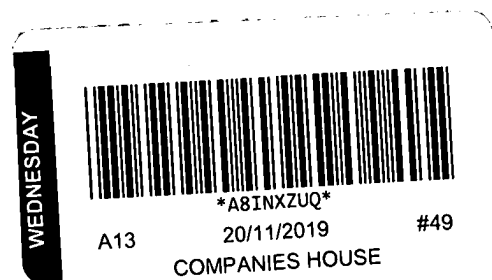


**THR Number One plc**

**(Registered number 08996524)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 30 June 2019**



## **THR Number One plc**

### **Directors**

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

### **Registered Office**

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

### **Solicitors**

Dickson Minto WS  
16 Charlotte Square  
Edinburgh  
EH2 4DF

### **Auditors**

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

## STRATEGIC REPORT

### Principal Activity and Status

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

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

The Company owns 100 per cent. of the share capital of THR Number Two Limited ("THR2") and THR Number 3 Limited ("THR3"). Both THR2 and THR3 are companies registered in England & Wales whose principal activity is that of an investment and property company.

### Business Review

The objective of the Company's parent is to provide its shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified portfolio of freehold and long leasehold care homes, that are let to care home operators, and other healthcare assets in the UK.

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

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

The Company is a subsidiary of Target Healthcare REIT Limited and has entered into a borrowing facility with the Royal Bank of Scotland plc on behalf of the Target Healthcare REIT Limited group (the "Group").

During the year ended 30 June 2019 the Company made a profit of £8,507,000 (2018: £12,918,000). This mainly reflects rental income received of £8,101,000 with the fair value of the property portfolio held, after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives, having increased over the year by a total of £2,371,000. The Company also received interest income of £202,000. The Company's only significant expenses are the investment management fee of £1,054,000, which is set by reference to the net assets of the Company (see note 3), and the interest charge of £1,096,000 on the Company's long term borrowings (see notes 5 and 13).

### Principal Risks and Uncertainties

The Company's principal risks and uncertainties are similar to those of the Group and are contained in the report and financial statements of the parent company, or are related to the Company's financial instruments as detailed in note 16 on pages 22 to 25.

On behalf of the Board,



Mr Gordon Coull  
Director  
16 September 2019

## Report of the Directors

The Directors submit their Report and Financial Statements of the Company for the year ended 30 June 2019.

## Results and Dividends

The profit for the year was £8,507,000 (2017: £12,918,000).

The Company did not pay any dividends during the year (2018: £7,373,000). No final dividend is proposed in respect of the year (2018: nil).

## Directors

The Directors who held office during the period to 16 September 2019 are shown below:

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

No Director had any interest in the shares of the Company as at 30 June 2019 and as at 16 September 2019.

The Directors' interests in the ultimate parent company, Target Healthcare REIT Limited (see note 19), are set out in that company's Annual Report and Financial Statements for the year ended 30 June 2019.

## Auditors

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

## Going Concern

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

On behalf of the Board,



Mr Gordon Coull  
Director  
16 September 2019

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

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

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

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

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

## Directors' statement as to disclosure of information to Auditors

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

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

By Order of the Board



Mr Gordon Coull  
Director  
16 September 2019

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

**Opinion**

We have audited the financial statements of THR Number One PLC for the year ended 30 June 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

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

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

**Matters on which we are required to report by exception**

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

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

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

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

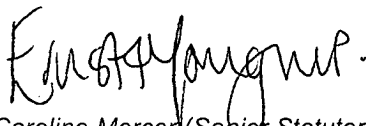
**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



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

**Statement of Comprehensive Income**  
**For the year ended 30 June 2019**

	Notes	Year ended 30 June 2019			Year ended 30 June 2018		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Revenue</b>							
Rental income		6,671	1,430	8,101	6,460	1,976	8,436
Dividend income	2	-	-	-	1,633	-	1,633
<b>Total revenue</b>		<b>6,671</b>	<b>1,430</b>	<b>8,101</b>	<b>8,093</b>	<b>1,976</b>	<b>10,069</b>
Gains on revaluation of investment properties	8	-	2,371	2,371	-	4,737	4,737
<b>Total income</b>		<b>6,671</b>	<b>3,801</b>	<b>10,472</b>	<b>8,093</b>	<b>6,713</b>	<b>14,806</b>
<b>Expenditure</b>							
Investment management fee	3	(1,054)	-	(1,054)	(993)	-	(993)
Auditor's remuneration		(10)	-	(10)	(10)	-	(10)
Other expenses		(7)	-	(7)	7	-	7
<b>Total expenditure</b>		<b>(1,071)</b>	<b>-</b>	<b>(1,071)</b>	<b>(996)</b>	<b>-</b>	<b>(996)</b>
<b>Profit before finance costs and taxation</b>		<b>5,600</b>	<b>3,801</b>	<b>9,401</b>	<b>7,097</b>	<b>6,713</b>	<b>13,810</b>
<b>Net finance costs</b>							
Interest receivable	4	202	-	202	54	-	54
Interest payable	5	(1,096)	-	(1,096)	(946)	-	(946)
<b>Profit before taxation</b>		<b>4,706</b>	<b>3,801</b>	<b>8,507</b>	<b>6,205</b>	<b>6,713</b>	<b>12,918</b>
Taxation	6	-	-	-	-	-	-
<b>Profit for the year</b>		<b>4,706</b>	<b>3,801</b>	<b>8,507</b>	<b>6,205</b>	<b>6,713</b>	<b>12,918</b>
<b>Other comprehensive income:</b>							
<i>Items that are or may be reclassified subsequently to profit or loss</i>							
Movement in valuation of interest rate swaps	13	-	(262)	(262)	-	282	282
<b>Total comprehensive income for the year</b>		<b>4,706</b>	<b>3,539</b>	<b>8,245</b>	<b>6,205</b>	<b>6,995</b>	<b>13,200</b>

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

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

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

No operations were discontinued in the year.

The notes on pages 11 to 26 are an integral part of these statements.



THR Number One plc

Statement of Financial Position  
As at 30 June 2019

	Notes	30 June 2019 £'000	30 June 2018 £'000
<b>Non-current assets</b>			
Investment properties	8	88,517	86,146
Investment in subsidiaries	9	19,517	19,517
Trade and other receivables	11	13,295	11,833
Interest rate swaps	13	11	273
		<b>121,340</b>	<b>117,769</b>
<b>Current assets</b>			
Intercompany loans receivable	10	4,476	3,206
Trade and other receivables	11	264	2
Cash at bank and on deposit	12	14,646	6,233
		<b>19,386</b>	<b>9,441</b>
<b>Total assets</b>		<b>140,726</b>	<b>127,210</b>
<b>Non-current liabilities</b>			
Bank loan	13	(34,608)	(29,429)
Interest rate swaps	13	-	-
Trade and other payables	14	(1,702)	(1,670)
		<b>(36,310)</b>	<b>(31,099)</b>
<b>Current liabilities</b>			
Trade and other payables	14	(1,834)	(1,774)
		<b>(1,834)</b>	<b>(1,774)</b>
<b>Total liabilities</b>		<b>(38,144)</b>	<b>(32,873)</b>
<b>Net assets</b>		<b>102,582</b>	<b>94,337</b>
<b>Share capital and reserves</b>			
Share capital account	15	740	740
Share premium		68,307	68,307
Hedging reserve		11	273
Capital reserve		22,608	18,807
Revenue reserve		10,916	6,210
<b>Equity shareholders' funds</b>		<b>102,582</b>	<b>94,337</b>

Company number: 08996524

The financial statements were approved by the Board and authorised for issue on 16 September 2019 and were signed on its behalf by:



Mr Gordon Coull, Director

The notes on pages 11 to 26 are an integral part of these statements.

Statement of Changes in Equity

For the year ended 30 June 2019

	Share Capital £'000	Share premium £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 1 July 2018	740	68,307	273	18,807	6,210	94,337
Total comprehensive income for the year	-	-	(262)	3,801	4,706	8,245
<b>Balance as at 30 June 2019</b>	<b>740</b>	<b>68,307</b>	<b>11</b>	<b>22,608</b>	<b>10,916</b>	<b>102,582</b>

For the year ended 30 June 2018

	Share Capital £'000	Share premium £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 1 July 2017	740	68,307	(9)	12,094	7,378	88,510
Total comprehensive income for the year	-	-	282	6,713	6,205	13,200
<b>Transactions with owners recognised in equity:</b>						
Dividends paid	-	-	-	-	(7,373)	(7,373)
<b>Balance as at 30 June 2018</b>	<b>740</b>	<b>68,307</b>	<b>273</b>	<b>18,807</b>	<b>6,210</b>	<b>94,337</b>

The notes on pages 11 to 26 are an integral part of these statements.

Statement of Cash Flows

For the year ended 30 June 2019

	Notes	Year ended 30 June 2019 £'000	Year ended 30 June 2018 £'000
<b>Cash flows from operating activities</b>			
Profit before tax		8,507	12,918
Adjustments for:			
Dividends receivable from subsidiaries		-	(1,633)
Interest receivable		(202)	(54)
Interest payable		1,096	946
Revaluation gains on investment properties		(3,801)	(6,713)
(Increase)/decrease in trade and other receivables		(262)	5
Increase in trade and other payables		160	101
		5,498	5,570
Interest paid		(913)	(769)
Interest received		202	54
<b>Net cash inflow from operating activities</b>		<b>4,787</b>	<b>4,855</b>
<b>Cash flows from investing activities</b>			
Capital expenditure on investment properties	8	-	(104)
Dividends received from subsidiaries	2	-	1,633
<b>Net cash inflow from investing activities</b>		<b>-</b>	<b>1,529</b>
<b>Cash flows from financing activities</b>			
Decrease in intercompany loans received		(104)	-
(Increase)/decrease in intercompany loans granted		(1,270)	1,821
Bank loan drawn down, net of costs		5,000	(78)
Dividends paid	7	-	(7,373)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>3,626</b>	<b>(5,630)</b>
<b>Net increase in cash and cash equivalents</b>		<b>8,413</b>	<b>754</b>
Opening cash and cash equivalents		6,233	5,479
<b>Closing cash and cash equivalents</b>	12	<b>14,646</b>	<b>6,233</b>

Transactions which do not require the use of cash

Movement in fixed or guaranteed rent reviews	1,430	1,976
<b>Total</b>	<b>1,430</b>	<b>1,976</b>

The notes on pages 11 to 26 are an integral part of these statements.

## Notes to the Financial Statements

### 1. Accounting policies

#### (a) Basis of Preparation

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

#### Basis of Accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The financial statements are prepared on a going concern basis. The notes and financial statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

#### Significant Estimates and Judgements

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

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the lease contracts, that it has not transferred substantially all the risks and rewards incidental to ownership of these properties and therefore accounts for the contracts as operating leases.

#### 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 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'. This was endorsed by the EU on 2 November 2016.

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.

This standard has not had any material impact on the Company's financial statements as presented for the current year.

## Accounting policies (continued)

### Basis of Accounting (continued)

#### – IFRS 15 'Revenue from Contracts with Customers'

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

This standard has not had any material impact on the Company's financial statements as presented for the current year.

#### Standards Issued but not yet Effective

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

#### – IFRS 16 'Leases'

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

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The standard is not expected to have any material impact on the Company's financial statements as presented for the current year given the approach to lessor accounting is substantially unchanged.

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

#### **Going concern**

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **(b) Revenue Recognition**

##### **Rental Income**

Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income on a straight line basis over the lease term taking account of the following:

- any rental income from fixed and minimum guaranteed rent reviews uplifts is recognised on a straight line basis over the lease term;
- lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option; and
- contingent rents are recognised in the period in which they are received.

Where income is recognised in advance of the related cash flows due to fixed and minimum guaranteed rent review uplifts or lease incentives, an adjustment is made to ensure that the carrying value of the relevant property including the accrued rent relating to such uplifts or lease incentives does not exceed the external valuation.

Any rental income arising in the period due to the recognition of fixed and minimum guaranteed rent review uplifts on a straight line basis is charged to the capital column of the Statement of Comprehensive Income.

## 1. Accounting policies (continued)

### ***Interest Receivable***

Interest receivable is accounted for on an accruals basis.

### ***Service Charges and Expenses Recoverable from Tenants***

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are included gross of the related costs, as the Directors consider the Company acts as principal in this respect.

### ***Dividends Receivable***

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

### **(c) Expenses**

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

### **(d) Dividends payable**

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

### **(e) Taxation**

Taxation on the profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Company will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

### ***Entry to UK-REIT Regime***

THR Number One plc joined the Group REIT regime with effect from 17 June 2014. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Company's property rental business, comprising both income and capital gains, being exempt from UK taxation.

### **(f) Property Acquisitions**

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

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

## 1. Accounting policies (continued)

### (g) Investment Properties

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

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

For properties subject to contingent payment clauses within their purchase agreements, which will result in a further payment if certain performance measures are met, this payment is recognised as a liability when it is probable that it will be paid and a reliable estimate can be made of the amount. Any payment made will result in an increase in rental income receivable from the tenant, to maintain the investment yield from the property, and therefore an asset of approximately equal value is recognised to reflect the fair value of this increase in rental income.

Development interest (where income is receivable from a developer in respect of a forward-funding agreement) is deducted from the cost of investment and shown as a receivable until settled.

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

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

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

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of the investment properties and so accounts for all such leases as operating leases.

### (h) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the fair value of the consideration transferred calculated at the acquisition date together with the amount of any non-controlling interests in the acquiree. For each business combination, the Company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

### (i) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of three months or less.

### (j) Rent and Other Receivables

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

**Accounting policies (continued)**

**(j) Rent and Other Receivables (continued)**

Other incentives provided to tenants and fixed or guaranteed rental uplifts are recognised as an asset and amortised over the period from the date of lease commencement to the earliest termination date.

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

**(k) Interest-bearing bank loans and borrowings**

All bank loans and borrowings are initially recognised at cost, being fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

**(l) Derivative financial instruments**

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

Derivative instruments are initially recognised in the Statement of Financial Position at their fair value. Fair value is determined by using a model to calculate the net present value of future market interest rates or by using market values for similar instruments. Transaction costs are expensed immediately.

The effective portion of the gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments are reported through Other Comprehensive Income and are recognised through the Hedging Reserve. The ineffective portion is recognised in the Income Statement. On maturity, or early redemption, the unrealised gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in Other Comprehensive Income, are reclassified to profit or loss.

The Company considers that its interest rate swaps qualify for hedge accounting when the following criteria are satisfied:

- The instruments must be related to an asset or liability;
- They must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- They must match the principal amounts and maturity dates of the hedged items;
- As cash-flow hedges, the forecast transactions (incurring interest payable on the bank loans) that are subject to the hedges must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss. The effectiveness of the hedges must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedges were designated; and
- At the inception of the hedge there must be a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge.

**(m) Reserves**

***Hedging Reserve***

The following are accounted for in the hedging reserve:

- increases and decreases in the fair value of interest rate swaps held at the period end.

***Capital Reserve***

The following are accounted for in the capital reserve:

- gains and losses on the disposal of investment properties;
- increases and decreases in the fair value of investment properties held at the period end; and
- rent adjustments which represent the effect of spreading uplifts and incentives.

***Revenue Reserve***

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



## 2. Dividend income

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Dividend from THR Number Two Limited	-	1,243
Dividend from THR Number 3 Limited	-	390
<b>Total</b>	<b>-</b>	<b>1,633</b>

## 3. Investment management fee

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Investment management fee	1,054	993
<b>Total</b>	<b>1,054</b>	<b>993</b>

The Company's Investment Manager is Target Fund Managers Limited. The Investment Manager is responsible for the day-to-day management of the Company. With effect from 1 July 2018, the Investment Manager is entitled to an annual base management fee calculated based on the net assets of the Company on a tiered basis set by reference to the net assets of the overall Group as set out below. Where applicable, VAT is payable in addition.

Net assets of the Group	Management fee percentage
Up to and including £500 million	1.05
Above £500 million and up to and including £750 million	0.95
Above £750 million and up to and including £1 billion	0.85
Above £1 billion and up to and including £1.5 billion	0.75
Above £1.5 billion	0.65

In the prior year, the Investment Manager was entitled to an annual base management fee of 0.90 per cent of the net assets of the Company.

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

## 4. Interest receivable

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Intercompany loan interest	197	49
Bank interest	5	5
<b>Total</b>	<b>202</b>	<b>54</b>

## 5. Interest payable and similar charges

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Bank loan interest	1,096	946
<b>Total</b>	<b>1,096</b>	<b>946</b>

## 6. Taxation

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Current tax	-	-
Adjustment to tax charge for prior years	-	-
<b>Total tax credit</b>	<b>-</b>	<b>-</b>

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

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Profit before taxation	8,507	12,918
UK tax at a rate of 19.0% (2018: 19.0%)	1,616	2,454
Effects of:		
REIT exempt gains	(451)	(900)
REIT exempt profits	(1,261)	(1,667)
Capital allowances	(160)	-
Excess expenses carried forward	256	113
<b>Total tax charge</b>	<b>-</b>	<b>-</b>

From 17 June 2014, subject to continuing relevant UK-REIT criteria being met, the profits from the Company's property rental business, arising from both income and capital gains, are exempt from corporation tax.

The Company has unutilised tax losses carried forward in its residual business of £2,793,000 at 30 June 2019 (2018: £1,689,000). No deferred tax asset has been recognised on this amount as the Company cannot be certain that there will be taxable profits arising within its residual business from which the future reversal of the deferred tax asset could be deducted.

## 7. Dividends paid

Amounts paid as distributions for equity holders

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Interim dividend paid	-	7,373
<b>Total</b>	<b>-</b>	<b>7,373</b>

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

## 8. Investments

Freehold and Long Leasehold Properties	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Opening market value	96,309	89,492
Opening fixed or guaranteed rent reviews	(10,163)	(8,187)
Opening carrying value	86,146	81,305
Capital expenditure	-	104
Revaluation movement – gains	3,801	6,713
Movement in market value	3,801	6,817
Fixed or guaranteed rent reviews movement	(1,430)	(1,976)
Movement in carrying value	2,371	4,841
Closing market value	100,110	96,309
Closing fixed or guaranteed rent reviews	(11,593)	(10,163)
Closing carrying value	88,517	86,146

## Changes in the valuation of investment properties

	For the year ended 30 June 2019 £'000	For the year ended 30 June 2018 £'000
Revaluation movement	3,801	6,713
Movement in fixed or guaranteed rent reviews	(1,430)	(1,976)
Gains on revaluation of investment properties	2,371	4,737

The properties were valued at £100,110,000 (2018: £96,309,000) by Colliers International Healthcare Property Consultants Limited ("Colliers"), in their capacity as external valuers. The valuation was prepared on a tiered fee basis, linked to the portfolio value. The valuation was undertaken in accordance with the RICS Valuation - Professional Standards, incorporating the International Valuation Standards June 2017 ("the Red Book") issued by the Royal Institution of Chartered Surveyors (RICS) on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Colliers has recent experience in the location and category of the investment properties being valued.

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 £88,517,000 (2018: £86,146,000). The adjustment of £11,593,000 (2018: £10,163,000) relating to fixed or guaranteed rent reviews, which will be subsequently amortised over the life of the lease, is separately recorded in the accounts as a non-current or current asset within 'trade and other receivables' (see note 11).

The Company is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 "Fair Value Measurement". This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: observable inputs other than quoted prices included within level 1;
- Level 3: use of inputs that are not based on observable market data.

The Company's investment properties are valued by Colliers on a quarterly basis. The valuation methodology used is the yield model, which is a consistent basis for the valuation of investment properties within the healthcare industry. This model has regard to the current investment market and evidence of investor interest in properties with income streams secured on healthcare businesses. On an asset-specific basis, the valuer makes an assessment of: the quality of the asset; recent and current performance of the asset; and the financial position and performance of the tenant operator. This asset specific information is used alongside a review of comparable transactions in the market and an investment yield is applied to the asset which, along with the contracted rental level, is used to derive a market value.

## 8. Investments (continued)

In determining what level of the fair value hierarchy to classify the Company's investments within, the Directors have considered the content and conclusion of the position paper on IFRS 13 prepared by the European Public Real Estate Association ("EPRA"), the representative body of the publicly listed real estate industry in Europe. This paper concludes that, even in the most transparent and liquid markets, it is likely that valuers of investment property will use one or more significant unobservable inputs or make at least one significant adjustment to an observable input, resulting in the vast majority of investment properties being classified as level 3.

Observable market data is considered to be that which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. In arriving at the valuation Colliers make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this involves the use of considerable judgement.

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

The Company's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield on these assets is 6.4%. The yield on individual assets ranges from between 6.00% and 7.3%. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

A decrease of 0.25 per cent in the investment yield applied to the portfolio will increase the fair value of the portfolio by £4.1m (2018: £3.9m), 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 £3.8m (2018: £3.6m) and reduce the Company's income.

## 9. Investment in subsidiary undertakings

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

## 10. Intercompany loans to group companies

	As at 30 June 2019 £'000	As at 30 June 2018 £'000
Loan balance outstanding from Target Healthcare REIT Limited	2,320	1,500
Loan balance outstanding from THR Number Two Limited	1,225	1,202
Loan balance outstanding from THR Number 3 Limited	512	504
Loan balance outstanding from THR Number 9 Limited	419	-
<b>Total</b>	<b>4,476</b>	<b>3,206</b>

The loans are unsecured and interest is payable at a fixed rate of 1.5 per cent per annum (2018: 1.5 per cent) or such other interest rate that may be agreed from time to time between the Company and the counterparty. The loans are repayable on demand.

# 11. Trade and other receivables

	As at 30 June 2019	As at 30 June 2018
	£'000	£'000
<i>Non-current trade and other receivables</i>		
Fixed rent reviews	11,593	10,163
Rental deposits held in escrow for tenants	1,702	1,670
<b>Total</b>	<b>13,295</b>	<b>11,833</b>
	As at 30 June 2019	As at 30 June 2018
	£'000	£'000
<i>Current trade and other receivables</i>		
Other debtors	264	2
<b>Total</b>	<b>264</b>	<b>2</b>

At the year end, trade and other receivables includes a fixed rent review debtor of £11,593,000 (2018: £10,163,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term in accordance with the Company's accounting policies.

# 12. Cash and cash equivalents

All cash balances at the period end were held in cash, current accounts or the deposit account.

	As at 30 June 2019	As at 30 June 2018
	£'000	£'000
Cash at bank	14,646	6,233
<b>Total</b>	<b>14,646</b>	<b>6,233</b>

# 13. Bank loan

	As at 30 June 2019	As at 30 June 2018
	£'000	£'000
Principal amount outstanding	35,000	30,000
Set-up costs	(1,178)	(1,178)
Amortisation of set-up costs	786	607
<b>Total</b>	<b>34,608</b>	<b>29,429</b>

The THR Number One plc Group ("THR 1 Group"), which consists of THR Number One plc and its three subsidiaries, THR Number Two Limited, THR Number 3 Limited and THR Number 9 Limited, has a £50 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc which is repayable on 1 September 2021, with the option of two further one year extensions thereafter subject to the consent of RBS. Interest accrues on the bank loan at a variable rate, based on three month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.5 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility.

The total loan facility of £50 million may be drawn by different members of the THR1 Group. As at 30 June 2019, THR1 Group had drawn a total of £50.0 million (2018: £30.0 million) under its loan facility, of which £35.0 million (2018: £30.0 million) was drawn by the Company and £15.0 million (2018: £nil) had been drawn by THR Number Two Limited. Neither THR Number 3 Limited nor THR Number 9 Limited had any amount drawn down as at 30 June 2019 (2018: £nil).

### 13. Bank loan (continued)

The Company had 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 paid quarterly a fixed rate of interest of 0.85 per cent per annum and received three month LIBOR. The Company has entered into a second interest rate swap, also for a notional value of £21.0 million, under which, for the period from 24 June 2019 to 1 September 2021, the Company will pay quarterly a fixed rate of interest of 0.70 per cent per annum and will receive three month LIBOR.

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

The fair value of the interest rate swaps at 30 June 2019 was an aggregate asset of £11,000 (2018: £273,000)

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

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

THR 1 Group complied with all the bank loan covenants during the year.

Analysis of net debt:

	Cash and cash equivalents	Borrowing	Net debt	Cash and cash equivalents	Borrowing	Net debt
	2019	2019	2019	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	6,233	(29,429)	(23,196)	5,479	(29,331)	(23,852)
Cash flows	8,413	(5,000)	3,413	754	78	832
Non-cash flows	-	(179)	(179)	-	(176)	(176)
<b>Closing balance</b>	<b>14,646</b>	<b>(34,608)</b>	<b>(19,962)</b>	<b>6,233</b>	<b>(29,429)</b>	<b>(23,196)</b>

### 14. Trade and other payables

	As at 30 June 2019	As at 30 June 2018
	£'000	£'000
<i>Non-current trade and other payables</i>		
Rental deposits	1,702	1,670
<b>Total</b>	<b>1,702</b>	<b>1,670</b>
	As at 30 June 2019	As at 30 June 2018
	£'000	£'000
<i>Current trade and other payables</i>		
Rental income received in advance	1,387	1,200
Bank loan interest due	209	205
Amounts due to parent company	-	104
Other payables	238	265
<b>Total</b>	<b>1,834</b>	<b>1,774</b>

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

## 15. Share Capital Movements

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of £1 each		
Opening balance as at 30 June 2018	739,965	740
<b>Closing balance as at 30 June 2019</b>	<b>739,965</b>	<b>740</b>

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, hedging reserve, capital reserve, revenue reserve and long-term borrowings. The Company is not subject to any externally-imposed capital requirements, other than the financial covenants on its loan facilities as detailed in note 13. 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.

## 16. Financial instruments

Consistent with the Company's objective, the Company holds UK care home property investments. In addition, the Company's financial instruments comprise a bank loan, cash and receivables and payables that arise directly from its operations. The Company's exposure to derivative instruments consists of interest rate swaps used to fix the interest rate on the Company's variable rate borrowings.

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

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

### Credit risk

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

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

There were no financial assets which were either past due or considered impaired at 30 June 2019 (2018: nil).

## 16. Financial instruments (continued)

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

### Liquidity risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's investments comprise UK care homes. Property and property-related assets in which the Company invests are not traded in an organised public market and may be illiquid. As a result, the Company may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Company aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

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

#### Financial assets as at 30 June 2019

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Intercompany balances	4,476	-	-	4,476
Rental deposits held in escrow for tenants	-	-	1,702	1,702
Other debtors	264	-	-	264
Cash	14,646	-	-	14,646
<b>Total</b>	<b>19,386</b>	<b>-</b>	<b>1,702</b>	<b>21,088</b>

#### Financial assets as at 30 June 2018

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Intercompany balances	3,206	-	-	3,206
Rental deposits held in escrow for tenants	-	-	1,670	1,670
Other debtors	2	-	-	2
Cash	6,233	-	-	6,233
<b>Total</b>	<b>9,441</b>	<b>-</b>	<b>1,670</b>	<b>11,111</b>

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

#### Financial liabilities as at 30 June 2019

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan and interest rate swaps	199	592	35,925	36,716
Rental deposits	-	-	1,702	1,702
Other payables	447	-	-	447
<b>Total</b>	<b>646</b>	<b>592</b>	<b>37,627</b>	<b>38,865</b>



## 16. Financial instruments (continued)

## Financial liabilities as at 30 June 2018

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan and interest rate swaps	216	624	31,809	32,649
Rental deposits	-	-	1,670	1,670
Other payables	574	-	-	574
<b>Total</b>	<b>790</b>	<b>624</b>	<b>33,479</b>	<b>34,893</b>

The total amount due to RBS under the interest-bearing £50 million bank facility includes the expected hedged interest payments due under both the loan and interest rate swaps combined (see note 13 for further details) assuming that both the drawn element of the loan and the notional value of the interest rate swaps remain unchanged from 30 June 2019 (30 June 2018) until expiry on 1 September 2021. The interest rate on the unhedged element of the loan is based on the rate of three month LIBOR at 30 June 2019 (30 June 2018) plus the lending margin. The commitment fee payable on the undrawn element of the facility is included.

**Interest rate risk**

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

The Company's policy is to hold cash in variable rate or short term fixed rate bank accounts. Interest is received on cash at a variable rate of 0.18 per cent (2018: 0.15 per cent). Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management policies. These balances expose the Company to cash flow interest rate risk as the Company's income and operating cash flows will be affected by movements in the market rate of interest.

The THR Number One plc Group ("THR 1 Group") has a £50 million (2018: £50 million) committed term loan and revolving capital facility which is charged interest at a rate of three month LIBOR plus a margin. Of this facility, £35.0 million had been drawn by THR Number One plc at 30 June 2019 (2018: £30.0 million). The Company has hedged its exposure on £30.0 million of the loan drawn down at 30 June 2019 through entering into fixed rate Interest Rate Swaps (see note 13). Fixing the interest rate exposes the Company to fair value interest rate risk. At 30 June 2019, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swaps and the reported total comprehensive income for the year by £0.2 million (2018: £0.2 million). A decrease in interest rates would have had an equal and opposite effect.

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

	As at 30 June 2019		As at 30 June 2018	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	-	14,646	-	6,233
Intercompany loans	4,476	-	3,206	-
Bank loan and interest rate swaps	(30,000)	(5,000)	(30,000)	-

An increase of 0.25 per cent. in interest rates would have increased the reported profit for the period and the net assets at the period end by £24,000 (2018: £16,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on variable rate balances as at 30 June 2019 and 30 June 2018 and may not be reflective of actual future conditions.

## 16. Financial instruments (continued)

### Market price risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 8.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Company's investment property portfolio held at the balance sheet date are disclosed in note 8. A 10 per cent increase in the value of the investment properties held as at 30 June 2019 would have increased net assets available to shareholders and increased the net income for the year by £8.9 million (2018: £8.6 million); an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

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

### 17. 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 2019 £'000	As at 30 June 2018 £'000
Less than one year	6,858	6,616
Between two and five years	29,415	27,877
Over five years	193,297	194,684
<b>Total</b>	<b>229,570</b>	<b>229,177</b>

The largest single tenant at the period end accounted for 29 per cent (2018: 29 per cent) of the current annual rental income. There were no unoccupied properties at the year end.

The Company has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with remaining lease terms of between 22 years and 30 years.

### 18. Related Party Transactions

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

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

The Investment Manager appointed to the Group, Target Fund Managers Limited, is also considered to be a related party. The Investment Manager received £1,054,000 in relation to the year ended 30 June 2019 (2018: £993,000) of which £227,000 (2018: £252,000) remained payable at the year end.

**19. Holding Company and Ultimate Parent Company**

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

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