was an employee of the Company Secretary, R&H Fund Services (Jersey) Limited, which receives fees from the Company. Mr Stewart, who was appointed as a Director of the Company with effect from 22 January 2018, and Mrs Jones are both directors of the Company Secretary, R&H Fund Services (Jersey) Limited. Mr Stewart was admitted to Rawlinson & Hunter's Jersey Partnership in 2003, which in turn wholly owns R&H Fund Services (Jersey) Limited. Secretarial 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 (2017: £165,000) of which £18,000 (2017: £18,000) remained payable at the year-end.

The Investment Manager received £3,734,000 (2017: £3,758,000) in relation to the year of which £550,000 (2017: £997,000) related to the performance fee. Of this amount £960,000 (inclusive of VAT) (2017: £941,000) 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

As at 30 June 2018, nine properties within the Group's investment property portfolio contained deferred consideration clauses meaning that, subject to contracted performance conditions being met, deferred payments totalling £16.0 million (2017: £5.4 million) may be payable by the Group to the vendors/tenants of these properties.

Having assessed each clause on an individual basis, the Company has determined that none of these deferred consideration clauses are more likely than not to become payable in the future and therefore an amount of £nil (2017: £nil) has been recognised as a liability at 30 June 2018.

It is highlighted that the potential deferred consideration would, if paid, result in an increase in the rental income due from the tenant of the relevant property. As the net initial yield used to calculate the additional rental which would be payable is not significantly different from the investment yield used to arrive at the valuation of the properties, any deferred consideration paid would be expected to result in a commensurate increase in the value of the Group's investment property portfolio.

23. Post Balance Sheet Events

Subsequent to 30 June 2018, the Group has completed the acquisition of three further properties and exchanged contracts on a fourth for a total value of £31.0 million (including acquisition and forward funding costs):

- A modern, purpose-built 43 bedroom care home in Doncaster, South Yorkshire. Operated by Orchard Care Homes, an existing tenant of the Group, the home is let on a full repairing and insuring lease with 24 years remaining and is subject to annual RPI-linked rent increases subject to a cap and collar;
- A development site for an 80-bed care home in Burscough, Lancashire. The development will be carried out in partnership with Athena Healthcare ("Athena"), an existing tenant of the Group, under a capped development contract, and subject to a forward funding agreement. On completion of the building, which is expected in Q4 2019, the home will be let to Athena for 35 years on a full repairing and insuring lease with RPI-linked rent increases subject to a cap and collar;
- A development site for a 66-bed, residential care home in Wetherby, West Yorkshire. Having received planning consent, the development will be funded under a capped development contract by specialist elderly care home contractor, LNT Construction Limited. Upon the home reaching practical completion, which is expected in early 2019, the property will be let on a full repairing and insuring basis to LNT Construction's sister company, Ideal Carehomes Limited. The 35-year occupational lease will include annual, upwards-only RPI-linked increases, subject to a cap and collar; and
- The Group has also exchanged contracts to acquire a pre-let, purpose-built care home in Newtown, Powys. The acquisition is expected to complete in the second half of 2019 once the development has been completed and marks the Group's first transaction in Wales. On completion, the property will be leased to a new tenant, Caresolve Operations Limited, for 35 years on a full repairing and insuring lease.

On 3 October 2018, the Group entered into a side letter to the Investment Management Agreement. Under the revised arrangements, with effect from 1 July 2018, the Investment Manager is entitled to an annual base management fee on a tiered basis based on the net assets of the Group as set out below. No performance fee is payable for any period commencing after 1 January 2018. The termination provisions contained within the Investment Management Agreement, as set out in note 3, are unchanged.

Net assets of the Group	Management fee percentage
Up to and including £500 million	1.05
Above £500 million and up to and including £750 million	0.95
Above £750 million and up to and including £1 billion	0.85
Above £1 billion and up to and including £1.5 billion	0.75
Above £1.5 billion	0.65

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 Fund Managers Limited, 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 2018 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	1.44	1.55

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 has Chaired the Company since its launch in 2013, and also has listed Company Board experience via his role as Chairman of Ground Rents Income Fund PLC and as a non-executive Director of GCP Student Living PLC.

Mr Naish has over 40 years of real estate experience, having qualified as a Chartered Surveyor in 1976, with significant real estate investment experience, most recently from his role as Head of Property at Scottish Widows Investment Partnership (SWIP) from 2007 to 2012 where he had responsibility for a £multi-billion portfolio of commercial property assets. Mr Naish was chairman of the Scottish Property Federation for 2010/11 and holds a number of advisory roles in the private and charity sectors.

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 former 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 has served as Chair of the Audit Committee since the Company's launch in 2013, and also has Board experience as a non-executive director of Cornelian Asset Managers and as a former member of the audit committee of the Universities Superannuation scheme, on of the UK's largest pension funds.

Mr Coull is a qualified chartered accountant and, prior to his retirement in 2011, was a senior partner in the financial services practice of Ernst & Young LLP. As an audit and advisory partner he specialised in asset management, working with a range of asset managers and their funds, both in the UK and Europe.

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 significant experience within real estate operations and investment, having held senior executive roles across each of the senior housing, hotels, hospitality and financial services sectors. Mr. Hutchison is the principal founder of Legacy Hotel Advisors, LLC and Legacy Healthcare Properties, LLC where he served as the chairman of both companies. He held several key executive positions over a seven year period at CNL Financial Group, Inc. – one of the USA's largest, privately held real estate investment and finance companies. Mr Hutchison is currently a director for ClubCorp, Inc., Hersha Hospitality Trust. 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. He serves as a senior adviser to various service industry public companies.

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 is a specialist in Jersey company governance and compliance. Mrs Jones has been a director of Rawlinson & Hunter's ('R&H') fund administration business in Jersey since 2009, leading a team responsible for a wide range of company secretarial and corporate services.

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

Craig Stewart Independent Non-Executive Director

Mr Stewart is a specialist in Jersey company governance and compliance, having been a director of Rawlinson & Hunter's ("R&H") fund administration business since 2001. He has previously served on the Jersey Funds Association Committee. He was admitted to R&H's Jersey Partnership in 2003. Mr Stewart previously worked as a manager specialising in the asset management sector at Arthur Andersen, qualified as a chartered accountant in 1997 and has over 20 years of experience in the finance sector.

Date of appointment: 22 January 2018
Country of residence: Jersey
All other public company directorships: None

Investment Manager

The Investment Manager

The Company has appointed Target Fund Managers Limited (‘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 CEO of Target. 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 Head of Investment at Target. He is a Chartered Accountant with 20 years’ experience, last eleven in real estate investment management. He has led investments at Target 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, 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 Head of Healthcare at Target. Andrew has spent most of his life in the senior care sector, currently visiting circa 100 homes per year in his current role at Target, of which he is one of the founding partners. Prior to joining Target 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.

Scott Steven

Scott Steven is Head of Asset Management at Target. Scott joined TFML in 2017 from Lloyds Banking Group where he had spent the whole of his career. Prior to joining Target, Scott had been responsible for a number of Lloyds Bank’s lending to large property groups including care home operators. During 2018, Scott took over the Head of Asset Management role at Target, and holds responsibility for tenant engagement and portfolio decision-making with a team of healthcare and asset management professionals.

In addition to the healthcare investment professionals:

Gordon Bland BAcc CA

Gordon Bland is Finance Director at Target. He is a Chartered Accountant with extensive experience of financial reporting within the asset management industry. Gordon’s responsibilities at Target 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, Gordon worked at PricewaterhouseCoopers for almost ten years, serving asset management and financial services clients in the UK, Canada and Australia.

Directors’ Report

The Directors present their report, along with the financial statements of the Group on pages 22 to 44, for the year ended 30 June 2018.

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 1.6125 pence per share, to shareholders in relation to the year ended 30 June 2018.

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 25 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 2018 is shown on page 3. As part of the Company’s investment policy, the Board had intended that over the medium term, borrowings of the Group’s will represent approximately 20 per cent. of the Group’s gross assets at the time of drawdown. The Board’s current intentions are that over the medium term, borrowings of the Group will represent approximately 25 per cent of the Group’s gross assets at the time of drawdown. Accordingly the Board has made this minor amendment to the Company’s investment policy. It continues to be 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 and the hard gearing limit of 35 per cent, set out above, is not proposed to be exceeded or amended.

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. 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 45. As explained in more detail in the Corporate Governance Statement on page 51, 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 Stewart, who was appointed on 22 January 2018, will be subject to election at the AGM on

Directors’ Report

(continued)

28 November 2018, 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 Stewart’s appointment on 22 January 2018 was made following the retirement of Mr Webster. The Company did not employ, or pay any remuneration to, any external recruitment consultant in relation to this appointment.

Mrs Jones and Mr Stewart are each directors of the Company Secretary, R&H Fund Services (Jersey) Limited. Mr Stewart was admitted to Rawlinson & Hunter’s Jersey Partnership in 2003, which in turn wholly owns R&H Fund Services (Jersey) Limited. The Board has concluded that their appointment as Directors is the most cost efficient and effective 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 regulatory environment 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 Stewart’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 53, 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 2018 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*
Premier Fund Managers Limited	26,142,134	7.7
Investec Wealth & Investment Limited	23,385,150	6.9
Bank of Montreal	22,568,305	6.7
CCLA Investment Management Limited	12,524,146	3.7
Blackrock, Inc	9,435,473	2.8
Rathbone Brothers plc	6,801,183	2.0
Alder Investment Management Limited	6,375,044	1.9

* Based on 339,217,889 Ordinary Shares in issue as at 30 June 2018.

Since 30 June 2018, the Company has been notified that CCLA Investment Management holds 17,233,240 Ordinary Shares (5.1%). There have been no other changes notified to the Company in respect of the above holdings, and no new holdings notified, since 30 June 2018.

Going concern

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

They have considered the current cash position of the Group, forecast rental income and other forecast cash flows. The Group has agreements relating to its borrowing facilities with which it has complied during the year. Based on 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.

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. The resolution will next be put to shareholders at the AGM to be held in 2022.

**Resolutions to be proposed at the AGM
Directors’ remuneration reports**

The Directors’ remuneration policy and annual report, which can be found on pages 58 and 59, provide 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 2017 and which will again be put to shareholders at the AGM in 2020. Shareholders will also be asked to approve the Directors’ Annual Report on Remuneration for the year ended 30 June 2018 (resolution 2).

Dividend policy

The Company’s dividend policy is set out on page 47. In order to be able to continue paying a consistent dividend on a regular basis, and to ensure that sufficient distributions are made to meet the Company’s REIT status, the Company intends to continue to pay all dividends as interim dividends. Recognising that this means that shareholders will not have the opportunity to vote on a final dividend, the Company will instead propose a non-binding resolution to approve the Company’s dividend policy at the AGM (resolution 3). The Directors anticipate that such non-binding resolution to approve the Company’s dividend policy will be proposed annually.

Auditor

The Independent Auditor’s Report can be found on pages 60 to 64. 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).

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 11 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 33,921,788 shares (representing 10 per cent of the issued ordinary share capital of the Company as at 3 October 2018).

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 buy back of ordinary shares will be subject to the Companies (Jersey) Law 1991, 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 12 will be proposed as a special resolution and seeks to provide the Directors with the authority to purchase up to 50,848,761 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 12. 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.

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 150,454 ordinary shares representing approximately 0.04 per cent of the current issued share capital of the Company.

On behalf of the Board

Malcolm Naish

Chairman
3 October 2018

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 2018 which has long leases and a weighted average unexpired lease term of 28.5 years. The Group has borrowings of £66.0 million, on which the interest rate has been fixed at 2.75 per cent per annum (excluding the amortisation of arrangement costs) through the use of interest rate swaps, and access to a further £64.0 million of available debt under committed loan facilities. The Group’s committed loan facilities have staggered expiry dates with £50.0 million being committed to 1 September 2021, £40.0 million to 30 August 2022 and £40.0 million to 29 January 2023.

The Directors’ assessment of the Group’s principal risks are highlighted on pages 20 and 21. The most significant risks identified as relevant to the viability statement were those relating to:

- Long-term Secure Rental Income. The risks are that a fall in rental income, through a change in government policies or significant exposure to a single tenant group or geographical area, 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
- Business Funding. The risks are that the Group is unable to grow through acquisition of attractive investment opportunities and may be 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. 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 2018

Corporate Governance Statement

Introduction

The Board has considered the principles set out in the UK Corporate Governance Code 2016 ('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 has not adopted early the revised UK Code published in July 2018, which first applies to the Company for its financial year commencing 1 July 2019.

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 52 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 2017 to consider strategic issues. In addition to these scheduled meetings, there were a further twelve 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 Stewart, includes twelve months' notice of termination by either party. Mrs Jones' and Mr Stewart'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.

*Copies of both codes may be found on the respective websites: www.frc.org.uk and www.theaic.co.uk

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. The current Board composition consists of four male and two female 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	5	3	3	4	4	1	1
June Andrews OBE	5	5	3	3	4	4	1	1
Gordon Coull	5	5	3	3	4	4	1	1
Tom Hutchison	5	5	3	3	4	4	1	1
Hilary Jones	5	4	3	3	4	4	1	1
Craig Stewart*	2	2	2	2	2	2	—	—
Ian Webster*	3	2	1	1	2	2	1	1

* Ian Webster retired with effect from 22 January 2018 with Craig Stewart being appointed to the Board with effect from 22 January 2018.

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 47. 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 pages 54 and 55.

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 an external facilitator, Stephenson Executive Search Limited. This process involved discussions between the external facilitator and each individual Director, with a formal report of the findings being provided by the external facilitator to, and considered by, the Nomination Committee. The external facilitator also led the evaluation of the Chairman, reviewed the level of fees paid to the Directors and, with the Board being mindful that the majority of the Directors were appointed to the Board on 30 January 2013, provided guidance to the Board to ensure that a suitable succession plan is in place. The external facilitator was paid a total fee of £9,000 in relation to this engagement and has no other connection with the Company.

During the year, the Nomination Committee considered whether any new appointments would be required following Mr Webster’s 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 Stewart 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 28 November 2018 is set out on pages 67 and 68. 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

Responsible Investment and Environmental, Social and Governance (“ESG”) are core values of the Company and its Investment Manager.

- ESG lies at the heart of the Company’s approach because of our belief that a strong care ethos is essential for the long term health of our investments. The Investment Manager commits extensive resources to incorporating ESG (and responsible investing principles) throughout their investment and decision making processes, both at the time of the acquisition of any asset and on an ongoing basis.
- Before acquiring any home, the Investment Manager reviews on a granular level, inter alia: the position of the home in the community and how the home engages with its community, the building lay-out and facilities, the natural environment of the home, the management team and general governance shown by the tenant as well as any relevant ratings by regulatory bodies such as the Care Quality Commission.
- The Investment Manager’s role as an engaged landlord includes careful monitoring of the home and ongoing dialogue with management. The Investment Manager will visit every home at least every six months, occasionally visit the properties unannounced to gauge the culture, make available senior employees to tenants who are problem solving, as well as engaging with tenants who wish to improve their homes and potentially providing support and funding for this.
- The Company’s vision of care includes promoting the conservation, protection and improvement of the physical and natural environments surrounding care homes not least because this makes the care home that much more attractive for both tenants and the end user.
- Once the Company has acquired a care home, the Investment Manager undertakes regular reviews of the environmental, social governance and ethical policies that the home has in place and (to the extent possible) their adherence to these policies in the delivery of their services.

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 2018

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. The Board considers that, given its size, it would be unnecessarily burdensome to establish a separate audit 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.

Role of the Audit Committee

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

Responsibilities of the Audit Committee	How they have been discharged
Consideration of the half-year and annual financial statements, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions.	<p>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 the meetings at which the contents of the half-yearly and annual reports were reviewed. The significant matters considered by the Group are listed on pages 56 and 57. In addition, during the year, the Committee particularly considered:</p> <ul style="list-style-type: none">– on a case-by-case basis, whether the subsidiaries acquired during the year constituted the acquisition of a property or a business combination, see accounting policy (g), and the related treatment of potential deferred consideration in relation to these acquisitions; and– the accounting treatment for the development interest earned under forward fund agreements, see accounting policy (h). This balance is expected to become more significant for the year ending 30 June 2019.
Evaluation of the effectiveness of the risk management and internal control procedures.	<p>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 including those over significant IT functions in place within the Investment Manager and reviewed a report, prepared under ISAE-3402, detailing the internal controls in place within the Administrator. 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.</p>
Consideration of dividend calculations both in relation to PID/ non-PID payments made by the Company and other dividends paid internally within the Group.	<p>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.</p>
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.	<p>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.</p>
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.	<p>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.</p>
Evaluation of reports received from the Auditor with respect to the annual financial statements.	<p>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.</p>

Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.	The Company ensures through its Legal Adviser, Administrator, Investment Manager and Auditor, that any developments impacting on its responsibilities are tabled for discussion at Committee or Board meetings. Other than the implementation of the General Data Protection Regulations, which came into effect on 25 May 2018 and the publication of a Key Information Document from 1 January 2018, there were no significant developments that became effective during the year to 30 June 2018.
Management of the relationship with the external Auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their audit.	The Auditor attended the meeting of the Committee at which the Company's year end accounts were reviewed and also met separately with the chairman of the Committee on two occasions, to discuss the findings of their interim review, the audit plan for the year and the findings of their annual audit. The scope of the audit was discussed at the planning stage along with the staffing and timing of audit procedures to ensure that an effective audit could be undertaken. The Committee has also reviewed the independence and objectivity of the Auditor and has considered the effectiveness of the audit.

Risk management and internal controls

The principal risks faced by the Group together with the procedures employed to manage them are described in the Strategic Report on pages 20 and 21.

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 54, in relation to the year ended 30 June 2018, the Group engaged a reporting accountant to undertake an overview of the control environment of the Investment Manager. 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.

Report of the Audit Committee

(continued)

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 has been the auditors to the Group since its launch in 2013. Following professional guidelines, the audit principal rotates after five years. The audit for the year ended 30 June 2018 constitutes the first year of the current audit principal’s term. Having considered the effectiveness of the audit, which included reviewing the FRC’s Audit Quality Inspection Report on Ernst & Young LLP published in June 2018, 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.

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. Other than the review of the interim financial information, the auditors were not engaged to undertake any non-audit services during the year. Different accountancy firms were engaged to provide the tax advice and compliance and Reporting Accountant roles.

Service provided	Fee (£'000)
Statutory audit	153
Review of interim financial information	12
Review of performance fee calculation	2
Total	167

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 Group’s property portfolio accounted for 83.5 per cent of its total assets as at 30 June 2018. Although valued by an independent firm of valuers, Colliers International Healthcare Property Consultants Limited (‘Colliers’), the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group’s net asset value. Further information about the property portfolio and inputs to the valuations is set out in note 10 to the financial statements.	The Investment Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation process throughout the year and discussed the detail of each of the quarterly valuations with the Investment Manager. Members of the Committee had the opportunity to discuss the valuation as at 30 June 2018 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 Incomplete or inaccurate income recognition could have an adverse effect on the Group’s net asset value, earnings per share, its level of dividend cover and compliance with REIT regulations.	The Audit Committee reviewed the Investment Manager’s processes and controls around the recording of investment income. It also compared the final level of income received for the year to forecasts. Particular attention was paid to any variable income recognised, such as that arising on leases where the rental level paid may be partially based on the earnings of the underlying tenant operator. The Audit Committee assessed the appropriateness of the accounting treatment of the fixed rental uplifts and other lease incentives and how this impacted the Property Income component of dividends paid or payable by the Company.

Calculation and payment of management and performance fees
Incorrect interpretation of the relevant provisions in the Investment Management Agreement (‘IMA’) and/or incorrect calculation of the fees payable to the Investment Manager could result in an error in the financial statements and an incorrect payment to the Investment Manager.

The Committee has discussed the provisions in the IMA relating to both components of the fee and the controls over fee payments. It has also reviewed in detail the calculation of the performance fee paid during the year and satisfied itself that the underlying calculations and assumptions which lie behind it were in accordance with the IMA, as was the timing of payment.

Internal Controls
Incomplete design or ineffective operation of internal controls may result in a loss of the Group’s assets, a misstatement of the financial statements or a breach of legal, tax or other regulations.

The Audit Committee reviewed the Group’s internal control environment, considering its completeness and efficiency and identifying any areas where the Board, or Committees, did not have direct means of ensuring that the internal controls in place within the Investment Manager were operating as designed. An external Reporting Accountant was appointed to complete a review of the control environment of the Investment Manager 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 reviewed the results of an internal controls report of the Administrator, prepared under ISAE-3402 and which was unqualified, and noted no material control deficiencies relevant to the Company 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 2018, 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 2018

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 2018 are shown below.

The Board considers the level of Directors’ fees at least annually and, in relation to the fees commencing 1 July 2018, this review was further supported by the recommendations of the external consultant appointed to facilitate the review of the performance of the Board (see page 53 for further details). The Board also noted that the Directors fees were last amended with effect from 1 July 2016 and, since that date, the size and complexity of the Group, and the demands placed on the Directors, had increased significantly. After review, in line with the recommendations of the external consultant, the Board concluded that the level of Directors’ fees for the year ending 30 June 2019 would be increased to the following: Mr Naish, the Chairman, £43,000 (2018: £40,000), Mr Coull, the Audit Committee Chairman, £37,000 (2018: £35,000) and £32,000 (2018: £30,000) to each of Professor Andrews and Mr Hutchison. Mrs Jones and Mr Stewart will each receive an annual fee of £16,500 (2018: £15,000).

The remuneration policy, which was approved by shareholders at the Company’s AGM in November 2017 with 100.0 per cent of votes cast being in favour, will again be put to shareholders at the AGM in 2020.

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 2019.

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.

Annual Report on Directors’ Remuneration

Directors’ emoluments for the year (audited)

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

	Year ended 30 June 2018 £’000	Year ended 30 June 2017 £’000
Malcolm Naish (Chairman)	40	40
Gordon Coull (Audit Committee Chairman)	35	35
June Andrews	30	30
Tom Hutchison	30	30
Hilary Jones	15	15
Craig Stewart*	7	-
Ian Webster*	8	10
Graeme Ross	-	5
Total	165	165

*Ian Webster retired with effect from 22 January 2018 with Craig Stewart being appointed with effect from 22 January 2018.

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 (audited)

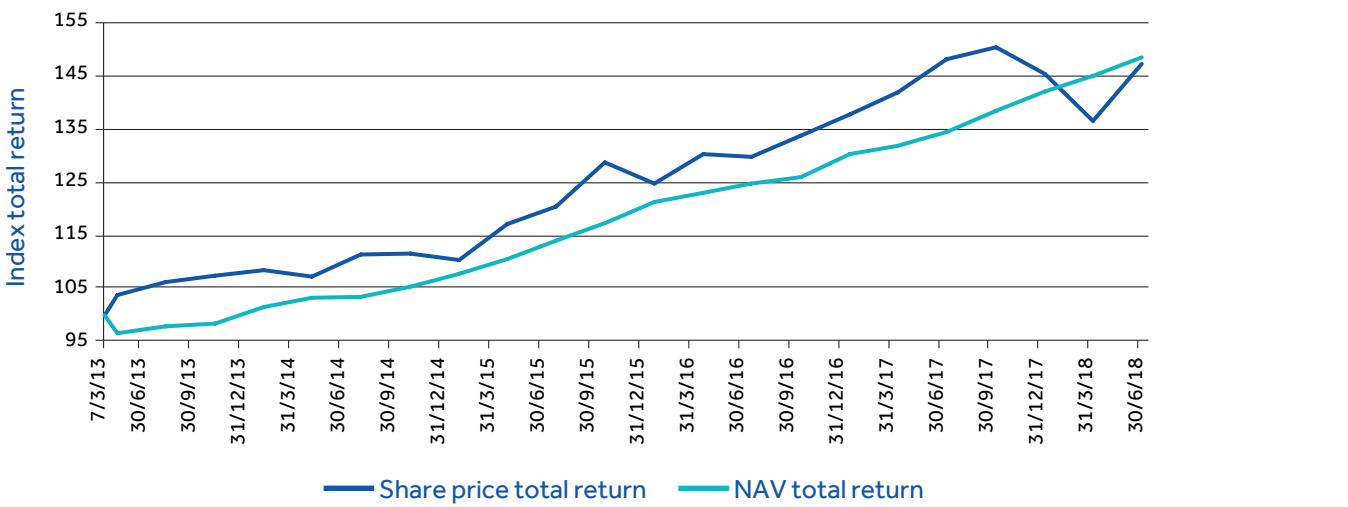
The Directors who held office at the year-end and their interests (all beneficial) in the ordinary shares of the Company as at 30 June 2018 and as at 3 October 2018 were as follows:

	Ordinary shares 3 October 2018	Ordinary shares 30 June 2018
Malcolm Naish	45,000	45,000
June Andrews	-	-
Gordon Coull	35,454	35,454
Tom Hutchison	70,000	70,000
Hilary Jones	-	-
Craig Stewart	-	-
Total	150,454	150,454

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 46.

The graph below compares, from launch to 30 June 2018, 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 on the Directors’ Remuneration Report

At the Company’s last AGM, held on 29 November 2017, shareholders approved the Directors’ Remuneration Report in respect of the year ended 30 June 2017. 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 2018

Independent Auditor’s Report

To the Members of Target Healthcare REIT Limited

Opinion

We have audited the financial statements of Target Healthcare REIT Limited (the ‘Company’) and its subsidiaries (together the ‘Group’) for the year ended 30 June 2018 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and the related notes 1 to 24, 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group’s affairs as at 30 June 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

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.

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 20 and 21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors’ confirmation set out on page 49 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 48 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 49 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 and defective title of the investment properties
Materiality	<ul style="list-style-type: none">• Overall group materiality of £3.58m which represents 1% 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 (Refer to Report of the Audit Committee page 56; and Accounting policies page 29).	We have performed the following procedures: <ul style="list-style-type: none">• Through performing our walkthrough procedures, obtained an understanding of the Investment Manager’s and Administrator’s processes, and evaluated the design and implementation of controls, surrounding recognition of rental income and accounting for fixed rental uplifts.• 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 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.	The results of our procedures are: <ul style="list-style-type: none">• We have no issues to communicate with respect to our assessment of the Investment Manager’s and Administrator’s processes and controls surrounding the recognition of rental income and accounting for fixed rental uplifts.• 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 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
Incorrect valuation and defective title of the investment properties (Refer to Report of the Audit Committee page 56; Accounting policies pages 28 and 29); and Note 10 to the Consolidated Financial Statements pages 34 and 35). The valuation of the properties held in the investment portfolio is the key driver of the Group’s net asset value and total return. Incorrect pricing, including the judgement involved in the valuation of property investments, or a failure to maintain proper legal title of the property held by the Group could have a significant impact on the portfolio valuation and the return generated for shareholders. 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. At 30 June 2018, the Group’s investment portfolio consists of UK healthcare properties, with a market value of £385.54m (2017: £281.95m) and carrying value of £362.92m (2017: £266.22m), which is net of a deduction of £22.62m (2017: £15.73m) to account for lease incentives and fixed rental uplifts.	We performed the following procedures: <ul style="list-style-type: none">• Through performing our walkthrough procedures, obtained an understanding of the Investment Manager’s and Valuer’s process, and evaluated the design and implementation of controls, surrounding property valuation.• 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.• We have engaged our property valuation specialists to perform a review of the property valuations which included:<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;– Discussions with Colliers which included a high level overview of the portfolio, covenant strength of the tenants within the portfolio and occupancy and historic rent cover for a sample of properties;– A detailed review of a sample of individual property valuations examining key valuation inputs 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’.	<ul style="list-style-type: none">• We have no issues to communicate with respect to our assessment of the Investment Manager’s and Valuer’s processes and controls surrounding the property valuation.• 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.

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 the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Changes from the prior year

The scope of the audit has increased in comparison to the previous year as a result of the acquisitions of Subsidiaries made by the Group during the year.

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 £3.58m (2017: £2.57m), which is 1% (2017: 1%) of net assets. We believe that net assets provides us with materiality aligned to a key measurement of the Company’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% (2017: 75%) of our planning materiality, namely £2.69m (2017: £1.93m). 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.

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 £0.18m (2017: £0.13m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report 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 50** – 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 54 to 57** – 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 pages 49, 50 and 54 to 57** – 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 50, 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.

Independent Auditor’s Report

To the Members of Target Healthcare REIT Limited (continued)

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 have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company’s members, as a body, in accordance with 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.

Caroline Mercer

for and on behalf of Ernst & Young LLP, Edinburgh
3 October 2018

Notes:

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

Glossary of Terms and Definitions

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*	The absolute value of Group specific adjusted EPRA Earnings divided by the absolute value of dividends relating to the period of calculation.
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, including any items specific to the Group, 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.
EPRA Topped-up Net Initial Yield*	Incorporates an adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives).
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 2018 was Target Fund Managers Limited. Further details are set out on page 46 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

*Alternative Performance Measure

Glossary of Terms and Definitions

(continued)

Leverage (continued)	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 include 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 2018 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.
SORP	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 Fund/Commitment	A contract pertaining to the future purchase of a property. Forward Funding relates to the acquisition of a property which hasn't yet been built, with the Group providing the developer with the funding for the development, usually in staged payments throughout the contract.
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.
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.
Portfolio or 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.
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 sixth Annual General Meeting ('AGM') of Target Healthcare REIT Limited (the 'Company') will be held on Wednesday 28 November 2018 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:

- To receive and adopt the Directors' report and financial statements of the Company for the year ended 30 June 2018, together with the auditor's report thereon.
- To approve the Directors' Remuneration Report for the year ended 30 June 2018.
- That the Company's dividend policy be approved.
- To elect Craig Stewart as a Director.
- To re-elect, a Director retiring by rotation, June Andrews as a Director.
- To re-elect, a Director retiring by rotation, Gordon Coull as a Director.
- To re-elect, a Director retiring by rotation, Tom Hutchison III as a Director.
- To re-elect, a Director retiring by rotation, Hilary Jones as a Director.
- To re-elect, a Director retiring by rotation, Malcolm Naish as a Director.
- That Ernst & Young LLP, be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.

To consider and, if thought fit, to pass resolutions 11 and 12 as special resolutions:

- 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 (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:
 - 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
 - Shall be limited to the allotment of equity securities up to 33,921,788 ordinary shares of no par value representing approximately 10 per cent of the issued share capital of the Company, as at 3 October 2018.
- That the Company be authorised in accordance with the Companies (Jersey) Law 1991 (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 (the 'Law') for future resale or transfer, or cancellation), provided that:
 - 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;
 - The minimum price (excluding expenses) which may be paid for each ordinary share is 1 pence;
 - The maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
 - 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
 - the higher of the last Independent trade and the highest current independent bid on the London Stock Exchange;
 - 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 2019, 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
 - 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 2018

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

Notice of Annual General Meeting

(continued)

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 26 November 2018 (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 2018 (being the last business day prior to the publication of this notice) the Company's issued share capital consisted of 339,217,889 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 3 October 2018 were 339,217,889 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 11 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

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
Craig Stewart

Registered Office

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

Investment Manager

Target Fund Managers Limited

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

Atria One
144 Morrison Street
Edinburgh EH3 8EX

Tax Adviser

Deloitte LLP

Athene Place
66 Shoe Lane
London EC4A 3BQ

Depository

Augentius Depository Limited

Two London Bridge
London SE1 9RA

Registrars

Computershare Investor Services (Jersey) Limited

Queensway House
Hilgrove Street
St. Helier
Jersey JE1 1ES

Website

www.targethealthcarereit.co.uk

* Chairman of Audit Committee ** Senior Independent Director



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

targethealthcarereit.co.uk