Target Healthcare REIT

Investing in care. Delivering returns.

Annual Report and Financial Statements 2019

targethealthcarereit.co.uk

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Additional 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.

Performance Highlights

Highlights

EPRA NAV Per Share
(pence)

107.5 +1.7%

2019 107.5
2018 105.7
2017 101.9

NAV Total Return[1]
(per cent)

8.1

2019 8.1
2018 10.5
2017 7.8

Dividend Per Share
(pence)

6.579 +2.0%

2019 6.579
2018 6.45
2017 6.28

IFRS Profit
(£ millions)

29.9 +8.2%

2019 29.9
2018 27.6
2017 19.1

Dividend Cover[2]
(per cent)

82

2019 82
2018 82
2017 83

Portfolio Value
(£ millions)

500.9 +29.9%

2019 500.9
2018 385.5
2017 282.0

EPRA Summary

Further detail on EPRA methodology is contained in note 8 on page 33, in the glossary on page 65 and in the alternative performance measures on p67-68.

	2019	Movement	2018	2017
EPRA NAV Per Share (pence)	107.5	+1.7%	105.7	101.9
EPRA NNNAV Per Share (pence)	107.3	+1.5%	105.7	101.9
Adjusted EPRA EPS (pence)	5.45	-1.6%	5.54	5.23
EPRA EPS (pence)	6.63	-11.6%	7.50	6.87
EPRA NIY (per cent)	5.93	+3bps	5.90	6.41
EPRA "topped-up" NIY (per cent)	6.26	-18bps	6.44	6.75
Adjusted EPRA Cost Ratio (per cent)	22.4	+160bps	20.8	22.5
EPRA Cost Ratio (per cent)	19.6	+130bps	18.3	21.8

[1] Based on EPRA NAV movement and dividends paid. [2] Based on adjusted earnings, see note 8 of the financial statements. See alternative performance measures on p67-68.

At a Glance

A leading investor in modern, purpose-built UK care homes, providing attractive quarterly dividend income through returns generated by a portfolio diversified by tenant, geography and end-user payment profile.

Our investment case

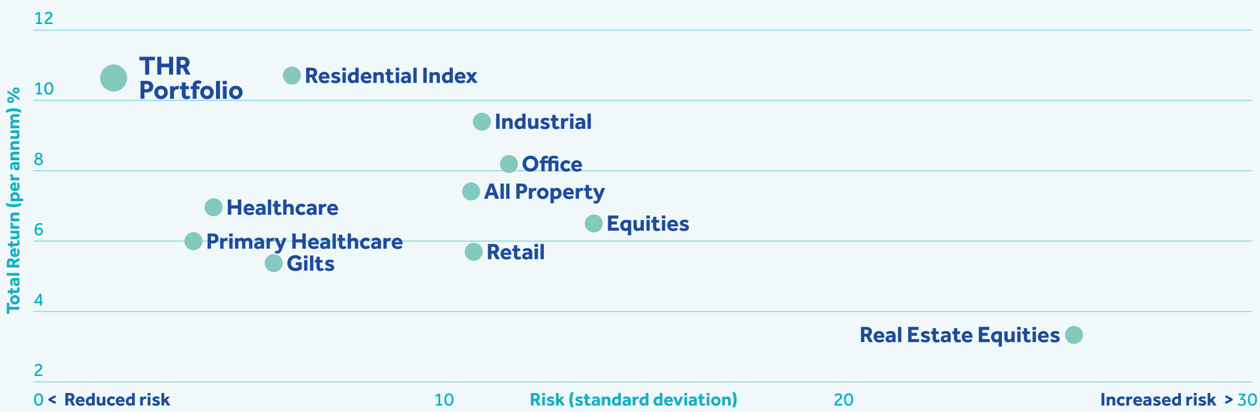
Favourable demographic trends and undersupply of quality real estate

- Demographic shift to an ageing population increasing absolute demand for care home places – Number of over 85s in the UK expected to double to 3.2 million in the next 20 years
- Resident expectations on quality are increasing, yet only c. 23% of rooms in the market meet modern standards with provision of private en-suite wet-rooms for each resident

Sector provides attractive lease characteristics and low historical volatility of returns

- Leases are long length at 30-35 years at commencement, with annual uplifts (RPI-linked or fixed) and cure rights in respect of care standards and commercial performance
- As demonstrated in the chart below, our portfolio and the wider healthcare property sectors have a track record of providing attractive total returns at low risk levels

Five-year total return vs standard deviation 2014-2018 (Source: MSCI)



Manager is a 10 year sector specialist with a straightforward investment strategy to generate long-term, stable and sustainable income from:

- Careful asset selection and management;
- A focus on effective diversification of portfolio by tenant, geography and end-user payment profile; complemented by
- Efficient operational management of the Group's activities within an appropriately-geared capital structure

Our ethos

The concept of Target Healthcare REIT (THR) 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 consistent with our own.

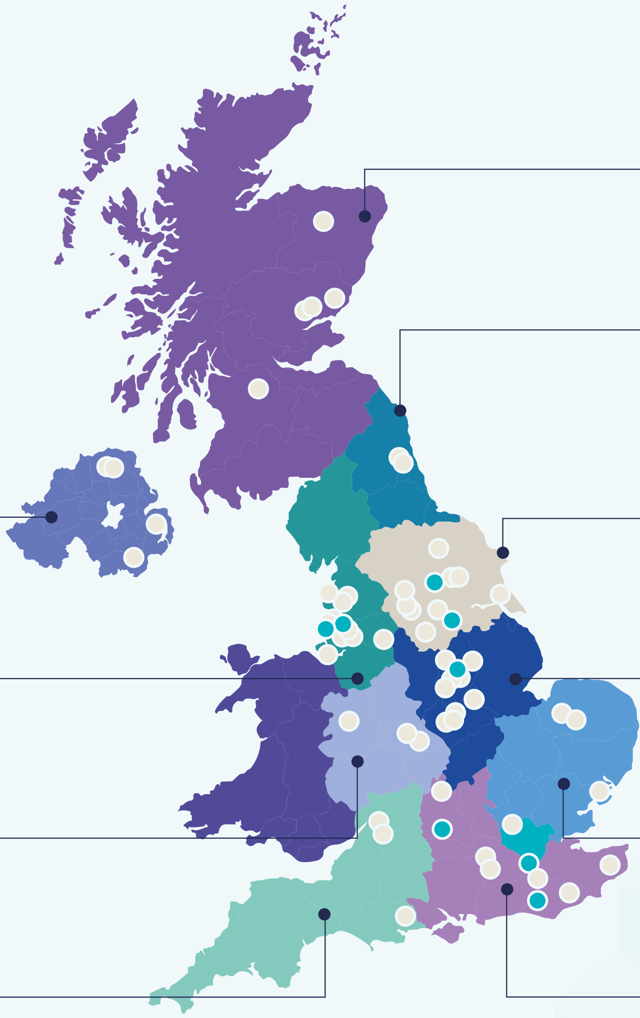
We are focused on:

- 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**.

Properties	WAULT	Tenants	Contractual rent	Value
63	29.1 years	24	£32.2m	£500.9m

Acquired in the year

Existing properties



Scotland
No. of properties 5
Rent roll £2.1m
Value £32.3m

North East
No. of properties 2
Rent roll £1.0m
Value £14.5m

Yorkshire & The Humber
No. of properties 11
Rent roll £4.5m
Value £63.9m

East Midlands
No. of properties 10
Rent roll £4.8m
Value £71.7m

East of England
No. of properties 4
Rent roll £2.6m
Value £43.0m

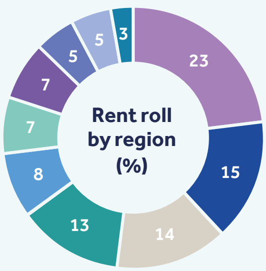
South East
No. of properties 9
Rent roll £7.4m
Value £112.2m

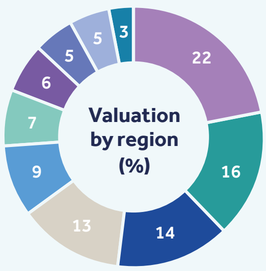
Northern Ireland
No. of properties 4
Rent roll £1.7m
Value £24.0m

North West
No. of properties 12
Rent roll £4.1m
Value £78.1m

West Midlands
No. of properties 3
Rent roll £1.7m
Value £26.9m

South West
No. of properties 3
Rent roll £2.3m
Value £34.3m





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

Chairman's Statement

Welcome to 2019's Annual Report

"We now manage a care home portfolio which provides places for 4,094 residents, to be cared for by our 24 tenants. Our tenants know we are a supportive and stable partner."

Malcolm Naish
Chairman

Introduction

On behalf of the Board, I am pleased to report on another positive year for the Group. We continue to provide shareholders with stable returns with a NAV total return of 8.1%, for the year. This is consistent with the annualised NAV total return of 7.9 per cent delivered since launch. Annualised share price total return for the same period has been 8.2 per cent. These metrics of course reflect both the progressive dividends and the modest capital appreciation we aim to achieve from our portfolio of modern care homes.

Our investment approach continues to be "bottom-up", always beginning with an assessment of the real estate quality as well as the proposed commercial approach to trading within its local market – setting suitable rent levels with adequate headroom to weather periods of poor trading are crucial. The next layer of our approach is to ensure our portfolio is diversified by tenant, geography and end-user payment profile. Our aim in assembling, then skilfully managing, such a portfolio is to achieve sustainable, long-term returns.

We manage a care home portfolio which provides places for 4,094 residents, to be cared for by our 24 tenants. We take our responsibilities seriously as a provider of capital in this sector – our tenants know we are a supportive and stable partner, there for the long-term, allowing them to invest in their businesses and encouraging improvements to care standards. However, our typical lease also provides us with the ability to change care provider should care standards and commercial returns be inadequate for an extended period.

Careful investment in the UK care home market can offer attractive returns... at lower risk levels than some might expect.

Performance & dividend

The Investment Manager reports on the portfolio performance in more detail on page 8.

The Group's EPRA NAV per share has increased by 1.7 per cent to 107.5 pence, with like-for-like valuation growth of the portfolio of 4.1% being the principal growth driver. Adjusted EPRA Earnings per share has declined slightly at 5.45 pence per share, supporting a dividend of 6.579 pence per share, an increase of 2.0 per cent year on year. Dividends were 82 per cent covered by adjusted earnings and 100% covered by EPRA earnings. We use the adjusted value which removes the distorting effect of IFRS accounting for our guaranteed rental uplifts and reflects a more sustainable earnings metric[1]. 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. In the absence of unforeseen circumstances, the Board intends to increase the quarterly dividend in respect of the year ending June 2020 by 1.5 per cent to 1.67 pence per share, providing an annual total of 6.68 pence. This reflects a dividend yield of 6.0 per cent on the share price of 111.2 pence as at 16 September 2019.

Financing & corporate structure

Our balance sheet has been further strengthened with £50 million of equity issuance during the year, the proceeds having been used towards new investment commitments in the year of £96 million. We added £40 million of flexible debt to our facilities during the year, and continue to invest available debt – Net LTV has increased to 16.2% net of cash held, progressing towards our c.25% target. With this capital structure the Group will generate sustainable earnings sufficient to cover our proposed dividends. Full investment of available debt would provide an LTV of c.28%.

We are pleased to have completed the domicile change to the UK, as approved by shareholders in August 2019. We are already benefitting from the move which has simplified our corporate structure and administration. We hope shareholders have experienced no inconvenience and we continue to focus on achieving our objectives as before.

Outlook

Prospects for the macroeconomic environment are more bearish than when I last wrote. The political outlook heightens uncertainty at home rather than reducing it, impacting our closest trading partners; there exists the potential for global trade wars to escalate in a manner which appears to be unconstructive; and, growth rates in the larger developing economies are slowing. We are also seeing a more unpredictable approach to world leadership than we have been accustomed to, which does little to provide clarity – relations with Russian and North Korea, and the UK/EU resolution of Brexit being prime examples.

No surprise then that with this uncertainty, and its associated impact on the confidence levels of those who may otherwise be investing for growth, that consensus economic forecasts for growth and interest rates have continued their trend to "lower for longer".

Careful investment in the UK care home property market, which can offer attractive returns significantly above prevailing interest rates, and at lower risk levels than some might expect, is therefore in demand. We continue to see our shares trade at a premium, in contrast to many of the traditional property sectors, and the asset class we invest in sees continued yield stability with some modest tightening.

Residential care for the elderly and infirm is needs-based, with demographic trends suggesting demand is only going to increase. The need to adequately fund the nation's infrastructure for care services to ensure it is fit-for-purpose is well-documented and very much a talking point, however funding of the NHS is still gaining more political attention and policy initiatives – perhaps social care will follow.

The Group, with its diversified portfolio and a capital structure which allows flexible funding routes, is well-placed to deliver on its strategy. We are charged with meeting shareholders' desire for a larger company which can provide increased returns from greater scale, and increased liquidity of shares in issue. Aligned with the Manager's ability to continue identifying suitable acquisition opportunities we will seek to grow the Group in a disciplined manner, as demonstrated by our proposed placing which targets gross proceeds of approximately £50 million, which we hope existing shareholders will support as well as allowing us to welcome some new holders to the register.

Board

We continue to plan for Board succession and expect to nominate a new Director during 2020.

Following completion of the change in corporate structure, Hilary Jones and Craig Stewart have resigned from the Board as their specialist knowledge of the Jersey regulatory environment is no longer required. We thank Hilary and Craig for their service and contribution.

Malcolm Naish
Chairman
16 September 2019

[1] See note 8 of the financial statements for a reconciliation of EPRA earnings to adjusted earnings

Why the Quality of Real Estate Matters

We only invest in modern properties which are designed to meet the requirements and standards expected in the 21st Century. The objective is to provide an environment which is attractive and dignified for residents, pleasant for their friends and families to visit, and one where carers and healthcare professionals find logical and efficient layouts which aid the care they deliver. Less than 25% of carehome places fully provide these modern requirements.

Comfort, safety, peace of mind

Generous bedrooms are laid out to ensure residents' holistic care needs can be met by their care providers – it is essential that space exists to allow the use of any required moving and handling equipment

Every bedroom is equipped with a fully modern en-suite wet-room shower facility – providing comfort, privacy and dignity for residents' personal care and hygiene needs

Living

Our care homes are in themselves communities, and located in wider, thriving neighbourhoods where residents and locals are encouraged to engage

Communal living and public areas such as balconies, cinemas, lounges and gardens provide quality destinations for residents, their families and friends to enjoy

Wide corridors and attractive quiet zones allow ease of movement for residents, easy observation by carers as well as useful areas for rest and social interaction

Positive outcomes

Sustainable investment returns from profitable homes

- Competitive advantage in trading from attractive real estate
- Environment attracts and retains care professionals – a significant challenge in the sector – enhancing stability of operations and trading for the home
- Modern design improves efficiency of operations and building longevity

Investment Manager's Report

Portfolio review

Valuation & returns

The portfolio continues to perform in line with our expectations, outperforming its benchmark, the MSCI UK Annual Healthcare Property Index, since IPO with an annualised total return of 12.0 per cent (benchmark 9.3 per cent).

Our upwards-only rent reviews, trading performance and market yield tightening have each contributed to a like-for-like valuation increase of 4.1 per cent in the year.

Revenue growth

Contractual rent has increased by 2.5 per cent on a like-for-like basis and by 24.0 per cent inclusive of acquisitions and portfolio management activities, now standing at £32.2 million.

Our lease structures will provide rental growth from upwards-only rent reviews, with 94% of the portfolio providing RPI-linked uplifts with caps and collars, the remaining 6% uplifts being at fixed rates.

Weighted average lease duration has increased in the year to 29.1 years.

Portfolio

We comment in detail on acquisitions and diversification levels on page 16. In summary, we have continued to make progress in assembling a diversified portfolio of scale designed to provide sustainable returns. Eight assets and a commitment to acquire a further home at completion of construction have been added, for a total investment commitment of £96 million, taking the portfolio to 63 assets valued at £501 million. The portfolio contains a mix of tenants (24), geography, revenue source, care type and also a mix of mature assets and brand new, maturing assets.

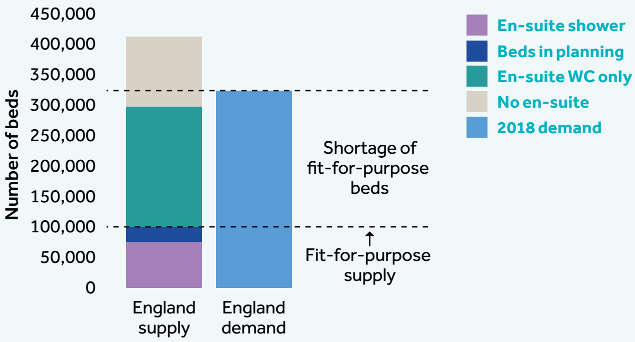
The majority of the portfolio continues to perform well, with 96 per cent of properties having maintained or increased in value. Whilst this is pleasing, we are working hard with our tenants on the poorer-performing assets noting that, in our opinion, these remain compelling assets and will perform over the medium to longer term.

We also believe providing opportunities and support to smaller and 'start-up' care providers is an approach which has value, and will continue to do so – whilst recognising this will be challenging at times, but the wider portfolio can shelter any short term underperformance and will benefit from full contribution of these assets once they mature and perform consistently.

UK Care home investment market

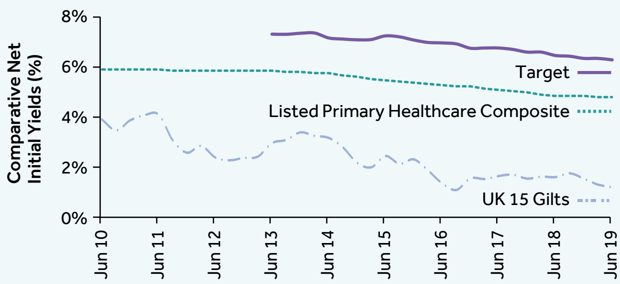
We are proud to be a leading investor in a distinct section of the UK care home market. – modern, purpose-built homes which are well-equipped for residents and their care providers. A fundamental characteristic of real estate quality in this sector, in our view, is the provision of private en-suite shower or wet-rooms for all residents.

Alarmingly, only c.23% of care home places across the UK provide this standard of real estate. In England, as shown in the chart below, c.100,000 rooms have no form of en-suite while c.200,000 rooms are classed as 'en-suite' yet provide a WC and wash basin only.



Investment yields have remained stable, at below historical averages, with a range of investors attracted to the typical long lease length, particularly for modern, purpose-built homes which benefit from supportive supply/demand imbalances. This type of demand is likely to encourage stability of yields, with modest tightening for the more desirable assets which offer private fees in affluent areas, and are run by experienced and capable operators.

The chart below shows continued yield stability, as well as the return premium available relative to gilts and other healthcare properties.



Across the wider sector, a number of the larger operating groups have been for sale, some remaining so. Whilst these are generally profitable businesses, perhaps a combination of poor capital structuring, a great preponderance of poorer quality real estate within their portfolios, and a recognition that businesses of such scale are not necessarily the most appropriate vehicle to provide personal care, could be hindering the sales process.

Health and social care

'One small step'

July 2019 marked the 50th anniversary of the successful Apollo 11 mission to put man on the moon. Society has changed markedly since then; life expectancy has surged, pension age has equalised for men and women, and the 'Baby Boomer' post war children have become the wealthiest generation in recent history. That same cohort are now casting aside historic "aged"stereotyping and living life to the full for much longer.

One wonders what could be accomplished if the forward planning required for a moon landing could be applied to planning for the cost and resources required by a rapidly ageing society. By 2035, there will be double the number of people aged over 65 living with four or more comorbidities; the Alzheimer's Society predict those living alone with dementia will double over the next two decades, and Age UK already describes what it calls care 'deserts' where 30% of Local Authority areas have 'no access' to residential care beds and 60% have 'no access' to nursing home beds.

In recent political exchanges about how to address the issues of social care, tax cuts still featured as the favoured method of wooing voters, despite the dire warning of Local Authorities via Adass (Association of Directors of Adult Social Services), who predict that adult social care could consume 60% of local tax revenues within 15 years. Jeremy Hunt MP, previously the English Health Minister, admitted that cuts to social care had gone too far. In the recent prime ministerial election, various candidates came up with their own strategies; tax breaks for families who care for an elder at home, for example. Few were comprehensive strategies. Most at least did acknowledge the unfairness of a system that covers an individual for virtually all life-threatening disease, but excludes dementia, with the cost to families in the last two years alone being £14.47 billion spent on care according to the Alzheimer's Society.

In the absence of Governmental action to resolve the social care crisis, ideas are now coming thick and fast from all directions. Over the last few months we have seen the former Secretary of State for Work and Pensions, Damian Green MP in a paper for the Centre for Policy Studies, calling for a "universal care entitlement" paid for by a National Insurance hike for the over-50s; Jacob Rees-Mogg, MP made the case for a £5,000 per year cap on care costs; the Institute for Public Policy Research advocated for the Scottish 'Free Personal Care' model. We can add to this growing list the influential House of Lords Economic Affairs Committee, who called on the Government to immediately invest £8 billion in adult social care, followed up by a basic entitlement to publicly funded personal care for all. Last but definitely not least, we noted an open letter from eleven of the 'experts' on the Government's own Green Paper Committee, expressing their frustrations over the delay of that initiative.

On that elusive Green Paper, Matt Hancock MP, the current English Health and Social Care Minister, blamed the delay on "narrow partisan politics" and a lack of cross-party consensus. Critics decried this excuse, noting that a Green Paper is in itself to 'provoke discussion'. One small step, it seems, is all that is needed to start that process. The winner of the election race, Boris Johnson, moved almost immediately to announce his intention to 'fix the crisis in social care once and for all', It remains to be seen whether that step will be taken. Care operators in the main, of course, carry on regardless. Demand drives occupancy, drives fees. Sadly, the loser is often those who must rely on the state to fund their care in old age, or those whose diagnosis of dementia threatens their life savings or family homes. 'Catastrophic costs' as Sir Andrew Dilnot described them.

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.

Inputs

Shareholder equity plus modest leverage from external debt

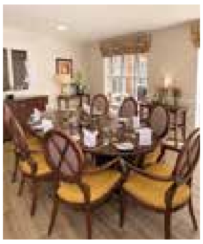
Fund management

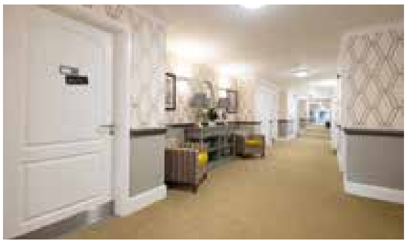
Asset quality

What makes us unique:

We only invest in care homes which are:

- Modern and **purpose-built**
- Compliant with our core investment focus, to provide **en-suite wet-rooms for all residents**
- **Well designed** to allow tenants to effectively care for residents and manage the home
- Equipped with **suitable public, activity and outdoor space**



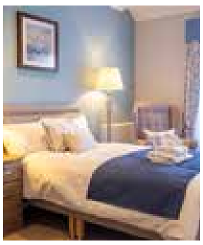


Diversification

What makes us unique:

A key objective of our investment approach is to achieve diversification by:

- **Tenant.** We are supportive of a broad range of operators, varied by size and services offered
- **Geography.** Our UK-wide portfolio provides access to a range of local markets
- **Resident payment profile.** Exposure to both government-backed and fully private fees supports sustainability of returns



Engaged, specialist portfolio management

What makes us unique:

The Manager exclusively specialises in UK care home investment. We actively support our tenants as an engaged landlord, adding value to the rental covenant through:

- Regular home visits to monitor and support tenants
- Regular and proactive dialogue with home, area and executive management
- Frequent analysis of operational performance

Outputs

Our Investment Manager has extensive experience in assessing the quality of homes in the UK care home market. It uses its reputation and network to source the best opportunities, before applying a detailed, "bottom-up" investment appraisal which also considers:

- Comprehensive and challenging assessment of the projected financial sustainability of the home, based on a complete analysis of the local market;
- Selection of a suitable tenant;
- Suitable deal financials focussed on the Group paying a fair price and setting a sustainable rent for the tenant.

Dividend paid quarterly to shareholders

Having a large number of tenants, each unique in how they operate, insulates the Group from the concentration risk of poor tenant performance.

The Group's portfolio is located throughout the UK though all homes are located in areas which demonstrate favourable demand/supply imbalances for the facilities provided by modern properties.

The diversity of homes in the Group's portfolio, by each of location, the physical real estate and the skills of each tenant, provides exposure to a broad range of average weekly fees payable by residents.

Our Investment Manager uses its sector specialist knowledge to diligently assess the ethos and operational capabilities of potential tenants. Existing homes are visited, senior management are met, with regulatory and operational metrics scrutinised. Matching the right tenant with the right home is key.

Performance data is assessed against investment appraisal expectations and current market conditions, using the Manager's specialist sector knowledge, with follow-up action taken where appropriate. This approach is key to maintaining and enhancing the capital value of the properties, ensuring they are aligned with the strategy of holding modern homes which are fit-for-purpose and future proof.

Efficiently and prudently manage Group operations to meet strategic objectives

- Set the strategy and ensure objectives are delivered.
- Promote the business and its investment case to the market.
- Manage investor relations to ensure a high standard of communication.
- Establish and maintain collaborative relationships with other key stakeholders, tenants and service providers.
- Translate income from growing portfolio into a progressive, covered dividend (when fully invested) through effective cost control and management of capital structure.
- Maintain an appropriate risk management and governance framework, allowing meaningful assessment of the adequacy of the Group's strategy.

Strategic Objectives

Objectives	KPIs (2019)	Looking forward
Dividend To provide a progressive dividend fully covered when capital fully invested & geared	• Dividend per share increased by 2.0% to 6.579 pence • Adjusted EPRA Earnings per share 5.45 pence (2018: 5.54 pence) • Adjusted EPRA cost ratio 22% (2018: 21%) • Ongoing charges figure 1.52% (2018: 1.48%) • Resultant dividend cover on adjusted earnings of 82% (2018: 82%)	• Robust near-term pipeline to deploy available capital • Quality of portfolio & capital structure leaves Group well placed to deliver covered dividend when fully invested & geared • Inflation-linked rent reviews & increasing scale provide means to deliver progressive dividends
Total Returns To complement dividends with capital growth from disciplined asset management	• NAV total return of 8.1% • Share price total return 10.8% • Like-for-like valuation increase of 4.1% (2018: 6.6%) • 96% of properties value maintained or increased (2018: 96%)	• The UK care home market is competitive, particularly for modern, purpose-built real estate. We expect valuation yields to remain broadly stable, with some modest tightening. This would be consistent with 2018's market, as forecast.
Business Funding To source and effectively use modest leverage	• Net LTV increased to 16.2% from 6.4% • Increased available debt facilities to £170m (2018: £130m) • Weighted average cost of drawn debt (inc. costs) of 2.98% (2018: 3.12%)	• Flexible capital available, with ability to fully draw to net LTV of c.28% • Terms agreed with lenders for longer duration debt. Legal diligence is ongoing. • Continue to assess opportunities to grow the Company and improve portfolio with respect to capital availability to minimise cash drag
Long-term Secure Rental Income Diversified and sustainable	• 24% increase in contracted rent to £32.2m • Like-for-like growth of 2.5% (2018: 3.2%) • Increase in number of tenants to 24 (2018: 21) • WAULT of 29.1 years (2018: 28.5 years)	• Continue to consider contribution of assets to diversification metrics • Continue to closely manage asset performance, updating strategies as circumstances develop, particularly with regard to newer homes which can often face challenges as "start-up" businesses
Grow Portfolio To assemble a diversified portfolio of modern care homes of suitable standard for 2019 and beyond	• Increased portfolio to 63 assets (2018: 55) • Portfolio value increased to £500.9m (2018: £385.5m) • See pages 16-17 for diversification metrics	• Complete acquisitions of identified assets currently in advanced diligence • Continue to identify attractive pipeline assets to grow and improve the portfolio if shareholders are supportive

Activity (2019)

Key risks

Adjusted EPRA EPS (pence)

2019 5.45

2018 5.54

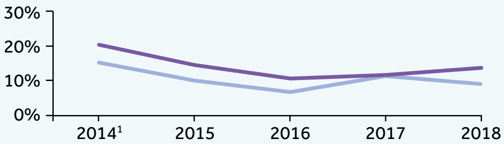
2017 5.23

- Adjusted Earnings per share have decreased slightly, reflecting both the dilution from equity issuance and the change in management fee arrangements (converting historically high variable element to a lower effective fixed rate). This change in fee arrangements is also reflected in the increase in cost ratios, which excluded the variable performance fee in prior year calculations,

Key risks:

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

The benefits of careful asset selection within an appropriate sub-sector of the care home market continue to be apparent. The portfolio's total return of 12.7% for the calendar year to December 2018 was ahead of the benchmark MSCI UK Annual Healthcare Property Index's total return of 9.1%. The portfolio has consistently outperformed the benchmark since launch, as shown in the chart below.



[1]IPO March 2013 to June 2014 annualised.
NB. Calendar years not financial years

Key risks:

- Underperformance of assets or the impact of external market/sector/economic factors may adversely affect property values and returns

During the year the Group has increased in scale and enhanced its access to flexible debt through:

- £50 million gross equity issuance in November 2018
- £40 million increase to its fully revolving debt facility with HSBC

Significant progress has been made toward the target gearing level of 25% whilst debt has been sourced at competitive rates and partially fixed with interest rate swaps.

Net LTV (per cent)

2019 16.2

2018 6.4

2017 10.5

Drawn Debt (£ millions)

2019 108

2018 66

2017 40

Cost of Debt[1] (per cent)

2019 2.98

2018 3.12

2017 2.21

[1]on drawn debt, inclusive of amortisation of arrangement costs

Key risks:

- Refinance risk
- Interest rate risk

Acquisitions and asset management activity have increased rent and enhanced diversification. Inflation-linked rent reviews have delivered a like-for-like rent increase of 2.5%, with tenant concentration risk continuing to decline: the largest tenant now accounts for 13.6% of rent (2018: 14.1%) and the number of tenants has increased to 24 (2018: 21). Additionally, the lease duration on one asset was extended, increasing the longevity of rental income, and a re-tenanting of one home to remove an underperforming tenant was managed with no interruption to residents, resulting in an increase in that property's value.

Key risks:

- Government policies/funding of elderly care may change

Completed the acquisition of eight assets, plus a forward commitment to acquire a home once construction completes, for total investment commitment of £96 million during the year, The Group's development activities, summarised below, have provided five brand new homes to their local markets in the year.

No. of sites 30/6/18	Sites added in year	Sites completed in year	New rent added to portfolio	No. of sites 30/6/19	Additional rent from developments at completion
4	4	5	£3.6m	3	£1.8m

Key risks:

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

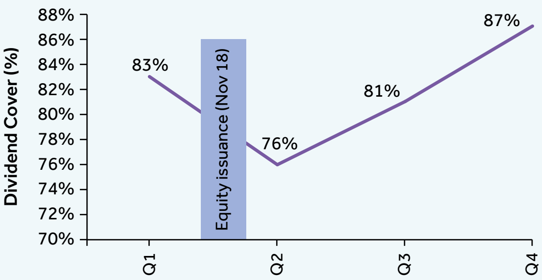
Strategy in Action

Dividend

Total dividends of 6.579 pence per share were declared and paid in respect of the year to 30 June 2019, an increase of 2.0 per cent on 2018. This represents a yield of 5.7 per cent based on the 30 June 2019 closing share price of 115.6 pence.

Dividend cover on adjusted earnings at 82% (2018: 82%) reflects the slight decrease in EPS from share issue dilution, as well as cash drag from capital awaiting deployment. The chart below shows the temporary effects of the capital raise/ investment cycle during the year, with cover improving quarterly to 87% for Q4 from the Q2 dip, as the Group converts its investment pipeline and moves towards full investment when full cover is anticipated.

Dividend cover trend



In recognition of the Group's prospects, the Directors announce their intention to increase quarterly dividends for the year ending 30 June 2020 by 1.5 per cent to 1.67 pence per share, in the absence of unforeseen circumstances. This will provide an annualised dividend of 6.68 pence per share.

Management uses EPRA cost ratio and OCF to consider control of operating expenses. Each has increased slightly due to the change in management fee arrangements effective 1 July 2018 which removed the performance fee element in exchange for a higher fee percentage (at current NAV levels). The fees payable to the Manager in the calendar year 2018 were 0.975% of NAV under the new arrangements, lower than the 1.16% which would have been payable otherwise.

Earnings summary

	2019 £m	Movement	2018 £m
Rental income (excluding guaranteed uplifts)	27.9	+27%	22.0
Admin expenses (including management fee)	(6.7)	+29%	(5.2)
Net financing costs	(3.1)	+54%	(2.0)
Income from developments	2.0		0.3
Performance fee	–		0.6
Adjusted EPRA earnings	20.1	+28%	15.7
Adjusted EPRA EPS	5.45	-9bps	5.54
Adjusted EPRA cost ratio	22.4%	+160bps	20.8%
Ongoing Charges Figure (OCF)	1.52%	+4bps	1.48%

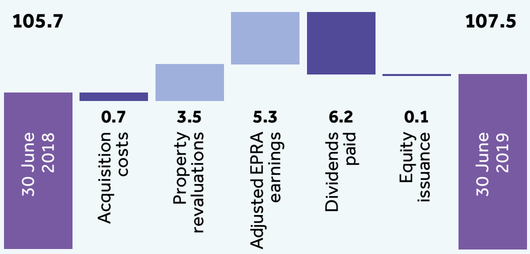
Total returns

- NAV total return of 8.1 per cent (2018: 10.5 per cent)
- EPRA NAV per share growth of 1.7 per cent. (2018: 3.7 per cent)
- Share price total return 10.8 per cent (2018: -0.6 per cent)

Annualised NAV total return for the 6 periods since launch has been 7.9 per cent (2018: 7.8 per cent), reflecting the regular dividends generated from the portfolio's rental income and increases in the capital value of the portfolio.

The principal driver of the EPRA NAV growth has been asset valuation growth (see chart below), which in turn has largely resulted from the portfolio's inflation-linked annual rental increases and also some yield shift from the market in general and individual assets which are demonstrating robust trading performance.

EPRA NAV per share (pence)



The portfolio value overall increased to £500.9 million from £385.5 million, a 29.9% increase. The effect of the yield shifts and rental uplifts noted above accounted for 4.0% of this movement, reflecting a like-for-like increase of 4.1%, with the bulk of the movement of 25.9% from acquisitions and investment in the Group's development sites.

The portfolio's value is represented by an EPRA topped-up Net Initial Yield of 6.26%, tighter than 2018's 6.44%.

NAV total return (per cent)

2019 8.1

2018 10.5

2017 7.8

Further detail on EPRA methodology is contained in note 8 on page 33, in the glossary on page 65 and in the alternative performance measures on p67-68.

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. Net LTV increased to 16.2 per cent at 30 June 2019 (2018: 6.4%) and would increase to c.28 per cent if all available debt was drawn to satisfy investment commitments and pipeline acquisitions.

During the year, £50 million of gross equity was issued and the Directors would like to thank shareholders for their continued support.

Debt facilities

Additional flexible debt of £40 million was secured during the year through doubling the existing revolving credit facility with HSBC.

Total drawn debt increased to £108m (2018: £66m) as funds were drawn flexibly to fund acquisitions and development funding.

The Group's key debt metrics are shown in the table below:

	2019	2018
Total drawn	£108m	£66m
Total undrawn available	£62m	£64m
Average cost of drawn debt[1]	2.98%	3.12%
LTV (net)	16.2%	6.4%
Weighted average term to maturity	2.1 years	3.3 years

[1] inclusive of amortisation of arrangement costs

Interest rate risk management

The Group's facilities are floating rate pricing basis (3 month LIBOR in each instance) plus a lending margin. To manage exposure to interest rate risk, interest rate swap contracts are used to fix interest costs on the Group's fixed term debt.

			Hedged by interest rate swaps	
	Facilities	Drawn	£m	%
Fixed term	70	66	66	100
Revolving	100	42	0	0
	170	**108**	**66**	**61**

Long-term secure rental income

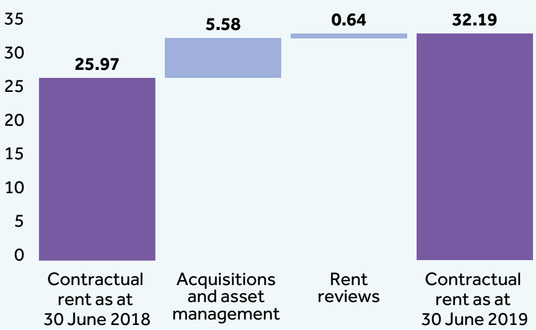
The Group is committed to providing modern, purpose-built care homes at sustainable rental levels allowing tenants to focus on providing high quality care whilst being able to meet their rental commitments.

The Group's portfolio of completed assets is 100 per cent let (2018: 100 per cent) to 24 tenants (2018: 21). All properties are subject to upwards-only rent reviews, the majority (94%) being RPI-linked, with a small proportion of leases containing fixed uplifts and variable rental arrangements.

The portfolio's annual contractual rent has increased by 24.0% to £32.2 million (2018: £26.0m); 21.5 per cent of this from acquisitions and asset management activity. Like-for-like rental growth from rent reviews, inclusive of variable rental arrangements, has contributed 2.5 per cent (2018: 3.2 per cent) adding an additional £0.64 million (2018: £0.65 million) per annum to passing rent. The average uplift from rent reviews completed in the year was 2.91%.

Completion of the Group's 3 development assets held at 30 June 2019, and that of the commitment to acquire an asset at completion of construction by a 3rd party, will add £2.3 million per annum to contractual rent.

Rent roll growth analysis (£ millions)



Weighted average unexpired lease length has increased to 29.1 years (2018: 28.5) partly driven by new leases and extensions within the existing portfolio.

Strategy in Action

Further growth and diversification of the portfolio

Properties	WAULT	Value	Tenants	Contractual rent
63	29.1 years	£500.9m	24	£32.2m
(**2018:** 55)	(**2018:** 28.5 years)	(**2018:** £385.5m)	(**2018:** 21)	(**2018:** £26.0m)

Acquisition and Development

The portfolio continues to grow through both the acquisition of operational care homes and investment in development sites, always subject to pre-agreed long-term leases. Of the 8 assets acquired during the year, half were trading care homes and the other half development sites, bringing the total number of properties under ownership to 63. The Group's increased investment in development opportunities, has increased the number of newly opened homes in the portfolio however the mature trading homes still account for the clear majority of the Group's assets. Further, the value of the development sites held at the end of June 2019 now represents less than 4% of the total portfolio value as at 30 June 2019. It is intended that the fund continues to invest in a mixture of both trading homes and new developments.

During the year the Group also exchanged contracts to acquire a pre-let, purpose-built care home under construction in Powys. The home will be acquired following completion of the development, expected in the next six months, and will be the Group's first home in Wales. This acquisition will further diversify the geographic spread in the portfolio and the Group will also then have a presence in each of the MSCI UK regions.

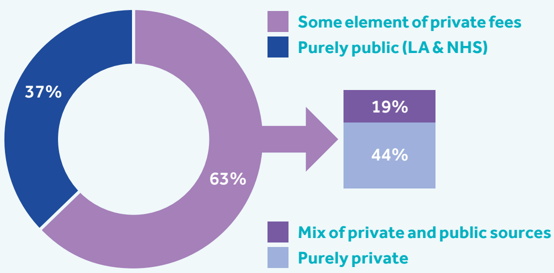
The number of operational bedrooms in the portfolio increased by 542, increasing the total to just over 4,000 beds. Of this increase, 334 new beds were the result of the 5 developments completed in the year, delivered under the oversight and ownership of the Group. Each of these new developments were completed under fixed cost contracts and to a high specification in keeping with the Group's ethos of raising the standard of care home stock. A further 3 development sites are still in course and scheduled to complete over the next 6 months, which will add a further 209 bedrooms.

Since the end of the financial year the Group sold 2 homes at a price above previously reported book value. Although both homes were acquired with the intention of a long-term hold, it was concluded that a sale was in the best interests of the Group.

Diversification

Whilst growing, the Group has continued to focus on diversification to manage portfolio risk. The total number of tenants increased to 24 and will increase by 2 once the development sites and forward contract acquisition complete. No individual tenant accounts for more than 15% of contracted rental income. The underlying income received by our tenants in each home continues to originate from a mix of both private and public sources. 14% of homes derive substantially all (greater than 95%) of their income from private residents; 7% predominately from public sources; with the remaining majority (79%) of the portfolio providing services to both public and private fee paying residents. Census data collated during the period notes that c.44% of residents are funded exclusively from private sources, 19% funded by a mix of public and private income (some local authority residents make "Top-Up" payments from private sources) and the remaining 37% are funded from public sources (e.g. Local Authorities, Clinical Commissioning Groups, NHS/CHC).

Estimated underlying income diversification (by fee payor)

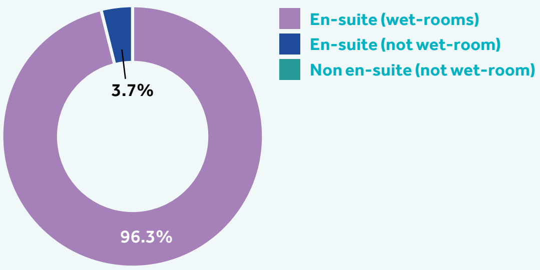


The portfolio split by service provision remains broadly similar to last year, with 57% of the homes predominantly focused on nursing care and the remaining 43% predominantly residential care. The South East remains the largest region by asset value, accounting for 22% of the portfolio value. This has increased in the period and reflects three acquisitions in the South East region, in areas where the real estate value is higher than average for the portfolio.

Modern fit-for-purpose homes

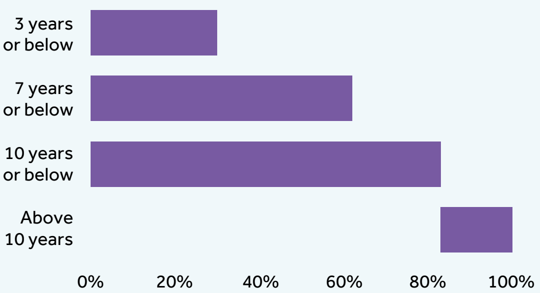
All of the Group's bedrooms are served by private en-suite facilities, the vast majority (96.3%) of which are full wet-rooms. Plans and funding are in place to convert almost all of the en-suite only rooms to full wet-rooms in the near future, with works scheduled to minimise disruption to residents in the homes. The Manager will continue to seek opportunities to enhance the standard of care home provision in the UK by investing in existing modern, fit-for-purpose care home facilities and developing new stock which meets the Group's strict criteria in terms of quality, design and facilities.

En-suite wet-rooms: fit-for-purpose



Across the UK care home sector 75% of homes currently registered were built prior to 2000. Most of these homes registered during the sector expansion from the mid-1980s to the mid-1990s were conversions of existing property rather than newly purpose-built. Since 2010, nearly all new homes registered have been purpose-built as the sector has recognised that 'future-proofed', fit-for-purpose homes are the way to meet the care needs of our elderly population. Across our modern, purpose-built portfolio, 83% of homes were built in the last decade.

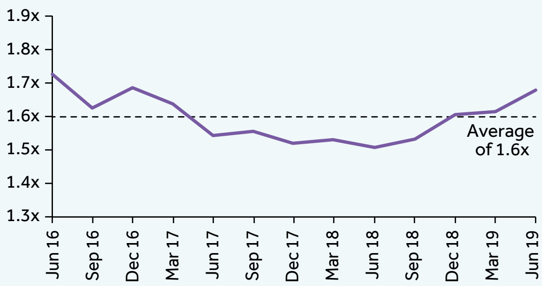
Age of homes in portfolio (per cent)



Performance and Asset Management

The portfolio continues to perform well with underlying contractual rent increasing as a result of embedded rent reviews and values growing on the vast majority of assets – of the 55 assets owned at the start of the year all but four increased in value, with two remaining the same and two reducing. Rent collection continues to be as expected underpinned by solid trading performance across the portfolio as a whole – rent cover for the mature homes over the last 3 years has averaged 1.6x and was 1.7x at 30 June 2019.

Rent cover of mature homes (last 12 months)



The Manager continues to have detailed oversight of each asset, visiting each home at least twice a year, while continually assessing strategy. Where appropriate we will work in partnership with our tenants to enhance the portfolio, both in terms of the physical real estate (e.g. building improvements) and contracted income (e.g. lease extensions or improvements in contractual lease surety).

During the period the Manager recommended that:

- One of the homes be re-tenanted, and worked with both the outgoing and carefully selected new operator to deliver a smooth transition of the services, resulting in an improvement in that property's value.
- One of the leases should be extended to increase the longevity of the rental income of the portfolio and protect the value of that asset.

The Manager engages regularly with stakeholders, to seek to mitigate risks and, where necessary, implement new asset management strategies in the best interest of the Group's stakeholders.

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.

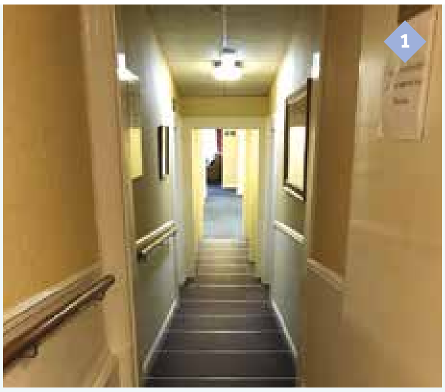
Upgrading the UK's care home stock – The transformation of Roden Hall

1 Previous narrow hallway in the old Roden Hall

2 New wide spacious hallway in the transformed Roden Hall

3 New pleasant, spacious and bright communal areas

4 Impressive new exterior



New Roden Hall

Telford
West Midlands

Rotherwood Healthcare, a regional operator in the West Midlands, approached the Group with a vision to transform a recently acquired home. Roden Hall had been constructed in the 19th century and had been operated as a care home for over 100 years. Whilst it had once been an impressive Victorian house, Rotherwood recognised that it no longer met the standards expected of 21st century care homes and so developed plans to deliver a new care home with state of the art facilities on the site.

The Group acquired the land and entered into a development agreement to construct a new luxury 68 bed care home in the grounds of the existing home; whilst entering an agreement to provide a 35 year lease to Rotherwood on completion of the property. Construction of the new home was undertaken throughout 2018 and in June 2019, following an 18 month build, the new care home opened its doors to both new and existing residents. The new care home has been developed to a high specification, comparable to the best in the market including full en-suite wet-room facilities, large communal areas, a hair salon, a cinema and theatre room and a premium fit-out.

Regulatory Overview

The Group continues to monitor both the financial performance and the regulatory assessment of the service provided in each home.

The regulatory regime is different in each of England (CQC), Scotland (CI) and Northern Ireland (RQIA). The Manager applies its knowledge of each regime when thoroughly reviewing the Regulator's assessment on each of the services provided in the Group's homes. Additionally, the Manager will consider:

- The consistency of the assessment with its own views on care and operations, formed from regular visits and interaction with care staff and management/leadership
- Outcomes of comparable regulatory assessments in other group homes
- The views of our tenants, engaging as appropriate to hear their feedback on the regulatory assessment process
- Agreed action/remediation plans, and tenant ethos/leadership in actioning, should recommendations be made or remediation required
- Information from other sources, both public and private, including carehome.co.uk ratings (ratings often provided by family and friends of the residents – the average rating of the Group's homes on this site as at the end of June 2019 was 9.1 on a scale of 1-10, 10 being the highest rating)

As an engaged landlord and based on years of experience, the Manager forms its own view on operator performance, through regular interaction with each operator, including visits to each home, which, where necessary, informs potential changes in asset management strategy.

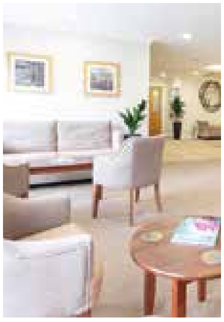
Movements in regulatory ratings themselves do not necessarily directly correlate with changes in financial performance, which are often driven by other factors. However, when a service is rated Inadequate the home is more likely to experience a decline in trading.

Regulatory ratings: 30 June 2019

	THR	National average over 40 beds
Outstanding	6%	4%
Good	69%	71%
Requires Improvement	19%	23%
Inadequate	6%	2%

Per the table above the ratings of the services provided across the homes in the portfolio at the end of June 2019 were broadly consistent with the national average for homes over 40 beds (assumptions have been made by the Manager to convert the reporting on the Scottish and Northern Irish homes to CQC equivalent ratings).



Risk Rating

Strategic objectives	Risk and impact	Risk rating & change
Dividend	• 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.	Medium
	• 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.	High
Total Returns	• Underperformance of assets, or the impact of external market or macroeconomic factors may adversely affect property values and returns.	Medium
Business Funding	• 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.	Medium
	• Debt: Interest rate fluctuations could decrease profitability and impact compliance with lender covenants; lenders may not refinance facilities at maturity.	Medium
Long-term Secure Rental Income	• 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.	Medium
Grow Portfolio	• Lack of attractive investment opportunities and/or an inability to invest on acceptable terms in suitable timeframes will hamper the Group's growth prospects.	Medium
	• Counterparties to forward fund arrangements do not honour their commitments to complete construction of assets.	Medium
General	• 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.	Medium

Factors affecting risk rating	Risk mitigation
• Group profitability was steady during the year with adjusted earnings per share 5.45p (2018: 5.54p). This was achieved by strong portfolio performance, an increase in gearing and ongoing cost control. Changes to management fee arrangements have removed the variable cost performance fee and introduce a tiered fee basis. • The Group remains fully compliant with the REIT regulations.	• All key service providers, including the Investment Manager, are subject to performance assessment at least annually. If performance is assessed as not meeting expectations the provider will either be provided feedback to facilitate improved service levels or replaced. • The Group's activities are monitored on a continual basis to ensure all conditions are adhered to. Additionally the REIT rules are considered during investment appraisal and transactions structured to ensure conditions are met.
• The Group's portfolio value has increased on a like-for-like basis by 4.1 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. • Trading at each home could under perform impacting value. New homes in 'start-up' phase may be slow to reach operational maturity.	• All investments are subject to a detailed investment appraisal and approval process prior to acquisition. • The operational portfolio is 100 per cent let with sustainable rental levels and upwards-only annual rental reviews which support asset values. • The Manager is proactive in monitoring assets and tenants and will take supportive action to assist performance on a timely basis.
• 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 2019 until September 2021. • LTV remains at a conservative level, increasing to 16 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.	• 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. • Loan covenants are closely monitored for compliance, with headroom projected. • The Manager actively reviews the debt market for opportunities to access optimal commercial terms.
• 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.	• Government policy is monitored by the Group so as to increase ability to anticipate changes. • Tenants typically have a multiplicity of income sources, thereby not being totally dependent on government pay. • The Group's properties are let on long-term leases at sustainable rent levels, providing security of income.
• Activity levels in the market remain competitive, particularly for 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.	• 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.
• 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.	• 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 2019

	Notes	Year ended 30 June 2019 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2018 Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		27,923	6,354	34,277	22,029	6,334	28,363
Other income		–	–	–	3	–	3
Total revenue		27,923	6,354	34,277	22,032	6,334	28,366
Gains on revaluation of investment properties	9	–	6,155	6,155	–	6,434	6,434
Total income		27,923	12,509	40,432	22,032	12,768	34,800
Expenditure							
Investment management fee							
– base fee	2	(4,702)	–	(4,702)	(3,184)	–	(3,184)
– performance fee	2	–	–	–	(550)	–	(550)
Other expenses	3	(2,013)	(729)	(2,742)	(1,458)	–	(1,458)
Total expenditure		(6,715)	(729)	(7,444)	(5,192)	–	(5,192)
Profit before finance costs and taxation		21,208	11,780	32,988	16,840	12,768	29,608
Net finance costs							
Interest receivable	4	61	–	61	67	–	67
Interest payable and similar charges	5	(3,165)	–	(3,165)	(2,077)	–	(2,077)
Profit before taxation		18,104	11,780	29,884	14,830	12,768	27,598
Taxation	6	–	–	–	12	(1)	11
Profit for the year		18,104	11,780	29,884	14,842	12,767	27,609
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate swaps	13	–	(592)	(592)	–	(106)	(106)
Total comprehensive income for the year		18,104	11,188	29,292	14,842	12,661	27,503
Earnings per share (pence)	8	4.91	3.19	8.10	5.25	4.52	9.77

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 2019

	Notes	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Non-current assets			
Investment properties	9	469,596	362,918
Trade and other receivables	10	37,573	27,139
		507,169	390,057
Current assets			
Trade and other receivables	10	4,264	3,365
Cash and cash equivalents	12	26,946	41,400
Total assets		538,379	434,822
Non-current liabilities			
Bank loans	13	(106,420)	(64,182)
Interest rate swaps	13	(707)	(115)
Trade and other payables	14	(6,361)	(4,558)
		(113,488)	(68,855)
Current liabilities			
Trade and other payables	14	(11,802)	(7,360)
Total liabilities		(125,290)	(76,215)
Net assets		413,089	358,607
Stated capital and reserves			
Stated capital account	15	372,685	330,436
Hedging reserve		(707)	(115)
Capital reserve		36,163	24,383
Revenue reserve		4,948	3,903
Equity shareholders' funds		413,089	358,607
Net asset value per ordinary share (pence)	8	107.3	105.7

The financial statements on pages 22 to 44 were approved by the Board of Directors and authorised for issue on 16 September 2019 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 2019

	Notes	Stated capital account £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2018		330,436	(115)	24,383	3,903	358,607
Total comprehensive income for the year		–	(592)	11,780	18,104	29,292
Transactions with owners recognised in equity:						
Dividends paid	7	(6,658)	–	–	(17,059)	(23,717)
Issue of ordinary shares	15	50,000	–	–	–	50,000
Expenses of issue	15	(1,093)	–	–	–	(1,093)
At 30 June 2019		372,685	(707)	36,163	4,948	413,089

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	7	(2,957)	–	–	(14,605)	(17,562)
Issue of ordinary shares	15	94,000	–	–	–	94,000
Expenses of issue		(2,271)	–	–	–	(2,271)
At 30 June 2018		330,436	(115)	24,383	3,903	358,607

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2019

	Notes	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Cash flows from operating activities			
Profit before tax		29,884	27,598
Adjustments for:			
Interest receivable		(61)	(67)
Interest payable		3,165	2,077
Revaluation gains on property portfolio	9	(12,509)	(12,768)
(Increase)/decrease in trade and other receivables		(2,060)	5,981
Increase in trade and other payables		2,057	806
		20,476	23,627
Interest paid		(2,374)	(1,433)
Interest received		61	67
Tax recovered/(paid)		1	(122)
		(2,312)	(1,488)
Net cash inflow from operating activities		18,164	22,139
Cash flows from investing activities			
Purchase of investment properties		(99,615)	(89,981)
Net cash outflow from investing activities		(99,615)	(89,981)
Cash flows from financing activities			
Issue of ordinary share capital	15	50,000	94,000
Expenses of issue of ordinary share capital		(1,075)	(2,271)
Drawdown of bank loan facilities	13	42,000	26,000
Expenses of arrangement of bank loan facilities		(300)	(1,544)
Dividends paid		(23,628)	(17,353)
Net cash inflow from financing activities		66,997	98,832
Net (decrease)/increase in cash and cash equivalents		(14,454)	30,990
Opening cash and cash equivalents		41,400	10,410
Closing cash and cash equivalents	12	26,946	41,400
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		8,664	6,892

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.

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 lease contracts, that it has not transferred substantially all the risks and rewards incidental to ownership of these properties and therefore accounts for the contracts as operating leases.

Applicable standards and interpretations

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

– IFRS 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.

  This standard has not had any material impact on the Group's financial statements as presented for the current year.

– IFRS 15 'Revenue from Contracts with Customers'
  In May 2014, the IASB published the final version of IFRS 15 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 does not apply to lease contracts within the scope of IAS 17 'Leases' or, from its date of application, IFRS 16 'Leases' (see page 27).

  This standard has not had any material impact on the Group's financial statements as presented for the current year.

Standards issued but not yet effective

The following standard has been issued but is not effective for this accounting year and has not been adopted early:

- 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. This standard is not expected to have any material impact on the Group's financial statements as presented for the current year given the approach to lessor accounting is substantially unchanged.

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 2019. Subsidiaries are those entities, including special purpose entities, controlled by the Company and further information is provided in note 11. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(c) Revenue recognition

Rental Income

Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income on a straight line basis over the lease term 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. Property-related expenses which are not recoverable from tenants are recognised in expenses on an accruals basis.

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 irrecoverable 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.

(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.

(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

Rent receivables are carried at amortised cost. A provision for impairment of trade receivables is calculated through the expected credit loss method in accordance with IFRS 9. As part of this expected credit loss process the following is taken into account: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is recognised in the Consolidated Statement of Comprehensive Income in other expenses, separately disclosed as a provision for bad debts.

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.

(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. Fees paid to the Investment Manager

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Base management fee	**4,702**	3,184
Performance fee	**–**	550
Total	**4,702**	3,734

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') is Target Fund Managers Limited. 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. Where applicable, VAT is payable in addition.

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

In the prior year, 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 performance fee ceased to apply from 1 January 2018. 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. Where applicable, VAT was payable in addition.

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

3. Other expenses

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Valuation and other professional fees	**537**	392
Provision for bad debts and bad debts written off	**337**	–
Secretarial and administration fees	**217**	203
Directors' fees	**177**	165
Other taxation compliance and advisory	**158**	231
Auditor's remuneration for:		
– statutory audit of the Company	**55**	52
– statutory audit of the subsidiaries	**120**	101
– assurance related services	**12**	14
Public relations	**81**	69
Listing & Registrar fees	**75**	76
Direct property costs	**37**	–
Printing, postage and website	**29**	42
Other	**178**	113
Total	**2,013**	1,458

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.

As explained further in note 22, the Group published a shareholder circular and prospectus during the year in relation to the introduction of a new UK-incorporated parent company and the ability to issue 125 million shares over the period to 19 June 2020. The costs of £729,000 in relation to this capital reorganisation have been charged to capital.

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

4. Interest receivable

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Deposit interest	**61**	67
Total	**61**	67

5. Interest payable and similar charges

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Bank loan	**3,165**	2,077
Total	**3,165**	2,077

Notes to the Consolidated Financial Statements (continued)

6. Taxation

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Current tax	–	–
Adjustment to tax charge for prior years	–	(11)
Total tax charge	–	(11)

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 2019 £'000	Year ended 30 June 2018 £'000
Profit before tax	29,884	27,598
Tax at 19.0% (2018: 19.0%)	5,678	5,244
Effects of:		
REIT exempt profits	(4,999)	(4,465)
REIT exempt gains	(787)	(1,173)
Capital allowances	(594)	–
Excess expenses carried forward	564	394
Expenses not deductible for tax purposes	138	–
Adjustment to tax charge for prior years	–	(11)
Total tax charge	–	(11)

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 £7.3 million at 30 June 2019 (2018: £4.4 million). No deferred tax asset has been recognised on this amount as the Group cannot be certain that there will be taxable profits arising within its residual business from which the future reversal of the deferred tax asset could be deducted.

7. Dividends

Amounts paid as distributions to equity holders during the year to 30 June 2019.

	Dividend rate (pence per share)	Year ended 30 June 2019 £'000
Fourth interim dividend for the year ended 30 June 2018	1.61250	5,470
First interim dividend for the year ended 30 June 2019	1.64475	5,579
Second interim dividend for the year ended 30 June 2019	1.64475	6,334
Third interim dividend for the year ended 30 June 2019	1.64475	6,334
Total	6.54675	23,717

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

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 2019, of 1.64475 pence per share, was paid on 2 August 2019 to shareholders on the register on 19 July 2019 amounting to £6,334,000. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

8. Earnings per share and Net Asset Value per share

EPRA is an industry body which issues best practice reporting guidelines and the Group report an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below. Other EPRA measures are included in the Alternative Performance Measures on pages 67 and 68.

Earnings per share

	Year ended 30 June 2019		Year ended 30 June 2018	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	18,104	4.91	14,842	5.25
Capital earnings	11,780	3.19	12,767	4.52
Total earnings	29,884	8.10	27,609	9.77
Average number of shares in issue		368,751,632		282,464,971

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 Board believes that that Group's specific adjusted EPRA earnings represents the underlying performance measure appropriate for the Group's business model as it illustrates the underlying revenue stream and costs generated by the Group's property portfolio. The reconciliations are provided in the table below:

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	29,884	27,609
Adjusted for revaluations of investment properties	(6,155)	(6,434)
Adjusted for cost of corporate acquisitions and other capital items	729	1
EPRA earnings	24,458	21,176
Adjusted for rental income arising from recognising guaranteed rent review uplifts	(6,354)	(6,334)
Adjusted for development interest under forward fund agreements	2,011	261
Adjusted for performance fee	–	550
Group specific adjusted EPRA earnings	20,115	15,653
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	8.10	9.77
EPRA EPS	6.63	7.50
Group specific adjusted EPRA EPS	5.45	5.54

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 107.3 pence (2018: 105.7 pence) is based on equity shareholders' funds of £413,089,000 (2018: £358,607,000) and on 385,089,448 (2018: 339,217,889) 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 £707,000 under IFRS as at 30 June 2019 (2018: liability of £115,000).

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 2019	As at 30 June 2018
IFRS NAV per financial statements (pence per share)	107.3	105.7
Valuation of interest rate swaps	0.2	–
EPRA NAV (pence per share)	107.5	105.7

EPRA guidance also recognises an EPRA NNNAV, the objective of which is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV. At 30 June 2019, the Group held all its material balance sheet items at fair value, or at a value considered to be a close approximation to fair value, in its financial statements and therefore the EPRA NNNAV is the same as the IFRS NAV per financial statements set out above (2018: same).

Notes to the Consolidated Financial Statements (continued)

9. Investments

Freehold and leasehold properties	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Opening market value	**385,542**	281,951
Opening fixed or guaranteed rent reviews and lease incentives	**(22,624)**	(15,732)
Opening carrying value	**362,918**	266,219
Purchases	**97,956**	87,515
Acquisition costs capitalised	**2,567**	2,750
Acquisition costs written off	**(2,567)**	(2,750)
Revaluation movement - gains	**22,202**	21,852
Revaluation movement - losses	**(4,816)**	(5,776)
Movement in market value	**115,342**	103,591
Movement in fixed or guaranteed rent reviews and lease incentives	**(8,664)**	(6,892)
Movement in carrying value	**106,678**	96,699
Closing market value	**500,884**	385,542
Closing fixed or guaranteed rent reviews and lease incentives	**(31,288)**	(22,624)
Closing carrying value	**469,596**	362,918

Changes in the valuation of investment properties

	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Revaluation movement	**17,386**	16,076
Acquisition costs written off	**(2,567)**	(2,750)
Movement in lease incentives	**(2,310)**	(558)
	12,509	12,768
Movement in fixed or guaranteed rent reviews	**(6,354)**	(6,334)
Gains on revaluation of investment properties	**6,155**	6,434

The investment properties can be analysed as follows:

	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Standing assets	**482,084**	378,062
Developments under forward fund agreements	**18,800**	7,480
Closing market value	**500,884**	385,542

The properties were valued at £500,884,000 (2018: £385,542,000) 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. Colliers has recent experience in the location and category of the investment properties being valued.

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 £469,596,000 (2018: £362,918,000). The adjustment consisted of £27,535,000 (2018: £21,181,000) relating to fixed or guaranteed rent reviews and £3,753,000 (2018: £1,443,000) 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 10).

All leasehold properties are carried at fair value rather than amortised over the term of the lease. The same valuation criteria are therefore applied to leasehold as freehold properties. All leasehold properties have more than 800 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 for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: observable inputs other than quoted prices included within level 1;
- Level 3: use of inputs that are not based on observable market data.

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 topped up NIY, is 6.3 per cent. The yield on the majority of the individual assets ranges from 5.0 per cent to 7.3 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 16.

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 £20.8 million (2018: £15.4 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 £19.2 million (2018: £14.3 million) and reduce the Group's income.

10. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Fixed rent reviews	**27,535**	21,181
Rental deposits held in escrow for tenants	**6,361**	4,558
Lease incentives	**3,677**	1,400
Total	**37,573**	27,139

Current trade and other receivables	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Cash held in escrow for property purchases	**663**	2,496
Lease incentives	**76**	43
VAT recoverable	**1,204**	312
Accrued income – rent receivable	**602**	124
Accrued development interest under forward fund agreements	**1,378**	261
Other debtors and prepayments	**341**	129
Total	**4,264**	3,365

At the year-end, trade and other receivables include a fixed rent review debtor of £27,535,000 (2018: £21,181,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £3,753,000 (2018: £1,443,000) 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)

11. Investment in subsidiary undertakings

The Group included 29 subsidiary companies as at 30 June 2019 (30 June 2018: 22). 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 four subsidiaries, of which two are incorporated in Gibraltar and two are incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

The Group acquired THR Number 25 S.a r.l. ('THR25') and THR Number 26 S.a r.l. ('THR26') on 6 November 2018, acquired THR Number 27 Limited ('THR27') on 16 November 2018 and acquired THR Number 28 Limited ('THR28') on 27 June 2019. These acquisitions were accounted for as Investment Property acquisitions.

In addition, the Group established three newly incorporated companies during the year to 30 June 2019: THR Number 22 Limited ('THR22'), THR Number 23 Limited ('THR23') and THR Number 24 Limited ('THR24').

12. Cash and cash equivalents

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

	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Cash at bank and in hand	**7,965**	2,024
Short-term deposits	**18,981**	39,376
Total	**26,946**	41,400

13. Bank loans

	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Principal amount outstanding	**108,000**	66,000
Set-up costs	**(3,040)**	(2,644)
Amortisation of set-up costs	**1,460**	826
Total	**106,420**	64,182

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 2019, the Group had drawn £50.0 million under this facility (30 June 2018: £30.0 million).

The Group has a £40.0 million committed term loan facility with First Commercial Bank, Limited ('FCB') which is repayable on 30 August 2022. 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 1.65 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 2019, the Group had drawn £36.0 million under this facility (2018: £36.0 million).

The Group has a £80.0 million revolving credit facility with HSBC Bank plc ('HSBC') which is repayable on 29 January 2021, with the option of two further one year extensions thereafter subject to the consent of HSBC. The quantum of the facility was increased, on unchanged terms, from £40.0 million with effect from 1 March 2019. 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 1.70 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 2019, the Group had drawn down £22.0 million under this facility (2018: £nil).

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 (expired)	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 3.08 per cent per annum until 1 September 2021. The remaining £104.0m of debt, of which £42.0 million was drawn at 30 June 2019, would, if fully drawn, 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 2.16 per cent per annum.

The fair value of the interest rate swaps at 30 June 2019 was an aggregate liability of £707,000 (30 June 2018: liability of £115,000) and all interest rate swaps are categorised as level 2 in the fair value hierarchy (see note 9 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 four of its subsidiaries: THR Number 8 Limited, THR Number 10 Limited, THR Number 17 Limited and THR Number 27 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 2019 £'000	**Borrowing 2019 £'000**	**Net debt 2019 £'000**	Cash and cash equivalents 2018 £'000	Borrowing 2018 £'000	Net debt 2018 £'000
Opening balance	**41,400**	**(64,182)**	**(22,782)**	10,410	(39,331)	(28,921)
Cash flows	**(14,454)**	**(41,604)**	**(56,058)**	30,990	(24,456)	6,534
Non-cash flows	**–**	**(634)**	**(634)**	–	(395)	(395)
Closing balance as at 30 June	**26,946**	**(106,420)**	**(79,474)**	41,400	(64,182)	(22,782)

14. Trade and other payables

Non-current trade and other payables	**As at 30 June 2019 £'000**	As at 30 June 2018 £'000
Rental deposits	**6,361**	4,558
Total	**6,361**	4,558

Current trade and other payables	**As at 30 June 2019 £'000**	As at 30 June 2018 £'000
Rental income received in advance	**5,200**	3,819
Property acquisition and development costs accrued	**2,570**	545
Investment Manager's fees payable including performance fees	**1,162**	960
Corporate reconstruction costs accrued	**722**	–
Interest payable	**629**	472
Tax payable	**89**	89
Other payables	**1,430**	1,475
Total	**11,802**	7,360

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

Notes to the Consolidated Financial Statements (continued)

15. Stated capital movements

	As at 30 June 2019	
	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of no par value		
Opening balance	339,217,889	330,436
Issued on 7 November 2018	45,871,559	50,000
Expenses of issue		(1,093)
Dividends allocated to capital		(6,658)
Balance as at 30 June 2019	385,089,448	372,685

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

During the year to 30 June 2019, the Company issued 45,871,559 ordinary shares (2018: 87,037,038) raising gross proceeds of £50,000,000 (2018: £94,000,000). The Company did not repurchase any ordinary shares into treasury (2018: nil) or resell any ordinary shares from treasury (2018: nil). Subsequent to the year end the Company undertook a capital reduction in relation to the proposal to introduce a new UK-domiciled parent company to the Group. See note 22 for details.

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 13.

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.

16. Financial instruments

Consistent with its objective, the Group holds UK care home property investments. In addition, the Group's financial instruments comprise cash, bank loans 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 £31.1 million (2018: £44.7 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 2019, the Company had provided for overdue rental income from tenants totalling £261,000. As at 30 June 2018, the provision was £170,000, of which £170,000 was subsequently written off, £nil was recovered and £nil is still outstanding. There were no other financial assets which were either past due or considered impaired at 30 June 2019 (2018: 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.

Over the course of the year, due to the quantum of cash balances held, counterparty risk was spread by placing cash across different financial institutions. At 30 June 2019 the Group held £26.5 million (2018: £20.9 million) with The Royal Bank of Scotland plc, £0.5 million with First Commercial Bank, Limited (2018: £0.5 million) and £nil (2018: £20.0 million) with HSBC Bank plc.

Liquidity risk

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

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

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

Financial assets as at 30 June 2019	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
Cash	26,946	–	–	–	–	26,946
Rental deposits held in escrow for tenants	–	–	–	–	6,361	6,361
Other debtors	4,111	–	–	–	–	4,111
Total	31,057	–	–	–	6,361	37,418

Financial assets as at 30 June 2018	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
Cash	41,400	–	–	–	–	41,400
Rental deposits held in escrow for tenants	–	–	–	–	4,558	4,558
Other debtors	3,275	–	–	–	–	3,275
Total	44,675	–	–	–	4,558	49,233

Notes to the Consolidated Financial Statements (continued)

16. Financial instruments (continued)

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

Financial liabilities as at 30 June 2019	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
Bank loans and interest rate swaps	811	2,417	24,812	87,490	–	115,530
Rental deposits	–	–	–	–	6,361	6,361
Other payables	6,602	–	–	–	–	6,602
Total	**7,413**	**2,417**	**24,812**	**87,490**	**6,361**	**128,493**

Financial liabilities as at 30 June 2018	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
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

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 13 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 2019 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 2019 (30 June 2018) 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 0.20 per cent (2018: 0.24 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 £170 million (2018: £130 million) of committed term loans and revolving credit facilities which at 30 June 2019 were charged interest at a rate of three month LIBOR plus the relevant margin (see note 13). At the year-end £108.0 million of these facilities was drawn down (2018: £66.0 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 (2018: £66.0 million) of the loans drawn down at 30 June 2019 through entering into fixed rate Interest Rate Swaps (see note 13). Fixing the interest rate exposes the Group to fair value interest rate risk. At 30 June 2019, 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 £0.4 million (2018: £0.6 million). A decrease in interest rates would have had an equal and opposite effect.

The Group has not hedged its exposure on £42.0 million of loans drawn down at 30 June 2019 (2018: £nil). On these loans the interest was payable at a variable rate equal to three month LIBOR plus the weighted average lending margin of 1.60 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 2019		As at 30 June 2018	
	Fixed rate £'000	**Variable rate £'000**	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	**–**	**26,946**	–	41,400
Bank loan	**(66,000)**	**(42,000)**	(66,000)	–
	(66,000)	**(15,054)**	(66,000)	41,400

Based on the Group's exposure to cash flow interest rate risk, an increase of 0.25 per cent in interest rates would have decreased the reported profit for the year and the net assets at the year end by £38,000 (2018: increase of £104,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2019 (30 June 2018) and may not be reflective of actual future conditions.

Market price risk

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

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Group's investment property portfolio held at the balance sheet date are disclosed in note 9. A 10 per cent increase in the value of the investment properties held as at 30 June 2019 (30 June 2018) would have increased net assets available to shareholders and increased the net income for the year by £47.0 million (2018: £36.3 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.

17. Capital commitments

The Group had capital commitments as follows:

	30 June 2019 £'000	30 June 2018 £'000
Amounts due to complete forward fund developments and forward fund acquisition commitments	**12,263**	19,982
Other capital expenditure commitments	**2,233**	2,443
Total	**14,496**	22,425

Notes to the Consolidated Financial Statements (continued)

18. Lease length

The Group leases out its investment properties under operating leases.

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

	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Less than one year	**32,017**	24,262
Between two and five years	**138,722**	109,944
Over five years	**1,085,304**	868,980
Total	**1,256,043**	1,003,186

The largest single tenant at the year-end accounted for 13.6 per cent (2018: 14.1 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 15 and 35 years.

19. Related party transactions

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

Hilary Jones and Craig Stewart were both directors of the Company Secretary, R&H Fund Services (Jersey) Limited, which received fees from the Company. Mr Stewart was a partner of Rawlinson & Hunter's Jersey Partnership, which in turn wholly owns R&H Fund Services (Jersey) Limited, but stood down from the partnership at the end of 2018. Secretarial fees for the year were £6,000 (2018: £6,000).

The Directors of the Company received fees for their services. Total fees for the year were £177,000 (2018: £165,000) of which £19,000 (2018: £18,000) remained payable at the year-end.

The Investment Manager received £4,702,000 (inclusive of VAT) in management fees in relation to the year ended 30 June 2019 (2018: £3,734,000). Of this amount £1,162,000 (2018: £960,000) remained payable at the year-end. Certain employees of the Investment Manager are directors of some of the Group's subsidiaries. Neither they nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

20. Operating segments

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

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

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

21. Contingent assets and liabilities

As at 30 June 2019, nine (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 £18.75 million (2018: £16.0 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 (2018: £nil) has been recognised as a liability at 30 June 2019.

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.

22. Post Balance Sheet Events

Property transactions

Subsequent to the year end, the Group has sold two care homes in Surrey and Essex. These disposals form part of the Group's wider asset management activity and follows offers received which combined reflect a price which was more than five per cent above the independent external valuation at which they were recognised in the financial statements. Whilst both properties were originally acquired as long-term investments, the Group continually monitors the performance of its assets at a tenant and individual property level, updating its strategy as circumstances develop and being mindful of possible asset management or divestment strategies where opportunities arise or the initial investment case has changed. The properties equated to less than three per cent of the fair value of the investment property portfolio.

Subsequent to 30 June 2019, the Group has completed the acquisition of two properties, in Ripon, Yorkshire and Stourport, West Midlands, for approximately £18.6 million, including transaction costs. Both investments fully meet the Group's strict criteria, being modern, well equipped care homes with 100% en-suite wetrooms, underpinned by supportive fundamentals. The yield is representative of assets of a similar standard and location within the Group's portfolio. The homes are let on 35-year leases with RPI-linked cap and collar to a subsidiary of Maria Mallaband Care Group, the national care home operator. As is customary for new and nearly new care homes, a short rent free period has been agreed in relation to the Wharf Care Centre which will assist the tenant's cashflows during the early trading period. Further details on the two properties acquired were:

- The Moors Care Centre, in Ripon, was constructed in 2015 and comprises 70 bedrooms each with full en-suite wetroom facilities. The home is operationally mature and its current trading performance is delivering a strong rent cover in excess of 2.0 times; and
- The Wharf Care Centre, in Stourport, opened in 2018 and comprises 67 bedrooms with full en-suite wetroom facilities. The home is located in a predominantly residential area, close to the centre of Stourport. The Group's demographic assessment of the local area is positive and the home is expected to perform strongly once it reaches operational maturity.

Corporate reconstruction

On 21 June 2019, the Company announced proposals to change the Group's corporate structure by establishing Target Healthcare REIT plc ("New THRL") a new English-incorporated parent company (registration number: 11990238), at the head of the Group. The Board believes that moving the Group's ultimate parent company to a UK domicile will align the Group with its UK tax jurisdiction, maintain and enhance its important relationships with UK local authorities and health services and help to reduce some of the Group's administration costs and regulatory complexities, which arise due to the requirement to operate in both Jersey and the UK.

The proposal, which required the approval of the Company's existing shareholders and the Royal Court of Jersey, was effected by way of a scheme of arrangement under article 125 of the Companies (Jersey) Law 1991 pursuant to which New THRL acquired the Company and became its ultimate parent company. New THRL replicates all of the existing arrangements and structure of the Company. It has, for example, the same management, depositary and corporate governance arrangements alongside having the same investment, gearing and dividend policies. New THRL is also a REIT for the purposes of UK taxation.

The scheme of arrangement was approved by shareholders at meetings held on 18 July 2019 and, following the agreement of the Royal Court of Jersey, the scheme became effective on 7 August 2019. The Company's existing shareholders received one new share in New THRL for every share they held in the Company at close on 6 August 2019. The Ordinary Shares of the Company ceased to be listed and the Company became a wholly owned subsidiary of New THRL on the same date. The Ordinary Shares issued by New THRL were admitted to the premium segment of the Official List and to trading on the main market of the London Stock Exchange on 7 August 2019.

Notes to the Consolidated Financial Statements (continued)

The Company received notice from the Jersey Financial Services Commission on 23 August 2019 that, with effect from 7 August 2019, the Company had ceased to be a Collective Investment Fund under the Collective Investment Funds (Jersey) Law, 1988 and therefore the Company ceased to be regulated by the JFSC. As a result, the Company was no longer required to have two Jersey-based Directors and therefore Hilary Jones and Craig Stewart resigned from the Board with effect from 4 September 2019.

As part of the proposals, New THRL was required to publish a prospectus which was dated 21 June 2019. In order to maximise efficiency and reduce potential future costs in drafting new documents, the prospectus included a placing programme which provides New THRL with the flexibility to issue up to 125 million new shares over the period to 19 June 2020.

Given the completion of the Scheme, from 7 August 2019, the ultimate parent of the Company is Target Healthcare REIT plc.

Proposed issue of equity

On 5 September 2019, the Group announced a proposed issue of equity, targeting gross proceeds of approximately £50 million by way of a non pre-emptive placing at 110.5 pence per share under its existing placing programme. The placing is expected to close on 25 September 2019.

23. 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 2019 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	1.63	1.69

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 Group's website and/or within the Prospectus published by the new parent company dated 21 June 2019.

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, 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 group and as a former member of the audit committee of the Universities Superannuation scheme, one 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 largest, privately held real estate investment and finance companies in the US. Mr Hutchison is currently a director for ClubCorp, Inc. and 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 – resigned 4 September 2019
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 – resigned 4 September 2019
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 Group 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 company 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. Subsequent to the year end, Target has also commenced providing Company Secretarial and Administration services to the Group.

Alternative Investment Fund Managers Directive ('AIFMD')

The Board has appointed Target as the Group's AIFM and Target has received FCA approval to act as AIFM of the Group. An additional requirement of the AIFMD is for the Group to appoint a depositary, which oversees the property transactions and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed IQ EQ Depositary Company (UK) 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 the founder and Chief Executive of Target. He is a Chartered Accountant with over 40 years of business leadership experience with the last fifteen in healthcare. In addition to his responsibilities as Target's chief executive, Kenneth leads the creation and management of Target's client funds and oversees fundraising and investor liaison for the Group. 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. 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, the last fourteen of which have been in real estate investment management. He has primary responsibility for investment activity across the Target business. John has been involved in the appraisal of several hundred care home opportunities resulting in the acquisition of circa 80 properties for those client funds. Prior to joining Target, during his time as investment director for an institutional investor, John held board positions at a UK top-10 care home operator and a care home development business. 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. His primary responsibilities include inspecting properties owned by Target's client funds as well as prospective acquisitions during due diligence. As part of this role he visits around 100 care homes a year. Target's in-house demographic and market analysis is performed by his team. Andrew has spent most of his life in the senior care sector. Prior to his current role, 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 MA

Scott Steven is Head of Asset Management at Target. Scott joined Target in 2017 from Lloyds Banking Group. Prior to joining Target, Scott had been responsible for a portfolio of Lloyds Banking Group's loans to large property groups, including care home owners and 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. He provides financial input to the strategic and commercial activities of the senior team, and leads the finance function where his key responsibilities include: financial planning and analysis; risk management; ownership of relationships with debt providers, Treasury services; and financial reporting to Shareholders. Gordon previously worked at PricewaterhouseCoopers for almost ten years, serving asset management and financial services clients in the UK, Canada and Australia.

Donald Cameron BCom CA

Donald Cameron is Company Secretary and Director of Financial Reporting at Target. He is a Chartered Accountant with more than 15 years' experience of financial reporting and company secretarial services within the closed-ended investment company sector. Having originally qualified with Deloitte LLP, he then worked for over ten years in the Investment Trust Company Secretarial team at F&C Asset Management (now known as BMO Asset Management), acting for both property and equity investment companies. He is responsible for providing company secretarial services to the Board and for statutory financial reporting. He joined Target in 2019, having provided similar services to the Group for over three years whilst working for Maitland Group, a third-party provider of corporate secretarial and administration services.

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 2019.

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 1.64475 pence per share, to shareholders in relation to the year ended 30 June 2019.

The Company

The Company is a Jersey registered closed-ended property investment company and its shares had a premium listing on the Official List of the UK Listing Authority and were traded on the main market of the London Stock Exchange. During the year, the Company was regulated by the Jersey Financial Services Commission.

As set out in the Circular dated 21 June 2019, a new UK-incorporated Company, Target Healthcare REIT plc, became the parent company of the Group with effect from 7 August 2019. Shareholders received one share in Target Healthcare REIT plc in exchange for every one share they previously held in the Company. As a result of this corporate reorganisation, the Company became a wholly-owned subsidiary of Target Healthcare REIT plc and the listing of the Company's shares on the premium segment of the Official List and trading on the Main Market of the London Stock Exchange were cancelled with effect from 8am on 7 August 2019. Admission and dealings commenced in the shares of Target Healthcare REIT plc from the same date.

This Annual Report has been prepared by Target Healthcare REIT Limited, as the parent company of the Group at 30 June 2019. However, as the new parent company of the Group, it is Target Healthcare REIT plc which will convene an Annual General Meeting in November 2019 and which will prepare the Group's Annual Report and Financial Statements for the year ending 30 June 2020 onwards. Target Healthcare REIT plc is effectively a mirror of Target Healthcare REIT Limited (subject to any relevant jurisdictional differences between England & Wales and Jersey) and has the same management, depositary and corporate governance arrangements alongside having the same investment, gearing and dividend policies. Unless otherwise stated, statements contained in this Annual Report in relation to the Group or the Company will continue to apply to Target Healthcare REIT plc.

The Company ceased to be regulated by the Jersey Financial Services Commission with effect from 7 August 2019 and, as the Company was no longer required to have two Jersey-based Directors, Hilary Jones and Craig Stewart have resigned from the Board. Neither Mrs Jones nor Mr Stewart are Directors of Target Healthcare REIT plc but otherwise the Board of Target Healthcare REIT plc, and its various Committees, mirror those of Target Healthcare REIT Limited as set out in this Annual Report.

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.

Directors' Report

(continued)

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.

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.

As a result of the Scheme detailed on pages 43 and 44, future dividends will be paid by Target Healthcare REIT plc although the Group's dividend policy, as set out above, remains unchanged.

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.

Other than the two Jersey-based Directors, for the reason set out on page 47, the Directors of the Company were appointed as Directors of the Group's new parent company with effect from its incorporation on 10 May 2019. All Directors therefore fall due for election by shareholders at the AGM to be held by Target Healthcare REIT plc on 28 November 2019. Having considered the knowledge, experience and contribution of each Director putting themselves forward the Board has no hesitation in recommending their election to shareholders.

The Group did not employ or pay any remuneration to any external recruitment consultant during the year.

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. However, recognising that consideration should be given to the length of service of the Board as a whole and membership regularly refreshed and that the four Directors have each been a Director of the Group since 2013, the Board is currently considering its succession planning. The Directors also recognise the need for continuity and experience on the Board and therefore consideration may be given to appointing a fifth Director to the existing Board. This process of succession planning had been commenced in the prior year but, appreciating that the redomiciliation of the parent Company may result both in changes to the existing Board and in the skills and experience required to be available to the Group's Board in future years, it had been deferred until the completion of the Scheme. The Board, however, expect this process to re-commence shortly and intends to appoint an external recruitment firm to assist in the identification of suitable candidates.

The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 53 the perfor mance 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. New letters of appointment, on substantially the same terms, were issued to, and accepted by, each of the Directors on their appointment to Target Healthcare REIT plc. These letters are available for inspection upon request at the relevant Company's registered office.

Substantial Interests in Share Capital

As at 30 June 2019, 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	26,830,207	7.0
Investec Wealth & Investment Limited	23,385,150	6.1
Bank of Montreal	22,568,305	5.9
CCLA Investment Management Limited	17,918,605	4.7
Rathbone Investment Management Limited	17,462,203	4.5

*Based on 385,089,448 Ordinary Shares in issue as at 30 June 2019.

At the date of approval of the Company's financial statements, the Company's shares were no longer listed on the Official List of the UK Listing Authority and were not subject to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. The parent Company of the Group was Target Healthcare REIT plc. As at 16 September 2019, Target Healthcare REIT plc had not received notification of any changes in the holdings of voting rights (under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules) compared with those above.

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 the AGM to be held in 2022 and at every fifth annual general meeting thereafter to seek their approval to the continuation of the Company. This requirement has been replicated in the Articles of Association of the Group's new parent company and therefore the resolution will next be put to Shareholders at the Group's AGM to be held in 2022.

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 Group's Annual General Meeting to re-appoint EY as the Group's Auditor and for the Directors to determine their remuneration.

On behalf of the Board

Malcolm Naish
Chairman
16 September 2019

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 2019 which has long leases and a weighted average unexpired lease term of 29.1 years. The Group has borrowings of £108.0 million, on which the interest rate has been fixed on £66.0 million at 2.70 per cent per annum (excluding the amortisation of arrangement costs) through the use of interest rate swaps, and the remaining £42.0 million carries interest at three month LIBOR plus a weighted margin of 1.60 per cent per annum (excluding the amortisation of arrangement costs). The Group has access to a further £62.0 million of available debt under committed loan facilities. The Group's committed loan facilities have staggered expiry dates with £80.0 million being committed to 29 January 2021, £50.0 million to 1 September 2021 and £40.0 million to 30 August 2022. Discussions with potential lenders do not indicate any issues with re-financing these loans on acceptable terms.

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, such as due to a change in government policies including specific policies affecting local authority funding of elderly care, could impact the level of income received or the capital value of the property portfolio; 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
16 September 2019

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 Group is a member of the AIC. The Board believes that during the period under review the Group has complied with the provisions of the UK Code, in so far as they relate to the Group's business. The Board is also adhering to the principles and recommendations of the AIC Code which address the Principles and Provisions set out in the UK Code, as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board has not adopted early the revised UK Code published in July 2018. Given the revisions to both the UK Code and the AIC Code, which do not yet apply to the Group, the Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, will provide more relevant information to shareholders. Therefore, in relation to the year ending 30 June 2020, the Board of the Group's new parent company intends to meet its obligations in relation to the UK Code by complying with the Principles and Provisions of the AIC Code.

As set out on page 47, a new parent company, Target Healthcare REIT plc, was introduced to the Group with effect from 7 August 2019. Unless otherwise stated below, the Board, Committees, policies and procedures set out in the following statement regarding the Company will continue to apply unchanged to Target Healthcare REIT plc.

The Board

The Board is responsible for the effective stewardship of the Group'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 Group'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 2018 to consider strategic issues. In addition to these scheduled meetings, there were a further 12 Board and Board Committee meetings held during the year.

Each of the current Directors has signed a letter of appointment with the Group which includes twelve months' notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also made available at annual general meetings.

Individual Directors may, at the expense of the Group, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Group 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 three male and one 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*	5	5	3	3	4	4	1	1

*Hilary Jones and Craig Stewart resigned with effect from 4 September 2019. The remaining four Directors were appointed as Directors of the new parent company from the date of its incorporation on 10 May 2019.

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 Group 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 Group that are likely to affect that judgement.

The basis on which the Group 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 Group 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 and, subsequent to the year end, these have been replicated in the new parent company, unchanged other than changes in membership where applicable due to the retirement of the two Jersey-based Directors. The committees operate within clearly defined terms of reference which are available on request or for inspection at the relevant 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 Group's business or to maintain a balanced Board.

During the year, the performance of the Board, Committees and individual Directors was evaluated through an assessment process led by the Chairman. This process involved the completion of questionnaires tailored to suit the nature of the Company, discussions with individual Directors and individual feedback from the Chairman to each of the Directors. The evaluation of the Chairman was led by the Senior Independent Director in consultation with all the other Directors. An assessment process led by an external facilitator was last conducted during the year ended 30 June 2018 and the Board anticipates having an externally-facilitated Board evaluation on a regular basis.

During the prior year, the Nomination Committee recognised that the majority of the Directors had been appointed in 2013 and was cognisant of the need to ensure that a structured succession plan was in place to ensure consistency, continuity and the retention of corporate knowledge. However, during the year ended 30 June 2019, the Nomination Committee noted that the proposed reconstruction of the Group would, if completed, likely to lead to the retirement of the two Jersey-based Directors and may therefore change the skills and experience required of any new Directors to be appointed. The Nomination Committee therefore concluded that it was prudent to suspend any recruitment process until the outcome of the reconstruction proposals was known with certainty. Following the completion of the proposals on 7 August 2019, the Nomination Committee has re-commenced this recruitment process and has approached a number of recruitment consultants with the aim of making an appointment to the Board during 2020.

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 Group 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 the Group's business and address shareholder queries. The Notice regarding the Annual General Meeting to be held by the new parent company on 28 November 2019 will be mailed to shareholders in October 2019 alongside the Group's Annual Report. It is hoped that the Annual General Meeting will provide a forum, both formal and informal, for shareholders to meet and discuss the Group's business 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 Group and its Investment Manager.

- ESG lies at the heart of the Group'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 Group'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 Group 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 Group has no employees and therefore no disclosures are required to be made in respect of employees.

The Group 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
16 September 2019

Report of the Audit Committee

Composition of the Audit Committee

An Audit Committee chaired by Mr Coull has been established with written terms of reference which are reviewed at each meeting and which are available on request. At 30 June 2018, the Audit Committee was comprised of all Directors. However, concerns were expressed by some shareholders regarding the independence of Hilary Jones and Craig Stewart due to their relationship to the Company Secretary at the time, R&H Fund Services (Jersey) Limited. In recognition of these concerns, and noting that corporate governance best practice is for the Audit Committee to be composed solely of independent, non-executive Directors, the Board concluded that neither Director should continue as a member of the Audit Committee. Hilary Jones and Craig Stewart therefore ceased to be members of the Committee with effect from 28 November 2018, although their valued experience continued to be available to the Audit Committee up until their resignation from the Board in September 2019. The Board will consider each Director's membership of the Audit Committee on a case-by-case basis but, in general, believes that, given the Group's size, a committee which includes all Directors is appropriate and will enable all Directors to be kept fully informed of any issues that arise.

The Board consider that the Chairman's experience of the property sector is invaluable to the Audit Committee, particularly in regard to assessing and providing challenge to the external valuation of the Group's property portfolio, and therefore, in line with the revised AIC Code, intend that the Chairman should continue as a member of the Audit Committee of the new parent company for the year ending 30 June 2020 and thereafter. At least one member of the Audit Committee has recent and relevant financial experience.

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.

It is highlighted that the reference to Administrator in the following report refers to Maitland Administration Services (Scotland) Limited for the year under review. However, subsequent to the year end and related to the Scheme, Target Fund Managers Limited was appointed as Company Secretary and Administrator to the Group with effect from 7 August 2019.

Responsibilities of the Audit Committee	How they have been discharged
Consideration of the half-year and annual financial statements, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions.	The Committee has met 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 page 57. In addition, during the year, the Committee particularly considered significant financial matters arising from the corporate reconstruction such as the statutory reporting requirements of both the Company and its new parent company, the treatment of the costs of such reconstruction and the timing of any dividend payments including the potential requirement to file additional interim or initial financial statements to demonstrate that sufficient distributable reserves were available. The Audit Committee also considered the treatment of rental incentives under both the EPRA earnings and EPRA cost measures as presented in this Annual Report.
Evaluation of the effectiveness of the risk management and internal control procedures.	The Investment Manager maintains a risk matrix which summarises the Group's key risks and an internal control matrix which shows the Group's key controls over its principal financial systems (including, where relevant, the procedures operated by the Company Secretary and Administrator during the year). 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. 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 and Administrator, the Committee has satisfied itself on the effectiveness of the risk and control procedures.
Consideration of dividend calculations both in relation to PID/non-PID payments made by the Company and other dividends paid internally within the Group.	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.
Assessment of the prospects of the Company, taking account of the Company's position and principal risks, and consideration of the period of time over which such evaluation can be made.	The Committee has reviewed the assessment described in more detail under the section 'Viability Statement' within the Directors' Report, and the underlying data on which such assessment is based, to ensure that the work undertaken, the conclusions reached and the disclosures included within the Annual Report are appropriate.

Consideration of the narrative elements of the annual financial report, including whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's business model, strategy and performance.	The Committee has reviewed the content and presentation of the annual financial report and discussed how well it achieves the three criteria opposite. 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.
Evaluation of reports received from the Auditor with respect to the annual financial statements.	The Auditor's planning report and related timetable were discussed with the Auditor in advance of work commencing, together with the areas of audit focus. At the conclusion of the audit the Committee discussed the audit results report with the Auditor, Administrator and Investment Manager.
Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.	The Company ensures through its Legal Adviser, Investment Manager, Administrator and Auditor, that any developments impacting on its responsibilities are tabled for discussion at Committee or Board meetings. Other than the changes in accounting standards set out on page 26, which did not materially impact the Group's financial statements as presented, there were no significant developments that became effective during the year to 30 June 2019.
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 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;
- Monitoring of covenants on loan facilities;
- 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 a prospectus, a circular to Shareholders or 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 2019, the Group engaged a reporting accountant to undertake an overview of the control environment of the Investment Manager. This review focused on ensuring that any recommendations made following a similar review in the prior year had been implemented appropriately and checking the controls over any areas of significant change, including those arising from the appointment of Target as the Group's Company Secretary and Administrator subsequent to the year end. 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.

Report of the Audit Committee

(continued)

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 Committee, all property transactions including any significant capital expenditure. 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 Group's size and structure. There were no significant weaknesses or failings to report. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

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

The Auditor

As part of the review of auditor independence and effectiveness, EY has confirmed that they are independent of the Group and have complied with relevant auditing standards. In reviewing EY's independence, the Committee noted that EY had ceased to provide tax services to the Group during the year ended 30 June 2016. 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 2019 constitutes the second 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 July 2019, the Audit Committee has also recommended the continuing appointment of EY as the Group's auditor 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 Group 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	175
Review of interim financial information	12
Total	**187**

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 87.2 per cent of its total assets as at 30 June 2019. 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 9 to the financial statements.	The Investment Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation process throughout the year and the Directors had the opportunity to discuss the detail of each of the quarterly valuations with the Investment Manager. Members of the Committee discussed the valuation as at 30 June 2019 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, and considered the requirement for any provision for bad debts. 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.
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. As described on pages 54 and 55, 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 noted that there were no unadjusted errors reported by the Auditors or any other indication of 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 2019, 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
16 September 2019

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 2019 are shown below.

The Board considers the level of Directors' fees at least annually. The Directors' fees were amended with effect from 1 July 2018 in line with the recommendations of an external consultant appointed to facilitate the review of the performance of the Board.

After further review at the end of the year ended 30 June 2019, the Board concluded that the level of Directors' fees for the year ending 30 June 2020 would be increased to the following: Mr Naish, the Chairman, £44,000 (2019: £43,000), Mr Coull, the Audit Committee Chairman, £39,000 (2019: £37,000) and £32,750 (2019: £32,000) to each of Professor Andrews and Mr Hutchison. Mrs Jones and Mr Stewart each continued to receive an annual fee of £16,500 (2019: £16,500) up to the date of their resignation from the Board. The higher percentage increase in the fee payable to Mr Coull reflects the Board's view that the implementation of the scheme to re-domicile the Group, the publication of the prospectus and the continued growth in size and complexity of the Group, has disproportionally increased the workload of the chairman of the Audit Committee. The Directors' fees are paid quarterly in arrears and from 1 October 2019 onwards will be paid by the new parent company of the Group.

The Group's 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, is unchanged and will again be put to shareholders at the AGM for the new parent company in November 2019.

The Board has not received any direct communications from the Group'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 2020.

The fees for the Directors are determined within the limit set out in the Company's Articles of Incorporation. The present limit for the Group, as set out in the Articles for the new parent company, is an aggregate of £250,000 per annum (2018: £200,000) 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 2019 £'000	Year ended 30 June 2018 £'000
Malcolm Naish (Chairman)	**43.0**	40.0
Gordon Coull (Audit Committee Chairman)	**37.0**	35.0
June Andrews	**32.0**	30.0
Tom Hutchison	**32.0**	30.0
Hilary Jones	**16.5**	15.0
Craig Stewart	**16.5**	6.5*
Ian Webster	**-**	8.5*
Total	**177.0**	165.0

*Ian Webster resigned 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)

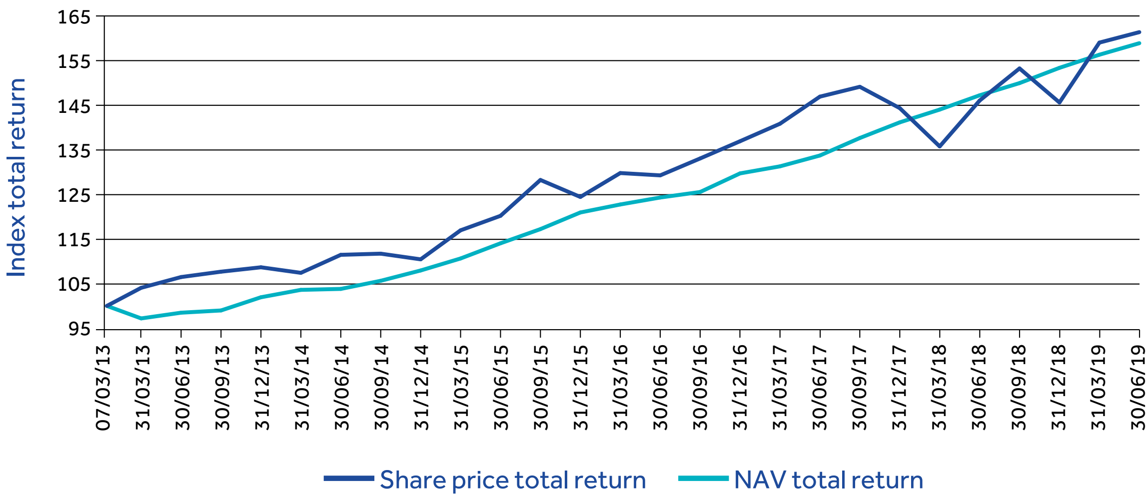
The Directors who held office at the year-end and their interests (all beneficial) in the ordinary shares of the Company as at 30 June 2019 and in the ordinary shares of the Group's new parent company as at 16 September 2019 were as follows:

	Ordinary shares 16 September 2019	Ordinary shares 30 June 2019
Malcolm Naish	45,001	45,000
June Andrews	–	–
Gordon Coull	35,454	35,454
Tom Hutchison	70,000	70,000
Hilary Jones (resigned 4 September 2019)	n/a	–
Craig Stewart (resigned 4 September 2019)	n/a	–
Total	150,455	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 2019, the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the NAV total return.



Source: Target Fund Managers Limited

Voting at Annual General Meeting on the Directors' Remuneration Report

At the Company's last AGM, held on 28 November 2018, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2018. 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 of the new parent company to be held on 28 November 2019.

On behalf of the Board

Malcolm Naish
Chairman
16 September 2019

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 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 23, 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 2019 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 49 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	• Incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives • Incorrect valuation and/or defective title of the investment portfolio
Materiality	• Overall Group materiality of £4.13m which represents 1% of Group net assets

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 and lease incentives (Refer to Report of the Audit Committee page 57; and Accounting policies page 27). The rental income receivable by the Group during the period directly drives the Group's ability to make a dividend payment to shareholders. Rental income from the investment properties is recognised on an accrual basis with the exception of contingent rents which are recognised on a receipt basis. The lease agreements tend to have durations of multiple years and minimum and maximum fixed annual rental increase clauses. Leases may also include lease incentives such as rent-free periods. IAS 17 'Leases' requires that income or expenditure on an operating lease is adjusted to ensure that the total value of the lease is spread evenly over the term of the lease. During the year ended 30 June 2019, £34.28m (2018: £28.36m) has been recognised as rental income. Of this £27.92m (2018: £22.03m) has been recorded as revenue in the Consolidated Statement of Comprehensive Income and £6.35m (2018: £6.33m) as capital relating to fixed rental uplifts which are being spread over the applicable lease term.	We obtained an understanding of the Manager's and Administrator's processes and controls surrounding rental income recognition including accounting for fixed rental uplifts and lease incentives by reviewing their internal controls report and performing our walkthrough procedures to evaluate the design and implementation of controls. 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 and lease incentives 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.	Based on our work performed, we have no matters that are required to be communicated to the Audit Committee.

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/ or defective title of the investment portfolio (Refer to Report of the Audit Committee page 57; Accounting policies pages 28 and 29); and Note 9 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 2019, the Group's investment portfolio consists of UK healthcare properties, with a market value of £500.88m (2018: £385.54m) and carrying value of £469.60m (2018: £362.92m), which is net of a deduction of £31.29m (2018: £22.62m) to account for lease incentives and fixed rental uplifts.	We obtained an understanding of the Administrator's, Investment Manager's and Independent Valuer's processes and controls surrounding investment pricing and/or legal title. We agreed the value of all the properties held at the year end to the open market valuations included in the valuation report provided by Colliers. We agreed a sample of inputs used by Colliers in the valuation to source data. We used our property valuation specialists to perform a review of the property valuations, which included: • 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 the individual property valuations as at 30 June 2019 examining key valuation input and assumptions applied; • A review of the full portfolio of property valuations at 30 June 2019 for any anomalies or outliers; and • An analysis of key changes in the property valuation including a review of the reasonableness of the income yields for the properties. We ensured the Consolidated Financial Statements contain adequate disclosures regarding assumptions made in the valuation, including the required sensitivity analysis under IFRS 13 'Fair value measurement'; We obtained confirmation from Dickson Minto W.S., of the investment properties and development sites held as at 30 June 2019. We obtained and reviewed all purchase agreements for investment properties and companies purchased during the year.	Based on our work performed, we have no matters that are required to be communicated to the Audit Committee.

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 £4.13m (2018: £3.58m), which is 1% (2018: 1%) of net assets. We believe that net assets provides us with materiality aligned to a key measurement of the Group's performance.

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2018: 75%) of our planning materiality, namely £3.10m (2018: £2.69m). 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 £0.21m (2018: £0.18m), 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 57** – 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.

Independent Auditor's Report

To the Members of Target Healthcare REIT Limited (continued)

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 Directors' responsibilities statement 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.

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
16 September 2019

Glossary of Terms and Definitions

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 IQ EQ Depositary Company (UK) 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 detailed method of calculation is shown on page 67.
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. The detailed method of calculation is shown on page 67.
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 Cost Ratio	Reflects the relevant overhead and operating costs of the business. It is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income. The detailed method of calculation is shown on page 67.
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 8 to the financial statements.
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 8 to the financial statements.
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. The detailed method of calculation is shown on page 68.
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). The detailed method of calculation is shown on page 68.
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 2019 was Target Fund Managers Limited. Further details are set out on page 46 and in note 2 to the financial statements.
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. Gross LTV is calculated as total gross debt as a proportion of gross property value. Net LTV is calculated as total gross debt less cash as a proportion of gross property value.
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.
NAV per Ordinary Share	This is calculated as the Net Asset Value (NAV) divided by the number of shares in issue.
Net Asset Value	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities.
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. The detailed method of calculation is shown on page 68.
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 2019 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. The detailed method of calculation is shown on page 68.

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.
Mature Homes	Care homes which have been in operation, by the same tenant, for more than three years.
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 9 to the financial statements.
WAULT*	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

*Alternative Performance Measure

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 definitions of all APMs used by the Company are highlighted in the glossary on pages 65 and 66, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below.

Discount or Premium – the share price of an Investment Company is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the NAV. If the share price is lower than the NAV per share, the shares are trading at a discount and, if the share price is higher than the NAV per share, are said to be at a premium. The figure is calculated at a point in time.

		2019 pence	2018 pence
EPRA Net Asset Value per share (see page 33)	(a)	107.5	105.7
Share price	(b)	115.6	110.5
Premium	= (b-a)/a	7.5%	4.5%

Dividend Cover – the percentage by which Group specific adjusted EPRA earnings for the year cover the dividend paid.

		2019 £'000	2018 £'000
Group-specific EPRA earnings for the year (see page 33)	(a)	20,115	15,653
First interim dividend		5,579	4,066
Second interim dividend		6,334	4,067
Third interim dividend		6,334	5,470
Fourth interim dividend		6,334	5,470
Dividends paid in relation to the year	(b)	24,581	19,073
Dividend cover	= (a/b)	82%	82%

EPRA Cost Ratio

The EPRA cost ratios are produced using EPRA methodology, which aims to provide a consistent base-line from which companies can provide additional information, and include all property expenses and management fees (including the performance fee when applicable). The Group did not have any vacant properties during the periods and therefore separate measures excluding direct vacancy costs are not presented. Consistent with the Group specific adjusted EPRA earnings detailed in note 8 to the financial statements, similar adjustments have been made to also present the adjusted Cost Ratio which is thought more appropriate for the Group's business model.

		Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
Investment management fee		4,702	3,734
Other expenses*		2,013	1,458
EPRA costs	(a)	6,715	5,192
Adjusted for performance fee		–	(550)
Group specific adjusted EPRA costs	(b)	6,715	4,642
Gross rental income per IFRS	(c)	34,277	28,366
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives		(6,354)	(6,334)
Adjusted for development interest under forward fund arrangements		2,011	261
Group specific adjusted gross rental income	(d)	29,934	22,293
EPRA Cost Ratio (including direct vacancy costs)	= (a/c)	19.6%	18.3%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	= (b/d)	22.4%	20.8%

* Other expenses do not include £729,000 of costs charged to capital in relation to the corporate restructure of the Group (see note 22) as these are not considered to be administrative or operating expenses.

Alternative Performance Measures

(continued)

Ongoing Charges – 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.

		2019 £'000	2018 £'000
Investment management fee		**4,702**	3,734
Other expenses		**2,013**	1,458
Less performance fee		**–**	(550)
Less movement in provision for bad debts and bad debts written off		**(337)**	–
Less direct property costs and other non-recurring items		**(56)**	(226)
Adjustment to management fee arrangements and irrecoverable VAT*		**(264)**	161
Total	(a)	**6,058**	4,577
Average net assets	(b)	**399,308**	309,730
Ongoing charges	= (a/b)	**1.52%**	1.48%

* The management fee is expected to be paid at a rate of 1.05% of the Group's average net asset plus an effective irrecoverable VAT rate of approximately 6%. The management fee has therefore been amended so that the Ongoing Charges figure includes the expected all-in management fee rate of 1.11%.

EPRA Net Initial Yield and EPRA Topped-up Net Initial Yield – EPRA Net Initial Yield is calculated as 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. The EPRA Topped-up Net Initial Yield incorporates an adjustment in respect of the expiration of rent-free periods (or other unexpired lease incentives).

		2019 £'000	2018 £'000
Annualised passing rental income based on cash rents	(a)	**30,542**	23,804
Notional rent expiration of rent-free periods or other lease incentives		**1,651**	2,170
Topped-up net annualised rent	(b)	**32,193**	25,974
Standing assets (see page 34)		**482,084**	378,062
Allowance for estimated purchasers' costs		**32,573**	25,501
Grossed-up completed property portfolio valuation	(c)	**514,657**	403,563
EPRA Net Initial Yield	= (a/c)	**5.93%**	5.90%
EPRA Topped-up Net Initial Yield	= (b/c)	**6.26%**	6.44%

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.

		2019		2018	
		EPRA NAV (pence)	Share price (pence)	EPRA NAV (pence)	Share price (pence)
Value at start of year	(a)	**105.7**	**110.5**	101.9	117.8
Value at end of year	(b)	**107.5**	**115.6**	105.7	110.5
Change in value during the year **(b-a)**	(c)	**1.8**	**5.1**	3.8	(7.3)
Dividends paid	(d)	**6.5**	**6.5**	6.4	6.4
Additional impact of dividend reinvestment	(e)	**0.3**	**0.3**	0.5	0.2
Total gain/(loss) in year (c+d+e)	(f)	**8.6**	**11.9**	10.7	(0.7)
Total return for the year	= (f/a)	**8.1%**	**10.8%**	10.5%	(0.6)%

Designed by Tayburn

Corporate Information

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June Andrews OBE
Gordon Coull*
Thomas Hutchison III**

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