THR Number One PLC

(Registered number 08996524)

ANNUAL REPORT AND ACCOUNTS

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

THR Number One PLC

Directors

Mr R Malcolm Naish
Professor June Andrews
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.

On 29 July 2014, the Company's parent company, Target Healthcare REIT Limited, purchased 100 per cent. of the share capital of Magnum Care Hinckley Ltd, a company registered in England and Wales. On 28 November 2014, the name of the company was changed to THR Number 3 Limited, ('THR3'). On 29 January 2015, 100 per cent. of the share capital of THR3 was transferred to the Company. 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 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 extended its accounting date from 30 April 2015 to 30 June 2015 during the period.

During the period to 30 June 2015 the Company made a profit of £7,721,000.

Principal Risks and Uncertainties

The Company's principal risks and uncertainties are outlined in note 15 on pages 19 to 21.

On behalf of the Board,

RMNaish

Mr R M Naish
Director
1 October 2015

THR Number One PLC

Report of the Directors

The Directors submit their Report and Accounts of the Company for the period from incorporation on 14 April 2014 to 30 June 2015.

Results and Dividends

The profit for the period was £7,721,000.

No dividend is proposed in respect of the period.
Share Capital

During the period, the Company issued 739,965 ordinary shares of £1 each, raising net proceeds of £69,047,000.

Directors

The Directors who held office during the period to 1 October 2015 are shown below:

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

No Director had any interest in the shares of the Company as at 30 June 2015 and as at 1 October 2015.

The Directors' interests in the ultimate parent company, Target Healthcare REIT Limited, are set out in that company's Annual Report and Accounts.

Auditors

Ernst & Young LLP were appointed as the Company's auditor during the period and have expressed their willingness to continue in office.

Going Concern

The accounts 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 accounts. Applicable International Financial Reporting Standards ("IFRSs") have been followed.

On behalf of the Board,

RM Naish

Mr R M Naish
Director
1 October 2015

Statement of Directors' Responsibilities in respect of the annual accounts

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 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

RM Naish

Mr R M Naish
Director
1 October 2015

Independent Auditors' Report to the Members of THR Number One PLC

We have audited the financial statements of THR Number One PLC for the period from incorporation on 14 April 2014 to 30 June 2015, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes 1 to 19. 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 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 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 2015 and of its profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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
1 October 2015

Statement of Comprehensive Income
For the period from incorporation on 14 April 2014 to 30 June 2015

	Notes	Revenue £'000	Capital £'000	Total £'000
Revenue				
Rental income		5,467	2,159	7,626
Total revenue		**5,467**	**2,159**	**7,626**
Gains on revaluation of investment properties		-	1,379	1,379
Total income		**5,467**	**3,538**	**9,005**
Expenditure				
Investment management fee	2	(568)	-	(568)
Auditor's remuneration		(10)	-	(10)
Total expenditure		**(578)**	**-**	**(578)**
Profit before finance costs and taxation		**4,889**	**3,538**	**8,427**
Interest receivable	3	30	-	30
Interest payable	4	(735)	-	(735)
Profit before taxation		**4,184**	**3,538**	**7,722**
Taxation	5	(1)	-	(1)
Profit for the period		**4,183**	**3,538**	**7,721**

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

The total column of this statement represents the Company's profit and loss account, prepared in accordance with IFRSs.

There are no recognised gains or losses other than profit after taxation of the Company of £7,721,000 in the period from incorporation on 14 April 2014 to 30 June 2015.

The notes on pages 10 to 22 are an integral part of these statements.

Statement of Financial Position
As at 30 June 2015

	Notes	£'000
Non-current assets		
Investment properties	6	78,777
Investment in subsidiaries	7	19,517
Trade and other receivables	9	1,416
		99,710
Current assets		
Intercompany loan due	8	950
Trade and other receivables	9	2,204
Cash at bank and on deposit	10	4,898
		8,052
Total assets		**107,762**
Non-current liabilities		
Bank loan	11	(25,969)
Trade and other payables	12	(1,416)
		(27,385)
Current liabilities		
Intercompany loan payable	13	(1,704)
Trade and other payables	12	(1,905)
		(3,609)
Total liabilities		**(30,994)**
Net assets		**76,768**
Share capital and reserves		
Share capital account	14	740
Share premium		68,307
Capital reserve		3,538
Revenue reserve		4,183
Equity shareholders' funds		**76,768**

The financial statements were approved by the Board and authorised for issue on 1 October 2015 and were signed on its behalf by:

RMNaish

Mr R M Naish, Director

Statement of Changes in Equity

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	-	-	-	-	-
Profit 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**

Statement of Cash Flow

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

	Notes	£'000
Cash flows from operating activities		
Profit before tax		7,722
Adjustments for:		
Interest payable		735
Interest receivable		(30)
Revaluation gains on investment properties		(3,538)
Increase in trade and other receivables		(24)
Increase in trade and other payables		1,750
		6,615
Tax paid		(1)
Net cash inflow from operating activities		**6,614**
Cash flows from investing activities		
Purchase of investment properties		(77,398)
Investment in subsidiary undertakings		(19,517)
Interest received		9
Net cash outflow from investing activities		**(96,906)**
Cash flows from financing activities		
Issue of ordinary shares		69,047
Drawdown of intercompany loan		1,704
Issue of intercompany loan		(950)
Bank loan drawndown		25,969
Bank loan interest paid		(580)
Net cash inflow from financing activities		**95,190**
Net increase in cash and cash equivalents		**4,898**
Opening cash and cash equivalents		-
Closing cash and cash equivalents		**4,898**

Transactions which do not require the use of cash

Movement in fixed or guaranteed rent reviews	2,159
	2,159

Notes to the Financial Statements

1. Accounting policies

(a) Basis of Preparation
The Company has elected not to prepare consolidated financial statements. The accounts 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 following standards have become effective in the current period:

— In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

— In May 2011, the IASB issued IFRS 12 'Disclosure of Interests in Other Entities'. IFRS 12 includes all the disclosures which were previously required by IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The disclosures required under IFRS 12 are included in note 7.

— In December 2011, the IASB issued an amendment to IAS 32 'Offsetting Financial Assets and Financial Liabilities'. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The adoption of these amendments do not have an impact on the Company as none of its financial assets and liabilities have been offset.

— In October 2012, the IASB issued amendments to IFRS 10 'Consolidated Financial Statement', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements'. These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

— In May 2013, the IASB issued IFRIC Interpretation 21 'Levies', an Interpretation on the accounting for levies imposed by governments. The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this interpretation does not have any material impact on the consolidated financial statements as presented as no levies have been imposed on the Company.

— In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 *Fair Value Measurement*. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning on, or after, 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Standards Issued but not yet Effective
The following standards have been issued but are not effective for this accounting period and have not been adopted early:

IFRS 15 - Revenue from Contracts with Customers
— In May 2014, the IASB issued IFRS 15. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 9 - Financial Instruments
— In July 2014, the IASB published the final version of IFRS 9 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.

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 its financial statements as presented for the current year.

The Company does not consider that the future adoption of this new standard, in the form currently available, will have any material impact on the financial statements as presented except for changes to disclosures.

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 sevices.

Annual Improvements 2011 – 2013 Cycle
These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:-

IFRS 3 – Business Combinations
The amendment is applied propectively and clarifies for the scope exceptions within IFRS 3 that:
- Joint arrangements, not just joint ventured, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 – Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liablilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 – Investment Property
The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (ie 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.

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, an adjustment is made to ensure that the carrying value of the relevant property including accrued rent does not exceed the external valuation.

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) Investment Properties
Investment properties consist of land and buildings (principally care homes) which are not occupied for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

For properties subject to deferred consideration clauses within their purchase agreements if certain performance measures are met, the deferred consideration is recognised in the period incurred.

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 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.

(g) 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.

(h) 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 probable. 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.

(i) 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.

(j) 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.

(k) Reserves

Capital Reserve

The following are accounted for in the capital reserve:
- gains and losses on the disposal of investment properties;
- increases and decreases in the fair value of investment properties held at the period end; and
- rent adjustments which represent the effect of spreading uplifts and incentives.

Revenue Reserve

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

2. Investment management fee

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

3. Interest receivable

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

4. Interest payable and similar charges

	For the period from incorporation on 14 April 2014 to 30 June 2015 £'000
Intercompany loan interest	34
Bank loan interest	701
Total	**735**

5. Taxation

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

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 from incorporation on 14 April 2014 to 30 June 2015 £'000
Profit before taxation	7,722
UK tax at a rate of 20.8 per cent	1,606
Effects of:	
REIT exempt gains	(735)
REIT exempt profits	(870)
Total tax charge	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 2015 £'000
Opening market value	-
Purchases	76,476
Acquisition costs capitalised	922
Acquisition costs written off	(922)
Revaluation movement	4,460
Closing market value	**80,936**
Opening carrying value	
Purchases	76,476
Acquisition costs capitalised	922
Acquisition costs written off	(922)
Revaluation movement	4,460
Fixed or guaranteed rent reviews movement	(2,159)
Closing carrying value	**78,777**
Opening fixed or guaranteed rent reviews	-
Fixed or guaranteed rent reviews movement	(2,159)
Closing fixed or guaranteed rent reviews	**(2,159)**

Changes in the valuation of investment properties

	As at 30 June 2015 £'000
Net revaluation movement	3,538
Movement in fixed or guaranteed rent reviews	(2,159)
Gains on revaluation of investment properties	**1,379**

The net revaluation movement includes the written off acquisition costs.

The properties were valued at £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 £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 will have to make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this will involve 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 6.75% and 8.5%. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

A decrease in the investment yield applied to the portfolio by 0.25% will increase the fair value of the portfolio by £2.8m, 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 £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 £950,000 to THR2 as at 30 June 2015. Interest is payable at a fixed rate of 2.5 per cent. per annum.

THR Number 3 Limited
On 29 July 2014, Target Healthcare REIT Limited ("THRL"), the Company's parent, acquired 100% of the voting shares of Magnum Care Hinckley Limited, a company registered in England and Wales.The company was a property development company prior to its purchase by THRL. THRL acquired Magnum Care Hinckley Limited as the company had developed a care home. Following the acquisition the care home began trading. The principal activity of the company following acquisition is that of a property and acquisition company.

On 28 November 2014 the name of Magnum Care Hinckley Limited was changed to THR Number 3 Limited ('THR3'). On 29 January 2015, 100 per cent. of the share capital was transferred to THR1.

8. Intercompany loan due

The Company has lent to THR Number Two Limited through an intercompany loan and the balance outstanding as at 30 June 2015 was £950,000. 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 THR Number Two Limited. The interest due on the loan is disclosed in Note 9.

	As at 30 June 2015 £'000
Principal amount outstanding	950
Total	**950**

9. Trade and other receivables

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

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

At the period end trade and other receivables include a fixed rent review debtor of £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 2015 £'000
Cash at bank	4,898
Total	**4,898**

11. Bank loan

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

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) has a £35 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc which is repayable on 23 June 2019. 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. The margin is 2 per cent. per annum for the duration of the loan.

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 period.

As at 30 June 2015 THR Number One PLC had £26,599,000 outstanding and one of the Company's subsidiaries, THR Number Two Limited, had £4,910,000 outstanding. The Company's other subsidiary, THR Number 3 Limited had no amount outstanding as at 30 June 2015.

12. Trade and other payables

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

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

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

13. Intercompany loan payable

Target Healthcare REIT Limited has lent to the Company through an intercompany loan and the balance outstanding as at 30 June 2015 was £1,704,000. 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.

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

14. Share Capital Movements

	As at 30 June 2015 Number of shares	As at 30 June 2015 £'000
Allotted, called-up and fully paid		
Issue of 739,965 ordinary shares of £1 each	739,965	740
Balance as at 30 June 2015	**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 accordance with its investment policy, in pursuit of its 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.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company did not repurchase any ordinary shares during the period.

At 30 June 2015 the Company did not hold any ordinary shares in treasury.

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 does not have exposure to any derivative instruments.

The Company is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There is no foreign currency risk as all assets and liabilities of the Company are maintained in pounds sterling.

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

Credit risk
Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company.

In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveyor's costs in re-letting, maintenance costs, insurances, rates and marketing costs and will have a material adverse impact on the financial condition and performance of the Company and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager, Target 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 2015.

All of the Company's cash is placed with financial institutions with a long-term credit rating of A or better. Bankruptcy or insolvency of such financial institutions may cause the Company's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

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

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
	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 2015.

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 liabilities was:

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
	2,584	**1,583**	**33,821**	**37,988**

The total amount due to RBS under the interest-bearing bank loan includes the expected interest payments due based on the rate of 3 months LIBOR as at 30 June 2015. This assumes that the full facilty is drawn down for the full period until expiry on 23 June 2019, with £30,090,000 allocated to this Company and £4,910,000 to its subsidiary THR Number Two Limited.

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% as at 30 June 2015.

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 £35 million committed term loan and revolving capital facility which is charged interest at a rate of 3 month LIBOR plus a margin of 2 per cent. per annum and at the year-end THR Number Two Limited had £4,910,000 outstanding and the Company had £26,599,000 outstanding. The bank borrowings are carried at amortised cost and the Company considers this to be a close approximation to fair value. The fair value of the bank borrowings is affected by changes in the market interest rate. The THR 1 Group intends to hedge a proportion of this exposure through entering into a fixed rate Interest Rate Swap.

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 2015	
	Fixed rate £'000	**Variable rate £'000**
Cash and cash equivalents	4,898	-
Intercompany Loan to THR Number Two Limited	950	-
Bank loan	-	26,599
Intercompany Loan from Target Healthcare REIT Limited	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 £54,000, a decrease in interest rates would have an equal and opposite effect. These movements are calculated as at 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 2015 would have increased net assets available to shareholders and increased the net income for the year by £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 period end was as follows (based on annual rentals):

	As at 30 June 2015 £'000
Less than one year	6,277
Between two and five years	22,832
Over five years	225,178
Total	**254,287**

The largest single tenant at the period end accounted for 20 per cent of the current annual rental income.

There were no unoccupied properties at the period end.

The Company has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with 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.

18. Contingent assets and liabilities

One property within the portfolio is subject to a deferred consideration clause within the purchase agreements if certain performance measures are met. The performance conditions on this property has not yet been met and as the net effect on the Company's financial position and income is expected to be immaterial, no post-balance sheet adjustment has been made.

19. 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 Accounts of Target Healthcare REIT Limited, copies of which are available from Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW.