THR Number One PLC

(Registered number 08996524)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year to 30 June 2016

THR Number One PLC

Directors

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

Registered Office

6 New Street Square
New Fetter Lane
London
EC4A 3AQ

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh
EH2 4DF

Auditors

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

THR Number One PLC

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'), a company registered in England & Wales. The principal activity of THR2 is that of an investment and property company.

The Company, since 29 January 2015, also owns100 per cent. of the share capital of THR Number 3 Limited ('THR3'), a company registered in England & Wales. The principal activity of THR3 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 to 30 June 2016 the Company made a profit of £9,778,000 (2015: £7,721,000).

Principal Risks and Uncertainties

The Company's principal risks and uncertainties are outlined in note 15 on pages 20 to 22.

On behalf of the Board,

Gordon Coull

Mr Gordon Coull
Director
28 September 2016

THR Number One PLC

Report of the Directors

The Directors submit their Report and Financial Statements of the Company for year to 30 June 2016.

Results and Dividends

The profit for the year was £9,778,000 (2015: £7,721,000).

No dividend is proposed in respect of the year (2015: nil).

Directors

The Directors who held office during the period to 28 September 2016 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 2016 and as at 28 September 2016.

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 2016.

Auditors

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 Coull

Mr Gordon Coull
Director
28 September 2016

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 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 Coull

Mr Gordon Coull
Director
28 September 2016

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

We have audited the financial statements of THR Number One PLC for the year to 30 June 2016, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 18. 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.

This report is made solely to the Company's member, 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 member those matters we are required to state to them in an Auditors' 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 member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors
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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2016 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.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion 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.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, 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.

Ernst & Young LLP

Susan Dawe (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
29 September 2016

Statement of Comprehensive Income
For the year to 30 June 2016

		Year to 30 June 2016			Period from incorporation on 14 April 2014 to 30 June 2015		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**6,281**	**2,299**	**8,580**	5,467	2,159	7,626
Total revenue		**6,281**	**2,299**	**8,580**	5,467	2,159	7,626
Gains on revaluation of investment properties	6	**-**	**3,089**	**3,089**	-	1,379	1,379
Total income		**6,281**	**5,388**	**11,669**	5,467	3,538	9,005
Expenditure							
Investment management fee	2	**(866)**	**-**	**(866)**	(568)	-	(568)
Auditor's remuneration		**(10)**	**-**	**(10)**	(10)	-	(10)
Other expenses		**(14)**	**-**	**(14)**	-	-	-
Total expenditure		**(890)**	**-**	**(890)**	(578)	-	(578)
Profit before finance costs and taxation		**5,391**	**5,388**	**10,779**	4,889	3,538	8,427
Interest receivable	3	**62**	**-**	**62**	30	-	30
Interest payable	4	**(1,046)**	**-**	**(1,046)**	(735)	-	(735)
Profit before taxation		**4,407**	**5,388**	**9,795**	4,184	3,538	7,722
Taxation	5	**(17)**	**-**	**(17)**	(1)	-	(1)
Profit for the year/period		**4,390**	**5,388**	**9,778**	4,183	3,538	7,721
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swap		**-**	**(316)**	**(316)**	-	-	-
Total comprehensive income for the year/period		**4,390**	**5,072**	**9,462**	4,183	3,538	7,721

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/ period.

The notes on pages 10 to 23 are an integral part of these statements.

Statement of Financial Position
As at 30 June 2016

	Notes	30 June 2016 £'000	30 June 2015 £'000
Non-current assets			
Investment properties	6	**81,866**	78,777
Investment in subsidiaries	7	**19,517**	19,517
Trade and other receivables	9	**1,727**	1,416
		103,110	99,710
Current assets			
Intercompany loan due	8	**4,930**	950
Trade and other receivables	9	**4,469**	2,204
Cash at bank and on deposit	10	**1,190**	4,898
		10,589	8,052
Total assets		**113,699**	107,762
Non-current liabilities			
Bank loan	11	**(20,449)**	(25,969)
Interest rate swap	11	**(316)**	-
Trade and other payables	12	**(1,727)**	(1,416)
		(22,492)	(27,385)
Current liabilities			
Intercompany loan payable	13	**(3,330)**	(1,704)
Trade and other payables	12	**(1,647)**	(1,905)
		(4,977)	(3,609)
Total liabilities		**(27,469)**	(30,994)
Net assets		**86,230**	76,768
Share capital and reserves			
Share capital account	14	**740**	740
Share premium		**68,307**	68,307
Hedging reserve		**(316)**	-
Capital reserve		**8,926**	3,538
Revenue reserve		**8,573**	4,183
Equity shareholders' funds		**86,230**	76,768

The financial statements were approved by the Board and authorised for issue on 28 September 2016 and were signed on its behalf by:

Gordon Coull

Mr Gordon Coull, Director

The notes on pages 10 to 23 are an integral part of these statements.

Statement of Changes in Equity

For the year to 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**

For the period from incorporation on 14 April 2014 to 30 June 2015

	Share Capital £'000	Share premium £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Opening balance	-	-	-	-	-
Total comprehensive income for the period	-	-	3,538	4,183	7,721
Issue of ordinary shares	740	68,307	-	-	69,047
Balance as at 30 June 2015	740	68,307	3,538	4,183	76,768

The notes on pages 10 to 23 are an integral part of these statements.

THR Number One PLC

Statement of Cash Flows

For the year to 30 June 2016

	Notes	Year to 30 June 2016 £'000	Period from incorporation on 14 April 2014 to 30 June 2015 £'000
Cash flows from operating activities			
Profit before tax		**9,795**	7,722
Adjustments for:			
Interest receivable		**(62)**	(30)
Interest payable		**1,046**	735
Revaluation gains on investment properties		**(5,388)**	(3,538)
Decrease/(increase) in trade and other receivables		**23**	(24)
(Decrease)/increase in trade and other payables		**(311)**	1,750
		5,103	6,615
Interest paid		**(788)**	(580)
Interest received		**73**	9
Tax paid		**-**	(1)
Net cash inflow from operating activities		**4,388**	6,043
Cash flows from investing activities			
Purchase of investment properties		**-**	(77,398)
Acquistion of subsidiary undertakings		**-**	(19,517)
Net cash outflow from investing activities		**-**	(96,915)
Cash flows from financing activities			
Issue of ordinary share capital		**-**	69,047
Drawdown of intercompany loan		**1,626**	1,704
Increase in intercompany loan made		**(3,980)**	(950)
Bank loan (repaid)/drawn down, including costs		**(5,742)**	25,969
Net cash (outflow)/inflow from financing activities		**(8,096)**	95,770
Net (decrease)/increase in cash and cash equivalents		**(3,708)**	4,898
Opening cash and cash equivalents		**4,898**	-
Closing cash and cash equivalents	10	**1,190**	4,898

Transactions which do not require the use of cash

Movement in fixed or guaranteed rent reviews	**2,299**	2,159
Total	**2,299**	2,159

The notes on pages 10 to 23 are an integral part of these statements.

Notes to the Financial Statements

1. Accounting policies

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

Basis of Accounting
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The financial statements are prepared on a going concern basis.

The notes and financial statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

Significant Estimates and Judgements
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant estimates and assumptions are made in the valuation of the investment properties held. Further information on market risk and sensitivity to market changes is provided in the notes.

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

- *IFRS 3 Business Combinations*
  The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).
- *IAS 24 Related Party Disclosures*
  The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.
- *IAS 40 Investment Property*
  The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

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)

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 16 Leases*

  In January 2016, the IASB published the final version of IFRS16 '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.

(b) Revenue Recognition

Rental Income

Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income as follows:

- any rental income from fixed and minimum guaranteed rent reviews uplifts is recognised on a straight line basis over the shorter of the term to lease expiry or to the first tenant break option;
- 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.
- contingent rents are recognised in the period in which they are earned.

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.

1. Accounting policies (continued)

(b) Revenue Recognition (continued)

Interest Income
Interest income 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 VAT.

(d) Dividends
Dividends 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.

(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.

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.

1. Accounting policies (continued)

(g) Investment Properties (continued)
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 Property Consultants Limited, Chartered Surveyors, 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 consideration transferred measured at acquisition date fair value and 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 and included in administrative expenses.

(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 cost plus any interest accrued.

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

Derivative instruments are initially recognised in the Balance Sheet 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.

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. 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.

1. Accounting policies (continued)

(l) Derivative financial instruments (continued)
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; and
- 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.

(m) Reserves
Hedging Reserve
The following are accounted for in the hedging reserve:
– increases and decreases in the fair value of interest rate swap 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. Investment management fee

	For the year to 30 June 2016 £'000	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Investment Management Fee	866	568
Total	**866**	**568**

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.

With effect from 30 September 2016, 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.

3. Interest receivable

	For the year to 30 June 2016 £'000	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Intercompany loan interest	33	21
Bank interest	29	9
Total	**62**	**30**

4. Interest payable and similar charges

	For the year to 30 June 2016 £'000	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Intercompany loan interest	54	34
Bank loan interest	992	701
Total	**1,046**	**735**

5. Taxation

	For the year to 30 June 2016 £'000	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Current tax	17	1
Total tax charge	**17**	**1**

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

	For the year to 30 June 2016 £'000	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Profit before taxation	9,795	7,722
UK tax at a rate of 20.0 (2015: 20.8) per cent	1,959	1,606
Effects of:		
REIT exempt gains	(1,078)	(735)
REIT exempt profits	(864)	(870)
Total tax charge	**17**	**1**

Prior to gaining Group UK-REIT status on 17 June 2014, the Company was liable to corporation tax on all of its profits. No taxable profit was made during the period from incorporation to 17 June 2014. 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.

6. Investments

Freehold and Long Leasehold Properties

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Opening market value	**80,936**	**-**
Opening fixed or guaranteed rent reviews	(2,159)	-
Opening carrying value	**78,777**	**-**
Purchases	-	76,476
Acquisition costs capitalised	-	922
Acquisition costs written off	-	(922)
Revaluation movement	5,388	4,460
Movement in market value	**5,388**	**80,936**
Fixed or guaranteed rent reviews movement	(2,299)	(2,159)
Movement in carrying value	**3,089**	**78,777**
Closing market value	**86,324**	**80,936**
Closing fixed or guaranteed rent reviews	(4,458)	(2,159)
Movement in carrying value	**81,866**	**78,777**

6. Investments (continued)

Changes in the valuation of investment properties

	For the year to 30 June 2016 £'000	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Revaluation movement	5,388	4,460
Acquisition costs written off	-	(922)
Movement in fixed or guaranteed rent reviews	(2,299)	(2,159)
Gains on revaluation of investment properties	**3,089**	**1,379**

The properties were valued at £86,324,000 (2015: £80,936,000) by Colliers International 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 £81,866,000 (2015: £78,777,000).

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.

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 ahead of 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.

6. Investments (continued)

A decrease of 0.25 per cent in the investment yield applied to the portfolio will increase the fair value of the portfolio by £3.3m (2015: £2.8m), 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 £3.0m (2015: £2.6m) and reduce the Company's income.

7. Investment in subsidiary undertakings

Name	Principal Activities	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
			19,517

THR Number Two Limited
On 30 May 2014, the Company acquired 100% of the voting shares of THR Number Two Limited ('THR2'), a company registered in England & Wales. The principal activity of THR2 is that of an investment and property company.

At the time of acquisition THR2 held no assets and had not started trading. The Company acquired 134,504 ordinary shares of £1 each for a cost of £13,450,000.

In addition to its investment in the shares of THR2, the Company has lent £4,930,000 to THR2 as at 30 June 2016 (2015: £950,000). Interest is payable at a fixed rate of 2.5 per cent. per annum.

THR Number 3 Limited
On 29 January 2015, the Company acquired 100% of the voting shares of THR Number 3 Limited ('THR3'), a company registered in England & Wales. The principal activity of THR3 is that of an investment and property company. THR3 had previously been owned by the Company's ultimate parent company, Target Healthcare REIT Limited; having originally been acquired from an external party on 29 July 2014.

8. Intercompany loan to THR Number Two Limited

The loan is unsecured and interest is payable at a fixed rate of 2.5 per cent per annum or such other interest rate that may be agreed from time to time between the Company and THR Number Two Limited. The interest due on the loan is disclosed in Note 9. The loan is repayable on demand.

	As at 30 June 2016 £'000	**As at 30 June 2015 £'000**
Principal amount outstanding	4,930	950
Total	**4,930**	**950**

9. Trade and other receivables

Non-current trade and other receivables	**As at 30 June 2016 £'000**	**As at 30 June 2015 £'000**
Cash held for tenants	1,727	1,416
Total	**1,727**	**1,416**

Current trade and other receivables	**As at 30 June 2016 £'000**	**As at 30 June 2015 £'000**
Fixed rent reviews	4,457	2,159
Amounts receivable from subsidiary companies	-	22
Interest receivable from subsidiary company	10	21
Other debtors	2	2
Total	4,469	**2,204**

At the year end, trade and other receivables includes a fixed rent review debtor of £4,457,000 (2015: £2,159,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the shorter of the term to lease expiry or the first tenant break option, in accordance with the Company's accounting policies spreading uplifts and incentives over the lease term.

10. Cash and cash equivalents

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

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Cash at bank	1,190	4,898
Total	**1,190**	**4,898**

11. Bank loan

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Principal amount outstanding	21,000	26,599
Set-up costs	(836)	(693)
Amortisation of set-up costs	285	63
Total	**20,449**	**25,969**

At 30 June 2015, the THR Number One PLC Group ('THR 1 Group'), which consists of THR Number One PLC and its two directly held subsidiaries, THR Number Two Limited and THR Number 3 Limited) had a £35 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc which is repayable on 23 June 2019. With effect from 1 April 2016, the quantum of the facility was increased to £50.0 million, with other significant terms of the loan remaining unchanged. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. At 30 June 2016, the margin was 2 per cent per annum for the duration of the loan. A non-utilisation fee of 1 per cent per annum is payable on any undrawn element of the facility.

This bank loan is secured by way of a fixed and floating charge over the whole 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.

On 22 June 2016, the Company 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 3-month LIBOR. The fair value of the interest rate swap at 30 June 2016 was a liability of £316,000 (2015: nil). On 1 September 2016, the Company extended its loan facility to August 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.

On 21 September 2016, the Company entered into a second interest rate swap under which, for the period from 24 June 2019 to 31 August 2021, the Group will pay quarterly a fixed rate of interest of 0.70 per cent per annum and will receive 3-month LIBOR. Inclusive of both the interest rate swaps, the interest rate on the Company's £21.0 million of drawn down borrowings was therefore fixed at an all-in rate of 2.35 per cent per annum until 23 June 2019 and 2.20 per cent per annum from 24 June 2019 to 31 August 2021. There were no other material amendments to the loan facility.

The total loan facility of £50 million (2015: £35 million) may be drawn by different members of the THR1 Group. As at 30 June 2016 THR Number One PLC had drawn down £21,000,000 (2015: £26,599,000). THR Number Two Limited had no amount drawn down at 30 June 2016 (2015: £4,910,000) and THR Number 3 Limited had no amount drawn down as at 30 June 2016 (2015: nil).

12. Trade and other payables

Non-current trade and other payables	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Rental deposits	1,727	1,416
Total	**1,727**	**1,416**

Current trade and other payables	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Rental income received in advance	1,216	1,221
Amounts due to parent company	15	308
Interest due to parent company	15	34
Bank loan interest due	176	121
Other payables	225	221
Total	**1,647**	**1,905**

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

13. Intercompany loan from Target Healthcare REIT Limited

The principal loan is unsecured and interest is payable at a fixed rate of 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 is repayable on demand.

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Principal amount outstanding	3,330	1,704
Total	**3,330**	**1,704**

14. Share Capital Movements

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of £1 each		
Opening balance as at 30 June 2015	739,965	740
Closing balance as at 30 June 2016	**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.

15. Financial instruments

Consistent with the Company's objective, the Company holds UK care home property investments. In addition, the Company's financial instruments comprise 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 2016 (2015: nil).

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 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**

15. Financial instruments (continued)

Financial assets as at 30 June 2015

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Intercompany balances	993	-	-	993
Cash held for tenants	-	-	1,416	1,416
Other debtors and prepayments	2	-	-	2
Cash	4,898	-	-	4,898
Total	**5,893**	**-**	**1,416**	**7,309**

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 2.5% as at 30 June 2016 (2015: 2.5%).

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

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**

Financial liabilities as at 30 June 2015

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan	196	1,583	32,405	34,184
Intercompany balances	2,046	-	-	2,046
Rental deposits	-	-	1,416	1,416
Other payables	342	-	-	342
Total	**2,584**	**1,583**	**33,821**	**37,988**

The total amount due to RBS under the interest-bearing £50 million bank facility (30 June 2015: £35 million bank facility) includes the expected hedged interest payments due under both the loan and interest rate swap combined (see note 11 for further details) assuming that both the drawn element of the loan and the notional value of the interest rate swap remain unchanged at £21 million from 30 June 2016 until the original expiry on 23 June 2019. The commitment fee payable on the undrawn element of the facility is included. The extension of the loan facility on 1 September 2016 (see note 11) is not reflected in these figures.

In the prior year, at which date the interest rate on the loan had not been hedged, the amount payable under the bank loan included the expected interest payments due based on the rate of 3 month LIBOR at 30 June 2015. This assumed the facility had been fully drawn down from 30 June 2015 until expiry on 23 June 2019.

The total amount due to Target Healthcare REIT Limited under the interest-bearing intercompany loan includes the expected interest payments due based on the rate of 2.5% per annum as at 30 June 2016 (2015: 2.5%).

15. *Financial instruments (continued)*

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 fixed rate of 0.50 per cent and earns interest at these fixed rates 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 (2015: £35 million) committed term loan and revolving capital facility which is charged interest at a rate of 3 month LIBOR plus a margin. Of this facility, £21.0 million had been drawn by THR Number One plc at 30 June 2016 (2015: £26.6 million). The Company has hedged its exposure on the £21.0 million loan drawn down at 30 June 2016 through entering into an Interest Rate Swap (see note 11). Fixing the interest rate exposes the Group to fair value interest rate risk. At 30 June 2016, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swap and the reported total comprehensive income for the year by £0.2 million (2015: nil). 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 2016		As at 30 June 2015	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	**1,190**	-	4,898	-
Intercompany Loan to THR Number Two Limited	**4,930**	-	950	-
Bank loan and interest rate swap	**(21,000)**	-	-	(26,599)
Intercompany Loan from Target Healthcare REIT Limited	**(3,330)**	-	(1,704)	-

An increase of 0.25 per cent. in interest rates would have decreased the reported profit for the period and the net assets at the period end by £46,000 (period ended 30 June 2015: £54,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated as at 30 June 2016 and 30 June 2015 and may not be reflective of actual future conditions.

Market price risk
The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 6.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Company's investment property portfolio held at the balance sheet date are disclosed in note 6. A 10 per cent increase in the value of the investment properties held as at 30 June 2016 would have increased net assets available to shareholders and increased the net income for the year by £8.2 million (2015: £7.9 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 period as a whole, nor reflective of future market conditions.

16. Lease length
The Company leases out its investment properties under operating leases.

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

	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Less than one year	6,384	6,277
Between two and five years	26,844	22,832
Over five years	215,186	225,178
Total	**248,414**	**254,287**

The largest single tenant at the period end accounted for 28 per cent (2015: 20 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 lease terms of between 30 years and 35 years.

17. Related Party Transactions

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

The Company's 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 3, 4 and 7 and details of the Company's payable or receivable transactions with its subsidiaries are outlined in notes 8, 9 and 12.

The Investment Manager appointed to the Group, Target Advisers LLP, is also considered to be a related party. Target Advisers LLP received £866,000 in relation to the year ended 30 June 2016 (2015: £568,000) of which £197,000 (2015: £208,000) remained payable at the year/ period end.

18. 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.