

Full Year Results

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Impact Healthcare REIT PLC
28 March 2019

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28 March 2019

Impact Healthcare REIT plc

(the "Company" and with its subsidiaries, the "Group")

FULL YEAR RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Impact Healthcare REIT plc (ticker: IHR), the real estate investment trust which gives investors exposure to a diversified portfolio of UK healthcare real estate assets, in particular care homes, is today reporting its full year results for the year ended 31 December 2018.

Financial highlights

	Year ended 31 December 2018	Period ended 31 December 2017 ¹
Dividend per share	6.0p	4.5p
Profit before tax	£16.47m	£9.46m
Earnings per share	8.57p	5.82p
EPRA earnings per share	6.47p	4.35p
Adjusted earnings per share ²	5.07p	4.39p
Contracted rent roll	£17.78m	£11.86m
Portfolio valuation	£223.8m	£156.2m
Net asset value ("NAV") per share	103.18p	100.65p
Share price ¹	103.50p	102.38
Loan to value ("LTV") ratio	11.6%	nil

1: As at 31 December 2018 and 29 December 2017 respectively

- Paid dividends of 6.0p per share in respect of 2018, in line with target.
- New progressive dividend policy, seeking to grow the dividend in line with the inflation-linked rental uplifts received in the prior financial year. Target for 2019 is 6.17p per share, an increase of 2.83%³.
- Our dividend was well covered by our EPRA earnings per share. Adjusted for rent smoothing and one-off items, our dividend was 85% covered by adjusted earnings.
- Portfolio valuation increased by 43% during the year, reflecting £55.4 million of acquisitions, £4.7 million invested in capital improvements and a value uplift of £7.6 million. The value uplift was largely driven by rent increases and the Group's investment in capital improvements.
- NAV total return for the year of 8.5%, composed of a dividend of 6.0p per share and 2.5p per share growth in NAV.
- Signed a £50 million debt facility during the year, with £26 million drawn at the year end, resulting in an LTV ratio of 11.6%.

Operational highlights

- Acquired 15 care homes with 830 beds, adding four new tenants.
- At the year end, committed to £15.4 million of capital improvement programmes since IPO, which will add 188 beds to the portfolio. 96 beds of these were completed and in operation by 31 December 2018.
- Weighted average unexpired lease term ("WAULT") of 19.5 years at 31 December 2018.
- Rent reviews in the year added £0.5 million to contracted rent, representing a 3.95% increase on the associated portfolio.

Post balance sheet highlights

- Completed the acquisition of the Yew Tree care home, adding a further 76 beds to the portfolio.
- Launched 12-month placing programme in February 2019, enabling the Company to issue up to 200 million new ordinary shares.
- Moved from the specialist fund segment to the premium segment of the London Stock Exchange main market.
- Agreed an additional £25 million, five-year revolving credit facility with Clydesdale Bank, increasing the Group's total facilities to £75 million.
- The Investment Adviser, Impact Health Partners LLP, received the authorisations required from the FCA to replace Carne Global AIFM Solutions (C.I.) Limited as the Company's AIFM. This took effect on 15 March 2019.

Rupert Barclay, Chairman of Impact Healthcare REIT PLC, commented

"This was a year of considerable growth, in line with the strategy we set out at IPO, and we remain well placed to deliver value in the short and longer term.

The placing programme will give us the capacity to acquire further high-quality homes, increasing our diversification and reducing risk. We have strong relationships with a growing number of capable tenants, who offer an essential regulated service and provide high quality care and underpin our new progressive dividend policy and total return target, which reflect our confidence in the Group's prospects. This in turn ensures the Group has a secure income stream. This stands us in good stead in an uncertain economic and political environment."

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The Company's LEI is 213800AX3FHPMJL4IJ53.

Further information on Impact Healthcare REIT is available at www.impactreit.uk.

A Company presentation to analysts and investors will be held at 10:30am today at:

Archway Room
99 Bishopsgate
London
EC2M 3XD

The presentation will also be accessible via a live conference call and on-demand via the Company website: <http://www.impactreit.uk/documents>

Those wishing to attend the presentation or access the live conference call are kindly asked to contact Maitland on impacthealth-maitland@maitland.co.uk or by telephone on +44 (0) 20 7379 5151.

In addition, a recorded webcast of this meeting and the presentation will also be available to download from the Company's website: www.impactreit.uk.

The Annual Report and Accounts will be available on the Company's website at www.impactreit.uk. In accordance with Listing Rule 9.6.1, copies of these documents will also be submitted to the UK Listing Authority via the National Storage Mechanism and will be available for viewing shortly at www.morningstar.co.uk/uk/NSM.

Copies of the Annual Report and Accounts will be sent to shareholders, along with the notice for Annual General Meeting 2018, on or around 11 April 2019.

NOTES:

Impact Healthcare REIT plc is a real estate investment trust ("REIT") which aims to provide shareholders with an attractive return, principally in the form of quarterly income distributions and with the potential for capital and income growth, through exposure to a diversified portfolio of UK healthcare real estate opportunities, in particular residential care homes. The Group's investment policy is to acquire, renovate, extend and redevelop high quality healthcare real estate assets in the UK and lease those assets primarily to healthcare operators providing residential healthcare services under full repairing and insuring leases.

The Group has now declared or paid seven quarterly dividends of 1.50 pence per share since IPO on 7 March 2017.

The Company will seek to grow the target dividend in line with the inflation-linked rental uplifts received by the Group under the terms of the rent review provisions contained in the Group's leases in the prior financial year.

The Company is listed on the premium listing segment of the Official List of the UK Financial Conduct Authority and was admitted to trading on the Main Market for listed securities of the London Stock Exchange in February 2019.

Notes

1 Period from the Company's IPO on 7 March 2017 to 31 December 2017.

2 Adjusted earnings per share reflects underlying cash earnings per share in the year. The adjustments made to EPS in arriving at EPRA and Adjusted EPS are set out in note 10 of the Group Financial Statements.

3 This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

CHAIRMAN'S STATEMENT

This was a positive year for the Group. We grew the portfolio, diversified our tenant base and saw the initial benefits from asset management. The Group is well placed to create further value in 2019 and beyond.

Operational performance

During the year, we added 15 care homes with 830 beds to the portfolio. The acquisitions were accretive to returns with acquisitions valued at £55.5 million. The portfolio is fully leased and had a year-end contracted rent roll of £17.8 million, up 50% from £11.9 million a year earlier.

Asset management is a key value creation tool. At the year end, the board had approved capital improvements totalling £15.4 million since IPO. This will add 188 beds to existing homes, of which 96 beds across four homes were completed and in operation by 31 December 2018.

The portfolio was independently valued at £223.8 million at 31 December 2018 (31 December 2017: £156.2 million). The 43% increase was primarily due to the acquisitions. The valuation uplift was £7.6 million, or 3.94p per share, driven largely by rent increases and asset management.

Our tenants

The diversification of our tenant base was a significant feature of the year. We ended the year with six tenants¹, adding Careport, Prestige, Renaissance Care and Welford. These are high-quality operators, with three running care homes for other landlords.

Tenant diversification is strategically important, enabling us to grow while spreading risk. We choose tenants who prioritise good care and share our vision of continued asset improvement. The board cares deeply about maintaining the quality of the Group's homes. We are encouraged by the strengthening of the Investment Adviser's team. The addition of an asset manager will not only accelerate the development of increased bed capacity in the portfolio but also enable greater scrutiny of the tenants' repair and maintenance programmes.

Two of the properties which were acquired entered into new leases with Minster. This constituted a smaller related party transaction as defined by Listing Rule 11.1.10. The board was satisfied that this transaction was fully compliant with the Company's related party policy.

Financial performance

The year-end NAV was £198.3 million or 103.18 pence per share, (31 December 2017: NAV was £193.5 million or 100.65p per share).

Basic and diluted earnings per share (EPS) was 8.57p (2017: 5.82p). EPRA EPS was 6.47p (2017: 4.35p) and Adjusted EPS was 5.07p (2017: 4.39p).

On 24 October 2018, we announced that we were in advanced negotiations to buy a portfolio with more than 2,500 beds. Ultimately, we decided not to exchange contracts during 2018, although we remain in discussions with the vendors. This resulted in the Group having to write off deal-related costs of £0.74 million. Our Adjusted EPS excludes these one-off costs.

Dividends and total return

We have paid four quarterly dividends of 1.5p each in respect of 2018 and therefore met our target dividend for the year of 6.0p. This dividend was well covered by our EPRA earnings per share of 6.47p. Adjusting for rent smoothing and one-off costs, our dividend for the year was 85% covered. Dividend cover for the final quarter of the year, excluding one-off costs, was 97.4% based on Adjusted earnings.

Having paid seven quarterly dividends of 1.5p each, the board has approved a new progressive dividend policy. We aim to grow the target dividend in line with the inflation-linked rental uplifts received in the previous year, resulting in a target dividend for 2019 of 6.17p per share¹. This is a 2.83% increase on 2018.

The NAV total return for the year was 8.5%. We have introduced an NAV total return target of 9.0% per annum¹. This will be primarily driven by dividends, with capital gains supported by rental growth and asset management.

Financing

The Group secured its first debt facility in 2018, with Metro Bank PLC. This comprises a £25 million term loan and a £25 million revolving credit facility ("RCF"). At the year end, we had drawn £26 million and had an LTV ratio of 11.6%, well below the 35% limit contained in our investment policy.

In March 2019, we agreed a further £25 million five-year RCF with Clydesdale Bank, giving us total facilities of £75 million. Once fully deployed, this would give us an LTV of approximately 30%.

Post balance sheet events

In January 2019, we completed the acquisition of Yew Tree Care Centre, adding 76 beds. The current acquisition pipeline exceeds £400 million as well as asset management growth opportunities.

On 5 February 2019, we therefore announced a 12-month placing programme, allowing us to issue up to 200 million new ordinary shares to fund growth.

We also announced that our shares would move from trading on the specialist fund segment to the Premium Listing segment of the Main Market with effect from 8 February 2019. This makes the shares eligible for inclusion in key real estate equity indices, making them appealing to more investors and helping to increase liquidity.

Corporate governance

It was with great sadness that we reported the death of David Brooks, our fellow director and Chairman of the audit committee, in July 2018. I would like to reiterate our appreciation for the way he helped to shape the Company in its critical early stages. Rosemary Boot stepped in as interim Chairman of the audit committee.

We were delighted to welcome Amanda Aldridge as a non-executive director on 1 March 2019. Amanda was an audit and advisory partner for KPMG LLP from 1996 until 2017. She will become Chairman of the audit committee following the Company's AGM in May 2019.

The board is committed to high corporate governance standards and during the year we completed an internally facilitated review of the board's effectiveness which concluded that it was working well.

The updated AIC Corporate Governance Code was published in February 2019 and we will report against those requirements for 2019.

During the year, the board held a strategy day with the Investment Adviser. This thorough session examined issues ranging from the benefits of growth to our approach to risk. We concluded that the Group was following the right strategy, which would continue to create value for shareholders.

Investment Adviser

The Investment Adviser continues to be very active and has brought acquisitions to us which successfully diversified the Group during 2018. It further strengthened its team during the year, including employing an asset manager and finance manager. This will help us to better engage with our tenants and drive value creation.

We are pleased that the Investment Adviser has received FCA authorisation and has become the Company's AIFM with effect from 15 March 2019, as this simplifies our management structure and generates cost savings for the Company.

Outlook and summary

This was a year of considerable growth, in line with the strategy we set out at IPO, and we remain well placed to deliver value in the short and longer term.

The placing programme will give us the capacity to acquire further high-quality homes, increasing our diversification and reducing risk. We have strong relationships with a growing number of capable tenants, who offer an essential regulated service and provide good quality care, this in turn ensures the Group has a secure income stream, and underpins our new progressive dividend policy and total return target, which reflect our confidence in the Group's prospects. This stands us in good stead in an uncertain economic and political environment.

Rupert Barclay

Chairman

28 March 2019

¹ Including Croftwood and Minster, which are both part of the Minster Care Group.

INVESTMENT ADVISER'S REPORT

This was a successful first full year for the Group, during which it continued to implement its growth strategy and achieved its dividend target.

Investment activity

During the year, the Group successfully deployed the £32.6 million of equity raised in November 2017 and has drawn £26 million of the debt facilities secured.

In aggregate, the Group acquired a further 15 homes with 830 beds. The total cost of the acquisitions was £55.4 million (including costs).

The acquisitions further diversified the portfolio geographically and added four new tenants to the Group: Careport, Prestige, Renaissance Care and Welford. We have put in place leases which are based on those for the seed portfolio, with minimum fixed terms of 20 years, no tenant break rights, options to extend and annual rent adjustments at RPI, with a floor of 2% and a cap of 4%.

Asset management

We have identified opportunities to add more than 500 beds to the existing portfolio, through asset management activities.

As at 31 December 2018, the Group had committed capital to add 188 of these beds, primarily under forward funding arrangements. The Group also entered into a deferred payment mechanism in the case of Parkville II, which will see the tenant fund expansion works and the Group make a deferred payment linked to the new unit's trading performance once mature. This total investment of £15.4 million will increase the rent roll by £1.3 million, delivering an attractive 8.4% yield on the Company's invested capital.

The table opposite shows the asset management projects committed to as at the year end.

We are working closely with the Group's tenants to progress these organic growth projects and to explore new asset management opportunities that will enhance the environment for residents, while improving returns for both the Group and the tenant.

In addition to this capital investment, under the terms of the leases, tenants are fully responsible for keeping the Group's buildings in good repair through regular repair and maintenance programmes. We monitor these programmes carefully, to ensure they are being effectively implemented.

Home	Tenant	Capex (£m)	Beds added	Status	Description
Turnpike	Croftwood	0.92	25	Completed	Conversion of closed supported living wing to ensuite bedrooms
Littleport	Minster	2.17	21	Completed	Development of new dementia unit
Ingersley	Croftwood	0.20	12	Completed	Conversion of closed supported living wing to ensuite bedrooms
Parkville II	Prestige	2.17*	38	Completed	Conversion of closed building to new dementia unit
Completed in the year			96		
Garswood	Croftwood	1.10	11	In development	Reconfiguration and extension of the property
Freeland	Minster	4.85	46	In development	Development of new dementia unit
Diamond House	Minster	2.65	30	In development	Development of new dementia unit
Loxley *	Croftwood	0.60	5	Ready to start	Reconfiguration and extension of the property
Amberley, Craigend, Duncote Hall and Falcon *	Minster	0.69	0	Ready to start	Enhancement of existing day space and ensuite facilities
Total		15.35	188		

* Estimated deferred payment

The portfolio

As a result of the acquisitions activity described above, at 31 December 2018 the portfolio comprised 72 homes. Our portfolio bed capacity has increased to over 3,500 beds, a 40% increase during the year.

We are pleased with the current operating performance of all the Group's tenants. They have done consistently better than the national averages in the quality of care they provide, as assessed by the relevant national healthcare regulator, while also improving their financial performance. The portfolio's rent cover for the three months to 31 December 2018 was 1.8 times.

Our tenants have a diversified underlying customer base, receiving income from over 160 local authorities, the NHS and over 800 families.

Valuation

The portfolio was independently valued by Cushman & Wakefield, in accordance with the RICS "Red Book".

As at 31 December 2018, the portfolio was valued at £223.8 million, an increase of £67.6 million or 43% from the valuation of £156.2 million at 31 December 2017. The components of the valuation increase were as follows:

- acquisitions at cost: £55.4 million;
- capital improvements in homes: £4.7 million; and
- valuation uplift: £7.6 million.

The valuation uplift equates to 3.94p per share and was largely driven by rent increases and the Group's asset management activities investments.

Financial results

Total net rental income recognised for the year was £17.3 million (2017: £9.4 million). Under IFRS, the Group must recognise some rent in advance of receipt, reflecting the minimum 2% uplift in rents over the term of the lease, on a straight-line basis. Cash rental income received in the year was £13.6 million. The Group's contracted rent roll increased from £11.9 million at the start of the year to £17.8 million at 31 December 2018.

Administrative and other expenses totalled £4.3 million (2017: £2.3 million). The Group's cost base is primarily made up of the Investment Adviser's fee, other professional fees including valuations and audit, and the directors' fees. The total expense ratio, which is our recurring administrative and operating costs as a percentage of average net assets, was 1.80% for the year (2017: 1.74%). This excludes the one-off deal related costs, as discussed in the Chairman's statement. Including these, the cost ratio was 2.17%. Cost control remains a key focus for the Group and the cost ratio is expected to decline as the Group grows and benefits from economies of scale.

Finance costs were £0.6 million (2017: nil). Interest costs will increase in 2019, as the Group secured its initial debt facility half way through 2018 (see Debt financing below).

The change in fair value of investment properties was £4.1 million (2017: £2.4 million), contributing to profit before tax of £16.5 million (2017: £9.5 million). As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business.

Earnings per share ("EPS") for the year was 8.57p (2017: 5.82p) and EPRA EPS was 6.47p (2017: 4.35p).

All the EPS figures listed above are on both a basic and diluted basis.

Dividends and distributable reserves

To ensure the Company benefits from the full exemption from tax on rental income afforded by the UK REIT regime, it must distribute at least 90% of the qualifying profits each year from the Group's qualifying rental business.

The Company has declared and paid four quarterly dividends of 1.5p each in respect of the year. All four dividends were Property Income Distributions. The details of these dividends were as follows:

Quarter to	Declared	Paid	Cash cost £m
31 Mar 2018	27 Apr 2018	25 May 2018	2.88
30 Jun 2018	9 Aug 2018	7 Sep 2018	2.88
30 Sep 2018	23 Oct 2018	23 Nov 2018	2.88
31 Dec 2018	30 Jan 2019	22 Feb 2019	2.88
Total			11.52

At 31 December 2018, the Company had distributable reserves of £48.4 million, giving it significant capacity to pay dividends in line with its dividend policy.

Debt financing

In June 2018, the Group agreed a five-year loan facility with Metro Bank PLC. The facility has two elements: an interest-only term loan of £25 million and an RCF of £25 million, giving a total facility of £50 million.

The facility has a margin of 265 basis points over Metro Bank's published base lending rate. The Group has hedged the term element of the facility against rises in the Bank of England base rate above 1.0%, by purchasing a five-year option. The term loan is repayable without penalty after two years and with a 1% penalty if repaid within the first two years. Amounts drawn under the RCF can be repaid at any time without penalty.

The loan is secured over a portfolio of 54 care homes, held in wholly-owned Group companies.

At 31 December 2018, the Group had drawn £26 million against the facility, giving an LTV at the year end of 11.6%. A further £8.3 million is committed for asset management projects approved by the board, £4.9 million is estimated to be due for payment under deferred payment structures and £2.6 million is committed to fund further acquisitions.

On 7 March 2019, the Company announced that it had agreed a further £25 million RCF with Clydesdale Bank. This five-year facility is secured against 14 of the Group's homes and has a margin of between 225 and 250 basis points over three-month LIBOR. Both facilities will allow the Group to make acquisitions using debt, which can subsequently be refinanced through equity, helping to minimise cash drag.

Post balance sheet events

In addition to the new debt facility noted above, there have been five notable events since the end of the financial year:

- On 21 January 2019, the Group completed the acquisition of the Yew Tree Care Centre. This acquisition, which was originally announced on 21 September 2018, had been subject to receiving CQC consent. The home has 76 beds and the consideration was £2.8 million, reflecting a net initial yield of 7.0%.
- On 30 January 2019, the Company announced its intention to apply for its shares to be admitted to the Premium Listing segment. This was effective from 8 February 2019 and is expected to facilitate the Company's inclusion in the key real estate equity indices.
- On 5 February 2019, the Company announced a 12-month placing programme, under which it will be able to issue up to 200 million new ordinary shares. This will allow the Group to take advantage of a strong pipeline of acquisition opportunities, as described below. The issuance programme was approved by shareholders at a General Meeting on 5 March 2019.
- On 1 March 2019, Amanda Aldridge joined the board as an independent non-executive director and will become the chairman of the audit committee following the Company's AGM in May 2019.
- On 15 March 2019, the Investment Adviser was appointed as the Company's AIFM, after receiving FCA authorisation. This appointment is expected to deliver cost savings for the Company. Carne continues to provide the risk management function reporting to the AIFM.

Responsible business

As a real estate investor with aims to provide long-term, sustainable returns to shareholders, the Group is committed to future-proofing its business in the context of evolving environmental and social trends, and believes that there are compelling reasons to do so.

While the Group does not have direct control of the day-to-day running of its homes, its value creation model nonetheless offers numerous touchpoints for maximising opportunities and minimising risks associated with environmental and social issues. These range from the strategy and due diligence procedures applied to asset selection and acquisitions, to the emphasis on securing leases with operators who demonstrate the highest quality of care to residents, and working with them to identify asset management opportunities, including aspects such as energy efficiency.

In this context, the Group has committed to undertaking a strategic sustainability review and developing a practical action plan aligned to key environmental and social focus areas. This will include reviewing the requirements of the Global Real Estate Sustainability Benchmark ("GRESB") and EPRA's Sustainability

Best Practice Recommendations (SBPR) to ensure that the Group's strategy and reporting are aligned to these widely-used industry standards where applicable. We will provide an update on the Group's progress in the next annual report.

Acquisition pipeline

We have identified potential acquisitions for the Group with a total value in excess of £400 million. There are 12 potential near-term transactions under review and solicitors have been instructed in respect of four of these. All the potential acquisitions meet the Company's investment policy and return requirements and are expected to deliver further value for shareholders.

We continue to exercise robust capital discipline, to deliver value at the point of acquisition or investment.

The pipeline includes the portfolio of 61 care homes, with more than 2,500 beds, which the Group held detailed negotiations to acquire in 2018, before withdrawing from the process as announced on 30 November 2018. This transaction will only be implemented if the Company raises significant additional finance.

Outlook

The fundamentals of continuing growth in demand, which is not matched by an increased supply of good quality, well-operated residential and nursing care home beds, persist. The Group remains well positioned to invest selectively in a strong pipeline of identified opportunities which meet our strict investment criteria. Adding further homes and high-quality tenants will increase our diversification, reducing risk. These fundamentals underpin our ability to deliver on the Group's new long-term dividend and total return targets.

Impact Health Partners LLP

Investment Adviser and Investment Manager (from 15 March 2019)
28 March 2019

Asset management

COMPANY OVERVIEW

An attractive market

Five drivers influence the demand for, and provision of, care for the elderly, making it an attractive market for well-capitalised home owners working with well-managed tenant operators.

- People are living longer
- The number of beds available is not growing in response
- The market is highly fragmented
- There is severe pressure on the NHS
- Government funding has increased

Our value-creating business model

We have a five-stage business model, which aims to create value for all our stakeholders

- Build relationships with high-quality operators
- Identify homes for the operators to run
- Perform due diligence, purchase and lease homes
- Work with tenants to create value
- Optimise portfolio for long-term holding

Our focused strategy

Our strategy is to identify new care homes to acquire and good tenants who will diversify our portfolio and deliver strong economies of scale, with efficient operations alongside a good quality of care. We look for investments that, under our ownership, will provide value for money to our tenants' customers and residents, while delivering attractive and stable returns to our investors for the long term.

Our portfolio - key characteristics

- Well-diversified geographically
- Long leases, with 19.5 years WAULT at 31 December 2018 and the option for two 10-year extensions
- Annualised rent of £17.8 million, with annual rental uplifts based on the Retail Prices Index, with a floor of 2% and a cap of 4% per annum
- Majority of the homes owned freehold, with six on 999-year leases
- High-quality, financially sound tenants

Our tenants

We had six tenants at 31 December 2018

Tenant	Care homes leased from Impact Healthcare
Careport	6
Croftwood*	27
Minster*	32
Prestige	3
Renaissance Care	2
Welford	2
Total	72

* Both part of the Minster Care Group

MARKET DRIVERS

A number of drivers influence demand for, and provision of, care for older people. This makes it an attractive market for well-capitalised asset owners working in partnership with well-managed operators, who are committed to providing high standards of care.

1. People are living longer

People aged over 85 are a core demographic for residential and nursing care. In 2018, 14.7% of people in this group required care in a staffed residential setting, meaning either a care home or long-stay hospital bed. According to the Office for National Statistics, the number of people over 85 years old in the UK is forecast to double by 2040, from 1.6 million in 2018 to 3.2 million, showing the potential for long-term growth in residential and nursing care.

This is also demonstrated by base case projections commissioned by the Department of Health from the Policy Research Unit in Economics of Health and Social Care Systems. These projections show that the number of elderly people who require a bed in a care home in England might rise from 329,200 in 2015 to 587,500 in 2035, an increase of 78%.

2. Capacity has shrunk from its peak

The number of available residential and nursing home beds in the UK rose rapidly in the 1970s and 1980s, reaching a peak of 563,100 in 1996. It has since declined by 17% from that level, to 464,800 in 2018. This decline is the result of obsolete homes withdrawing from the market, homes being sold for change of use and the amount of new development activity coming to completion. In the years to March 2016 and March 2017, the number of available beds fell by 1,700 and 4,300 respectively. However, in the year to March 2018 there was a small net increase of 900 beds.

There is a need for increased investment in new stock to meet rising demand and to upgrade old stock to meet rising standards and expectations.

3. Severe pressure on the NHS

In the 12 months to December 2018, the NHS in England lost 1,711,042 bed days through delayed transfers. Pressure on the NHS remains intense with Simon Stevens, the CEO of NHS England, stating in June 2018 that patients who stay in hospital for more than three weeks, most of them elderly, occupy one in five hospital beds or the equivalent of 36 hospitals. Acute hospitals are not only more expensive than other care settings, they are rarely the most appropriate environment for the care of people with long term medical conditions.

4. Sources of funding

Approximately equal numbers of residents are now paid for either purely privately or by a combination of local authorities and the NHS. A growing minority are funded through a combination of funding from local authorities and top-up payments from their families.

The care sector is a needs driven business and in the absence of major reform to social care funding, the ability of tenants to draw on a diverse range of funding sources supports a robust care economy.

Over 90% of care homes are owned and managed by independent operators in a highly fragmented market, creating opportunities for consolidation.

5. A growing market

As a result of increasing demand and a shift from government provision to independent providers, the independent sector has seen sustained and above-inflation growth. Since 2005, the revenues of for-profit independent providers have increased by 4.2% per annum, and for non-profit independent providers by 4.3% per annum.

According to research by LaingBuisson, the estimated annualised value of residential care services for people over 65 in the UK, as at 31 March 2018, was £16.9 billion.

OUR BUSINESS MODEL

We use the following resources to create value for our stakeholders:

Physical assets

The care homes we own are central to our value-creation model.

Relationships

We draw on our Investment Adviser's strong relationships with operators, home owners and other key stakeholders.

Specialist knowledge

Our Investment Adviser's deep understanding of the care home sector helps us to identify strong operators and attractive assets.

Financial assets

We finance our business using shareholders' equity and a prudent level of debt.

Natural resources

We use energy to expand our homes through our asset management programme.

How we create value

1. Build relationships with high-quality care home operators

We develop relationships with operators we want to work with.

As they will run our homes for at least 20 years, we want to be certain they provide good care, while running a sustainable and profitable business. Their capabilities will underpin a secure, well-covered rental stream for us.

We draw on our Investment Adviser's existing strong relationships with operators and develop relationships with new operators, by clearly communicating what we are looking for in a tenant. The Investment Adviser's deep knowledge of how to run care homes is a critical advantage in assessing potential operators.

2. Identify homes

Once we have identified the right operators, we look to acquire homes our existing or proposed operators would run well. We jointly review their existing portfolios or identify homes owned by third parties, where the operator could create value with us. We focus on middle-market homes with asset management opportunities that can provide, good risk-adjusted returns.

Our preference is to acquire portfolios. There are relatively few other potential buyers of portfolios, helping us to achieve a better valuation. However, we may buy single homes either to add to an existing tenant portfolio or with a strategy to acquire more homes with the new tenant.

The Investment Adviser's relationships with vendors mean we can buy some homes off-market. We can also move quickly, using the Investment Advisers' knowledge to carefully and swiftly assess the quality of a potential opportunity through our selection process and procedures.

3. Perform due diligence, purchase and lease homes

Before we purchase homes, we perform thorough due diligence. This combines an in-depth assessment of the operator and its quality of care, as well as ensuring that the homes are sound, that they align with our investment objectives and that there is sufficient demand for care in the area.

We fund asset purchases through equity and a prudent level of debt, recognising that appropriate gearing can help to drive returns. Our policy is to sign individual leases of at least 20 years with care home operators that become our tenants, with upwards-only inflation-linked rental growth.

4. Work with tenants to create value

The security of our rental streams depends on our tenants continuing to provide good-quality care, so the homes remain in demand and sustain their profits. The Investment Adviser therefore reviews CQC ratings and the outcomes of inspections, as well as visiting homes. Our tenants also report to the Investment Adviser on a quarterly basis, to ensure they are complying with their covenants. Our Investment Adviser's sector knowledge helps it to engage with tenants and support their operations. The leases specify the minimum amounts tenants must spend on repairs and maintenance, so we can be confident our buildings are being kept in good condition.

We work with tenants to identify asset management opportunities that create value for them and for us. Examples could include adding beds, improving facilities or enhancing communal space. These projects increase revenue for the tenant, further strengthen their rental cover and grow rental income and capital values for us.

5. Optimise portfolio for long-term hold

We review the portfolio on an ongoing basis, to ensure it remains effective and efficient for us and our operators. If we believe it is value enhancing for shareholders, we may agree with the operator to sell a home, so we can reinvest the proceeds in opportunities to create more value.

Tenants

Tenants can grow their business alongside us, in a mutually beneficial relationship.

Tenants' customers

The residents in our care homes benefit from security and stability, with an operator providing the right level of care.

Shareholders

Our leases provide highly predictable and growing revenue streams. We look to control costs rigorously and exploit economies of scale as the portfolio grows, as many of our costs are fixed and some variable costs step down as our asset value rises. As a REIT, we are not subject to corporation tax on our qualifying property rental business, maximising our ability to distribute profits to shareholders as quarterly dividends. Shareholders also benefit from the potential for capital growth.

STRATEGY, INVESTMENT OBJECTIVES AND POLICY

Our strategy

We have an established strategy, supported by a disciplined approach to putting capital to work. Our strategic target is to deliver accretive growth by working in a long-term partnership with carefully selected care home operators, who:

- have a track record of delivering high-quality care;
- are consistently and sustainably profitable; and
- are ambitious to grow their businesses, through our acquiring more homes they will manage and through asset management opportunities, to expand and improve the homes they already manage.

In the process of delivering this strategy, we will:

- broaden our range of tenants over time, thus reducing our level of exposure to any one tenant;
- deliver economies of scale; and
- maintain an efficient balance sheet, with cash drag kept to a minimum.

We target the acquisition of portfolios of homes which have a solid trading history and where, through working with the existing tenant or new tenant, we can identify opportunities to improve the homes.

Our objectives

We aim to provide shareholders with attractive and sustainable returns, primarily in the form of quarterly dividends. Through active asset management, we also aim to generate growth in net asset values over the medium term. Our targets are to deliver:

- a progressive dividend policy, with a total target dividend of 6.17p per share in respect of 20191; and
- a total NAV return of 9.0% per annum¹. The capital growth element of this return will be delivered largely from annual, inflation-linked rent increases and the impact of active asset management, rather than relying on yield compression.

Our investment policy

Our investment policy is to acquire, own, lease, renovate, extend and redevelop high-quality healthcare real estate assets in the UK, in particular care homes, and to lease those assets to care home operators and other healthcare service providers, under full repairing and insuring leases. We complied with this policy during the year, as set out below.

1 This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

Investment policy	Performance	Status
No single asset can exceed 15% of the Group's total gross asset value, at the time of investment.	The largest single home is Freeland, which was valued at £11.9 million at the year end, equating to 5.3% of our gross asset value.	Achieved
No single customer paying for care provided in our assets can account for more than 15% of our tenants' aggregate revenues, at the time of acquisition	The largest single customer paying for care represents 8.1% of the aggregate revenues of the tenant group which leases the homes.	Achieved
The annual contracted rent from any single tenant is not expected to exceed 40% of our total annual contracted rent at 31 December 2019. Thereafter, the annual contracted rent from any single tenant is not expected to exceed 40% of our total annual contracted rent, measured at the time of investment.	This policy did not apply for the 2018 financial year. We expect to comply by 31 December 2019. During 2018, Minster accounted for 56.6% of annual contracted rent. No other tenant accounted for more than 40%.	Not yet applicable
The portfolio will be diversified by location across the UK, focusing on areas where there is a good balance of supply and demand for care and assets are available at attractive valuations.	The portfolio is well diversified by geography.	Achieved
We will acquire existing modern buildings, or those that are currently fit for purpose by occupiers, and for which the Investment Adviser has developed an asset management plan.	All the homes acquired during the year are suitable for our tenants' needs. The Investment Adviser develops asset management plans for homes alongside its tenants where opportunities to improve the homes exist.	Achieved
We will grant leases linked to the Retail Price with an unexpired term of at least 20 years and without tenant break clauses. We will seek to amend any future leases we acquire, to obtain similar terms.	All leases granted during the year were RPI linked and had a term of at least 20 years	Achieved
We will not speculatively develop assets, which means we will not develop a property which has not been leased or pre-leased, except for refurbishing, extending or replacing existing assets, so as to reposition a home in its local market and increase rent.	We did not undertake any speculative development in the year.	Achieved
We may invest in forward funding agreements or forward commitments to pre-let developments, where we will own the completed asset.	A total of 188 beds have been approved for development at existing homes under development or deferred performance payment agreements.	Achieved
The gross budgeted development costs of any refurbishment, extension or replacement of existing holdings, and/or forward funding and forward commitments, is limited to 25% of our gross assets at the time of commitment.	Gross budgeted development costs are less than 10% of our gross assets and comfortably within our investment policy limits.	Achieved
We have a conservative gearing policy. Borrowings as a percentage of our gross assets may not exceed 35% LTV at the time of drawdown.	The LTV at 31 December 2018 was 11.6%.	Achieved

THE PORTFOLIO

At 31 December 2018, the Group owned the homes listed in the table below:

Name of home	County	Address	Acquisition date ¹	Net purchase price £m	Beds ³	Increase ⁴ in beds	% of portfolio income
Minster Care							
Abbeywell	Staffordshire	Dragon Square, Chesterton		4.95	45		2.37%

Amberley	Cornwall	The Crescent, Truro		0.68	27		0.37%
Ashgrove	Lincolnshire	North Sea Lane, Cleethorpes		2.15	56		1.10%
Atlee Court	West Yorkshire	Atlee Street, Normanton		3.11	68		1.54%
Broadgate	Nottinghamshire	Broadgate, Beeston		3.45	40		1.65%
Carnbroe	Glasgow, Scotland	Paddock Street, Coatbridge	May 2018	4.26	74		1.79%
Craigend	Glasgow, Scotland	Croftcroighn Road, Ruchazie		1.33	48		0.34%
Diamond	Leicestershire	Bewcastle Grove, Leicester		2.69	44	+30	1.28%
Duncote Hall	Northamptonshire	Towcester		3.37	38		1.74%
Duncote The Lakes	Northamptonshire	Towcester		5.46	45		2.38%
Emmanuel	Humberside	Southfield, Hessle		1.4	37		0.64%
Eryl Fryn	Conwy, Wales	Bodafon Road, Craigsida		1.54	29		0.73%
Falcon	Nottinghamshire	Middle Street, Beeston		4.37	46		2.01%
Freeland	Oxfordshire	Wroslyn Road, Freeland		11.18	62	+46	4.40%
Gray's Court	Essex	Church Street, Grays		5.77	87		2.57%
Grenville	Norfolk	Horbeck Way, Hosford	May 2018	3.74	64		1.96%
Hamshaw Court	Humberside	Wellsted St, Hull		1.48	45		0.73%
Ideal	Shropshire	Knowsley Drive, Bicton Heath		1.97	44		1.01%
Karam Court	West Midlands	Mallin Street, Smethwick		3.71	47		1.65%
Littleport	Cambridgeshire	Grange Lane, Littleport		5.77	54	+21	2.57%
Meadows & Haywain	Suffolk	Brybank Road, Hanchett Village		4.95	65		2.20%
Mowbray	Worcestershire	Victoria Road, Malvern		3.32	37		1.65%
Mulberry Manor	South Yorkshire	Wortley Avenue, Swinton		1.8	60		0.92%
Rydal	County Durham	Rydal Road, Darlington		2.69	57		1.28%
Saffron	Leicestershire	High Street, Barwell	June 2017	3.4	48		1.68%
Shrubbery	Worcestershire	Shrubbery Avenue, Worcester		0.72	29		0.37%
Sovereign	West Midlands	Chelmarsh, Daimler Green		3.3	60		1.47%
Stansty House	Clwyd, Wales	Stansty Road, Wrexham		3.35	74		1.49%
Three Elms	Lancashire	Station Road, Penketh		3.02	56		1.49%
Waterside	Worcestershire	Leigh Sinton, Malvern		4.07	47		1.74%
Woodlands	Greater Manchester	Ash Lane, Aspull		1.98	40		0.94%
Wordsley	West Midlands	Mill Street, Brierley Hill, Wordsley		2.3	41		1.10%
Croftwood Care							
Ancliffe	Greater Manchester	Warrington Road, Wigan		1.83	40		1.06%
Astbury Lodge	Cheshire	Randle Meadow, Great Sutton		1.59	41		0.92%
Croftwood	Cheshire	Whitchurch Way, Runcorn		1.58	44		0.81%
Crossways	Cheshire	Station Road, Lostock Gralam, Northwich		1.02	39		0.62%
Elm House	Cheshire	Pillory Street, Nantwich		2.61	39		1.47%
Florence Grogan	Cheshire	Shelley Road, Blacon, Chester		1.52	40		0.88%
Garswood	Greater Manchester	Wentworth Road, Wigan		1.65	40	+11	0.96%
Gleavewood	Cheshire	Farm Road,		1.01	30		0.58%

		Weaverham, Northwich					
Golborne House	Cheshire	Derby Road, Golborne		1.67	40		0.97%
Greenacres	Greater Manchester	Green Lane, Standish		1.59	40		0.92%
Hourigan	Greater Manchester	Myrtle Avenue, Leigh		1.89	40		1.10%
Ingersley Court	Cheshire	Lowther Court, Bollington		1.88	33	+12	1.16%
Lakelands	Greater Manchester	Grizedale Drive, Higher Ince		1.89	40		1.10%
Leycester House	Cheshire	Edenfield Road, Mobberley, Knutsford		2.53	40		1.47%
Loxley Hall	Cheshire	Lower Robin Hood Lane, Helsby		2.56	36	+5	1.27%
Lyndhurst	Greater Manchester	College Street, Leigh		1.44	40		0.83%
New Milton House	Staffordshire	Station Road, Alsager		1.79	39		1.04%
Parklands	Cheshire	Poynton Civic Center, Park Lane, Poynton		1.64	40		1.01%
The Cedars	Cheshire	Brookfield Drive, Holmes Chapel		0.88	27		0.47%
The Elms	Cheshire	Elm Drive, Crewe		2.08	41		1.21%
The Hawthorns	Cheshire	Hawthorne Street, Wilmslow		1.95	39		1.10%
The Laurels	Cheshire	Walnut Drive, Winsford		1.22	40		0.69%
Thorley	Greater Manchester	Hazelmere Gardens, Hindley		1.96	40		1.14%
Turnpike Court	Cheshire	Middlewich Road, Elworth, Sandbach		2.69	28	+25	1.95%
Wealstone	Cheshire	Wealstone Lane, Upton		3.09	42		1.80%
West Haven	Merseyside	Queen's Road, Wirral		5.36	52		2.20%
Whetstone Hey	Cheshire	Old Chester Road, Great Sutton		1.95	41		1.10%
Prestige Group							
Parkville 1 & 2	North Yorkshire	Walpole Street, Middlesborough	March 2018	3	55	+38	1.36%
Roseville Care Centre	North Yorkshire	Blair Avenue, Ingleby Barwick Stockton	March 2018	7.2	103		3.30%
Sand Banks	North Yorkshire	Kirkleatham Street, Redcar	October 2018	6.3	77		2.68%
Welford							
Fairview Court/House ²	Bristol	Hill Street, Kingswood	March 2018	4.75	71		2.20%
Careport							
Briardene	Tyne and Wear	Newbiggin Lane, Newcastle	August 2018	1.99	59		0.88%
Derwent	Tyne and Wear	Newcastle Road, Low Westwood	August 2018	1.81	45		0.85%
Holly Lodge	County Durham	Maddison Street, Shildon	November 2018	1.35	41		0.73%
Sovereign Court	Tyne and Wear	Newbiggin Lane, Newcastle	August 2018	0.79	12		0.38%
Sovereign Lodge	Tyne and Wear	Newbiggin Lane, Newcastle	August 2018	3.4	48		1.64%
The Grove	North Yorkshire	Marton Road, Middlesbrough		3.41	55		1.65%
Renaissance Care							
Croftbank	Glasgow, Scotland	Old Mill Road, Uddingston	November 2018	7.63	68		3.18%
Rosepark	Glasgow, Scotland	New Edinburgh Road, Uddingston	November 2018	3.91	58		2.22%

Total					3357	188	100%
Post balance sheet acquisitions							
Yew Tree (Prestige)			January 2019		76		
Total beds					3433	188	
Total capacity						3621	

1 May 2017 unless stated.

2 Treated as two properties.

3 Before capital improvements.

4 Capital improvement additions - bold represents delivered.

PRINCIPAL RISKS AND UNCERTAINTIES

The following shows the principal risks and uncertainties facing the Group and explains how we mitigate them.

Political

1 Changes to government policy

Probability: medium

Impact: moderate

Risk

Care for the elderly is at the heart of our business. The government may change policy or introduce legislation that affects the sector. This creates both opportunity and risk, depending on the nature of the changes proposed and our preparedness to engage in the drafting and implementation of legislation.

Mitigation

The Investment Adviser closely monitors developments around funding for social care, including the government's forthcoming Green Paper.

There is normally a lead time of at least a year before new legislation comes into effect, giving us time to adapt if necessary.

Different policies will apply in England, Wales, Scotland and Northern Ireland, enabling us to focus investment in the countries with favourable regulatory regimes.

2 Effect of Brexit on Impact and its tenants' operations

Probability: low

Impact: moderate

Risk

The route to a negotiated settlement on leaving the EU remains uncertain and as a result the impact on the Company and our tenants' operational businesses is uncertain.

Of particular note is the UK care sector's partial reliance on workers from other EU countries. There is a risk that the UK's withdrawal from the EU will result in stricter controls on EU citizens moving to and working in the UK, thus restricting our tenants' ability to hire sufficient staff, especially nurses. This may result in higher staff costs and reduced service levels, with an adverse effect on the tenants' profitability.

Furthermore, it may result in severe shortages in supplies, leaving tenants unable to meet the needs of their residents and deliver the required service.

Mitigation

Our investments remain solely focused on the UK, with underlying demand for residential and nursing care beds largely independent from market uncertainties.

The Investment Adviser actively engages with tenants and regularly reviews their ability to recruit and retain different categories of staff. We continue to monitor staff costs and agency use, as an indicator of potential issues.

Medical supplies are supplied to our care homes by the NHS, through prescriptions written and authorised by residents' GPs. We and our tenants are aware of the concerns and are monitoring the situation.

Market conditions

3 Adverse change in investment opportunities

Probability: low

Impact: low

Risk

Our investment objective allows us to invest in further assets. Market conditions may restrict the availability of investments and reduce our ability to identify and acquire suitable assets that would generate acceptable returns. Any delay in making investments for funding raised or drawn will reduce our returns.

Mitigation

We have a robust due diligence process to assess new investments, to ensure they align with our investment objectives and that we understand and appropriately manage any associated risks.

The quantity of deal flow that the Investment Adviser is reviewing allows us to be selective in the homes that we are acquiring.

4 Weakening asset investment performance and investor perception of the healthcare sector

Probability: low

Impact: moderate

Risk

Adverse market conditions in our target areas could result in a decline in real estate valuations, lower market rents, lease price fluctuation and suboptimal occupancy, including tenancy terms.

Adverse economic conditions bring greater risk of tenant default or covenant default.

A weakening market may also limit our ability to grow through acquisition.

Mitigation

Our homes are let on leases of at least 20 years, with annual rental increases linked to the Retail Price Index. We assess and monitor the financial robustness of our tenants.

Demand for care home places is relatively uncorrelated to economic conditions. A decline in the economy would therefore take time to have an impact on our business.

Our current LTV is 11.6% and our investment and growth strategy ensures leverage is limited to 35%, limiting our overall reliance and downside risk of leverage.

The Company's strategy is to deliver growth through both acquisition and asset management. If the investment market is restricted, the Company can continue to progress asset management opportunities to continue to deliver growth.

5 Weakening care market

Probability: low

Impact: moderate

Risk

Several factors may affect the market for elderly care, including:

- adverse conditions in the healthcare sector;
- local authority funding partners amending their payment terms, impacting our tenants' revenues; and
- increased regulatory responsibility and associated costs for our tenants.

These could all materially impact our tenants' covenant strength and their ability to pay rent, resulting in a higher risk of default.

Mitigation

We work closely with our tenants to understand the underlying performance of the individual homes, so we identify any concerns early and can explore mitigating actions such as additional investment, staffing levels and the public/private resident mix.

Underperformance of assets

6 Default of one or more tenants

Probability: rare

Impact: major

Risk

Our IPO was based on the acquisition of a Seed Portfolio of homes, with two tenants under a single framework agreement (the "tenant group"). Even with an additional four tenants, we continue to have a high exposure to a single tenant group default, which would affect the value of our homes and our ability to pay dividends to our shareholders.

Mitigation

The Investment Adviser actively engages with the Seed Portfolio tenants, with regular reviews of performance, repairs and maintenance spend and strategic planning.

The tenants have controls in place to identify issues early and resolve them. They have a clear objective to enhance the homes and their rent cover.

Our investment policy is focused on diversifying our tenant base, which has been demonstrated through the current financial year. We continue to grow with these new tenants and pursue additional new tenants with strong and sustainable operating capability. The Investment Adviser closely monitors and regularly reports to the board on the performance of all of our tenants.

7 Underinvestment by tenants in the repair and maintenance of our assets

Probability: low

Impact: moderate

Risk

The attractiveness of our portfolio is based on the quality of the operators, measured by their regularity and financial performance, and our properties' ability to provide effective space from which our tenants can operate.

This does not require our homes to be new but it does require them to be well maintained and fit for purpose.

There is a risk that a tenant fails to adequately repair and maintain the properties it leases from us in accordance with the agreed annual repair and maintenance budget. This could result in reduced bed occupancy and/or increased future maintenance costs with a material adverse effect on our financial position and business prospects.

Mitigation

All of our leases with tenants have full repair and maintenance obligations, with the additional clarity of a minimum spend per annum per bed (based on a three-year average spend), which tenants are required to report against and we actively monitor.

Failure to comply with the terms of the lease will result in a default.

We work very closely with our tenants to identify opportunities to maintain and enhance the portfolio and where appropriate agree to fund these improvements, in return for an increase in rent. The benefit of operating a portfolio reduces our exposure to changes in individual properties.

8 Cost overruns on development activity

Probability: low

Impact: not significant

Risk

We actively work with our tenants to identify opportunities to enhance and improve our homes, in return for an increase in rent. This includes material refurbishment to existing buildings or new developments on our land.

Development contracts have inherent risks in relation to cost and quality management that can result in cost overruns and delays.

Mitigation

Our tenants are directly responsible for any improvements under a licence to vary of the lease, and are required to manage developments in a safe and efficient manner.

We factor a material contingency balance into our investment strategy and ensure that the rent payable by our tenants on these higher costs, remains attractive and affordable.

In the event there are material delays and increases in costs above these assumed levels, these are our tenants' responsibility to fund.

Financing

9 Ability to meet our debt financing obligations and operate within our debt covenants

Probability: low

Impact: moderate

Risk

If we are unable to operate within our debt covenants, this could lead to default and our debt funding being recalled.

Interest on our variable rate debt facilities is payable based on a margin over LIBOR and bank base rates. Any adverse movements in these rates could significantly impair our profitability and ability to pay dividends to shareholders.

Mitigation

We continually monitor our debt covenant compliance, to ensure we have sufficient headroom and to give us early warning of any issues that may arise. Our LTV is low and we enter into interest rate caps to mitigate the risk of interest rate rises.

Furthermore, we invest in homes with long WAULTs, reducing the volatility in our property values.

Assets are held outside of the security groups currently secured by the existing debt and can be transferred into the security pool if LTV breaches are anticipated.

In line with our hedging policy, we have entered into interest rate derivatives to hedge our direct exposure to movements in LIBOR. These derivatives cap our exposure to the level to which LIBOR can rise and have terms coterminous with the loans.

Corporate risk

10 Reliance on the Investment Adviser

Probability: low

Impact: major

Risk

As an externally managed Company, we rely on the Investment Adviser's services and reputation to execute our strategy and support our day-to-day relationships.

As a result, our performance will depend to some extent on the Investment Adviser's ability and the retention of its key staff.

There is a risk of potential conflicts with the Investment Adviser and its tenant for the Seed Portfolio.

Mitigation

We have an Investment Advisory Agreement with the Investment Adviser, which sets out the basis on which the Investment Adviser provides services to us, the restrictions it must operate within and certain additional rights we have, such as a right of pre-emption for investment opportunities. The Agreement may be terminated by 12 months' notice, which cannot be served before the fourth anniversary of Admission, except in certain circumstances such as a material breach, when it can be terminated immediately.

The management engagement committee's role and responsibilities include reviewing the Investment Adviser's performance. The board as a whole remains actively engaged with the Investment Adviser, to ensure a positive and collaborative working relationship.

The board has put in a number of controls and procedures to mitigate the risk of conflicts.

Taxation risk

11 Maintaining REIT status

Probability: rare

Impact: low

Risk

We are a UK REIT and have a tax-efficient corporate structure. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to shareholders.

If the Company fails to remain a REIT, our primary profits and gains will be subject to UK corporation tax.

Should there be a change of control within three years of our corporate acquisitions, there could be an £8.7 million Stamp Duty Land Tax liability.

Mitigation

The board is ultimately responsible for ensuring we adhere to the UK REIT Regime. The board has engaged a third-party tax adviser to help monitor our REIT status and ensure our investment and shareholding structure do not put this status at risk.

The REIT structure discourages ownership of more than 10% in a single entity and the Company is monitoring its shareholder register.

KEY PERFORMANCE INDICATORS

The Group uses the following measures to assess its strategic progress.

KPI and definition	Relevance to strategy	Performance	Commentary
1 Net Asset Total Return (NATR)	Our NATR demonstrates our ability to add value for our shareholders by growing our portfolio value and distributed earnings.	8.47% for the year to 31 December 2018 (period to 31 December 2017 annualised: 7.19%)	The NATR was composed of a 6.00p per share dividend and 2.53p per share growth in NAV. The Group had no debt for the first six months of the year and the benefits of the Group's capital improvement

			programme only started to have an impact towards the end of the year. Our target NAV total return is 9.0%. ¹
2 Dividends	The dividend reflects our ability to generate a secure and growing income stream from our portfolio.	6.00p per share for the year to 31 December 2018 (period to 31 December 2017: 4.50p)	The dividend was declared in four equal quarterly payments during 2018. For 2019, the Group has set a dividend target of 6.17p per share. ¹
3 EPRA earnings per share	A key measure of a property company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings	6.47p per share for the year to 31 December 2018 (period to 31 December 2017: 4.35p per share)	IFRS earnings per share were 8.57p for the year. The EPRA calculation removes revaluation movements in the investment portfolio and interest rate derivatives, but includes rent smoothing. Our adjusted earnings per share, after removing rent smoothing and one-off items, were 5.07p
4 EPRA 'topped-up' NIY	This measure should make it easier for investors to judge for themselves how the valuations of one portfolio compares with another portfolio.	6.96% at 31 December 2018 (as at 31 December 2017: 7.02%)	The net initial yield on all acquisitions the Group made in 2018 was above 7.0%.
5 NAV per share	Provides shareholders with the most relevant information on the fair value of the assets and liabilities within a property investment company with a long-term strategy	103.18p per share as at 31 December 2018 (as at 31 December 2017: 100.65p per share)	NAV growth during the year was driven largely by rent increases received during the year. Our EPRA NAV, which adjusts IFRS NAV for the value of financial derivatives held, at year end was 102.94p per share. The Group's only derivative position was to give it some protection against a rise in the interest rate on its debt facility.
6 Gross Loan to Value ("LTV")	We have a conservative gearing policy, with borrowing as a percentage of Group assets limited to 35% at the time of drawdown	11.62% as at 31 December 2018 (as at 31 December 2017: 0.0%)	The Group put in place a £50 million debt facility in June 2018, of which £26.0 million had been drawn by the year end. Post balance sheet, the Group secured a second debt facility of £25 million. If both facilities were fully drawn and there are no changes in the Group's current equity base, then our LTV would be under 30%.
7 Weighted Average Unexpired Lease Term ("WAULT")	The WAULT is a key measure of the secure nature of our portfolio. Long lease terms underpin the quality of our income stream and hence our dividends	19.5 years as at 31 December 2018 (as at 31 December 2017: 19.2 years)	All Group's leases have a fixed term when granted of not less than 20 years and do not have any break clauses. They are all subject to annual uplifts at RPI, with a floor of 2% and cap of 4%.
8 Total Expense Ratio ("TER")	The TER is a key measure of our operational efficiency	1.80% for the year to 31 December 2018 (period to 31	Including one-off costs incurred during the year, our TER was 2.17%. Our EPRA cost

		December 2017: 1.74%)	ratio, calculated by dividing our administrative and operating costs by gross rental income, was 24.69% for the year (2017: 24.68%).
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¹ This is a target only and not a profit forecast. There can be no assurance that the target will be met and it should not be taken as an indicator of the Company's expected or actual results.

GOING CONCERN AND VIABILITY

Going concern statement

This Strategic report describes the Company's and Group's financial position.

The Group benefits from a secure income stream, from leases with long average unexpired terms. The Group had drawn debt of £26 million at 31 December 2018. The year-end LTV was 11.6%. The Group had undrawn amounts under its debt facilities of £24 million at 31 December 2018. The Group had £15.8 million of capital commitments.

Following the year end, the Group secured a further £25 million of debt facilities, to continue to deliver against its investment strategy.

As a result, the directors believe that the Group is well placed to manage its business risks.

The directors believe that there are currently no material uncertainties in relation to the Company's and Group's ability to continue for a period of at least 12 months from the date of approval of the Company and Group financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Annual report is appropriate.

Assessment of viability

The period over which the directors consider it feasible and appropriate to report on the Group's viability is the five-year period to 31 March 2024. This period has been selected because it is the period that is used for the Group's medium-term business plans.

The assumptions underpinning these cash flow forecasts and covenant compliance forecasts were sensitised to explore the resilience of the Group to the potential impact of the Group's significant risks, or a combination of those risks.

The principal risks table summarises those matters that could prevent the Group from delivering on its strategy and is derived from our robust assessment of the principal risks to our business model, future performance, liquidity and solvency, as described in Accountability. A number of these principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur.

The directors paid particular attention to rising operational and finance costs, the risk that a tenant could default as a result of poor operational performance and a weakening investment and financing market. Based on this assessment, and on the assumption that there are no significant changes to regulatory policies or levels of funding by local authorities, the directors have developed their reasonable expectations that none of these risks would compromise the Group's viability, either on their own or in combination. The remaining principal risks, while having an impact on the Group's business model, are not considered by the directors to have a reasonable likelihood of impacting the Group's viability over the next five years to 31 March 2024.

The sensitivities performed were designed to be severe but plausible, and to take full account of the availability of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. The material financial mitigation while undertaking these measures is to restrict or refrain from paying dividends.

Restricted availability of finance

The Group does not have a significant refinancing event occurring until June 2023. However, financing is arranged in advance of expected requirements and the directors have reasonable confidence that additional replacement debt facilities will be put in place. Furthermore, the Group has the ability to make disposals of investment properties to meet its future financing requirements.

Viability statement

Having considered the forecast cash flows and the impact of the sensitivities in combination, the directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period ending 31 March 2024.

STATEMENTS OF RESPONSIBILITIES

Directors' statement of responsibilities

The directors are responsible for preparing the annual report and the Group and parent Company financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare the Group and Company financial statements for each financial year. The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that year.

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRS's as adopted by the European Union, subject to any material departures disclosed and explained in the Group financial statements;
- for the Company financial statements, state whether they have been prepared in accordance with Financial Reporting Standard 102 ("FRS102"), subject to any material departures disclosed and explained in the Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a Strategic report, a directors' remuneration report and a Corporate governance statement that comply with that law and those regulations.

Website publication

The directors are responsible for ensuring the annual report, including the financial statements, is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website (at <http://www.impactreit.uk>) is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement, pursuant to DTR4

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and Article 4 of the IAS Regulation and, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole;
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and Parent Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- the annual report and accounts taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's and Company's performance, business model and strategy.

Disclosure of information to the auditor

The directors who were members of the board at the time of approving the Directors' report have confirmed that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Signed on behalf of the board by:

Rupert Barclay, Chairman

28 March 2019

Consolidated statement of comprehensive income

For the year ended 31 December 2018

	Notes	31 December 2018 Total £'000	Period from 7 November 2016 to 31 December 2017 Total £'000
Gross rental Income	5	17,309	9,392
Insurance/service charge income	5	155	57
Insurance/service charge expense	5	(158)	(57)
Net rental income		17,306	9,392
Administrative and other expenses	6	(4,270)	(2,318)
Operating profit before changes in fair value of investment properties		13,036	7,074
Changes in fair value of investment properties	12	4,134	2,378
Operating profit		17,170	9,452
Finance income		39	6
Finance expense	8	(737)	-
Profit before tax		16,472	9,458
Tax charge on profit for the year	9	-	(1)
Profit and total comprehensive income (attributable to shareholders)		16,472	9,457
Earnings per share - basic and diluted (pence)	10	8.57p	5.82p

The results are derived from continuing operations during the year/period.

Consolidated statement of financial position

As at 31 December 2018

	Notes	31 December 2018 £'000	31 December 2017 £'000
Non-current assets			
Investment property	12	220,463	156,226
Interest rate derivatives	17	477	-

Trade and other receivables	13	5,248	1,651
Total non-current assets		226,188	157,877
Current assets			
Trade and other receivables	13	587	119
Cash and cash equivalents	14	1,470	38,387
Total current assets		2,057	38,506
Total assets		228,245	196,383
Current liabilities			
Trade and other payables	15	(3,333)	(1,221)
Total current liabilities		(3,333)	(1,221)
Non-current liabilities			
Bank borrowings	16	(24,709)	-
Trade and other payables	15	(1,866)	(1,712)
Total non-current liabilities		(26,575)	(1,712)
Total liabilities		(29,908)	(2,933)
Total net assets		198,337	193,450
Equity			
Share capital	20	1,922	1,922
Share premium reserve	20	140,452	140,505
Capital reduction reserve	20	35,800	41,566
Retained earnings		20,163	9,457
Total equity		198,337	193,450
Net Asset Value per Ordinary Share (pence)	22	103.18p	100.65p

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Rupert Barclay, Chairman

Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	31 December 2018 £'000	Period from 7 November 2016 to 31 December 2017 £'000
Cash flows from operating activities			
Profit for the year/period (attributable to equity shareholders)		16,472	9,457
Finance income		(39)	(6)
Finance expense	8	737	-
Changes in fair value of investment properties	12	(4,134)	(2,378)
Net cash flow before working capital changes		13,036	7,073
Working capital changes			
Increase in trade and other receivables		(4,065)	(1,770)
Increase in trade and other payables		1,020	2,933
Net cash flow generated from operating activities		9,991	8,236
Investing activities			
Purchase of investment properties	12	(53,365)	(152,154)
Acquisition costs capitalised		(1,711)	(1,184)
Capital improvements		(3,886)	(510)
Interest received		39	6
Net cash flow used in investing activities		(58,923)	(153,842)
Financing activities			
Proceeds from issue of ordinary share capital	20	-	192,767
Issue costs of ordinary Share Capital	20	(53)	(3,488)
Bank borrowings drawn	16	26,000	-
Loan arrangement fees paid	16	(1,483)	-
Interest rate cap premium paid	17	(582)	-
Interest paid on bank borrowings		(256)	-
Dividends paid to equity holders		(11,611)	(5,286)
Net cash flow generated from financing activities		12,015	183,993
Net (decrease) / increase in cash and cash equivalents for the year/period		(36,917)	38,387
Cash and cash equivalents at the start of the year/period		38,387	-
Cash and cash equivalents at the end of the			

Consolidated statement of changes in equity

for the year ended 31 December 2018

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
1 January 2018		1,922	140,505	41,566	9,457	193,450
Total comprehensive income		-	-	-	16,472	16,472
Transactions with owners						
Dividends paid	11	-	-	(5,766)	(5,766)	(11,532)
Share issue costs	20	-	(53)	-	-	(53)
31 December 2018		1,922	140,452	35,800	20,163	198,337

From 7 November 2016 to 31 December 2017

	Notes	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total £'000
7 November 2016		-	-	-	-	-
Total comprehensive income		-	-	-	9,457	9,457
Transactions with owners						
Issue of management shares	20	50	-	-	-	50
Cancellation of management shares	20	(50)	-	-	-	(50)
Issue of Ordinary Shares	20	1,922	190,845	-	-	192,767
Share issue costs	20	-	(3,488)	-	-	(3,488)
Transfer to capital reduction reserve	20	-	(46,852)	46,852	-	-
Dividends paid	11	-	-	(5,286)	-	(5,286)
31 December 2017		1,922	140,505	41,566	9,457	193,450

Notes to the consolidated accounts

1. Basis of preparation

General information

The consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with International Financial Reporting Standards ('IFRS') and interpretations issued by the International Accounting Standards Board ("IASB") as adopted by the European Union and in accordance with the Companies Act 2006, with comparatives presented for the period from incorporation on 7 November 2016 to 31 December 2017.

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties and the interest rate derivative which have been measured at fair value.

The Group has chosen to adopt EPRA best practice guidelines for calculating key metrics such as earnings per share.

The Company is a public listed company incorporated and domiciled in England and Wales. The Company's ordinary shares were listed on the Specialist Fund Segment to the Premium Listing Segment on 8 February 2019. The registered address of the Company is disclosed in the Corporate Information.

Convention

The consolidated financial statements are presented in Sterling, which is also the Group's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

The strategic report describes the Group's financial position, cash flows, and liquidity position. The principle risks are set out on pages 22 to 25 and note 18 to the financial statements on pages 89 to 90 also provides details of the Group's financial instruments and its

exposure to liquidity and credit risk.

The directors believe that there are currently no material uncertainties in relation to the Group's ability to continue for a period of at least 12 months from the date of the Group's financial statements. The board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Annual Report is appropriate.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods.

2.1 Judgements

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are disclosed below:

Operating lease contracts - the Group as lessor

The Group has acquired investment properties that are subject to commercial property leases with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the duration of the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

The leases when signed, are for between 20 and 25 years with a tenant-only option to extend for one or two periods of 10 years. It has been assumed at this stage that the tenants do not exercise the option to extend.

Business combinations

The Group acquires subsidiaries that own property. At the time of acquisition, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. The Group accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. Where such acquisitions are not judged to be the 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 upon their relative fair values at the acquisition date. Accordingly, no goodwill or deferred tax arises.

In the current and preceding year all acquisitions were accounted for as asset acquisitions as none of the acquisitions included the acquisition of an integrated set of activities.

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in note 18.

2.2 Estimates

Fair valuation of investment property

The Valuations have been prepared in accordance with the RICS Valuation - Global Standards 2017 or the RICS 'Red Book' as it has become widely known.

The basis of value adopted is that of fair value being "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value.

The significant methods and assumptions used by the valuers in estimating the fair value of the investment properties are set out in note 12.

Gains or losses arising from changes in the fair values are included in the consolidated statement of comprehensive income in the period in which they arise. In order to avoid double counting, the assessed fair value may be increased or reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives and/or guaranteed minimum rent uplifts.

The nature of uncertainty regarding the estimation of fair value as well as sensitivity analysis has been considered as set out in note 12.

3. Summary of significant accounting policies

The financial information does not constitute the Group and Parent Company's statutory accounts for the year ended 31 December 2018 or the year ended 31 December 2017 but is derived from those accounts. The Group and Parent Company's statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies. The Group and Parent Company's statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar of Companies in due course. The Auditor has reported on both the December 2018 and December 2017 accounts; the reports were unqualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report and did not contain any statement under Section 498 of the Companies Act 2006.'

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 31 December 2018. Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Segmental information

The board is of the opinion that the Group is engaged in a single segment business, being the investment in the United Kingdom in healthcare assets. The board consider that these properties have similar economic characteristics and as a result these individual properties have been aggregated into a single reportable operating element. Reporting on customers with greater than 10% of revenue is included in note 5.

Rental income

Rental income arising on investment properties is included in gross rental income in the consolidated statement of comprehensive income and is accounted for on a straight-line basis over the lease term. The change in the RPI is reviewed annually and is taken into consideration when accounting for the rental income on a straight-line basis. The resulting asset or liability is reflecting as a receivable or payable in the consolidated statement of financial position. Reporting on tenants with greater than 10% of revenue is included in note 5.

The valuation of investment properties is increased or reduced by the total of the unamortised lease incentive and straight-line receivable or payable balances, where relevant. Any remaining balances in respect of properties disposed of are included in the calculation of the profit or loss arising at disposal.

The initial lease rental payments and guaranteed rental uplifts 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, except for where, at the inception of the lease, the directors have no certainty that the tenant will exercise that option.

Increased rental payments arising from the variation of the lease on capital improvement licenses are spread evenly over the remaining lease term from the date of signing the license agreement.

At each rent review, the uplift in rent is calculated in accordance with the terms of the lease. If greater than the minimum uplift of 2%, then the actual uplift and its impact on the future minimum uplifts, is recalculated and recognised on straight line basis, over the remaining term of the lease.

Service charges, insurance and other expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the year which the compensation becomes receivable. Service, insurance and other similar charges which are recoverable are included in gross rental income as the directors consider that the Group acts as principal in this respect.

Taxation

The Group is a REIT in relation to its property investments is therefore exempt from tax, subject to the Group maintaining its REIT status.

Taxation on the profit or loss for the year not exempt under UK REIT regulations comprises current and deferred tax.

Current tax is the expected tax payable on any non-REIT taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date.

Investment properties

Investment properties consist of land and buildings (principally care homes) which are held to earn rental income and for capital growth potential.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Investment properties are recognised when the risk and rewards on the acquired properties passes to the Group on completion of the purchase. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the consolidated statement of comprehensive income in the period which they arise. Fair value measurement takes into consideration the improvements to the investment property during the year taking into account the future cash flows from increases in rent that have been contracted in relation to the improvement and discounting them at an appropriate rate to reflect the percentage of completion of the works being undertaken and the risk to completion that remains.

Gains and losses on disposals of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset. These are recognised in the consolidated statement of comprehensive income in the period in which they arise.

Trade and other receivables

Trade receivables comprises mainly of lease income receivable.

Trade and other receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost less impairment.

The Group applies the amortised cost basis as trade and other receivables are normally held with an objective to collect contractual cash flows, i.e. "held to collect"; which comprises of payment of principal and interest on the principal amount outstanding.

The Group applies the IFRS 9 simplified approach to measuring the expected credit losses for trade receivables whereby the allowance or provision for all trade receivables are based on the lifetime expected credit losses ("ECLs").

The Group applies the general approach for initial recognition and subsequent measurement of expected credit loss provisions for the loan receivable and other receivables which have maturities of 12 months or more and have a significant finance component.

This approach comprises of a three-stage approach to evaluating expected credit losses. These stages are classified as follows:

Stage 1

Twelve-month expected credit losses are recognised in profit or loss at initial recognition and a loss allowance is established. For financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date, the loss allowance for twelve-month expected credit losses is maintained and updated for changes in amount. Interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for expected credit losses).

Stage 2

If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected losses are recognised and includes those financial instruments that do not have objective evidence of a credit loss event. Interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3

If the credit risk of a financial asset increases to the point that it is considered credit impaired (there is objective evidence of impairment

at the reporting date), lifetime expected credit losses continue to be recognised. For financial assets in this stage, lifetime expected credit losses will generally be individually assessed. Interest revenue is calculated on the amortised cost net carrying amount (amortised cost less impairment).

The key estimation techniques including key inputs and assumptions regarding the Group's expected credit loss provision for trade and other receivables are included as part of the Group's assessment of credit risk as set out in note 18.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and deposits held at call with banks.

Dividends

Dividends are recognised when they become legally payable.

Share capital

The share capital relates to amounts subscribed for share capital at its par value.

Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve

On 12 April 2017, an application to the High Court was successfully made for the reduction of £0.30 per share of the share premium account plus £3,000,000 which allowed the transfer of £46,851,708 to the capital reduction reserve (refer to note 20). This is a distributable reserve.

Trade payables

Trade payables are initially recognised at their fair value and are subsequently measured at amortised cost.

Borrowings:

All bank borrowings are initially recognised at fair value net of attributable transaction costs. After initial recognition, all bank borrowings are measured at amortised cost, using the effective interest method. The effective interest rate is calculated to include all associated transaction costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. The fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates within finance costs in the consolidated statement of comprehensive income.

Interest rate derivatives:

Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the Group and its counterparties. Premiums payable under such arrangements are initially capitalised into the consolidated statement of financial position.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole. Changes in fair value of interest rate derivatives are recognised within the consolidated statement of comprehensive income in the period in which they occur.

The Group does not apply hedge accounting in accordance with IFRS 9.

4. Standards issued and effective from 1 January 2018

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective for the Group as of 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers

IFRS 9 "Financial Instruments"

The Group has applied IFRS 9 from 1 January 2018, but will not restate comparatives on initial application. The directors of the Company have reviewed the Group's financial assets and liabilities and the impact from the adoption of the new standard is as follows:

(i) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through profit and loss and fair value through other comprehensive income.

The Group's financial assets at 31 December 2018 consist primarily of trade receivables, which will continue to be reflected at amortised cost. Trade receivables are classified as amortised cost as they meet the test of Solely Payments of Principal and Interest ("SPPI test") as the Group's model is to collect the contracted cash flows due from tenants.

There was no impact in respect of classification and measurement of financial liabilities under IFRS 9.

(ii) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only on incurred losses as was the case under IAS 39. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.

IFRS 9 requires a simplified approach for measuring the loss allowance at an amount equal to lifetime expected credit losses ("ECLs") for trade receivables without a significant financing component.

The main area of focus for the Group is considered to be impairment provisioning of trade receivables.

Gross trade receivables held at 31 December 2018 were £nil (2017: £nil) with an impairment provision recognised under IFRS 9 of £nil (2017: £nil). The credit risk associated with unpaid rent is deemed low as tenants are required to pay rent in advance.

The Group performed an assessment of the impact of impairment losses recognised for trade receivables under IFRS 9 at 31 December 2018 through estimating the expected credit loss based on actual credit loss experienced since incorporation and taking into consideration future expected losses. Based on this assessment, there was no material impact of impairment losses recognised under IFRS 9.

The impact of impairment losses on the Group's loan receivable and cash balances are further described in note 18.

(iii) Hedge accounting

The impact of adopting hedge accounting is not material as the Group chooses not to apply the hedge accounting on its interest rate derivatives acquired during the current year.

IFRS 15 'Revenue from Contracts with Customers'

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

- > Identify the contract(s) with a customer
- > Identify the performance obligations in the contract
- > Determine the transaction price
- > Allocate the transaction price to the performance obligations in the contract
- > Recognise revenue when (or as) the entity satisfies a performance obligation

The Group has applied IFRS 15 from 1 January 2018 and adopted the modified retrospective approach without restatement of comparatives.

The majority of the Group's income is from tenant leases that is not in the scope of IFRS 15 and there is no material impact on rental income as a result of adopting the new standard.

4.1 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 16 'Leases'

In January 2016, the IASB published the final version of IFRS 16 'Leases'. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise lease assets and lease 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 the previous leases standard, IAS 17.

The Group is currently assessing the full impact of the new guidance under IFRS 16 on variable lease payments (including rental uplifts), lease modifications (including renewal options and breaks) and lease incentives. These are not expected to have a material impact on the Group which only has six leases for a term of 999 years at a peppercorn rent.

The standard will be effective for annual periods beginning on or after 1 January 2019. The Group will adopt IFRS 16 for the year ending 31 December 2019.

The Group does not consider the adoption of any new standards or amendments, other than those noted above to be applicable to the Group.

5. Property Income

	Year ended 31 December 2018 Total £'000	Period from 7 November 2016 to 31 December 2017 Total £'000
Rental income cash received in the year/period	13,866	9,453
Rent received in advance of recognition ¹	(154)	(1,712)
Rent recognised in advance of receipt ²	3,597	1,651
Gross rental income	17,309	9,392
Insurance/service charge income	155	57
Insurance/service charge expense	(158)	(57)
Net rental income	17,306	9,392

1 Rent received in relation to the period from IPO (7 March 2017) to acquisition of the original portfolio on 5 May 2017 as well as rent premiums received during the year included above, deemed to be a premium over the term of the leases.

2 Rent recognised in the period to reflect the minimum 2% uplift in rents over the term of the lease on a straight-line basis.

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight-line basis. During the prior period ended 31 December 2017, the Group benefited from an upfront premium to reflect a rent calculation from the date of IPO. For accounting purposes, premiums received are reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 2% on all leases. For accounting purposes these uplifts are also incorporated to recognise income on a straight-line basis.

Minster Care Management Ltd and Croftwood Care UK Ltd are both part of the Minster Care Group and represent more than 10% of the gross rental income:

	2018	2017
Minster Care Management Ltd	56.6%	60%
Croftwood Care UK Ltd	34.4%	40%
Others	9.0%	-

6. Administrative and other expenses

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Investment Adviser fees (note 21)	2,364	1,609
Directors' remuneration (see note 7)	165	132
Auditor's fees ¹		
- Statutory audit of the Company and Group (including subsidiaries)	90	88
- Agreed upon procedures of the Company's interim report	11	13
- Audit of the 30 April 2017 Initial Financial Information of the		

Company	-	10
- Other advisory services ¹	55	-
Total Auditor's fees	156	111
Administration fees	301	113
Investment Manager fees	97	80
Regulatory fees	25	14
Legal and professional	286	100
Other administrative costs	169	159
One-off costs ²	707	-
	4,270	2,318

- During the year ended 31 December 2018, the Auditor received £66,000 (2017: £72,000) for non-audit services performed. Non-audit services performed relating to the Company's IPO in the prior period was included within share issues costs and deducted from the share premium account.
- One-off costs relate to costs incurred on a large acquisition opportunity that did not proceed in the year. Total costs were £742,000, £707,000 is separately disclosed above with the balance of £35,000 included within other line items within this note.

The amounts shown above include irrecoverable VAT as appropriate.

7. Directors' remuneration

The Group had no employees in the current or prior period. The directors, who are the key management personnel of the Company, are appointed under letters of appointment for services. Directors' remuneration, all of which represents their fees for services provided during the year/period, are as follows:

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Rupert Barclay (Chairman)	42	32
Rosemary Boot	33	25
David Brooks ¹	16	25
Philip Hall	31	25
Paul Craig	31	15
Employer's National Insurance	12	10
	165	132

1 David Brooks died on 13 July 2018.

Directors' remuneration for the prior period from incorporation to 31 December 2017 reflects fees for their services provided from the IPO on 7 March 2017, or later if appointed after this date.

Directors' remuneration payable at 31 December 2018 amounted to £15,000 (2017: £7,000).

8. Finance expenses

	Note	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Interest payable on bank borrowings		440	-
Commitment fee payable on bank borrowings		79	-
Amortisation of loan arrangement fee		113	-
Changes in fair value of interest rate derivatives	17	105	-
		737	-

The total interest payable on financial liabilities carried at amortised cost comprises interest payable on bank borrowings which were £26 million at 31 December 2018 (2017: £nil) of which £nil was capitalised in the year (2017: £nil) and amortisation of loan arrangement and commitment fees of £1,483,000 of which £1,291,000 was capitalised in the year.

9. Taxation

As a REIT, the Group is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. For the year ended 31 December 2018 and the period ended 31 December 2017, the Group did not have any non-qualifying profits except interest income on bank deposits.

Tax charge in the consolidated statement of comprehensive income:

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
UK corporation tax	-	1

Reconciliation of the corporation tax charge:

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Profit before tax	16,472	9,458
Theoretical tax at UK corporation tax rate (19%)	3,130	1,797
Effects of:		
REIT exempt income	(2,350)	(1,344)
Investment property revaluation not taxable	(765)	(452)
Residual losses	(15)	-
Total tax charge	-	1

The Company and its subsidiaries operate as a UK Group REIT. Subject to continuing compliance with certain rules, the UK REIT rules exempt the profits of the Group's UK property rental business from UK corporation tax. Capital gains on the Group's UK properties are also generally exempt from UK corporation tax, provided they are not held for trading.

10. Earnings per share

Earnings per share (EPS) amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the Company by the time weighted average number of ordinary shares outstanding during the period. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

	Year ended 31 December 2018 Total £'000	Period from 7 November 2016 to 31 December 2017 Total £'000
Total comprehensive income (attributable to shareholders)	16,472	9,457
Adjusted for:		
- Revaluation movement	(7,577)	(2,317)
- Rental income arising from recognising rental premiums and future guaranteed rent uplifts	3,443	(61)
Change in fair value of investment properties	(4,134)	(2,378)
Change in fair value of interest rate derivative	105	-
EPRA earnings	12,443	7,079
Adjusted for:		
Rental income arising from recognising rental premiums and future guaranteed rent uplifts	(3,443)	61
Non-recurring due diligence costs	742	-
Adjusted Earnings	9,742	7,140
Average number of Ordinary Shares	192,206,831	162,552,476
Earnings per share (pence)¹	8.57p	5.82p
EPRA basic and diluted earnings per share (pence)¹	6.47p	4.35p
Adjusted basic and diluted earnings per share (pence)¹	5.07p	4.39p

1 There is no difference between basic and diluted earnings per share

The European Public Real Estate Association ("EPRA") publishes guidelines for calculating adjusted earnings designed to represent core operational activities.

The EPRA earnings are arrived at by adjusting for the changes in fair value of on investment properties and interest rate derivatives.

Adjusted Earnings:

EPRA earnings have been adjusted to exclude the effect of straight lining of rental income and one-off due diligence costs incurred in the year on a large transaction that is not reflective of the standard underlying costs. These have been adjusted to enable the board to consider the level of sustainable cash earnings.

2017 weighted average number of ordinary shares

IAS 33 requires calculation of earnings per share by dividing the earnings for the period by the weighted average number of shares in issue during the period. Implicit in this methodology is a perceived correlation between the capital of an entity and its earnings. For the comparative period, the company was dormant for the period 7 November 2016 to 7 March 2017 at which point the Company successfully listed on the London Stock Exchange. The directors of the Company consider that calculating the weighted average number of shares in issue from 7 November 2016 to 31 December 2017 distorts the reported EPS of the Company and does not provide the relevant and reliable information that IAS 33 intended. For this reason, and in accordance with IAS 8, the directors have concluded that in order to give true and fair view, the weighted average number of shares should be determined for the period 7 March 2017 to 31 December 2017 when company was active and the period to which earnings relate.

Had EPS been calculated in accordance with the requirement of IAS 33, the weighted average number of shares would have been 115,998,067 and the reported basic and diluted EPS would have been 8.15.

11. Dividends

	Dividend rate (pence) share Per share	31 December 2018 £'000	Period from 7 November 2016 to 31 December 2017 £'000
First interim dividend for the period ended 31 December 2017 (ex-dividend - 10 August 2017)	1.5p	-	2,403
Second interim dividend for the period ended 31 December 2017 (ex-dividend - 16 November 2017)	1.5p	-	2,883
Third interim dividend for the period			

ended 31 December 2017 (ex-dividend - 8 February 2018)	1.5p	2,883	-
First interim dividend for the period ended 31 December 2018 (ex-dividend - 3 May 2018)	1.5p	2,883	-
Second interim dividend for the period ended 31 December 2018 (ex-dividend - 16 August 2018)	1.5p	2,883	-
Third interim dividend for the period ended 31 December 2018 (ex-dividend - 1 November 2018)	1.5p	2,883	-
Total dividends paid		11,532	5,286
Total dividends paid in respect of the year/period		4.5p	3.0p
Total dividends unpaid but declared in respect of the year/period		1.5p	1.5p
Total dividends declared in respect of the year/period - per share		6.0p	4.5p

On 1 February 2018, the Company declared an interim dividend of 1.50 pence per Ordinary Share for the period from 30 September 2017 to 31 December 2017 and was paid in February 2018.

On 27 April 2018, the Company declared an interim dividend of 1.50 pence per Ordinary Share for the period from 31 December 2017 to 31 March 2018 and was paid in May 2018.

On 8 August 2018, the Company declared an interim dividend of 1.5 pence per share for the period from 1 April 2018 to 30 June 2018 payable in August 2018.

On 23 October 2018, the Company declared an interim dividend of 1.5 pence per share for the period from 1 July 2018 to 30 September 2018 payable in November 2018.

On 30 January 2019, the Company declared an interim dividend of 1.5 pence per share for the period from 30 September 2018 to 31 December 2018 payable on 22 February 2019.

12. Investment property

In accordance with the RICS 'Red Book' the properties have been independently valued on the basis of fair value by Cushman & Wakefield an accredited independent valuer with a recognised professional qualification. They have recent and relevant experience in the locations and categories of investment property being valued and skills and understanding to undertake the valuations competently. The properties have been valued on an individual basis and their values aggregated rather than the portfolio valued as a single entity. The valuers have used recognised valuation techniques in accordance with those recommended by International Valuation Standards Committee and are compliant with IFRS13. Factors reflected include current market conditions, annual rentals, lease lengths, property condition including improvements affected during the year, rent coverage and location.

The valuations are the ultimate responsibility of the directors. Accordingly, the critical assumptions used in establishing the independent valuation are reviewed by the board.

All corporate acquisitions during the year/period have been treated as asset purchases rather than business combinations because they are considered to be acquisitions of properties rather than businesses.

	As at 31 December 2018 Total £'000	As at 31 December 2017 Total £'000
Opening value	156,165	-
Property additions	53,365	152,154
Acquisition costs capitalised	2,071	1,184
Capital improvements	4,667	510
Revaluation movement	7,577	2,317
Closing value per independent valuation report	223,845	156,165
Guaranteed rent reviews and initial lease rental payment net (debtor) / creditor	(3,382)	61
Closing fair value per consolidation statement of financial position	220,463	156,226

During the year, the Group acquired an additional 15 properties.

The majority of the properties owned are freehold except for 6 properties which are long leasehold under 999 year leases at a peppercorn rent.

Change in fair value of investment properties

The following elements are included in the change in fair value of investment properties reported in the consolidated financial statements:

Period from 7

	31 December 2018	November 2016 to 31 December 2017
	Total	Total
	£'000	£'000
Revaluation movement	7,577	2,317
Rental income arising from recognising rental premiums and guaranteed rent uplifts	(3,443)	61
Change in fair value of investment properties	4,134	2,378

Rental income arising from recognising guaranteed rent uplifts and initial lease rental payment includes the adjustments to rental receipts for the period to reflect the total minimum income recognised over the expected lease terms on a straight-line basis. During the prior period, the Group benefited from an upfront premium to reflect a rent calculation from the date of IPO. Rent premiums received are being reflected on a straight-line basis over the term of the lease. In addition, the Group benefits from a minimum annual rental uplift of 2% on all leases. These uplifts are also incorporated to recognise income on a straight-line basis. The elements are reported in the table below. Capital improvements funded by the Group are undertaken under Deeds of Variation to the leases. The period between signing the Deed of Variation and rent commencing is a rent-free period and rent is recognised on a straight-line basis from the signing of the Deed of Variation.

		Year ended 31 December 2018	Period ended 31 December 2017
	Note	Total	Total
		£'000	£'000
Rent received in advance of recognition ¹	5	(154)	(1,712)
Rent recognised in advance of receipt ²	5	3,597	1,651
Rental income arising from recognising rental premium and future guaranteed rent uplifts		3,443	(61)

1 Rent received in relation to the period from IPO to acquisition as well as rent premiums received during the year reflected over the term of the lease.

2 Rent recognised in the period to reflect the minimum 2% uplift in rents over the term of the lease on a straight line basis.

3 See note 5.

Descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining fair values are as follows:

Valuation techniques used to derive fair values

The valuations have been prepared on the basis of fair value which is defined in the RICS 'Red Book' as the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in accordance with IFRS 13. The concept of fair value is considered to be consistent with that of market value. The valuation takes into consideration the current market conditions including improvements effected during the year, annual rentals, lease lengths, property condition, rent coverage and location.

Unobservable inputs

These include: estimated rental value ("ERV") based on market conditions prevailing at the valuation date; estimated average increase in rent based on both market estimations and contractual situations; equivalent yield (defined as the weighted average of the net initial yield and reversionary yield); and the physical condition of the property determined by inspections on a rotational basis. A decrease in the ERV would decrease fair value. A decrease in the equivalent yield would increase the fair value. An increase in the remaining lease term would increase the fair value.

Sensitivity of measurement of significant unobservable inputs

Initial yields range from 5.6% to 9.75% across the portfolio.

A 0.25% movement of the valuation yield would have approximately a £8.1 million impact on the investment property valuation. A 1% movement in the rental income would have approximately a £2.2 million impact on the investment property valuation.

Fair value hierarchy

The Group 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 following table provides the fair value measurement hierarchy for investment property:

	Date of valuation	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value:					
Investment properties	31 December 2018	220,463	-	-	220,463
Investment properties	31 December 2017	156,226	-	-	156,226

There have been no transfers between any of the levels during the year.

13. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Non-current		
Rent recognised in advance of receipt	5,248	1,651
Current		
Loan receivable ¹	250	-
Prepayments	337	119
	5,835	1,770

1. During the year, the Group entered into a loan agreement with Mariposa Care Group Limited (Careport) in which the Group provided a term loan facility of £250,000 which bears interest at 7.5% per annum. The loan has a final repayment date of 28 August 2019.

No impairment losses have been recognised during the year. Refer to note 18

14. Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
Cash and cash equivalents	1,470	38,387

Included as part of cash and cash equivalents are funds held on overnight deposit of £ 983,000 (2017: £nil).

None of the Group's cash balances are held in restricted accounts.

15. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Non-current		
Rent received in advance of recognition	1,866	1,712
Current		
Trade and other payables	1,195	354
Interest payable	236	-
Withholding tax payable - (PID Dividends)	250	329
Insurance service charge income received in advance	-	28
Capital improvements payable	1,652	510
	3,333	1,221
	5,199	2,933

16. Bank borrowings

A summary of the bank borrowings drawn in the period are shown below:

	Bank borrowings drawn Total £'000	Bank borrowings undrawn Total £'000
As at 1 January 2018	-	-
Bank borrowings drawn from the following facilities:		
Term Loan	25,000	-
Revolving Credit Facility	1,000	24,000
As at 31 December 2018	26,000	24,000

The Group had no bank borrowings in the period to 31 December 2017.

The Group signed a £50 million five-year loan facility with Metro Bank PLC (the "Loan Facility") on 21 June 2018. The Loan Facility has two elements: an interest only term loan of £25 million (the "Term Loan") which was fully drawn at 31 December 2018, and a revolving credit facility of £25 million (the "RCF"), £1 million of which was drawn at 31 December 2018.

The Loan Facility has a margin of 265 basis points over Metro Bank PLC's published Base Lending Rate. The five-year Term Loan is repayable without penalty after two years, and with a 1% penalty if prepaid within the first two years. Amounts drawn under the RCF can be repaid at any time without penalty. The loan is secured over a portfolio of 54 care homes held in wholly-owned Group companies. These assets had a closing value per the independent valuation report of £160.7 million as at 31 December 2018. The lender also hold charges over the shares of the subsidiaries and intermediate holding companies.

The Group has been in compliance with all of the financial covenants of the loan facility as applicable throughout the year covered by these financial statements.

Any fees associated with arranging the bank borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	As at 31 December 2018 Total £'000	As at 31 December 2017 Total £'000
Bank borrowings drawn: due after more than one year²	26,000	-
Arrangement fees paid during the year ²	(1,483)	-

Amortisation of loan arrangement fees ¹	192	-
Non-current liabilities: Bank borrowings	24,709	-

- Included in the Group's consolidated statement of comprehensive income are net loan finance costs of £632,000 which includes loan arrangement fees and commitment of £192,000.
- Represents cash flow arising from financing activities.

Maturity analysis of borrowings:

	As at 31 December 2018 Total £'000	As at 31 December 2017 Total £'000
Repayable between 1 and 2 years	-	-
Repayable between 2 and 5 years	26,000	-
Repayable in over 5 years	-	-
Total	26,000	-

The weighted average term of the Group's debt as at the year end is 4.5 years (2017: nil).

17. Interest rate derivatives

	As at 31 December 2018 Total £'000	As at 31 December 2017 Total £'000
At the beginning of the period	-	-
Interest cap costs paid	582	-
Change in fair value of interest rate derivatives	(105)	-
	477	-

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group entered into an interest rate cap with the notional value of £25 million and a strike rate of 1% effective from 21 June 2018 with a termination date of 15 June 2023. The fair value of the interest rate cap is based on a floating reference of 1 month LIBOR.

The total premium payable in the year towards securing the interest rate cap was £570,000, plus associated costs of £12,000.

The fair value of the derivative interest rate cap contract is estimated by discounting expected future cash flows using market interest rates. A sensitivity analysis performed to assess the impact of an increase of 0.25% in the interest rate would result in an increase of £169,000 in the fair value of the interest rate derivative. A decrease of 0.25% in the interest rate would result in a decrease of £131,000 in the fair value of the interest rate derivative.

The Group has a loan of £26 million which is exposed to interest rate risk.

18. Financial instruments and financial risk management

The Group's principal financial assets and liabilities are those that arise directly from its operations: trade and other receivables, trade and other payables and cash held at bank. The Group's other principal financial assets and liabilities are bank borrowings and interest rate derivatives, the main purpose of which is to finance the acquisition and development of the Group's investment property portfolio and hedge against the interest rate risk arising.

Set out below is a comparison by class of the carrying amounts of the Group's financial instruments:

	As at 31 December 2018 Total £'000	As at 31 December 2017 Total £'000
Financial assets at amortised cost:		
Loan receivable	250	-
Cash and cash equivalents	1,470	38,387
Financial assets at fair value:		
Interest rate derivative	477	-
Financial liabilities at amortised cost:		
Bank borrowings	24,709	-
Trade and other payables	3,333	1,193

The interest rate derivative is the only financial instrument that is measured at fair value through the Group's consolidated statement of comprehensive income.

The following table provides the fair value measurement hierarchy for the interest rate derivative:

	Date of Valuation	Total £'000	Level 1* £'000	Level 2* £'000	Level 3* £'000
Assets measured at fair value:					
	31 December 2018				
Interest rate derivative		-	-	477	-

*The fair value categories are defined in note 12

Risk Management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk. The board oversees the management of these risks. The board reviews and agrees policies for managing each of these risks that are summarised below.

Market risk (including interest rate risk)

Market risk is the risk that the fair values or future cash flows of financial instruments will fluctuate because of changes in market prices. The financial assets held by the Group that are affected by interest rate risk are principally the Group's cash balances and the interest rate derivative.

The Group monitors its interest rate exposure on a regular basis. A sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates on the Group's cash balances would result in an increase of £7,350 (2017: £192,000) or a decrease of £7,350 (2017: £192,000).

The financial liabilities held by the Group that are affected by interest rate risk are principally the Group's borrowings. The Group has entered into an interest rate derivative to reduce its exposure to interest rate risk. Refer to note 17.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risks from its leasing activities. Credit risk is minimised by requiring tenants to pay rentals in advance under their lease obligations. The credit quality of the tenant is also assessed based at the time of entering into a lease agreement thereby minimising credit risk. Outstanding trade receivables are regularly monitored. There are no outstanding trade receivables at 31 December 2018.

At 31 December 2018, the Group is exposed to credit risk in relation to the loan receivable of £250,000. In assessing the probability of default of the individual debtor, the directors have considered a number of factors including history of default, past experience, future expectations as well as the support the debtor receives from its parent company and the ability to settle the loan receivable when due. In assessing the expected credit losses ("ECL") provision of the loan receivable, the impairment loss identified by the directors was considered immaterial.

Credit risk also arises with the cash balances held with banks and financial institutions. The board believes that the credit risk on current account cash balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit-rating agencies. The impairment loss identified on cash balances was considered immaterial.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management ensuring it has appropriate levels of cash and available drawings to meet liabilities as they fall due.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	< 3 months £'000	3-12 months £'000	1-2 years £'000	2-5 years £'000	>5 years £'000	Total £'000
31 December 2018:						
Bank borrowings	-	-	-	26,000	-	26,000
Trade and other payables	3,333	-	-	-	-	3,333
31 December 2017:						
Trade and other payables	1,193	-	-	-	-	1,193

19. Capital management

The objective of the Group is to acquire, own, lease, renovate, extend and redevelop high quality, healthcare real estate assets in the UK and lease those assets, under full repairing and insuring leases, primarily to healthcare operators providing residential healthcare services. This provides 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.

The board has responsibility for ensuring the Group's ability to continue as a going concern and continues to qualify for UK REIT status. 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 has met its targeted aggregate dividend of 6.0 pence per share for the first 12 months from IPO which equates to a yield of 6% per annum on the IPO Issue Price, payable in quarterly instalments.

As at 31 December 2018, the Group remains within its maximum loan to value ("LTV") which is 35% of gross asset value of the Group as a whole. The Group has a further £24 million RCF facility available from which the Group can draw.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. Capital consists of ordinary share capital, other capital reserves and retained earnings.

20. Share capital, Share premium and Capital reduction reserve

	Shares in issue Number	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Total £'000
As at 7 November 2016					
Issue of management	-	-	-	-	-

shares	50,002	50	-	-	50
Cancellation of management shares	(50,000)	(50)	-	-	(50)
Shares issued 7 March 2017	146,172,358	1,462	144,710	-	146,172
Shares issued 5 May 2017	14,000,000	140	13,860	-	14,000
Shares issued 13 November 2017	32,034,471	320	32,275	-	32,595
	192,206,831	1,922	190,845	-	192,767
Share issue costs	-	-	(3,488)	-	(3,488)
Transfer to capital reduction reserve	-	-	(46,852)	46,852	-
Dividends declared (note 11)	-	-	-	(5,286)	(5,286)
As at 31 December 2017	192,206,831	1,922	140,505	41,566	183,993
Share issue costs ¹	-	-	(53)	-	(53)
Dividends declared (note 11)	-	-	-	(5,766)	(5,766)
As at 31 December 2018	192,206,831	1,922	140,452	35,800	178,174

1.Share issue costs for the year includes incremental costs invoiced in the period in relation to the shares issued in November 2017.

On incorporation the Company issued 2 ordinary shares of £0.01 each and 50,000 management shares of £1 each which were fully paid up. These were issued to Impact Health Partners LLP. The 50,000 management shares were redeemed following the IPO.

The Company had 192,206,831 shares of nominal value of 1 pence each in issue at the end of the year (31 December 2017: 192,206,831).

There were no shares issued during the year ended 31 December 2018.

21. Transactions with related parties

Investment Adviser

The fees calculated and paid for the year/period to the Investment Adviser were as follows:

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
Amounts payable to Impact Health Partners LLP		
Net fee	1,970	1,341
VAT	394	268
Gross fee	2,364	1,609

For the year ended 31 December 2018 the principals and finance director of Impact Health Partners LLP, the Investment Adviser, are considered key management personnel. Mr Patel and Mr Cowley are the principals and Mr Yaldron is the finance director of Impact Health Partners LLP and they own 5.20%, 0.33% and 0.03% respectively (either directly or through a wholly-owned company) of the total issued ordinary share capital of Impact Healthcare REIT plc. Mr Patel also (directly and/or indirectly) holds a majority 72.5% stake in Minster Care Group Limited "MCGL". Mr Cowley also holds a 20% interest in MCGL. 91% of the Group's rental income was received from MCGL or its subsidiaries. There were no trade receivables or payables outstanding at the year end (2017: none).

During the year the key management of Impact Health Partners LLP received the following dividends from Impact Healthcare REIT plc: Mahesh Patel £600,000 (2017: £300,000); Andrew Cowley £37,800 (2017: £18,000) and David Yaldron £2,400 (2017: £525).

Directors' interests

Paul Craig is a director of the Company. He is also the portfolio manager at Quilter Investors (formerly Old Mutual Global Investors), which has an interest in 39,617,784 ordinary shares of the Company through funds under management. The remaining directors who are shareholders in the Company do not hold significant interest in the ordinary share capital of the Company.

During the year the directors, who are considered key management personnel, received the following dividends from the Company: Rupert Barclay £6,000 (2017: £3,000); Rosemary Boot £1,800 (2017:£900), David Brooks £900 (2017: £900) and Philip Hall £1,800 (2017:£900). In addition, funds managed by Paul Craig received dividends from the Company of £2,377,067(2017: £1,188,534).

Directors' remuneration for the year is disclosed in note 7 as well as in the Directors' Remuneration Report.

Minster Care Group Limited ("MCGL")

MCGL is considered a related party, as a tenant, which is majorly owned by the principles of the Investment Advisor. The Group has undertaken the following transactions with MCGL:

- On 22 May 2018 entered into new leases for Carnbroe and Grenville, two of the properties acquired by the Group during the year.
- In accordance with the leases, undertook rent review uplifts on 7 March 2018 in relation to the portfolio acquired on 5 May 2017.
- Approved capital improvement expenditure of £5.2 million (2017: £7.9 million) on 8 homes (2017: 3 homes) in the MCGL portfolio.

- On 5 May 2017, the Company entered into a sale and leaseback of 56 homes and a further home was transferred under the sale and leaseback in June 2017. The net purchase price of this portfolio was £156.2 million.

These transactions were fully compliant with the Company's related party policy.

22. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the consolidated statement of financial position attributable to ordinary equity holders of the Company by the number of ordinary shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA has issued guidelines aimed at providing a measure of net asset value on the basis of long term fair values. The adjustments between basic and EPRA NAV are reflected in the following table:

	As at 31 December 2018 £'000	As at 31 December 2017 £'000
Net assets per consolidated statement of financial position	198,337	193,450
Fair value of derivatives	(477)	-
EPRA NAV	197,860	193,450
Issued share capital (number)	192,206,831	192,206,831
Basic NAV per share	103.18	100.65p
EPRA NAV per share	102.94	100.65p

23. Operating leases

The future minimum lease payments under non-cancellable operating leases receivable by the Group are as follows:

	Within 12 months £'000	2-5 years £'000	>5 years £'000	Total £'000
31 December 2018	16,649	72,728	322,370	411,747
	Within 12 months £'000	2-5 years £'000	>5 years £'000	Total £'000
31 December 2017	11,827	50,654	218,274	280,755

The Group's investment properties are leased to tenants under the terms of property leases that include upward only rent reviews which are performed annually. These are linked to annual RPI uplifts, with a floor of 2% and cap of 4%.

24. Reconciliation of liabilities to cash flows from financing activities

	Notes	Bank Borrowings £'000	Interest rate derivative £'000	Total £'000
As at 1 January 2018		-	-	-
Cash flows from financing activities:				
Bank borrowings drawn	16	26,000	-	26,000
Loan arrangement fees paid	16	(1,483)	-	(1,483)
Interest rate cap premium paid		-	(582)	(582)
Non-cash movements:				
Amortisation of loan arrangement fees ¹	16	192	-	192
Fair value movement	17	-	105	105
As at 31 December 2018		24,709	(477)	24,232

¹ Included in the Groups consolidated statement of comprehensive income are net finance costs of £632,000 which includes loan arrangement and commitment fees of £192,000.

25. Capital commitments

The Group has entered into Licenses for Alterations and Deeds of Variation for five (2017: two) of its properties which are ongoing at the year end, all of which are due for completion in 2019. The Group has outstanding capital commitments of £8.3million (2017: £3.7million) in relation to the cost of improvements on these properties.

The Group has committed to deferred payment agreements on two properties in return for increased rent, based on trading performance at the trigger dates. Total expected commitments under these deferred payment agreements are estimated at £4.9million (2017: £nil).

The Group had a further £2.6 million committed to acquisitions which had exchanged but not completed at the year end.

26. Contingent liabilities

Full relief for Stamp Duty Land Tax (SDLT) has been granted in relation to the transfer of properties between companies which are members of the Group. Should there be a change in control of the Company within three years of completion (5 May 2017), or a single shareholder acquires a substantial stake in the Company a liability in the subsidiary companies could arise. This is equal to approximately 5% of the aggregate value of the properties and is estimated at £8.7 million (2017: £8.4 million) on the net purchase price of assets acquired in corporate acquisitions since incorporation.

27. Controlling parties

The Company is not aware of any person who, directly or indirectly owns or controls the Company. The Company is not aware of any arrangements the operations of which may give rise to a change in control of the Company.

28. Subsequent events

Acquisitions

On 21 January 2019, the Group completed the acquisition of the Yew Tree Care Centre. This acquisition, which was originally announced on 21 September 2018, had been subject to receiving CQC consent. The home has 76 beds and the consideration was £2.8 million of which £2.6million remained payable at the year end. This was funded from the Group's RCF debt facility.

Premium Listing

On 30 January 2019, the Company announced its intention to apply for its shares to be admitted to the Premium Listing. This was effective from 8 February 2019.

Placing programme

On 5 February 2019, the Group announced its intention to launch a 12 month placing programme pursuant to which the Company will be able to issue up to 200 million new ordinary shares in order to take advantage of a strong pipeline of opportunities.

Appointment of new non-executive director

On 1 March 2019, Amanda Aldridge was appointed to the board as an independent non-executive director. Ms Aldridge was a partner in audit and advisory for KPMG LLP from 1996 to 2017.

Rent review

Rent reviews took place in the period between year end and the date of this report as follows:

- On 7th March 2019 in relation to the portfolio of assets acquired in May 2017 in relation to the IPO, let to Minster and Croftwood.
- On 16th March 2019 in relation to a single asset let to Prestige.
- On 23rd March 2019 in relation to a single asset let to Welford.

All rent reviews were linked to the annual RPI over the 12 months up to the rent review date with a floor of 2% and a cap of 4%.

As a result of these reviews the annual contracted rent increased from £17.8 million to £18.1 million.

New debt facility

On 7 March 2019, the Company announced that it had agreed a further £25 million RCF with Clydesdale Bank. This five-year facility is secured against 14 of the Group's homes and has a margin of between 225 and 250 basis points over three-month LIBOR.

No other significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in the financial statements.

Company statement of financial position

as at 31 December 2018

Company Registration Number: 10464966

		31 December 2018 £'000	31 December 2017 £'000
	Notes		
Non-current assets			
Investment in subsidiaries	6	188,223	153,338
Total non-current assets		188,223	153,338
Current assets			
Trade and other receivables	7	39,963	91
Cash and cash equivalents	8	41	38,387
Total current assets		40,004	38,478
Total assets		228,227	191,816
Current liabilities			
Trade and other payables	9	(37,404)	(10,136)
Total liabilities		(37,404)	(10,136)
Total net assets		190,823	181,680
Equity			
Share capital	10	1,922	1,922
Share premium reserve	10	140,452	140,505
Capital reduction reserve	10	35,800	41,566
Retained earnings		12,649	(2,313)
Total equity		190,823	181,680

Net Asset Value per ordinary share (pence) 12 99.28p 94.52p

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The profit attributable to the Parent Company for the year ended 31 December 2018 amounted to £20.7 million (31 December 2017: loss of £2.3 million).

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

Rupert Barclay, Chairman

Company statement of changes in equity

Notes	Undistributable reserves		Distributable reserves		Total £'000
	Share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	
7 November 2016	-	-	-	-	-
Total comprehensive loss	-	-	-	(2,313)	(2,313)
Transactions with owners					
Issue of management shares	50	-	-	-	50
Cancellation of management shares	(50)	-	-	-	(50)
Issue of ordinary shares	10 1,922	190,845	-	-	192,767
Share issue costs	10 -	(3,488)	-	-	(3,488)
Transfer to capital reduction reserve	10 -	(46,852)	46,852	-	-
Dividends paid	5 -	-	(5,286)	-	(5,286)
31 December 2017	1,922	140,505	41,566	(2,313)	181,680
1 January 2018	1,922	140,505	41,566	(2,313)	181,680
Total comprehensive income	-	-	-	20,728	20,728
Transactions with owners					
Dividends paid	5 -	-	(5,766)	(5,766)	(11,532)
Share issue costs	10 -	(53)	-	-	(53)
31 December 2018	1,922	140,452	35,800	12,649	190,823

Notes to the Company financial statements

For the year ended 31 December 2018

1. Basis of Preparation

General information

The financial statements for the year ended 31 December 2018, are prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and in accordance with the Companies Act 2006, with comparatives presented for the period from incorporation on 7 November 2016 to 31 December 2017.

Disclosure exemptions adopted

In preparing these financial statements the Company has taken advantage of all disclosure exemptions conferred by FRS 102.

In preparing the separate financial statements of the Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- A reconciliation of the number of shares outstanding at the beginning and end of the period has not been presented as the reconciliations of the group and the parent company would be identical;
- No statement of cash flows has been presented for the parent company
- Disclosures in respect of the parent Company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the Group as a whole;
- The requirement to present related party disclosures between the Company and fellow subsidiaries where ownership is all 100%; and

- No disclosures have been given for the aggregate remuneration of the key management personnel of the Company as their remuneration is included in the totals for the Group as a whole.

Convention

The financial statements are presented in Sterling, which is also the Company's functional currency, and all values are rounded to the nearest thousand (£'000), except when otherwise indicated.

Going concern

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 next 12 months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amount of the assets or liabilities in future periods. There were no significant accounting judgements, estimates or assumptions in preparing these financial statements.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Trade and other receivables

Trade and other receivables are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are initially recognised at fair value and subsequently measured at amortised cost. A provision for impairment is made when there is objective evidence that the Company will not be able to recover balances in full.

Balances are written off when the probability of recovery is assessed as being remote.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and deposits on call.

Dividends

Dividends are recognised when they become legally payable.

Share premium

The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account. The reserve is non-distributable.

Capital reduction reserve

On 12 April 2017, an application to the High Court was successfully made for the reduction of £0.30 per share of the share premium account plus £3,000,000 which allowed the transfer of £46,851,708 to the capital reduction reserve. This is a distributable reserve.

Trade and other payables

Trade payables are initially recognised at their fair value and are subsequently measured at cost.

Investments in subsidiaries

The investments in subsidiary companies are included in the Company's statement of financial position at cost less provision for impairment.

4. Taxation

The Company is exempt from corporation tax on the profits and gains from its property investment business, provided it continues to meet certain conditions as per REIT regulations. Any non-qualifying profits and gains however will continue to be subject to corporation tax.

Tax charge included in total comprehensive income:

	Year ended 31 December 2018 £'000	Period ended 31 December 2017 £'000
UK corporation tax	-	1

5. Dividends

Details of dividends paid by the Company are included in note 11 to the consolidated financial statements.

6. Investment in subsidiaries

	31 December 2018 Total £'000	31 December 2017 Total £'000
At the beginning of the year/period	153,338	-
Cost of investments acquired through share purchases	34,885	153,338
At the end of the year/period	188,223	153,338

The Company has the following subsidiaries:

	Principal activity	Country of incorporation	Ownership %
Impact Property 1 Limited ("Propco 1")*	Real Estate Investment	England and Wales	100
Impact Property 2 Limited ("Propco 2")*	Real Estate Investment	England and Wales	100
Impact Property 3 Limited ("Propco 3")	Real Estate Investment	England and Wales	100
Impact Property 4 Limited ("Propco 4")	Real Estate Investment	England and Wales	100
Impact Finance 1 Limited ("Finance 1")*	Financing company	England and Wales	100
Impact Finance 2 Limited ("Finance 2")	Financing company	England and Wales	100
Impact Finance 3 Limited ("Finance 3")	Financing company	England and Wales	100

	Principal activity	Country of incorporation	Ownership %
Impact Holdco 1 Limited ("Holdco 1")	Investment holding company	England and Wales	100
Impact Holdco 2 Limited ("Holdco 2")	Investment holding company	England and Wales	100
Impact Holdco 3 Limited ("Holdco 3")	Investment holding company	England and Wales	100
Alpha Care Management Services Group Limited*	Intermediate holding company	England and Wales	100
Alpha Care (Grenville) Limited *	Property holding company	England and Wales	100
Umber (GP) Limited*	Intermediate holding company	Jersey	100
Umber Properties Limited*	Intermediate holding company	Jersey	100
Umber Properties LP*	Property holding partnership	Jersey	100
Roseville Property Limited*	Property holding company	England and Wales	100
Sandbanks Property Redcar Limited*	Property holding company	England and Wales	100

*As at 31 December these entities were held indirectly by the Company.

The registered address for the above subsidiaries is: 7th Floor 9 Berkeley Street, London, London, W1J 8DW, England.

7. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Loan to Group companies	39,694	-
Loan receivable ¹	250	-
Prepayments	19	91
	<u>39,963</u>	<u>91</u>

1. During the year, the Group entered into a loan agreement with Mariposa Care Group Limited (Careport) in which the Group provided a term loan facility of £250,000 which bears interest at 7.5% per annum. The loan has a final repayment date of 28 August 2019.

As at 31 December 2018, there were no trade receivables past due or impaired (2017: None).

Loans to Group companies are unsecured and are repayable on demand.

8. Cash and cash equivalents

	31 December 2018 £'000	31 December 2017 £'000
Cash and cash equivalents	41	38,387

None of the Company's cash balances are held in restricted accounts.

9. Trade and other payables

	31 December 2018 £'000	31 December 2017 £'000
Loan from Group companies	36,147	9,453
Trade and other payables	1,007	354
Withholding tax payable - (PID Dividends)	250	329
	<u>37,404</u>	<u>10,136</u>

Loans from Group companies are unsecured and are repayable on demand.

10. Share capital, Share premium and Capital reduction reserve

Details on movements in share capital, share premium and capital reduction reserve of the Company are the same as that of the Group and are included in note 20 to the consolidated financial statements.

11. Transactions with related parties

The Company has taken advantage of the exemption provided by FRS102 not to disclose transactions with other members of the Group as the Company's own financial statements are presented together with its consolidated financial statements.

See note 21 of the consolidated financial statements for disclosure of related party transactions of the Group.

12. Net Asset Value (NAV) per share

Basic NAV per share is calculated by dividing net assets in the statement of financial position attributable to ordinary equity holders of the parent by the number of Ordinary Shares outstanding at the end of the year. As there are no dilutive instruments outstanding, basic and diluted NAV per share are identical.

EPRA has issued guidelines aimed at providing a measure of net asset value on the basis of long-term fair values. There are no adjustments between basic and EPRA NAV.

	31 December 2018 £'000	31 December 2017 £'000
Net assets per statement of financial position	190,823	181,680

EPRA NAV	190,823	181,680
Issued share capital (number)	192,206,831	192,206,831
Basic and EPRA NAV per share	99.28p	94.52p

13. Capital commitments

There were no capital commitments held by the Company (2017: nil).

14. Subsequent events

Significant events after the reporting period are the same as those of the Group. See note 28 to the consolidated financial statements.

No other significant events have occurred between the statement of financial position date and the date when the financial statements have been authorised by the directors, which would require adjustments to, or disclosure in the financial statements.

EPRA performance measures (Unaudited)

The table below shows additional performance measures, calculated in accordance with the Best Practices Recommendations of the European Public Real Estate Association (EPRA). We provide these measures to aid comparison with other European real estate businesses.

KPI and definition	Purpose	Performance
1 EPRA earnings per share Earnings from operational activities	A key measure of a company's underlying operating results are an indication of the extent to which current dividend payments are supported by earnings.	£12.4m / 6.47p per share for the year to 31 December 2018 (for the year to 31 December 2017: £7.1m/4.35p)
2. EPRA NAV per share Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallize in a long-term investment property business.	Makes adjustments to IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy.	£197.9m / 102.94p per share as at 31 December 2018 (as at 31 December 2017: £193.5m / 100.65p)
3. EPRA Triple Net Asset Value (NNNAV) EPRA NAV adjusted to include the fair values of: (i) financial instruments; (ii) debt and; (iii) deferred taxes.	Makes adjustments to EPRA NAV to provide stakeholders with the most relevant information on the current fair value of all the assets and liabilities within a real estate company.	£197.0m / 102.52p per share as at 31 December 2018 (as at 31 December 2017: £193.5m / 100.65p)
4.1 EPRA Net Initial Yield (NIY) Annualized rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	6.85% as at 31 December 2018 (as at 31 December 2017: 7.02%)
4.2 EPRA "topped-up" NIY This measure adjusts the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives, such as discounted rent periods and step rents).	This measure should make it easier for investors to judge for themselves how the valuation of one portfolio compares with another portfolio.	6.97% as at 31 December 2018 (as at 31 December 2017: 7.02%)
5 EPRA vacancy rate Estimated market rental value (ERV) of vacant space divided by the ERV of the whole portfolio.	A "pure" (%) measure of investment property space that is vacant, based on ERV.	0.00% as at 31 December 2018 (as at 31 December 2017: 0.00%)
6. EPRA cost ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure, to enable meaningful measurement of the changes in a company's operating costs.	24.69% for the year to 31 December 2018 (period to 31 December 2017: 24.68%)

Notes to the EPRA performance measures (unaudited)

For the year ended 31 December 2018

1. EPRA earnings per share

	31 December 2018	31 December 2017
	£'000	£'000
Total comprehensive income (attributable to shareholders)	16,472	9,457
Adjusted for:		
Change in fair value of investment properties	(7,577)	(2,317)
Rental income arising from recognising guaranteed rent uplifts and rental premiums	3,443	(61)
	(4,134)	(2,378)
Change in fair value of interest rate derivatives	105	-
Profits to calculate EPRA earnings per share	12,443	7,079
Weighted average number of ordinary shares (basic and diluted)	192,206,831	162,552,476
EPRA earnings per share - basic and diluted	6.47p	4.35p

2. EPRA NAV per share

	31 December 2018	31 December 2017
	£'000	£'000
Net assets at end of period	198,337	193,450
Adjustments to calculate EPRA NAV		
Fair value of derivatives	(477)	-
EPRA NAV	197,860	193,450
Shares in issue at 31 December (basic and diluted)	192,206,831	192,206,831
EPRA NAV per share	102.94p	100.65p

3. EPRA NNNAV per share

	31 December 2018	31 December 2017
	£'000	£'000
EPRA net assets at end of period	197,860	193,450
include:		
Fair value of financial instruments	477	-
Fair value of debt ¹	(1,291)	-
EPRA NNNAV	197,047	193,450
Shares in issue at 31 December (basic and diluted)	192,206,831	192,206,831
EPRA NNNAV per share	102.52p	100.65p

1. Difference between interest-bearing loans and borrowings included in the balance sheet at amortised cost, and fair value of interest-bearing loans and borrowings at drawn amount.

4. EPRA Net Initial Yield (NIY) and EPRA "topped up" NIY

	31 December 2018	31 December 2017
	£'000	£'000
Investment property - wholly-owned	223,844	156,165
Less capital improvements under construction	(1,076)	(510)
Completed property portfolio	222,768	155,655
Allowance for estimated purchasers' costs ¹	13,878	9,583
Gross up completed property portfolio valuation (B)	236,647	165,238
Annualised cash passing rental income	16,214	11,600
	(3)	-
Property outgoings (non-recoverable insurance)		
Annualised net rents (A)	16,217	11,600
	276	-

Add: Contractual uplifts on rent-free periods of funded capital

improvements		
Topped up net annualised rent (C)	16,493	11,600
EPRA Net Initial Yield (A/B)	6.85%	7.02%
EPRA "topped up" Net Initial Yield (A/C)	6.97%	7.02%

1 Assumes a purchaser of the Company's portfolio would pay SDLT and transaction costs equal to 6.2% of the portfolio's value.

5. EPRA vacancy rate

	31 December 2018	31 December 2017
	£'000	£'000
Annualised estimated rental value of vacant premises	-	-
Portfolio estimated rental value	16,509	12,353
EPRA vacancy rate	0.00%	0.00%

6. EPRA cost ratio

	31 December 2018	31 December 2017
	£'000	£'000
Property operating costs	3	-
Administration expenses	4,270	2,318
Total costs including and excluding vacant property costs	4,273	2,318
Total gross rental income	17,309	9,392
Total EPRA cost ratio (including, and excluding, vacant property costs)	24.69%	24.68%

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