THR Number One PLC

(Registered number 08996524)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2017

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COMPANIES HOUSE

THR Number One PLC

Directors

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

Registered Office

Springfield Lodge
Colchester Road
Chelmsford
Essex
CM2 5PW

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh
EH2 4DF

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

STRATEGIC REPORT

Principal Activity and Status

THR Number One 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 Two Limited ('THR2') and THR Number 3 Limited ('THR3'). Both THR2 and THR3 are 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 One 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.

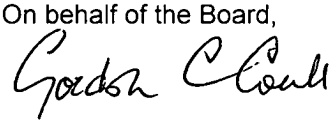
A full business review is contained in the report and financial statements of the parent company which can be found on the parent company's website: www.targethealthcarereit.co.uk.

During the year ended 30 June 2017 the Company made a profit of £10,546,000 (2016: £9,778,000). This mainly reflects rental income received of £8,512,000, 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 year by a total of £981,000. For the first time, the Company received dividend income from its subsidiaries totalling £2,913,000, with both subsidiaries having distributed the total net rental income they had accumulated over the period for which they had been members of the Target Healthcare REIT Limited group. The Company's only significant expense is the investment management fee which is set by reference to the net assets of the Company, with full details contained in note 3.

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 17 on pages 22 to 25.

On behalf of the Board,



Mr Gordon Coull
Director
3 October 2017

Report of the Directors

The Directors submit their Report and Financial Statements of the Company for year ended 30 June 2017.

Results and Dividends

The profit for the year was £10,546,000 (2016: £9,778,000).

The Company paid a single interim dividend during the year, on 26 May 2017, of £8,573,000 (2016: nil). No final dividend is proposed in respect of the year (2016: nil).

Directors

The Directors who held office during the period to 3 October 2017 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 2017 and as at 3 October 2017.

The Directors' interests in the ultimate parent company, Target Healthcare REIT Limited, are set out in that company's Annual Report and Financial Statements for the year ended 30 June 2017.

Auditors

The Company's auditors for the year 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
3 October 2017

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
3 October 2017

Independent Auditor's Report to the Member of THR Number One PLC

Opinion

We have audited the financial statements of THR Number One PLC for the year ended 30 June 2017 which comprise Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes1 to 20, 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 company's affairs as at 30 June 2017 and of its profit for the year 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 set out on pages 1 to 4, 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 year 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 3, 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.

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.

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.

Ernst & Young LLP

Susan Dawe (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
3 October 2017

Statement of Comprehensive Income
For the year ended 30 June 2017

	Notes	Year ended 30 June 2017 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2016 Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**6,325**	**2,187**	**8,512**	6,281	2,299	8,580
Dividend income	2	**2,913**	**-**	**2,913**	-	-	-
Total revenue		**9,238**	**2,187**	**11,425**	6,281	2,299	8,580
Gains on revaluation of investment properties	8	**-**	**981**	**981**	-	3,089	3,089
Total income		**9,238**	**3,168**	**12,406**	6,281	5,388	11,669
Expenditure							
Investment management fee	3	**(1,001)**	**-**	**(1,001)**	(866)	-	(866)
Auditor's remuneration		**(10)**	**-**	**(10)**	(10)	-	(10)
Other expenses		**(19)**	**-**	**(19)**	(14)	-	(14)
Total expenditure		**(1,030)**	**-**	**(1,030)**	(890)	-	(890)
Profit before finance costs and taxation		**8,208**	**3,168**	**11,376**	5,391	5,388	10,779
Net finance costs							
Interest receivable	4	**105**	**-**	**105**	62	-	62
Interest payable	5	**(946)**	**-**	**(946)**	(1,046)	-	(1,046)
Profit before taxation		**7,367**	**3,168**	**10,535**	4,407	5,388	9,795
Taxation	6	**11**	**-**	**11**	(17)	-	(17)
Profit for the year		**7,378**	**3,168**	**10,546**	4,390	5,388	9,778
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swaps		**-**	**307**	**307**	-	(316)	(316)
Total comprehensive income for the year		**7,378**	**3,475**	**10,853**	4,390	5,072	9,462

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 year.

The notes on pages 11 to 25 are an integral part of these statements.

Statement of Financial Position
As at 30 June 2017

	Notes	30 June 2017 £'000	30 June 2016 £'000
Non-current assets			
Investment properties	8	**82,847**	81,866
Investment in subsidiaries	9	**19,517**	19,517
Trade and other receivables	11	**1,741**	1,727
		104,105	103,110
Current assets			
Intercompany loan due	10	**5,027**	4,930
Trade and other receivables	11	**6,652**	4,469
Cash at bank and on deposit	12	**5,479**	1,190
		17,158	10,589
Total assets		**121,263**	113,699
Non-current liabilities			
Bank loan	13	**(29,331)**	(20,449)
Interest rate swaps	13	**(9)**	(316)
Trade and other payables	14	**(1,741)**	(1,727)
		(31,081)	(22,492)
Current liabilities			
Intercompany loan payable	15	**-**	(3,330)
Trade and other payables	14	**(1,672)**	(1,647)
		(1,672)	(4,977)
Total liabilities		**(32,753)**	(27,469)
Net assets		**88,510**	86,230
Share capital and reserves			
Share capital account	16	**740**	740
Share premium		**68,307**	68,307
Hedging reserve		**(9)**	(316)
Capital reserve		**12,094**	8,926
Revenue reserve		**7,378**	8,573
Equity shareholders' funds		**88,510**	86,230

The financial statements were approved by the Board and authorised for issue on 3 October 2017 and were signed on its behalf by:



Mr Gordon Coull, Director

The notes on pages 11 to 25 are an integral part of these statements.

Statement of Changes in Equity

For the year ended 30 June 2017

	Share Capital £'000	Share premium £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 1 July 2016	740	68,307	(316)	8,926	8,573	86,230
Total comprehensive income for the year	-	-	307	3,168	7,378	10,853
Transactions with owners recognised in equity:						
Dividends paid	-	-	-	-	(8,573)	(8,573)
Balance as at 30 June 2017	740	68,307	(9)	12,094	7,378	88,510

For the year ended 30 June 2016

	Share Capital £'000	Share premium £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 1 July 2015	740	68,307	-	3,538	4,183	76,768
Total comprehensive income for the year	-	-	(316)	5,388	4,390	9,462
Balance as at 30 June 2016	740	68,307	(316)	8,926	8,573	86,230

The notes on pages 11 to 25 are an integral part of these statements.

Statement of Cash Flows

For the year ended 30 June 2017

	Notes	Year ended 30 June 2017 £'000	Year ended 30 June 2016 £'000
Cash flows from operating activities			
Profit before tax		**10,535**	9,795
Adjustments for:			
Dividends receivable from subsidiaries		**(2,913)**	-
Interest receivable		**(105)**	(62)
Interest payable		**946**	1,046
Revaluation gains on investment properties		**(3,168)**	(5,388)
Decrease in trade and other receivables		**9**	23
Increase/(decrease) in trade and other payables		**29**	(311)
		5,333	5,103
Interest paid		**(787)**	(788)
Interest received		**105**	73
Tax paid		**(11)**	-
Net cash inflow from operating activities		**4,640**	4,388
Cash flows from investing activities			
Dividends received from subsidiaries	2	**2,913**	-
Net cash inflow from investing activities		**2,913**	-
Cash flows from financing activities			
(Repayment)/drawdown of intercompany loan received		**(3,330)**	1,626
Increase in intercompany loan made		**(97)**	(3,980)
Bank loan drawn down/ (repaid), including costs		**8,736**	(5,742)
Dividends paid	7	**(8,573)**	-
Net cash outflow from financing activities		**(3,264)**	(8,096)
Net increase/(decrease) in cash and cash equivalents		**4,289**	(3,708)
Opening cash and cash equivalents		**1,190**	4,898
Closing cash and cash equivalents	12	**5,479**	1,190

Transactions which do not require the use of cash

Movement in fixed or guaranteed rent reviews		**2,187**	2,299
Total		**2,187**	2,299

The notes on pages 11 to 25 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.

Applicable Standards and Interpretations

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

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

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income. These amendments do not have any significant impact on the Company.
- *Annual Improvements for IFRSs 2012-2014 Cycle*
  This cycle of annual improvements for IFRSs became effective for the Company in the current year but do not have any significant impact on the Company.

Standards Issued but not yet Effective

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

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

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

1. Accounting policies (continued)

Basis of Accounting (continued)

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

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

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

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

  The standard will be effective for annual periods beginning on or after 1 January 2018. The Company is yet to assess IFRS 15's full impact but it is not currently anticipated that this standard will have any material impact on the Company's financial statements as presented for the current year.

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

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

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 One PLC joined the Group REIT regime with effect from 17 June 2014. 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.

1. 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.

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

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

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

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

(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.

(j) Rent and Other Receivables
Rents receivable, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer likely. Bad debts are written off when identified. Other incentives provided to tenants and fixed or guaranteed rental uplifts are recognised as an asset and amortised over the period from the date of lease commencement to the earliest termination date.

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

1. Accounting policies (continued)

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

Derivative instruments are initially recognised in the 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 Company 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 a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge.

(m) Reserves
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; 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. Dividend income	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Dividend from THR Number Two Limited	2,073	-
Dividend from THR Number 3 Limited	840	-
Total	**2,913**	**-**

3. Investment management fee	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Investment management fee	1,001	866
Total	**1,001**	**866**

The Company's Investment Manager is Target Advisers LLP (the 'Investment Manager' or 'Target') and is responsible for the day-to-day management of the Company. The Investment Manager is entitled to an annual base management fee of 0.90 per cent of the net assets of the Company.

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

4. Interest receivable	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Intercompany loan interest	102	33
Bank interest	3	29
Total	**105**	**62**

5. Interest payable and similar charges	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Intercompany loan interest	44	54
Bank loan interest	902	992
Total	**946**	**1,046**

6. Taxation

	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Current tax	-	17
Adjustment to tax charge for prior years	(11)	-
Total tax (credit)/charge	**(11)**	**17**

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:

	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Profit before taxation	10,535	9,795
UK tax at a rate of 19.75% (2016: 20.0) per cent	2,081	1,959
Effects of:		
REIT exempt gains	(194)	(618)
REIT exempt profits	(2,058)	(1,370)
Adjustment to tax for prior years	(11)	-
Excess expenses carried forward	171	46
Total tax (credit)/charge	**(11)**	**17**

From 17 June 2014, 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 £1,096,000 at 30 June 2017 (2016: £232,000). 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.

7. Dividends paid

Amounts paid as distributions for equity holders

	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Interim dividend paid on 26 May 2017	8,573	-
Total	**8,573**	**-**

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend.

8. Investments

Freehold and Long Leasehold Properties

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Opening market value	**86,324**	**80,936**
Opening fixed or guaranteed rent reviews	(4,458)	(2,159)
Opening carrying value	**81,866**	**78,777**
Revaluation movement – gains	3,685	5,388
Revaluation movement – losses	(517)	-
Movement in market value	**3,168**	**5,388**
Fixed or guaranteed rent reviews movement	(2,187)	(2,299)
Movement in carrying value	**981**	**3,089**
Closing market value	**89,492**	**86,324**
Closing fixed or guaranteed rent reviews	(6,645)	(4,458)
Movement in carrying value	**82,847**	**81,866**

Changes in the valuation of investment properties

	For the year ended 30 June 2017 £'000	For the year ended 30 June 2016 £'000
Revaluation movement	3,168	5,388
Movement in fixed or guaranteed rent reviews	(2,187)	(2,299)
Gains on revaluation of investment properties	**981**	**3,089**

The properties were valued at £89,492,000 (2016: £86,324,000) 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 January 2014 ('the Red Book') issued by the Royal Institution of Chartered Surveyors (RICS) on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Market Value represents the estimated amount for which 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 £82,847,000 (2016: £81,866,000).

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

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.

8. Investments (continued)

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 around the blended 7 per cent. modelled at the time of launch. The yield on individual assets ranges from between 6.25% and 8.0%. 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 £3.5m (2016: £3.3m), 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 £3.2m (2016: £3.0m) and reduce the Company's income.

9. Investment in subsidiary undertakings

Name	Principal Activity	Country of incorporation	Investment at cost £'000
THR Number Two Limited	Investment and property company	England & Wales	13,450
THR Number 3 Limited	Investment and property company	England & Wales	6,067
Total			**19,517**

10. Intercompany loan to THR Number Two Limited

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Loan balance outstanding	5,027	4,930
Total	**5,027**	**4,930**

The loan is unsecured and interest is payable at a fixed rate of 1.5 per cent per annum (2016: 2.5 per cent) or such other interest rate that may be agreed from time to time between the Company and THR Number Two Limited. The loan is repayable on demand.

11. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Cash held for tenants	1,741	1,727
Total	**1,741**	**1,727**

Current trade and other receivables	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Fixed rent reviews	6,645	4,458
Interest receivable from subsidiary company	-	10
Other debtors	7	1
Total	**6,652**	**4,469**

At the year end, trade and other receivables includes a fixed rent review debtor of £6,645,000 (2016: £4,458,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term in accordance with the Company's accounting policies.

12. Cash and cash equivalents

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

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Cash at bank	5,479	1,190
Total	**5,479**	**1,190**

13. Bank loan

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Principal amount outstanding	30,000	21,000
Set-up costs	(1,100)	(836)
Amortisation of set-up costs	431	285
Total	**29,331**	**20,449**

At 30 June 2016, the THR Number One PLC Group ('THR 1 Group'), which consists of THR Number One PLC and its three subsidiaries, THR Number Two Limited, THR Number 3 Limited and THR Number 9 Limited, had a £50 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc which was repayable on 23 June 2019. Interest accrued on the bank loan at a variable rate, based on three month LIBOR plus margin and mandatory lending costs, and was payable quarterly. At 30 June 2016, the margin was 2 per cent per annum for the duration of the loan and a non-utilisation fee of 1 per cent per annum is payable on any undrawn element of the facility.

On 1 September 2016, the THR 1 Group extended its loan facility to 1 September 2021, with an option of two further one year extensions thereafter, subject to the consent of RBS. The margin on the extended facility was reduced from 2.0 per cent to 1.5 per cent per annum for the duration of the loan. The non-utilisation fee payable on any undrawn element of the facility was reduced to 0.75 per cent per annum. There were no other material amendments to the facility. The THR 1 Group drew down a further £19.0 million under this facility during the year ended 30 June 2017.

The total loan facility of £50 million may be drawn by different members of the THR1 Group. As at 30 June 2017, THR1 Group had drawn a total of £40.0 million under its loan facility, of which £30.0 million (2016: £21.0 million) was drawn by the Company and £10.0 million (2016: nil) was drawn by THR Number Two Limited. Neither THR Number 3 Limited nor THR Number 9 Limited had any amount drawn down as at 30 June 2017 (2016: nil).

13. Bank loan (continued)

The Company has entered into an interest rate swap for a notional value of £21.0 million, with a starting date of 7 July 2016 and a termination date of 23 June 2019. Under the terms of the interest rate swap, the Company will pay quarterly a fixed rate of interest of 0.85 per cent per annum and will receive three month LIBOR. On 21 September 2016, the Company entered into a second interest rate swap, also for a notional value of £21.0 million, under which, for the period from 24 June 2019 to 1 September 2021, the Company will pay quarterly a fixed rate of interest of 0.70 per cent per annum and will receive three month LIBOR.

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

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

This bank loan is secured by way of a fixed and floating charge over the majority of the assets of THR 1 Group and its subsidiaries. Under the bank covenants related to this loan, the Company is to ensure that for THR 1 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 1 Group complied with all the bank loan covenants during the year.

14. Trade and other payables

Non-current trade and other payables	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Rental deposits	1,741	1,727
Total	**1,741**	**1,727**

Current trade and other payables	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Rental income received in advance	1,225	1,216
Bank loan interest due	204	176
Amounts due to parent company	-	15
Interest due to parent company	-	15
Other payables	243	225
Total	**1,672**	**1,647**

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

15. Intercompany loan from Target Healthcare REIT Limited

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Principal amount outstanding	-	3,330
Total	**-**	**3,330**

The principal loan was unsecured and interest was payable at a fixed rate of 1.5 per cent (2016: 2.5 per cent) per annum or such other interest rate that may be agreed from time to time between the Company and Target Healthcare REIT Limited. The loan was repayable on demand and was repaid in full during the year ended 30 June 2017.

16. Share Capital Movements

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of £1 each		
Opening balance as at 30 June 2016	739,965	740
Closing balance as at 30 June 2017	**739,965**	**740**

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

Capital management
The Company's capital is represented by the share capital account, share premium, capital reserve and revenue reserve. The Company is not subject to any externally-imposed capital requirements. 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.

17. 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's exposure to derivative instruments consists of interest rate swaps used to fix the interest rate on the Company's variable rate borrowings.

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 Advisers LLP, monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

There were no financial assets which were either past due or considered impaired at 30 June 2017 (2016: nil).

17. Financial instruments (continued)

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, Target Advisers LLP, 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 2017

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Intercompany balances	5,027	-	-	5,027
Cash held for tenants	-	-	1,741	1,741
Other debtors and prepayments	7	-	-	7
Cash	5,479	-	-	5,479
Total	**10,513**	**-**	**1,741**	**12,254**

Financial assets as at 30 June 2016

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Intercompany balances	4,940	-	-	4,940
Cash held for tenants	-	-	1,727	1,727
Other debtors and prepayments	1	-	-	1
Cash	1,190	-	-	1,190
Total	**6,131**	**-**	**1,727**	**7,858**

The total amount due from THR Number Two Limited under the interest-bearing intercompany loan includes the expected interest payments due based on the rate of 1.5% as at 30 June 2017 (2016: 2.5%).

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

Financial liabilities as at 30 June 2017

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan and interest rate swaps	197	584	32,410	33,191
Rental deposits	-	-	1,741	1,741
Other payables	447	-	-	447
Total	**644**	**584**	**34,151**	**35,379**

17. Financial instruments (continued)

Financial liabilities as at 30 June 2016

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan and interest rate swap	224	665	22,760	23,649
Intercompany balances	3,360	-	-	3,360
Rental deposits	-	-	1,727	1,727
Other payables	401	-	-	401
Total	**3,985**	**665**	**24,487**	**29,137**

The total amount due to RBS under the interest-bearing £50 million bank facility includes the expected hedged interest payments due under both the loan and interest rate swaps combined (see note 13 for further details) assuming that both the drawn element of the loan and the notional value of the interest rate swaps remain unchanged from 30 June 2017 until expiry on 1 September 2021 (2016: original expiry date of 23 June 2019). The interest rate on the unhedged element of the loan is based on the rate of three month LIBOR at 30 June 2017 plus the lending margin. The commitment fee payable on the undrawn element of the facility is included.

Interest rate risk

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 0.01 (2016: 0.50 per cent, fixed for six months). 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 One PLC Group ("THR 1 Group") has a £50 million (2016: £50 million) committed term loan and revolving capital facility which is charged interest at a rate of three month LIBOR plus a margin. Of this facility, £30.0 million had been drawn by THR Number One plc at 30 June 2017 (2016: £21.0 million). The Company has hedged its exposure on the £30.0 million loan drawn down at 30 June 2017 through entering into fixed rate Interest Rate Swaps (see note 13). Fixing the interest rate exposes the Company to fair value interest rate risk. At 30 June 2017, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swaps and the reported total comprehensive income for the year by £0.3 million (2016: £0.2 million). A decrease in interest rates would have had an equal and opposite effect.

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

	As at 30 June 2017		As at 30 June 2016	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	-	**5,479**	1,190	-
Intercompany Loan to THR Number Two Limited	**5,027**	-	4,930	-
Bank loan and interest rate swaps	**(30,000)**	-	(21,000)	-
Intercompany Loan from Target Healthcare REIT Limited	-	-	(3,330)	-

An increase of 0.25 per cent. in interest rates would have increased the reported profit for the period and the net assets at the period end by £14,000 (2016: £nil), 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 2017 and 30 June 2016 and may not be reflective of actual future conditions.

17. Financial instruments (continued)

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 8.

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 8. A 10 per cent increase in the value of the investment properties held as at 30 June 2017 would have increased net assets available to shareholders and increased the net income for the year by £8.3 million (2016: £8.2 million); an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

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

18. 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 year end was as follows (based on annual rentals):

	As at 30 June 2017 £'000	As at 30 June 2016 £'000
Less than one year	6,520	6,384
Between two and five years	27,576	26,844
Over five years	207,005	215,186
Total	**241,101**	**248,414**

The largest single tenant at the period end accounted for 28 per cent (2016: 28 per cent) of the current annual rental income. There were no unoccupied properties at the year 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 24 years and 32 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.

The Company's subsidiaries, THR Number Two Limited and THR Number 3 Limited, are considered to be related parties. Details of the Company's paid or received transactions with its subsidiaries are outlined in notes 2, 4 and 5 and details of the Company's payable or receivable transactions with its subsidiaries are outlined in notes 9 and 10.

The Investment Manager appointed to the Group, Target Advisers LLP, is also considered to be a related party. Target Advisers LLP received £1,001,000 in relation to the year ended 30 June 2017 (2016: £866,000) of which £231,000 (2016: £197,000) remained payable at the year end.

20. Holding Company

The Company is 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, copies of which are available from Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW.