THR Number 15 plc

(Registered number 11137916)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the period from incorporation on 8 January 2018 to 30 June 2019

THR Number 15 plc

Directors

Mr R Malcolm Naish
Professor June Andrews OBE
Mr Gordon C Coull
Mr Thomas J Hutchison III

Registered Office

Level 13, Broadgate Tower
20 Primrose Street
London
EC2A 2EW

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh
EH2 4DF

Auditors

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

STRATEGIC REPORT

Principal Activity and Status

THR Number 15 plc (the "Company"), which is not a 'Close Company', is a Property Investment Company.

The Company is a wholly owned subsidiary of Target Healthcare REIT Limited.

The Company owns 100 per cent. of the share capital of THR Number 8 Limited ("THR8"), THR Number 10 Limited ("THR10"), THR Number 17 (Holdings) Limited ("THR17"), THR Number 20 Limited ("THR20"), THR Number 21 Limited ("THR21"), THR Number 27 Limited ("THR27") and THR Number 28 Limited ("THR28"). THR8 is a company registered in Gibraltar whose principal activity is that of an investment and property company. The Company's other subsidiaries are all companies registered in England & Wales whose principal activity is that of an investment and property company.

Business Review

The objective of the Company's parent is to provide its 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.

THR Number 15 plc is one of a number of subsidiaries that the ultimate parent owns that contributes to meeting the parent's objective by holding care homes properties that are let to care home operators.

A full business review is contained in the report and financial statements of the parent company which can be found on the parent company's website: www.targethealthcarereit.co.uk.

The Company was incorporated on 8 January 2018 as a subsidiary of Target Healthcare REIT Limited in order to enter into a borrowing facility with HSBC ("HSBC") on behalf of the Target Healthcare REIT Limited group (the "Group"). As part of this transaction, the Company issued £54.1 million of equity to Target Healthcare REIT Limited which was mainly settled by the transfer, at fair value, of THR8, THR10, THR17 and other directly held healthcare properties from Target Healthcare REIT Limited to the Company.

During the period ended 30 June 2019 the Company made a profit of £5,430,000. This mainly reflects rental income received of £7,224,000 with the fair value of the property portfolio held, after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives, having increased over the period by a total of £1,590,000. The Company's only significant expenses are the investment management fee of £1,557,000, which is set by reference to the net assets of the Company (see note 2), and the interest charge of £1,837,000 on the Company's long term borrowings (see notes 4, 11 and 12).

Principal Risks and Uncertainties

The Company's principal risks and uncertainties are similar to those of the Group and are contained in the report and financial statements of the parent company, or are related to the Company's financial instruments as detailed in note 15 on pages 21 to 23.

On behalf of the Board,

Gordon C Coull

Mr Gordon Coull
Director
26 September 2019

THR Number 15 plc

Report of the Directors

The Directors submit their Report and Financial Statements of the Company for the period from incorporation on 8 January 2018 to 30 June 2019.

Results and Dividends

The profit for the period was £5,430,000.

The Company did not pay any interim dividends during the period and no final dividend is proposed in respect of the period.

Directors

The Directors who held office during the period to 26 September 2019 are shown below:

Mr R Malcolm Naish
Professor June Andrews OBE
Mr Gordon C Coull
Mr Thomas J Hutchison III

No Director had any interest in the shares of the Company as at 30 June 2019 and as at 26 September 2019.

The Directors' interests in the ultimate parent company, Target Healthcare REIT Limited (see note 18), are set out in that company's Annual Report and Financial Statements for the year ended 30 June 2019.

Auditors

The Company's auditors for the period were Ernst & Young LLP. Ernst & Young LLP have expressed their willingness to continue in office.

Going Concern

The financial statements have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements. Applicable International Financial Reporting Standards ("IFRSs") have been followed.

On behalf of the Board,

Gordon C Coull

Mr Gordon Coull
Director
26 September 2019

Statement of Directors' Responsibilities in respect of the annual financial statements

The Directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and those IFRSs adopted by the European Union.

Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the financial position, financial performance and cash flows of the Company for that period. In preparing the financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement as to disclosure of information to Auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 3. Having made enquiries of fellow Directors and of the Company's Auditors, each of these Directors confirms that:

- to the best of his/her knowledge and belief, there is no information (that is, information needed by the Company's Auditors in connection with preparing their report) of which the Company's Auditors are unaware; and
- he/she has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board

Gordon C Coull

Mr Gordon Coull
Director
26 September 2019

THR Number 15 plc

Independent Auditor's Report to the Member of THR Number 15 plc

Opinion

We have audited the financial statements of THR Number 15 plc for the period ended 30 June 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 18, 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 (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:
- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 company 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, 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 going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 company'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 company 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Caroline Mercer (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
27 September 2019

Statement of Comprehensive Income
For the period from incorporation on 8 January 2018 to 30 June 2019

	Notes	Period to 30 June 2019 Revenue £'000	Capital £'000	Total £'000
Revenue				
Rental income		5,546	1,678	7,224
Total revenue		5,546	1,678	7,224
Gains on revaluation of investment properties	6	-	1,590	1,590
Total income		5,546	3,268	8,814
Expenditure				
Investment management fee	2	(1,557)	-	(1,557)
Auditor's remuneration		(10)	-	(10)
Other expenses		(45)	-	(45)
Total expenditure		(1,612)	-	(1,612)
Profit before finance costs and taxation		3,934	3,268	7,202
Net finance costs				
Interest receivable	3	65	-	65
Interest payable	4	(1,837)	-	(1,837)
Profit before taxation		2,162	3,268	5,430
Taxation	5	-	-	-
Profit and total comprehensive income for the period		2,162	3,268	5,430

The total column of this statement represents the Company's profit and loss account, prepared in accordance with IFRSs. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

There are no recognised gains or losses other than those shown in the Statement of Comprehensive Income.

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

No operations were discontinued in the period.

The notes on pages 11 to 23 are an integral part of these statements.

Statement of Financial Position
As at 30 June 2019

	Notes	30 June 2019 £'000
Non-current assets		
Investment properties	6	**60,542**
Investment in subsidiaries	7	**98,925**
Trade and other receivables	9	**5,578**
		165,045
Current assets		
Intercompany loan receivable	8	**1,121**
Trade and other receivables	9	**253**
Cash at bank and on deposit	10	**802**
		2,176
Total assets		**167,221**
Non-current liabilities		
Bank loan	11	**(21,310)**
Trade and other payables	13	**(894)**
		(22,204)
Current liabilities		
Intercompany loan payable	12	**(30,244)**
Trade and other payables	13	**(1,151)**
		(31,395)
Total liabilities		**(53,599)**
Net assets		**113,622**
Share capital and reserves		
Share capital account	14	**108,192**
Capital reserve		**3,268**
Revenue reserve		**2,162**
Equity shareholders' funds		**113,622**

Company number: 11137916

The financial statements were approved by the Board and authorised for issue on 26 September 2019 and were signed on its behalf by:

Gordon C Coull

Mr Gordon Coull, Director

The notes on pages 11 to 23 are an integral part of these statements.

Statement of Changes in Equity

For the period from incorporation on 8 January 2018 to 30 June 2019

	Note	Share Capital £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Total comprehensive income for the period		-	3,268	2,162	5,430
Transactions with owners recognised in equity:					
Issue of ordinary shares	14	108,192	-	-	108,192
Balance as at 30 June 2019		108,192	3,268	2,162	113,622

The notes on pages 11 to 23 are an integral part of these statements.

THR Number 15 plc

Statement of Cash Flows

For the period from incorporation on 8 January 2018 to 30 June 2019

	Notes	Period ended 30 June 2019 £'000
Cash flows from operating activities		
Profit before tax		**5,430**
Adjustments for:		
Interest receivable		**(64)**
Interest payable		**1,837**
Revaluation gains on investment properties	6	**(3,268)**
Increase in trade and other receivables		**(1,168)**
Increase in trade and other payables		**755**
		3,522
Interest received		**64**
Interest paid		**(1,311)**
Net cash inflow from operating activities		**2,275**
Cash flows from investing activities		
Acquisition of investment properties		**(6,782)**
Acquisition of subsidiaries	7	**(98,925)**
Net cash outflow from investing activities		**(105,707)**
Cash flows from financing activities		
Issue of ordinary share capital	14	**54,099**
Increase in intercompany loans received	12	**30,244**
Increase in intercompany loans granted	8	**(1,121)**
Bank loan drawn down, net of costs		**21,012**
Net cash inflow from financing activities		**104,234**
Net increase in cash and cash equivalents		**802**
Opening cash and cash equivalents		**-**
Closing cash and cash equivalents	10	**802**
Transactions which do not require the use of cash		
Movement in fixed or guaranteed rent reviews		**1,637**
Issue of ordinary share capital	14	**54,093**
Acquisition of investment properties	14	**(54,093)**
Total		**1,637**

The notes on pages 11 to 23 are an integral part of these statements.

Notes to the Financial Statements

1. Accounting policies

(a) Basis of Preparation
The Company has elected not to prepare consolidated financial statements. The financial statements as prepared are separate financial statements and the exemption from consolidation, in accordance with IAS 27 Consolidated and Separate Financial Statements, has been used. A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

Basis of Accounting
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The financial statements are prepared on a going concern basis. 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 ongoing 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 Company has entered into commercial property leases on its investment property portfolio. The Company 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.

Standards Issued but not yet Effective
The following standard has been issued but is not effective for this accounting period 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 Company's financial statements as presented for the current year given the approach to lessor accounting is substantially unchanged.

The Company 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 Company's business and assets, the Directors consider that the Company 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.

1. Accounting policies (continued)

(b) 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 reviews 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 Company acts as principal in this respect.

Dividends Receivable
Dividends receivable are recognised as income when the Company's right to receive payment is established.

(c) Expenses
Expenses are accounted for on an accruals basis and are inclusive of VAT.

(d) Dividends payable
Dividends payable by the Company are accounted for in the period in which they are paid.

(e) 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 Company 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
THR Number 15 plc joined the Group REIT regime with effect from 8 January 2018. 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.

2. Accounting policies (continued)

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

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

Property acquisition costs are written off as incurred.

(g) 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 Company, 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 Company has entered into commercial property leases on its investment property portfolio. The Company 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.

(h) 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 calculated at the acquisition date together with the amount of any non-controlling interests in the acquiree. For each business combination, the Company 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.

(i) 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.

1. Accounting policies (continued)

(j) Rent and Other Receivables (continued)
Rents receivable, which are mainly due to be received in advance at the relevant quarter end, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, 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) are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through use of an allowance account; and the amount of any loss is recognised in the 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.

Loans receivable have fixed or determinable payments and are recognised at amortised cost less provision for impairment as calculated through the expected credit loss method in accordance with IFRS 9.

(k) 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.

(l) Reserves
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; and
– rent adjustments which represent the effect of spreading uplifts and incentives.

Revenue Reserve
The net profit / (loss) arising in the Statement of Comprehensive Income is added to or deducted from this reserve which is available for paying dividends.

2. Investment management fee

	For the period ended 30 June 2019 £'000
Investment management fee	1,557
Total	**1,557**

The Company's Investment Manager is Target Fund Managers Limited. The Investment Manager is responsible for the day-to-day management of the Company. For the period to 30 June 2018, the Investment Manager was entitled to an annual base management fee of 0.90 per cent of the net assets of the Company. With effect from 1 July 2018, the Investment Manager is entitled to an annual base management fee calculated based on the net assets of the Company on a tiered basis set by reference to the net assets of the overall 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

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. Interest receivable

	For the period ended 30 June 2019 £'000
Intercompany loan interest	52
Bank interest	13
Total	**65**

4. Interest payable and similar charges

	For the period ended 30 June 2019 £'000
Bank loan interest	983
Intercompany loan interest	854
Total	**1,837**

5. Taxation

	For the period ended 30 June 2019 £'000
Current tax	-
Total tax charge	**-**

5. Taxation (continued)

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

	For the period ended 30 June 2019 £'000
Profit before taxation	5,430
UK tax at a rate of 19.0%	1,032
Effects of:	
REIT exempt gains	(302)
REIT exempt profits	(948)
Excess expenses carried forward	218
Total tax credit	**-**

From 8 January 2018, subject to continuing relevant UK-REIT criteria being met, the profits from the Company's property rental business, arising from both income and capital gains, are exempt from corporation tax.

The Company has unutilised tax losses carried forward in its residual business of £1,150,000 at 30 June 2019. No deferred tax asset has been recognised on this amount as the Company 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.

6. Investments

Freehold and Long Leasehold Properties

	As at 30 June 2019 £'000
Purchases	60,308
Acquisition costs capitalised	1,719
Acquisition costs written off	(1,719)
Revaluation movement – gains	4,946
Movement in market value	**65,254**
Fixed or guaranteed rent reviews and lease incentives recognised on acquisition	(3,075)
Movement in fixed or guaranteed rent reviews and lease incentives	(1,637)
Movement in carrying value	**60,542**
Closing market value	**65,254**
Closing fixed or guaranteed rent reviews and lease incentives	(4,712)
Closing carrying value	**60,542**

Changes in the valuation of investment properties

	For the period ended 30 June 2019 £'000
Revaluation movement	4,946
Acquisition costs written off	(1,719)
Movement in lease incentives	41
	3,268
Movement in fixed or guaranteed rent reviews	(1,678)
Gains on revaluation of investment properties	**1,590**

The properties were valued at £65,254,000 by Colliers International Healthcare Property Consultants Limited ("Colliers"), in their capacity as external valuers. The valuation was prepared on a tiered fee basis, linked to the portfolio value. 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.

6. Investments (continued)

Market Value represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews was £60,542,000. The adjustment consisted of £3,770,000 relating to fixed or guaranteed rent reviews and £942,000 of accrued income relation got 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 asset within 'trade and other receivables' (see note 9).

The Company 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 Company'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 Company'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 Company's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Company's assets within level 3 of the fair value hierarchy.

The Company's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield on these assets is 6.4%. The yield on individual assets ranges from between 6.1% and 6.7%. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

A decrease of 0.25 per cent in the investment yield applied to the portfolio will increase the fair value of the portfolio by £2.6m, and consequently increase the Company's reported income from unrealised gains on investments. An increase of 0.25 per cent in the yield will decrease the fair value of the portfolio by £2.4m and reduce the Company's income.

7. Investment in subsidiary undertakings

Name	Principal Activity	Country of incorporation	Investment at cost £'000
THR Number 8 Limited	Investment and property company	Gibraltar	6,328
THR Number 10 Limited	Investment and property company	England & Wales	20,200
THR Number 17 Limited	Investment and property company	England & Wales	16,464
THR Number 20 Limited	Investment and property company	England & Wales	16,420
THR Number 21 Limited	Investment and property company	England & Wales	18,593
THR Number 27 Limited	Investment and property company	England & Wales	13,500
THR Number 28 Limited	Investment and property company	England & Wales	7,420
Total			**98,925**

All subsidiary undertakings are wholly owned by the Company.

8. Intercompany loans to group companies

	As at 30 June 2019 £'000
Loan balance outstanding from THR Number 21 Limited	646
Loan balance outstanding from THR Number 20 Limited	440
Loan balance outstanding from THR Number 27 Limited	35
Total	**1,121**

The loan is unsecured and interest is payable at a fixed rate of 1.5 per cent per annum or such other interest rate that may be agreed from time to time between the Company and each of the relevant subsidiaries. The loans are repayable on demand.

9. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2019 £'000
Fixed rent reviews	3,770
Rental deposits held in escrow for tenants	894
Lease incentives	914
Total	**5,578**

Current trade and other receivables	As at 30 June 2019 £'000
Lease incentives	28
Accrued income	208
Other debtors	17
Total	**253**

At the period end, trade and other receivables includes a fixed rent review debtor of £3,770,000 which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £942,000 of accrued income relation to the recognition of rental income over rent free periods subsequently amortised over the life of the lease in accordance with the Company's accounting policies.

10. Cash and cash equivalents

All cash balances at the period end were held in cash in the current account.

	As at 30 June 2019 £'000
Cash at bank	802
Total	**802**

11. Bank loan

	As at 30 June 2019 £'000
Principal amount outstanding	22,000
Set-up costs	(1,084)
Amortisation of set-up costs	394
Total	**21,310**

On 29 January 2018, the THR Number 15 plc Group ("THR 15 Group"), which consists of THR Number 15 plc and its subsidiaries, THR Number 8 Limited, THR Number 10 Limited, THR Number 17 Limited, THR Number 20 Limited, THR Number 21 Limited, THR Number 27 Limited and THR Number 28 Limited, entered into a £40.0 million committed term loan 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 facility was increased to £80.0 million with effect from 1 March 2019 with all other terms remaining unchanged. Interest accrues on the drawn element of 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 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

This bank loan is secured by way of a fixed and floating charge over the majority of the assets of THR 15 Group and its subsidiaries. Under the bank covenants related to this loan, the Company is to ensure that for THR 15 Group:

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

THR 15 Group complied with all the bank loan covenants during the period.

Analysis of net debt:

	Cash and cash equivalents 2019 £'000	Borrowing 2019 £'000	Net debt 2019 £'000
Opening balance	-	-	-
Cash flows	802	(20,916)	(20,114)
Non-cash flows	-	(394)	(394)
Closing balance	802	(21,310)	(20,508)

12. Intercompany loans from group companies

	As at 30 June 2019 £'000
Loan balance due to Target Healthcare REIT Limited	30,117
Loan balance due to THR Number 28 Limited	127
Total	**30,244**

The loans are unsecured and interest is payable at a fixed rate of 1.5 per cent per annum or such other interest rate that may be agreed from time to time between the Company and its parent/ subsidiary. The loans are repayable on demand.

13. Trade and other payables

Non-current trade and other payables	As at 30 June 2019 £'000
Rental deposits	894
Total	**894**

Current trade and other payables	As at 30 June 2019 £'000
Rental income received in advance	479
Bank loan interest due	131
Other payables	541
Total	**1,151**

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

14. Share Capital Movements

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of £1 each		
Ordinary shares of £1 each issued on 8 January 2018	50,000	50
Ordinary shares of £1 each issued on 29 January 2018	54,093,134	54,093
Ordinary shares of £1 each issued on 26 June 2018	36,548,000	36,548
Ordinary shares of £1 each issued on 10 July 2018	3,664,955	3,665
Ordinary shares of £1 each issued on 7 February 2019	13,835,730	13,836
Closing balance as at 30 June 2019	**108,191,819**	**108,192**

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

The issue of 54,093,134 ordinary shares on 29 January 2018 was satisfied by the transfer of a portfolio of properties (including the entire issued share capital of THR8, THR10 and THR17) from Target Healthcare REIT Limited to the Company. The transfer was conducted at fair value.

The issue of the remaining 54,098,685 ordinary shares was for cash and raised gross proceeds of £54,099,000.

Capital management
The Company's capital is represented by the share capital account, capital reserve, revenue reserve and long-term borrowings. The Company is not subject to any externally-imposed capital requirements, other than the financial covenants on its loan facilities as detailed in note 11. The capital of the Company is managed in order to permit its ultimate parent to meet the Group's investment policy, in pursuit of the Group's investment objective.

Capital risk management
The objective of the Company's parent 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 Company'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.

The Company's capital structure may be amended in order to meet the overall capital funding requirements of the Target Healthcare REIT Group. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its parent company, return capital to its parent or issue new shares. The Company did not repurchase any ordinary shares during the period.

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

15. Financial instruments

Consistent with the Company's objective, the Company holds UK care home property investments. In addition, the Company's financial instruments comprise a bank loan, cash and receivables and payables that arise directly from its operations. The Company does not have any exposure to derivative instruments.

The Company 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 Company are maintained in pounds sterling.

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

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 Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveyor's costs in re-letting, maintenance costs, insurances, rates and marketing costs and will have a material adverse impact on the financial condition and performance of the Company and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager, Target Fund Managers Limited, monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

There were no financial assets which were either past due or considered impaired at 30 June 2019.

All of the Company'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 Company'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.

Liquidity risk
Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's investments comprise UK care homes. Property and property-related assets in which the Company invests are not traded in an organised public market and may be illiquid. As a result, the Company 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 Company's liquidity risk is managed on an ongoing basis by the Investment Manager and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Company 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	More than one year £'000	Total £'000
Intercompany loan receivable	1,121	-	-	1,121
Rental deposits held in escrow for tenants	-	-	894	894
Other debtors	225	-	-	225
Cash	802	-	-	802
Total	**2,148**	**-**	**894**	**3,042**

15. 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	More than one year £'000	Total £'000
Bank loan	247	735	22,571	23,553
Intercompany loan payable	30,244	-	-	30,244
Rental deposits	-	-	894	894
Other payables	672	-	-	672
Total	**31,163**	**735**	**23,465**	**55,363**

The total amount due to HSBC under the interest-bearing £80 million bank facility (see note 11 for further details) assumes that the drawn element of the loan remains unchanged from 30 June 2019 until expiry on 29 January 2021. The interest rate on the loan is based on the rate of three month LIBOR at 30 June 2019 plus the lending margin.

Interest rate risk

Interest rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates. Some of the Company's financial instruments are interest-bearing. As a consequence, the Company will be exposed to interest rate risk due to fluctuations in the prevailing market rate.

The Company's policy is to hold cash in variable rate or short term fixed rate bank accounts. Interest is received on cash at a variable rate of 0.04 per cent. Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management policies. These balances expose the Company to cash flow interest rate risk as the Company's income and operating cash flows will be affected by movements in the market rate of interest.

The THR Number 15 plc Group ("THR 15 Group") has a £80 million committed term loan which is charged interest at a rate of three month LIBOR plus a margin. Of this facility, £22.0 million had been drawn by THR Number 15 plc at 30 June 2019. The interest payable on the loan facility is unhedged.

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

	As at 30 June 2019	
	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	-	802
Intercompany loans receivable	-	1,121
Intercompany loans payable	-	(30,244)
Bank loan	-	(22,000)

An increase of 0.25 per cent. in interest rates would have decreased the reported profit for the period and the net assets at the period end by £126,000 (annualised), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on variable rate balances as at 30 June 2019 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 6.

15. Financial instruments (continued)

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Company's investment property portfolio held at the balance sheet date are disclosed in note 6. A 10 per cent increase in the value of the investment properties held as at 30 June 2019 would have increased net assets available to shareholders and increased the net income for the period by £6.1 million; an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

The calculations are based on the investment property valuations at the respective balance sheet date and may not be reflective of actual future market conditions.

16. Lease length

The Company leases out its investment properties under operating leases.

The minimum lease payments based on the unexpired lessor lease length at the period end was as follows (based on annual rentals):

	As at 30 June 2019 **£'000**
Less than one year	4,504
Between two and five years	19,042
Over five years	157,662
Total	**181,208**

The largest single tenant at the period end accounted for 22 per cent of the current annual rental income. There were no unoccupied properties at the period end.

The Company 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 remaining lease terms of between 22 years and 35 years.

17. 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.

The Company's parent, Target Healthcare REIT Limited, and its subsidiaries, as set out in note 7, are considered to be related parties. Details of the Company's paid or received transactions with its subsidiaries are outlined in notes 3 and 4 and details of the Company's payable or receivable transactions with its subsidiaries are outlined in notes 8 and 12. The transfer of the initial property portfolio from the parent, in exchange for the issue of shares by the Company, is outlined in note 14.

The Investment Manager appointed to the Group, Target Fund Managers Limited, is also considered to be a related party. The Investment Manager received £1,557,000 in relation to the period ended 30 June 2019 of which £291,000 (including VAT) remained payable at the period end.

18. Holding Company and Ultimate Parent Company

During the year ended 30 June 2019, the Company was a wholly owned subsidiary of Target Healthcare REIT Limited, a listed Company registered in Jersey. The Company's results are consolidated in the Group Financial Statements of Target Healthcare REIT Limited for the year ended 30 June 2019, copies of which are available from Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW.

With effect from 7 August 2019, Target Healthcare REIT plc, a company incorporated in England & Wales, became the sole shareholder in Target Healthcare REIT Limited and the ultimate parent of the Company.