THR Number 22 Limited
(formerly DMWSL 890 Limited)

(Registered number 11390916)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the period from incorporation on 31 May 2018 to 30 June 2019

THR Number 22 Limited

Directors

Mr Gordon Bland
Mr Andrew Brown
Mr Donald Campbell
Mr John Flannelly
Mr Kenneth MacKenzie

Registered Office

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

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh
EH2 4DF

Auditors

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

THR Number 22 Limited

STRATEGIC REPORT

Principal Activity and Status

THR Number 22 Limited (the "Company"), which is not a 'Close Company', is a Property Investment Company.

At 30 June 2019, the Company was a wholly owned subsidiary of Target Healthcare REIT Limited, a specialist investor in high quality, modern, purpose-built UK care homes and other healthcare assets (see note 13).

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.

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 22 Limited 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 during the period as a subsidiary of Target Healthcare REIT Limited and has a single property asset, being a forward funding opportunity in Wetherby.

The development was funded under a capped development contract to create a 66-bed, residential care home. The property, which was completed during the period, was developed to a high standard, with the inclusion of full en-suite wetroom facilities, large public spaces and a high-quality fit-out. On completion of the building, the home was let to Ideal Carehomes Limited for 35 years on a full repairing and insuring lease with RPI-linked rent increases subject to a cap and collar. The Company earned interest through the construction phase. The additional finance required by the Company to complete the development was provided by the Target Healthcare REIT Limited group (the "Group").

During the period ended 30 June 2019 the Company made a loss of £60,000. This mainly reflects the movement of the fair value of the investment property under construction of £426,000, including costs of acquisition, and the interest paid on the finance used to develop the property of £110,000. Subsequent to the completion of the property, the Company received £481,000 of rental income from the tenant.

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 10 on pages 17 to 19.

On behalf of the Board,

Mr Gordon Bland
Director
8 January 2020

Report of the Directors

The Directors submit their Report and Financial Statements of the Company for the period from incorporation on 31 May 2018 to 30 June 2019.

Results and Dividends

The loss for the period was £60,000.

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 8 January 2020 are shown below:

Mr Gordon Bland – appointed 8 August 2018
Mr Andrew Brown – appointed 8 August 2018
Mr Donald Campbell – appointed 8 August 2018
Mr John Flannelly – appointed 8 August 2018
Mr Kenneth MacKenzie – appointed 8 August 2018
Mr John Pentland – resigned 8 August 2018
Mr Paul Barron – resigned 8 August 2018

No Director had any interest in the shares of the Company as at 30 June 2019 and as at 8 January 2020.

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.

Conclusion with Respect to the Annual Report and Financial Statements

The Directors have concluded that the Annual Report and Financial Statements for the year ended 30 June 2019, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's business model, strategy and performance.

On behalf of the Board,

Mr Gordon Bland
Director
8 January 2020

Statement of Directors' Responsibilities in respect of the Annual Report and 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

Mr Gordon Bland
Director
8 January 2020

Independent Auditor's Report to the Member of THR Number 22 Limited

Opinion

We have audited the financial statements of THR Number 22 Limited ("the Company") 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 14, 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 loss 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 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 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
8 January 2020

Statement of Comprehensive Income
For the period from incorporation on 31 May 2018 to 30 June 2019

	Notes	Period to 30 June 2019 £'000
Rental income		**481**
Total revenue		**481**
Loss on revaluation of investment property	4	**(426)**
Total income		**55**
Expenditure		
Auditor's remuneration		**(5)**
Total expenditure		**(5)**
Profit before finance costs and taxation		**50**
Net finance costs		
Interest payable	2	**(110)**
Loss before taxation		**(60)**
Taxation	3	**-**
Loss and total comprehensive income for the period		**(60)**

The Company does not have any income or expense that is not included in the loss for the period. Accordingly, the "Loss for the period" is also the "Total Comprehensive Income", as defined in IAS1 (revised) and no separate Statement of Other Comprehensive Income has been presented.

This statement represents the Company's profit and loss account, prepared in accordance with IFRSs.

All items in the above statement are derived from continuing operations. No operations were discontinued in the period.

The notes on pages 11 to 20 are an integral part of these statements.

THR Number 22 Limited

Statement of Financial Position
As at 30 June 2019

	Notes	30 June 2019 £'000
Non-current assets		
Investment property	4	**9,492**
Trade and other receivables	5	**144**
		9,636
Current assets		
Trade and other receivables	5	**50**
Cash at bank and on deposit	6	**160**
		210
Total assets		**9,846**
Current liabilities		
Intercompany loan payable	7	**(9,759)**
Trade and other payables	8	**(147)**
Total liabilities		**(9,906)**
Net liabilities		**(60)**
Share capital and reserves		
Share capital account	9	**-**
Capital reserve		**(282)**
Revenue reserve		**222**
Equity shareholders' funds		**(60)**

Company number: 11390916

The financial statements were approved by the Board and authorised for issue on 8 January 2020 and were signed on its behalf by:

Mr Gordon Bland, Director

The notes on pages 11 to 20 are an integral part of these statements.

THR Number 22 Limited

Statement of Changes in Equity

For the period from incorporation on 31 May 2018 to 30 June 2019

	Note	Share Capital £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Loss for the period		-	-	(60)	(60)
Reallocation of revaluation movement		-	(426)	426	-
Reallocation of movement in fixed or guaranteed rent reviews		-	144	(144)	-
Transactions with owners recognised in equity:					
Issue of ordinary shares	9	-	-	-	-
Balance as at 30 June 2019		-	(282)	222	(60)

The notes on pages 11 to 20 are an integral part of these statements.

THR Number 22 Limited

Statement of Cash Flows

For the period from incorporation on 31 May 2018 to 30 June 2019

	Notes	Period ended 30 June 2019 £'000
Cash flows from operating activities		
Loss before tax		**(60)**
Adjustments for:		
Interest payable		**110**
Revaluation loss on investment property	4	**282**
Increase in trade and other payables		**147**
		479
Interest paid		**(110)**
Net cash inflow from operating activities		**369**
Cash flows from investing activities		
Capital expenditure on investment property		**(9,918)**
Net cash outflow from investing activities		**(9,918)**
Cash flows from financing activities		
Issue of ordinary share capital	9	**-**
Increase in intercompany loans received		**9,759**
Increase in intercompany loans made		**(50)**
Net cash inflow from financing activities		**9,709**
Net increase in cash and cash equivalents		**160**
Opening cash and cash equivalents		**-**
Closing cash and cash equivalents	6	**160**

The notes on pages 11 to 20 are an integral part of these statements.

Notes to the Financial Statements

1. Accounting policies

(a) Basis of Accounting

The financial statements have been prepared and approved in accordance with International Financial Reporting Standards ('IFRSs'), as adopted by the EU, interpretations issued by the International Financial Reporting Interpretations Committee and applicable legal and regulatory requirements.

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.

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

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.

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

- *IFRS 16 ' Leases'*
  In January 2016, the IASB published the final version of IFRS 16 'Leases' and it was endorsed by the EU on 31 October 2017. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

  IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The 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.

(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 review uplifts is recognised on a straight line basis over the lease term; and
– 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.

1. Accounting policies (continued)

Rental Income (continued)
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 recognised through the Statement of Comprehensive Income and transferred to the Capital Reserve.

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.

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

(d) 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
The Company joined the Group REIT regime with effect from 8 August 2018, prior to which the Company had been dormant. 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.

(e) 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. Property acquisition costs are written off as incurred. 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.

1. Accounting policies (continued)

(e) Investment Properties (continued)
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.

(f) 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.

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

Contingent rents are recognised in the period in which they are earned and paid and therefore no amount is accrued at the balance sheet 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.

(h) Interest-bearing borrowings
All 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.

(i) 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. Interest payable and similar charges

	For the period ended 30 June 2019 £'000
Intercompany loan interest	110
Total	**110**

3. Taxation

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

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
Loss before taxation	(60)
UK tax at a rate of 19.0%	(11)
Effects of:	
REIT exempt losses	99
REIT exempt income	(77)
Utilisation of Group relief	(11)
Total tax credit	-

From 8 August 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. Prior to this date, the Company was dormant.

4. Investments

Freehold Property

	As at 30 June 2019 £'000
Capital expenditure	9,646
Acquisition costs capitalised	272
Acquisition costs written off	(272)
Revaluation movement – losses	(10)
Movement in market value	**9,636**
Movement in fixed or guaranteed rent reviews	(144)
Movement in carrying value	**9,492**
Closing market value	**9,636**
Closing fixed or guaranteed rent reviews	(144)
Closing carrying value	**9,492**

Change in the valuation of the investment property

	For the period ended 30 June 2019 £'000
Revaluation movement	(10)
Acquisition costs written off	(272)
	(282)
Movement in fixed or guaranteed rent reviews	(144)
Loss on revaluation of the investment property	**(426)**

4. Investments (continued)

The Company's investment property consists of a single care home developed under a fixed price forward funding agreement. On completion the property was let at an agreed rental level. The lease is for 35 years with RPI uplifts subject to cap and collar.

The property was valued at £9,636,000 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 property 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. 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 property after adjusting for the movement in the fixed or guaranteed rent reviews was £9,492,000.

The Company is required to classify fair value measurements of its investment property 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 property is 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. Whilst the property is under development, the fair value is based on the expected fair value of the completed property less costs to completion (including the deduction of an additional provision to cover uncertainties) and discounted to present value.

In determining what level of the fair value hierarchy to classify the Company's investment 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 asset within level 3 of the fair value hierarchy.

The Company's investment property, which is a care home currently under development, is a single asset. The net initial yield on this asset is 6.0%.

A decrease in the investment yield applied to the portfolio by 0.25% will increase the fair value of the portfolio by £419,000, and consequently increase the Company's reported income from unrealised gains on investments. An increase in yield by 0.25% will decrease the fair value of the portfolio by £385,000 and reduce the Company's income.

5. Trade and other receivables

Non-current trade and other receivables	**As at 30 June 2019** **£'000**
Fixed rent reviews	144
Total	**144**

Current trade and other receivables	**As at 30 June 2019** **£'000**
Intercompany balance due from THR Number 18 Limited	50
Total	**50**

The intercompany balance 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 THR Number 18 Limited. The balance is repayable on demand.

6. Cash and cash equivalents

	As at 30 June 2019 **£'000**
Cash at bank	160
Total	**160**

All cash balances at the balance sheet date were held in cash, current accounts or deposit accounts with a term of less than three months.

7. Intercompany loan from group companies

	As at 30 June 2019 **£'000**
Loan balance due to Target Healthcare REIT Limited	9,759
Total	**9,759**

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 Target Healthcare REIT Limited. The loan is repayable on demand.

8. Trade and other payables

Current trade and other payables	**As at 30 June 2019** **£'000**
Rental income received in advance	142
Other payables	5
Total	**147**

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

9. Share Capital Movements

	Number of shares	**£'000**
Allotted, called-up and fully paid ordinary shares of £1 each		
Ordinary share of £1 each issued on 31 May 2018	1	-
Closing balance as at 30 June 2019	**1**	**-**

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

9. Share Capital Movements (continued)

Capital management
The Company's capital is represented by the share capital account, 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 will be considered and approved by the Board on a regular basis.

The Company has received a guarantee from its parent company that it will be provided with sufficient funding to complete the property development and to meet the liabilities of the Company as they fall due over the development period. The liquidity, capital structure and risks arising from the financial instruments of the Company are therefore monitored by the Board of Target Healthcare REIT Limited/ Target Healthcare REIT plc on the basis of the Group as a whole.

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.

10. Financial instruments
Consistent with the Company's objective, the Company holds a UK care home property investment. In addition, the Company's financial instruments comprise 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 property which, whilst not constituting a financial instrument as defined by IFRS, is 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.

10. Financial instruments (continued)

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 a UK care home. 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 investment in the property at an amount close to their fair value in order to meet its liquidity requirements

The Group'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. In making this assessment, the Directors take into consideration the guarantee from the Company's parent and the liquidity of the Target Healthcare REIT group as a whole.

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	50	-	-	50
Cash	160	-	-	160
Total	**210**	**-**	**-**	**210**

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
Intercompany loan payable	9,759	-	-	9,759
Other payables	5	-	-	5
Total	**9,764**	**-**	**-**	**9,764**

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 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 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	-	160
Intercompany loans receivable	50	-
Intercompany loans payable	(9,759)	-

10. Financial instruments (continued)

An increase of 0.25 per cent. in interest rates would have decreased the reported loss for the period and increased the net assets at the period end by £nil (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 property 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 is set out in detail in the accounting policies and note 4.

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 held at the balance sheet date are disclosed in note 4. A 10 per cent increase in the value of the investment property held as at 30 June 2019 would have increased net assets available to shareholders and increased the net income for the period by £949,000; 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.

11. Lease length

The Company leases out its investment property under an operating lease.

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	626
Between two and five years	2,674
Over five years	27,795
Total	31,095

As the Company only holds one single-let investment property, the largest single tenant at the period end accounted for 100 per cent of the current annual rental income. The property was fully let at the year end.

The Company has entered into a commercial property lease on its investment property. This property, held under an operating lease, is measured under the fair value model as the property is held to earn rentals. The lease is a non-cancellable lease with a remaining lease term of 34 years at 30 June 2019.

12. 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 Directors of the Company are also directors of the Investment Manager. Neither the Directors nor the Investment Manager receive any additional remuneration or fees directly related to their appointment as Directors of the Company.

The Company's parent, Target Healthcare REIT Limited, is considered to be a related party as is THR Number 18 Limited, a wholly owned subsidiary of Target Healthcare REIT Limited. Details of the Company's paid or received transactions with Target Healthcare REIT Limited and THR Number 18 Limited are outlined in notes 2 and 13 and details of the Company's payable or receivable transactions are outlined in notes 5, 7 and 13.

The Investment Manager appointed to the Group, Target Fund Managers Limited, is also considered to be a related party. The Investment Manager's fee is paid by the Company's parent.

13. Post balance sheet events

On 28 November 2019, the entire intercompany debt due from the Company to Target Healthcare REIT at that date of £9,820,000 was capitalised and the Company issued 9,819,636 ordinary shares of £1.00 each to Target Healthcare REIT Limited.

On 29 November 2019, the entire share capital of the Company was transferred, at fair value, from Target Healthcare REIT Limited to THR Number 15 plc, a wholly-owned subsidiary of Target Healthcare REIT Limited. Following this transfer, a fixed and floating charge was granted over the assets of the Company as part of the security provided to HSBC in relation to the loan facility granted by HSBC to the Company's parent, THR Number 15 plc.

14. Holding Company and Ultimate Controlling Party

During the period 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 44 Esplanade, St. Helier, Jersey JE4 9WG .

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.