IMPACT
Healthcare REIT

A year of sustained growth

Annual report 2018

Dedicated to UK healthcare real estate

Who we are

Impact Healthcare REIT plc is a real estate investment trust, traded on the main market of the London Stock Exchange. We invest in a diversified portfolio of UK healthcare real estate assets, in particular residential and nursing care homes, and lease them to high-quality operators.

Our objectives

We aim to provide shareholders with attractive and sustainable returns, primarily in the form of quarterly dividends. For the year ending 31 December 2019, our dividend target is 6.17p per share[1]. Our target total return is 9.0% per annum[1].

Potential for income and capital growth

Our dividends are underpinned by a secure and stable income stream, which comes from six tenants[2] who are committed to providing high standards of care. We benefit from long leases with inflation-linked annual rent reviews that support our dividend policy. Through active asset management, we also aim to deliver growth in net asset values over the medium term.

Attractive opportunities

The UK's population is growing and ageing, increasing the long-term demand for care, while the supply of suitable assets for providing that care has fallen over the past 20 years. This dynamic offers value creation opportunities for us, as a well-capitalised landlord with an experienced Investment Adviser.

We look to enhance the portfolio through carefully selected investments which add attractive assets to the portfolio, further diversify our tenant base, and increase the capacity and quality of our investment portfolio.

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.

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

Financial highlights

This was our first full year of operation and we made good progress, achieving our investment objectives and diversifying our tenant base

	Year ended 31 December 2018	Period ended 31 December 2017[1]
Dividends	**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[3]	**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.

6.0p
Dividend per share

Paid dividends of 6.0p per share in respect of 2018, in line with target.

6.17p
New progressive dividend policy

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%[2].

6.47p
EPRA earnings per share

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.

For further information on the Company go to: www.impactreit.uk

+43%
Portfolio valuation

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.

8.5%
NAV total return

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.

£50m
Debt

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%.

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

2 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.

3 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,

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Impact Healthcare at a glance

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

Operational highlights

Year ended 31 December 2018

4

New tenants

Acquired 15 care homes with 830 beds adding four new tenants.

£15.4m

Capital improvement programmes

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.

19.5 years

Weighted average unexpired lease term

("WAULT") of 19.5 years at 31 December 2018.

+£0.5m

Rent reviews

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

76 beds

Completed acquisition

Completed the acquisition of the Yew Tree care home, adding a further 76 beds to the portfolio.

Placing programme

New ordinary shares

Launched 12-month placing programme, enabling the Company to issue up to 200 million new ordinary shares.

Premium Listing

FTSE eligible

Moved from the specialist fund segment to the premium segment of the London Stock Exchange main market.

£25m

Credit facility

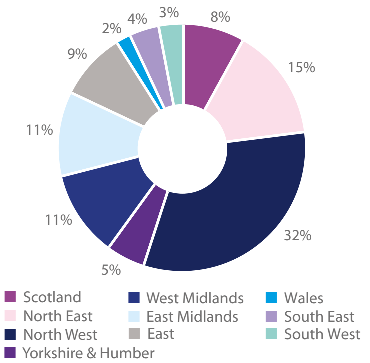
Agreed an additional £25 million, five-year revolving credit facility with Clydesdale Bank, increasing the Group's total facilities to £75 million.

Investment Manager

AIFM

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.

Regionally diverse (% income)



Fees

Our tenants are established providers, offering good-quality care. They earn fees from a broad spectrum of public sector customers and the families of private residents.

Our Investment Adviser

Impact Health Partners LLP has been our Investment Adviser. It sources investments for us, reviews opportunities and makes recommendations to the board, carries out the transactions the board approves and monitors the progress of our homes. It also recommends the asset management strategy for board approval and then implements it. As our AIFM since 15 March 2019, the Investment Adviser now also provides portfolio management services to the Group (and Carne continues to provide risk management function reporting to the AIFM).

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

See pages 8-9 for our market drivers

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

See pages 10-11 for our business model

Our portfolio
as at 31 December 2018

72
Care homes

Geographically diversified

19.5
Years WAULT long leases

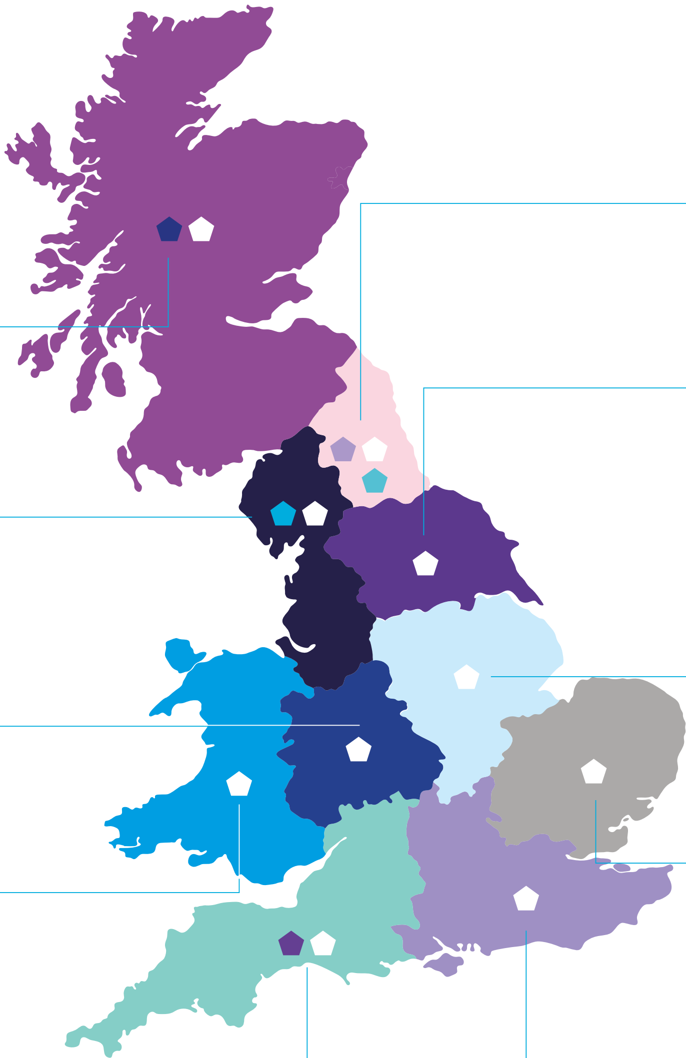
£17.78m
Contracted rent roll

100%
Inflation linked leases[1]

1 Linked to the Retail Price Index, with a floor of 2% per annum and cap of 4% per annum

See pages 20-21 for details of all the properties in the portfolio

Croftwood, Prestige, Minster, Welford, Careport, Renaissance



Scotland
Number of properties 4
Beds 248
% of portfolio income 7.5%

North West
Number of properties 29
Beds 1,184
% of portfolio income 32.2%

West Midlands
Number of properties 8
Beds 350
% of portfolio income 11.3%

Wales
Number of properties 2
Beds 103
% of portfolio income 2.2%

South West
Number of properties 3
Beds 98
% of portfolio income 2.6%

North East
Number of properties 10
Beds 590
% of portfolio income 14.8%

Yorkshire and The Humber
Number of properties 5
Beds 266
% of portfolio income 4.9%

East Midlands
Number of properties 6
Beds 261
% of portfolio income 10.7%

East of England
Number of properties 4
Beds 291
% of portfolio income 9.3%

South East
Number of properties 1
Beds 62
% of portfolio income 4.4%

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.

See pages12-13 for our investment objectives and policy

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

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.

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 tenants[1], 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% board 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 share. This is a 2.83% increase on 2018.

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

The NAV total return for the year was 8.5%. We have introduced an NAV total return target of 9.0% per annum. 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 we were pleased that an internally facilitated review of the board's effectiveness concluded that it was working well. The updated AIC Corporate Governance Code was published in February 2019 and we will report against these 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

Photographs from left to right:
Derwent, Sovereign Lodge, The Grove

John Beastall
Christopher Briddon
Founders and Managers

Careport
Portfolio assets strategically invested

In August 2018, we added Careport as a tenant. The business was founded in 2009 and has a strong reputation for the care it provides. In total, Careport runs 25 or 35 homes, including six leased from us.

"We want to be at the top end of care providers in our areas, in well-invested properties," says Chris Briddon, Careport's co-founder. "That keeps us ahead of the competition and makes the choice easier for residents and their families. Providing high-quality care needs empowered staff, so we focus on being a good employer, equipping staff to do their jobs confidently and minimising our use of agencies, to ensure consistent care. We don't take a top-down approach. Everyone in head office and the regions is there to support our care home teams."

"We have a great relationship with Impact," says John Beastall, co-founder. "What's been really beneficial is their understanding of the local dynamics of each care home. You have to understand local pressures and tailor your services to meet them. Impact really get that. They have similar views on care and it's nice to be able to tap into their experience. We're looking forward to a bright future, as we expand our portfolio with them."

Beds	**260**
Acquired	**May 2018**
Net purchase price	**£12.75 million**
% of portfolio income	6.12%

Locations
Briardene, Tyne and Wear
Derwent Valley, Tyne and Wear
Holly Lodge, County Durham
Sovereign Court, Tyne and Wear
Sovereign Lodge, Tyne and Wear
The Grove and the Courtyard, North Yorkshire

Market drivers

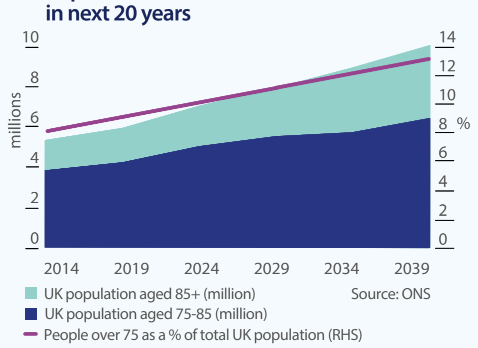
A number of drivers influence demand for, and provision of, care for older people. This makes it an attractive market for well-capitalised asset owners working in partnership with well-managed operators, who are committed to providing high standards of care.

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%.

Population over 85 forecast to double in next 20 years



Source: ONS

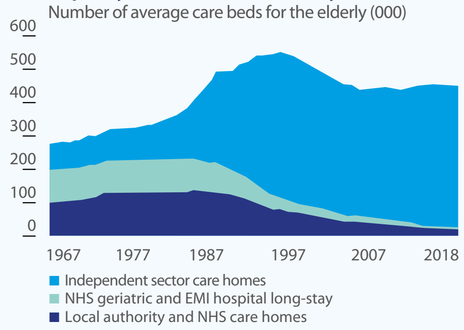
2 Capacity has shrunk from its peak

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.

Capacity has declined over 20 years

Number of average care beds for the elderly (000)



Source: LaingBuisson database

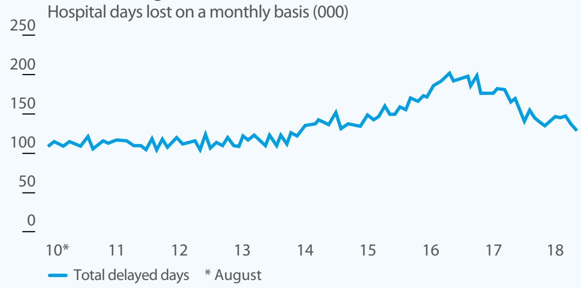
3 Severe pressure on the NHS

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.

Bed blocking

Hospital days lost on a monthly basis (000)



Source: NHS England

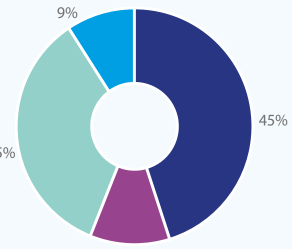
4 Sources of funding

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 reforms 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.

Market share by source of funding in volume terms

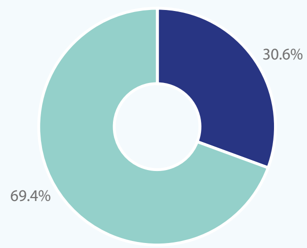


Residents in independent sector (for-profit and not-for profit) care homes for older people and dementia patients (65+), UK March 2018

- 'Pure' self pay
- Local authority with top-up
- 'Pure' local authority
- NHS

Source: LaingBuisson database

Market highly fragmented (%)



- > 26 care homes: 25 operators
- < 26 care homes

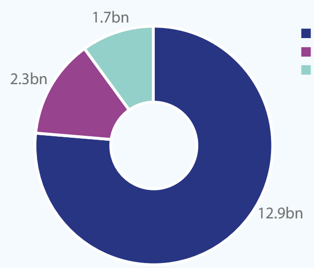
Source: LaingBuisson database

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.

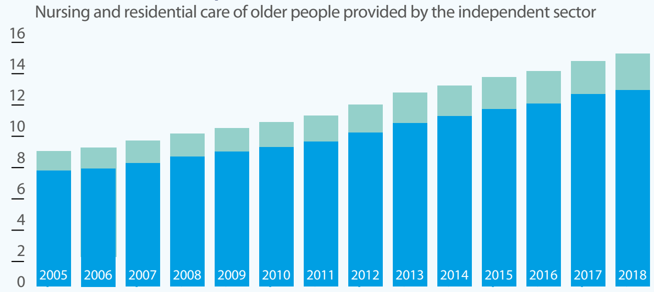
Annualised value of residential care services £bn



- For-profit providers
- Charity providers
- NHS and local authorities

Market value of independent sector (£m 000)

Nursing and residential care of older people provided by the independent sector



- All for-profit (£m)
- All not for-profit (£m)

Source: LaingBuisson database and official sources

Our business model

The inputs to 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 value we create

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 (see investment objectives on pages 12-13 for more details).

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.

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, as shown by the chart and map on page 3.	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

Achieved Not yet applicable

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 2019[1]; and
- a NAV total return of 9.0% per annum[1]. 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
We will grant leases linked to the Retail Price Index ("RPI"), 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.	✓
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.	✓
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.	✓
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.	✓
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%.	✓

More information on our dividend policy can be found in the Chairman's statement on pages 4-5.

Surrounded by natural landscaped features this garden will provide residents with a safe and accessible space

Freeland House

Adding value for our clients and improving residents homes

At Freeland House in Oxfordshire, we are funding the construction of a 46-bed state-of-the art dementia care facility. The new home will be set over three floors, with a two-storey link corridor to our existing home on the site.

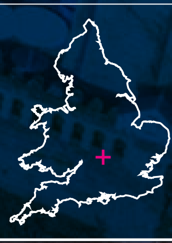
"We've identified that there is real local need for a specialist dementia facility," says Colin Farebrother, Operations Director.

"The new facility is designed to meet that demand and expands the range of services we offer. That will benefit existing residents who develop dementia symptoms and need more support, and will also allow us to admit new residents with dementia needs. This capability will only become more important as rates of dementia increase."

Once the facility is complete, which is expected in December 2019, Freeland will have a total of 108 beds. Our funding for the project recognises the importance we attached to supporting tenants looking to provide additional services within their homes, so they can remain a key part of their local market.

Tenant	Minster
Project	46-bed dementia facility
Capital expenditure	£4.85 million
Completion (expected)	December 2019

Location
Freeland House, Oxfordshire



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.

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. A complete list of all the homes in the portfolio can be found on pages 20-21.

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.

Financial results
Total net rental income recognised for the year was £17.3 million

Asset management

Completed · In development · Ready to start

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[1]	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**		

1 Estimated deferred payment

(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. More information on the calculation of EPS can be found in note 10 to the financial statements on page 82.

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

Earnings per share cover for the total dividend is discussed in the Chairman's statement on pages 4-5.

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 a 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

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 in beds[4]	% 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%
Attlee	West Yorkshire	Attlee Street, Normanton		3.11	68		1.54%
Broadgate	Nottinghamshire	Broadgate, Beeston		3.45	40		1.65%
Cambroe	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		1.40	37		0.64%
Eryl Fryn	Conwy, Wales	Bodafon Road, Craigside		1.54	29		0.73%
Falcon House	Nottinghamshire	Middle Street, Beeston		4.37	46		2.01%
Freeland House	Oxfordshire	Wroslyn Road, Freeland		11.18	62	+46	4.40%
Grays Court	Essex	Church Street, Grays		5.77	87		2.57%
Grenville	Norfolk	Horsbeck Way, Hosford, Norwich	May 2018	3.74	64		1.96%
Hamshaw Court	Humberside	Wellsted Street, 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		1.80	60		0.92%
Rydal	County Durham	Rydal Road, Darlington		2.69	57		1.28%
Saffron	Leicestershire	High Street, Barwell	June 2017	3.40	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		2.30	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, Weaverham, Northwich		1.01	30		0.58%
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 Centre, 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%
Westhaven	Merseyside	Queen's Road, Wirral		5.36	52		2.20%
Whetstone Hey	Cheshire	Old Chester Road, Great Sutton		1.95	41		1.10%

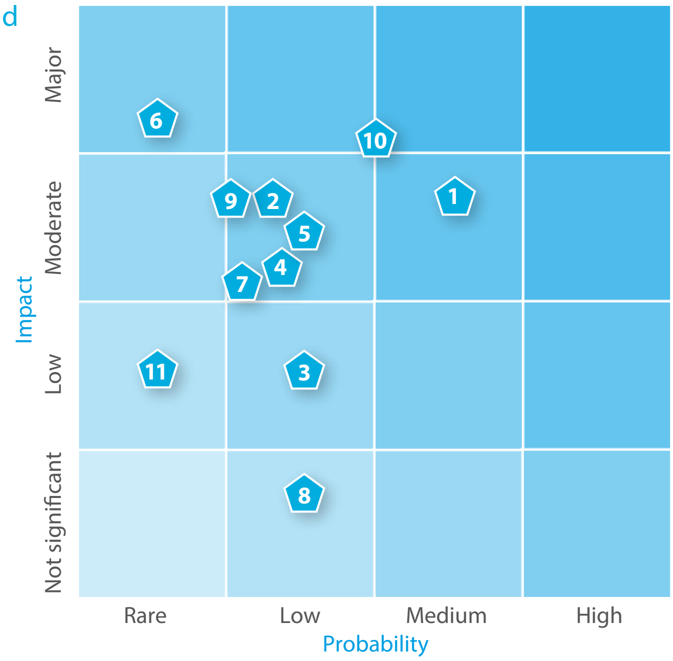
1 May 2017 unless stated. 2 Treated as two properties. 3 Before capital improvements. 4 Capital improvement additions – bold represents delivered.

Name of home	County	Address	Acquisition date[1]	Net purchase price £m	Beds[3]	Increase in beds[4]	% of portfolio income
Prestige Group							
Parkville 1 & 2	North Yorkshire	Walpole Street, Middlesbrough	March 2018	3.00	55	**+38**	1.36%
Roseville Care Centre	North Yorkshire	Blair Avenue, Ingleby Barwick, Stockton	March 2018	7.20	103		3.30%
Sand Banks	North Yorkshire	Kirkleatham Street, Redcar	October 2018	6.30	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	3.40	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					**3,357**	**188**	**100%**
Post balance sheet acquisitions							
Yew Tree (Prestige)			January 2019		76	–	
Total beds					**3,433**	**188**	
Total capacity						**3,621**	

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 table shows the post mitigation principal risks and uncertainties facing the Group and explains how we mitigate them. Information on our risk management framework can be found on pages 46-48.



Political

1 Changes to government policy

Probability medium	Impact moderate	Mitigation
	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.	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	Mitigation
	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.	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	Mitigation
	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.	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	Mitigation
	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.	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	Mitigation
	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.	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	Mitigation
	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.	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.

Principal risks and uncertainties (continued)

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

Probability low	Impact moderate	Mitigation
	The attractiveness of our portfolio is based on the quality of the operators, measured by their regulatory 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.	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	Mitigation
	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.	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	Mitigation
	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.	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	Mitigation
	As an externally managed Company, we rely on the Investment Adviser's services and reputation to execute our strategy and support our day-today 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.	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	Mitigation
	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.	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.

Above from left: Littleport Courtyard, resident lounge and a typical bedroom.

Littleport

Adding value for our clients and improving residents homes

Littleport Croft is a new 21-bed dementia facility, built in the grounds of our existing Littleport Grange care home in Cambridgeshire. It broadens the range of services provided on the Littleport site, benefiting both new and existing residents and their families. In total, Littleport now has 75 beds.

"We saw an opportunity to add a vital service for the local community and to enhance the environment at Littleport for all the residents," says Colin Farebrother, Operations Director. "We've used carefully designed landscaping to closely connect the two homes. The new outside space is a huge improvement on the previous hard landscaping, giving residents better access, a place to socialise and somewhere that is safe and well observed."

Adding dementia services to Littleport helps to future proof the provision of care services in the community, at the same time as enhancing the quality of the buildings we own. The new home has seen a good fill rate since it opened in October 2018, reflecting Littleport's reputation for providing exceptional care for residents.

Tenant	Minster
Project	21-bed dementia facility
Capital expenditure	£2.17 million
Opened	October 2018
Location	

Littleport, Cambridgeshire

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")			
The change in the net asset value over the period, plus dividends paid.	Our NATR demonstrates our ability to add value for our shareholders by growing our portolio 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			
Dividends paid to shareholders and declared in relation to the period.	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			
Earnings from operational activities.	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' Net Initial Yield ("NIY")			
Annualised rental income based on the cash rents passing on the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property portfolio, increased by 6.5% to reflect a buyer's costs and adjusted for the expiration of rent-free periods or other unexpired lease incentives.	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			
Net asset value based on the properties and other investment interests at fair value.	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.

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.

KPI and definition	Relevance to strategy	Performance	Commentary
6 Gross Loan to Value ("LTV")			
The proportion of our gross asset value that is financed by borrowings.	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 average unexpired lease term of the property portfolio, weighted by annual passing rents.	The WAULT is a key measure of the secure nature of our portfolio. Long lease terms underpin the quality of the 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")			
Total recurring administration costs as a percentage of average net asset value throughout the period.	The TER is a key measure of our operational efficiency.	**1.80%** for the year to 31 December 2018 (period to 31 December 2017: 1.74%)	Including one-off costs incurred during the year, our TER was 2.17%. Our EPRA cost ratio, calculated by dividing our administrative and operating costs by gross rental income, was 24.69% for the year (2017: 24.68%).

Going concern and viability

Going concern statement
This Strategic report describes the Company's and Group's financial position. Our principal risks are set out on pages 22-25. Note 18 to the financial statements on pages 89-90 also provides details of the Group's exposure to liquidity and credit risk.

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 on pages 22-25 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 on pages 46-48. 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.

Board approval of the Strategic report

The Strategic report was approved on behalf of the board by:

Rupert Barclay
Chairman
28 March 2019

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Corporate governance statement – Chairman's introduction

We have had a very active year, moving the Company forward and developing our governance processes and systems to match. I have covered the strategic elements of the board's activities in my statement at the start of this annual report and want to focus on the governance aspects here.

We announced with great sadness the death of David Brooks, our fellow director, SID and Chairman of the audit committee in the summer. I want, once more, to record our appreciation for all David contributed to help shape the Company in its critical formative stages.

The nomination committee considered our succession planning options and Rosemary Boot took on the role of SID. The committee decided that a new director should be found with appropriate financial skills and experience to lead the audit committee, and Rosemary has been interim Chairman of the audit committee whilst we conducted our search. I am grateful to Rosemary for stepping in and taking on these additional responsibilities, ensuring the Company has been able to function smoothly.

We are delighted that Amanda Aldridge joined the board on 1 March 2019. Amanda also joined the audit, remuneration, nomination and management engagement committees and will assume the position as Chairman of the audit committee immediately after the Company's Annual General Meeting in May 2019. Amanda was an audit and advisory partner in KPMG LLP from 1996 until she retired in 2017. She has significant experience as an external auditor and adviser, working predominantly with quoted clients, including clients with significant property portfolios. Amanda's biography is set out on page 42.

During the year we decided to split the remuneration and nomination committee into two, in line with governance best practice, and I became Chairman of the nomination committee, whilst Rosemary became Chairman of the remuneration committee. These new Committees report on pages 55-56 and 45, respectively.

Our Investment Adviser ("IA") was authorised by the FCA to carry on business as an Alternative Investment Fund Manager ("AIFM") and was appointed as our AIFM on 15 March 2019. In addition to the efficiency of bringing the role of IA and Investment Manager ("IM") under one roof, this also presents a more cost-effective structure, with savings in VAT anticipated and more than offsetting the additional costs of taking on a depositary; this is covered in more detail in Leadership on pages 39-41 and the Management engagement committee report on pages 52-53.

After the year end we submitted an application to move the Company's listing of its ordinary shares from the specialist fund segment to the Premium Listing segment. The application was approved, and took effect on 8 February 2019. Your board considers that the move is in the best interests of the Company and its shareholders as a whole. We also expect it to facilitate the Company's eligibility for inclusion in the FTSE UK and the FTSE EPRA/NAREIT Index Series.

Rounding off our governance activities, we have been following the developments in UK governance with the various consultations, reviews and publications through the year, and the issuing of the new AIC Code in February 2019. I wish to reiterate that it is a fundamental element of our approach to governance that the directors have an obligation to hand over the Company to their successors in good shape and that we demonstrate good custodianship of the assets in our control.

As I said last year, I believe that the Company's approach to governance should be respectful but pragmatic and that it is important for us to use good governance to drive the Company's performance, rather than simply seeking to comply with the extensive and complex rules and regulations that your Company is bound by, including as a result of our new Premium Listing.

We completed our first board evaluation this year and the result was good, underlining strengths and pointing out areas for further enhancement. I believe that the board continues to perform well and we are looking forward to our next set of challenges.

Rupert Barclay
Chairman
28 March 2019

Compliance

Impact Healthcare REIT plc is a real estate investment trust. Our ordinary shares were admitted to trading on the Specialist Fund Segment of the Main Market of the London Stock Exchange on 7 March 2017. On 8 February 2019 the Company was admitted to the Premium Listing segment.

The Company is a member of the Association of Investment Companies ("AIC"). The board has considered the principles and recommendations of the 2016 version of the AIC Code of Corporate Governance (AIC Code) by reference to the AIC Corporate Governance Guide for Investment Companies (AIC Guide).

The board has been considering the new UK Corporate Governance Code published in 2018 and the new AIC Code, issued in February 2019. Both apply from 1 January 2019, so we are reporting against the 2016 versions of both Codes, which were in force throughout the whole reporting period.

The Company has complied with the recommendations of the AIC Code published in June 2016 and the relevant provisions of the UK Corporate Governance Code 2016, except as set out below.

- The UK Corporate Governance Code includes various provisions relating to:

  – The role of the chief executive

  – Executive directors' remuneration

  – The need for an internal audit function

For the reasons set out in the AIC Guide, and as explained in the UK Corporate Governance Code, the board considers these provisions are not relevant to the position of Impact Healthcare REIT plc, as it is an externally managed investment company.

In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Company has either not complied, or has not complied with for a material period, with the following Provisions of the UK Corporate Governance Code, or the Principles of the AIC Code as follows:

- **B.2.4 (AIC 9 and DTR 7.2.8AR)** Provide a description of the board's policy on diversity, including gender, any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives and Diversity Policy.

  The board adopted a formal diversity policy at its March 2019 meeting, reflecting wider diversity characteristics of gender, ethnicity, age, disability, social or educational background. Previously the board's approach was to appoint the best possible candidates, considered on merit and against objective criteria. For more information see page 45.

- **E.1.1 and AIC 19** The chairman should discuss governance and strategy with major shareholders. The Senior Independent director should attend sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of the issues and concerns of major shareholders.

  The Chairman and SID engage directly with our broker and have indicated their willingness to meet other major shareholders but no meetings have been requested. A large shareholder is represented on the board, providing direct insight.

A copy of the AIC Code 2016 is publicly available at: https://www.theaic.co.uk/aic-code-of-corporate-governance-0

A copy of the UK Corporate Governance Code 2016 is publicly available at: https://www.frc.org.uk/getattachment/ca7e94c4-b9a9-49e2-a824-ad76a322873c/UK-Corporate-Governance-Code-April-2016.pdf

Other key statements

The directors confirm that:

Going concern
The Going concern statement is made on page 30.

Viability
The viability statement is made on page 30. Further details of the board's assessment of the viability of the Company are set out in accountability on pages 46-48. The principal risks and uncertainties are set out on pages 22-25.

Robust assessment of principal risks
The board has undertaken a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. See accountability on pages 46-48 for further information on how this conclusion was determined.

Review of risk management and internal control
A continuing process for identifying, evaluating and managing the risks the Company faces has been established and the board has reviewed the effectiveness of the internal control systems. Further details are set out in the accountability section on pages 46-48.

Continuing appointment of the Investment Adviser and transition to Investment Manager
The continuing appointment of the Investment Adviser and their appointment as Investment Manager, subsequent to the year end, on the terms agreed is in the interests of the Company's shareholders as a whole. Further details on the basis for this conclusion are set out in the management engagement committee report on pages 52-53.

Cessation of appointment of the Investment Manager
Subsequent to the year end, the cessation of the appointment of Carne as the Investment Manager is in the interests of the Company's shareholders as a whole. Further details on the basis for this conclusion are set out in the management engagement committee report on pages 52-53.

Fair, balanced and understandable
The Annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. See the audit committee report on pages 49-51 for further information on how this conclusion was reached.

Application of AIC Code Principles

Detailed disclosures for the application of certain AIC Code Principles and compliance with the appropriate UK Corporate Governance Code Provisions are set out elsewhere in this Corporate governance statement. In order to reduce clutter and boilerplate throughout the report, set out below is an overview of Impact Healthcare's application of the AIC Code Principles during 2018, showing where further information is available.

The AIC Code refers to "the Manager". In Impact Healthcare REIT's case, many of the Manager's tasks referred to in the Code were carried out by the Investment Adviser, not the Manager. During 2018, the Manager's role was to perform the relevant regulatory functions as the Alternative Investment Fund Manager.

The board

1. The Chairman should be independent

The Company's Chairman, Rupert Barclay, was independent on appointment.

2. A majority of the board should be independent of the Manager

The board currently comprises five non-executive directors of which the Chairman, Rupert Barclay, alongside Rosemary Boot, Philip Hall and Amanda Aldridge are deemed to be independent of the Investment Adviser and Manager. Paul Craig is independent of the Investment Adviser and Manager, but is not considered to be independent because he is a representative of the Company's largest shareholder. See Biographies, pages 42-43.

3. Directors should be submitted for re-election at regular intervals

Each of the directors is subject to re-election at each AGM.

4. The board should have a policy on tenure

The Company's practice is to assume directors serve for a minimum three-year term, subject to annual re-election by the shareholders.

5. There should be full disclosure of information about the board

Full information about the board is set out in the Annual Report: on the Company website at http://www.impactreit.uk and through announcements, as appropriate.

6. The board should aim to have a balance of skills, experience, length of service and knowledge of the Company

As set out by the Chairman on page 34, the initial selection and any subsequent additions to the board aims to provide a suitable range and depth of skills, experience and knowledge of the sector and related matters.

7. The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors

An evaluation focused on the board as a whole and the Chairman was conducted during the year. This was felt to be the most effective approach as the committees were being reconfigured and the roles of the individuals modified as a consequence. For more details see page 45.

8. Directors' remuneration should reflect their duties, responsibilities and the value of their time spent

The remuneration committee is responsible for reviewing the scale and structure of the directors' remuneration and sets remuneration appropriately. Remuneration details are set out on page 57.

9. The Independent directors should take the lead in the appointment of new directors and the process should be disclosed in the Annual report

The nomination committee, whose membership is composed solely of Independent directors, is responsible for the selection criteria, recruitment process and recommendation of the appointment of new directors to the board.

10. Directors should be offered relevant training and induction

All the directors receive an induction on joining the board and further training as required.

11. The Chairman (and the board) should be brought into the process of a new launch at an early stage

Whenever the Company is planning an equity fundraising, the Chairman and the rest of the board are involved and are integral to the process from an early stage.

Board Meetings and the Relationship with the Manager

12. Boards and Managers should operate in a supportive, co-operative and open environment

The Chairman promotes an open and constructive environment in the boardroom and actively invites the non-executive directors' views. Where appropriate, the Chairman will seek specific opinions utilising the non-executives' professional and general experience and capabilities. The non-executive directors provide objective, rigorous and constructive challenge to the Investment Adviser.

13. The primary focus at regular board meetings should be a review of investment performance and associated matters such as gearing, asset allocation, marketing/investor relations, peer group information and industry issues

The Chairman sets the agendas for the meetings, manages the meeting timetable and facilitates open and constructive dialogue during the meetings. The board has a schedule of matters specifically reserved for its decision which include the approval of budgets, setting investment and performance objectives and policies, the approval of the Company's financial statements and published reports, the approval of equity and debt fundraising and the approval of all investments.

Prior to each of the regular quarterly meetings, the directors are provided with a comprehensive set of digital papers providing information on the Company's financial position and performance, proposed investments, and other matters as required.

14. Boards should give sufficient attention to overall strategy

The board, together with the Adviser, regularly considers the overall strategy of the Company in light of its performance and the sector overall. During 2018 the board held a specific strategy day to address this in depth.

15. The board should regularly review both the performance of, and contractual arrangements with, the Manager

The performance of the Adviser and of the Manager were assessed in 2018 by the management engagement committee. For details see pages 52-53.

16. The board should agree policies with the Manager covering key operational issues
The board is working with the Investment Adviser and Administrator to further develop the agreed set of policies covering key operational areas. The implementation of such policies will be subject to regular, review. Further details of the review of internal controls are set out in Accountability on pages 46-48.

17. The board should monitor the level of the share price discount or premium (if any) and, if desirable, take action to reduce it
The board monitors the performance of the Company's share price both on an absolute level and relative to the prevailing Net Asset Value per ordinary share. The directors have at their disposal the authority to buy back or issue ordinary shares (within certain parameters) which would allow them to address anomalies in the performance of the ordinary shares, if necessary. The board works with the Investment Adviser and the Company's Broker to maintain regular contact with the investors and to monitor investor sentiment.

18. The board should monitor and evaluate other service providers
The performance of the other service providers is assessed on a regular basis by the management engagement committee (except for the independent auditor). A formal evaluation of the other service providers has been conducted, including that of the independent auditor by the audit committee. For more details see pages 52-53.

Shareholder communications

19. The board should regularly monitor the shareholder profile of the Company and put in place a system for canvassing shareholder views and for communicating the board's views to shareholders
Representatives of the Adviser have met regularly with shareholders since the flotation in March 2017, and have provided the board with feedback on shareholder views and concerns.

Please see Relations with shareholders for further information on page 54.

The directors make themselves available at general meetings to address shareholder queries. The Annual General Meeting, in particular, provides the board with an important opportunity to make contact with shareholders, who are invited to meet the board following the formal business of the meeting.

20. The board should normally take responsibility for, and have direct involvement in, the content of communications regarding major corporate issues even if the Manager is asked to act as spokesperson
All communications with shareholders are discussed and shared with the board. Any communications regarding major corporate issues are approved by the board prior to release.

21. The board should ensure that shareholders are provided with sufficient information for them to understand the risk:reward balance to which they are exposed by holding the shares
The board places great importance on communication with shareholders. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the Interim report and Annual report, particularly the Strategic report. The Strategic report is set out on pages 1-31 and this provides information about the performance of the Company, the Investment Policy, strategy and the risks and uncertainties relating to the Company's future prospects.

This is supplemented by frequent notifications via a regulatory information service on developments such as asset acquisitions, and fundraising activities, and the Company's website at http://www.impactreit.uk is regularly updated.

Leadership

The board and its responsibilities

The directors are responsible for managing the business affairs of the Company in accordance with the Articles and the investment policy and have overall responsibility for the Company's activities including its strategy, investment activities and reviewing the performance of the portfolio.

David Brooks was appointed as the Senior Independent director. Following his death in July 2018, Rosemary Boot was appointed to the role.

The board has a clearly articulated set of matters which are specifically reserved to it and this is reviewed annually. These include:

- Any decision likely to have a material impact on the Group from any perspective including, but not limited to, financial, operational, strategic or reputational.
- The strategic direction of the overall business, objectives, budgets and forecasts, levels of authority to approve expenditure, and any material changes to them.
- The commencement, material expansion, diversification or cessation of any of the Group's activities.
- The Group's regulatory, financial and material operational policies.
- Changes relating to the Group's capital, corporate, management or control structures.
- Material capital or operating expenditures, outside predetermined tolerances or beyond the delegated authorities.
- Any material contract or joint venture and material arrangements with customers or suppliers.

The board may delegate certain functions to other parties such as the board committees, the Investment Manager (and the Investment Adviser in 2018), the Administrator, the Company Secretary and the Registrar; the board has not delegated powers to the subsidiary companies. In particular, the board has delegated responsibility for day-to-day management of the investments comprised in the Company's portfolio to the Investment Manager (the Investment Adviser in 2018). The directors have responsibility for exercising supervision of the Investment Manager.

The full set of matters reserved to the board are available on our website at http://www.impactreit.uk/documents

The biographies of the members of the board and their committee memberships are set out on pages 42-43.

Board committees

The board has created four standing committees: the audit committee, the management engagement committee, the nomination committee and the remuneration committee. Details of these committees are set out in their reports, on pages 49-51, 52-53, 45 and 55-57, respectively. The Terms of Reference of the committees are available on our website at http://www.impactreit.uk/documents

All of the Independent directors serve on the other committees of the board, so the links and overlaps between the responsibilities of the committees are fully recognised and each committee has full knowledge of the business and deliberations of the other committees.

In addition, the Investment Manager, as AIFM, had a AIFM risk committee, comprised of members of its own staff and that of the Investment Adviser for the purposes of monitoring the risk management framework of the Company. From March 2019, the Investment Adviser, as the new Investment Manager, has taken responsibility for the risk committee, and Carne continues to provide the risk management function reporting to the Investment Manager. More details of this committee's activities are set out in Accountability on pages 46-48.

Alternative Investment Fund Manager Directive ("AIFMD")

The Company is an Alternative Investment Fund ("AIF") for the purposes of the AIFMD and related regimes in EEA member states.

The Company has registered with the UK Financial Conduct Authority and the Central Bank of Ireland, pursuant to Article 42 of AIFMD, to market the shares in the UK and Ireland under their respective national private placement regimes.

Service and support

The Company has no employees and, during the year, was externally managed by the Investment Adviser and Investment Manager (as the mandatory Alternative Investment Fund Manager), supported by the Administrator. From 15 March 2019 the role of AIFM has been assumed by the Investment Adviser. For more details, see the Management engagement committee report on pages 52-53.

The management engagement committee formally reviews the performance of the Investment Adviser, the Investment Manager and the Administrator each year and makes recommendations to the board as it considers appropriate. Further details of these reviews, and the relationships with the Investment Adviser, Investment Manager and Administrator are given in the Management engagement committee report on pages 52-53.

The Investment Adviser
During the year Impact Health Partners LLP ("IHP") provided investment advice to the Company in respect of the assets of the Group and to provide the day-to-day management of those investments. From March 2019,
IHP has assumed the role of Investment Manager.

The Investment Manager
During the year Carne Global AIFM Solutions (C.I.) Limited ("Carne") acted as AIFM to the Company. Carne is authorised by the Jersey Financial Services Commission to act as an AIFM on behalf of AIFs in accordance with the Financial Services (Jersey) Law 1998. From 15 March 2019, IHP became the Investment Manager and AIFM.

Depositary
From 15 March 2019, Indos Financial Limited was appointed as Depository.

The Administrator
JTC (UK) Limited ("JTC") served as Administrator and Company Secretary to the Company, during the year.

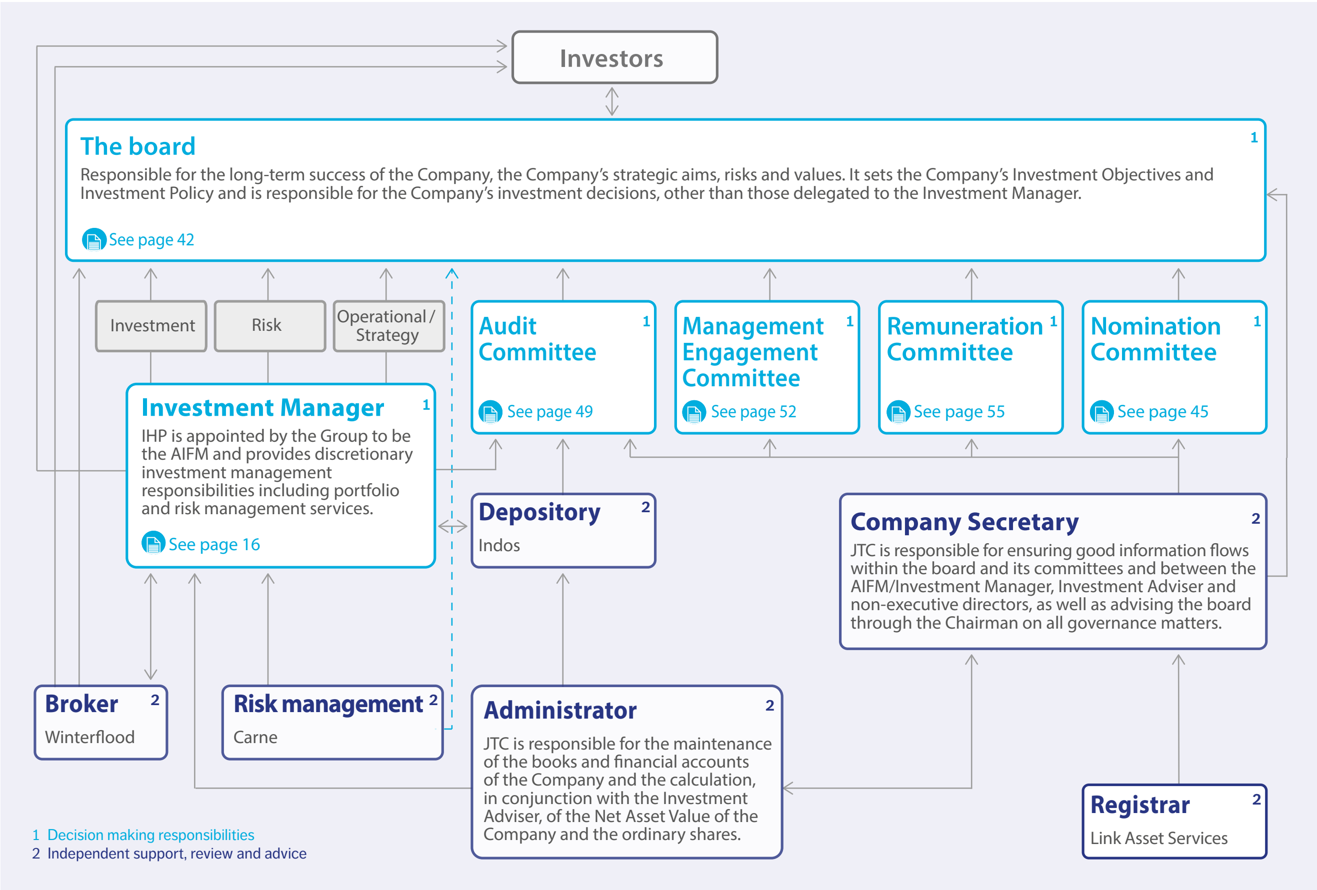
As Administrator, JTC, on behalf of the directors, is responsible for the maintenance of the books and records, the management and financial accounts, and the management of all cash movements of the Company and the calculation, in conjunction with the Investment Adviser, of the Net Asset Value of the Company.

As Company Secretary, JTC is also responsible for the production of the Company's accounts, regulatory compliance and providing support to the board's corporate governance process and its continuing obligations. In addition, JTC is responsible for liaising with the Company, the Investment Manager, the Investment Adviser and the Registrar in relation to the payment of any dividends, as well as general secretarial functions required by the Companies Act.

The directors have access to the advice and services of the Administrator and Company Secretary. Where necessary in carrying out their duties, the directors may seek independent professional advice and services at the expense of the Company.

New reporting structure

With effect from 15 March 2019.



Meetings and attendance

Member	Board	Audit Committee	Management Engagement Committee	Nomination Committee	Remuneration Committee
Rupert Barclay (Chairman)	4/4	4/4	1/1	1/1	1/1
Rosemary Boot	4/4	4/4	1/1	1/1	1/1
David Brooks[1]	2/2	1/2	n/a	n/a	n/a
Paul Craig	4/4	n/a	n/a	n/a	n/a
Philip Hall	4/4	4/4	1/1	1/1	1/1

1 David Brooks died on 13 July 2018

Meetings and attendance

The board meets formally on a quarterly basis and our attendance is shown in the table above. We also have ad hoc meetings which are generally called to approve specific announcements or transactions and frequently involve a quorate sub-committee of the board, which is appointed as necessary. The table above gives the names of all of the directors who served during the financial year and shows each individual director's attendance at the scheduled board and committee meetings for which they were eligible to attend during the year. We also held a strategy day, which all the directors attended.

JTC attend all our scheduled meetings as Secretary to the board. In addition, we invite representatives of the Investment Adviser, the Investment Manager, our external auditor and other advisers to attend as required.

The board agenda

At our quarterly meetings, the board follows a formal agenda. This agenda generally includes, amongst other things:

- The Investment Adviser's report for the period, including strategic performance and acquisitions, a review of the performance of the investments, operator performance and market conditions.
- The AIFM report for the period, including discussion of risk.
- Financial results against budget and cash flow forecasts, including dividends declared and forecast.
- Reports and updates on shareholder and investor communications.
- The Corporate governance and Secretary's report, with a review of policies and procedures, a compliance report and an update on legislative/regulatory obligations as appropriate.
- Recommendations and updates from the board committees as appropriate.

Key activities of the board during 2018

- The primary focus at regular board meetings has been on delivering the strategy and monitoring performance against our strategic objectives (see the Strategic report on pages 1-31 for more details). This included:
- Reviewing and clarifying the Company's strategic direction.
- Taking on additional debt and adding hedging facilities.
- Approval of the quarterly NAV and dividend.
- Conducting 26 meetings or conference calls, mainly to consider acquisition opportunities and processes.
- Acquisitions of 15 care homes adding 834 beds, which also served to increase tenant diversity.
- Approving capital improvement programmes totalling £7.5 million for a further 92 new beds, bringing the total committed since IPO to £15.4 million and 188 beds.
- In addition to these acquisitions, exploration and due diligence with the Investment Adviser of a large transaction, with a subsequent decision not to proceed by the year end.
- Setting up separate remuneration and nomination committees.
- Approval of the Interim report.

Board of directors

Rupert Barclay FCA,
Independent Chairman, aged 62

Appointed: 16 January 2017, length of service two years

Committees: Management Engagement (Chairman), Nomination (Chairman), Audit and Remuneration

Rupert has a range of experience serving as chairman, chairman of the audit committee and as non-executive director of listed and quoted companies including Sanditon Investment Trust plc, (where he currently serves as Chairman), Lowland Investment Company plc (where he was a director and chairman of the audit committee and Dimension Data plc (where he was the Senior Independent director) and Instinet, Inc. His earlier career was in strategic consultancy and senior roles in strategy management.

He has an MA in Classics from Cambridge, an MBA with Distinction from INSEAD and is a Fellow of the Institute of Chartered Accountants in England & Wales.

Other current directorships/ memberships

- Sanditon Investment Trust plc, 2014-present. Chairman
- Cairneagle Associates LLP, 2004-present, managing partner
- Royal Collections Trust, 2014-present, audit committee

Rosemary Boot
Senior independent Non-executive director, aged 56

Appointed: 16 January 2017, length of service two years

Committees: Remuneration (Chairman), Audit (interim Chairman), Management Engagement and Nomination

Rosemary served as the chief financial officer of Future Cities Catapult, one of a network of technology and innovation centres established by the UK Government. She has also previously served as an executive director and strategy adviser at a large housing association, Circle Housing Group, and as group finance director of the Carbon Trust, an independent company set up in 2001 to work with business and the public sector to accelerate the move to a sustainable, low carbon economy.

Previously, Rosemary worked for 16 years as an investment banker at UBS Warburg, primarily advising large listed UK companies on corporate finance matters.

Other current directorships/ memberships

- Southern Water Services Limited, 2015-present. Independent non-executive director, member of risk, remuneration and information security committees, and interim Chairman of audit committee
- The Green Alliance, 2014-present. Trustee and Member of finance & management committee

Amanda Aldridge FCA
Independent Non-executive director, aged 56

Appointed: 1 March 2019

Committees: Audit, Management Engagement, Nomination and Remuneration

Amanda was an audit and advisory partner in KPMG LLP from 1996 until 2017, when she retired from the partnership, having joined the firm in 1984 and qualified as a chartered accountant in 1987. She has significant experience as an external auditor, working predominantly with quoted clients, often across multiple sites, with a focus on the retail, consumer and distribution sectors. Amanda has also advised quoted companies on corporate transactions and the assessment and remediation of internal controls and held a number of strategic and line management roles during her 32 years with KPMG LLP. Amanda's audit and advisory work included clients with significant property portfolios.

She is a Fellow of the Institute of Chartered Accountants in England and Wales ("FCA").

Other current directorships/ memberships

- Headlam Group plc, 1 February 2018-present, non-executive director and member of the remuneration and nomination committees and chairman of audit committee.

Paul Craig

Non-executive director, aged 50

Appointed: 30 June 2017, length of service 18 months

Paul is a portfolio manager at Quilter Investors. He has over 20 years of investment experience, including 10 years at Exeter Investment Group, six years at New Star Asset Management as a director of the asset management subsidiary, and six years as a director within the multimanager investment team at Henderson Global Investors. Over the past 18 years, Paul's focus has been on multi-manager products, with an emphasis on closed-ended funds.

Paul is currently a non-executive director of The Diverse Income Trust plc, Ground Rents Income Fund plc and Hadrian's Wall Secured Investments Limited, and is an associate of the UK Society for Investment Professionals. Old Mutual Global Investors has an interest in the Company through funds managed by Paul.

Other current directorships/ memberships

- The Diverse Income Trust plc, 2011-present, director
- Ground Rents Income Fund plc, 2012-present, director
- Hadrian's Wall Secured Investments Limited, 2016-present, director

Philip Hall

Independent Non-executive director, aged 64

Appointed: 16 January 2017, length of service two years

Committees: Audit, Management Engagement, Nomination and Remuneration

Philip is a chartered surveyor with over 25 years of experience in the healthcare sector in the UK and internationally. He is currently a director of Deben Healthcare Consultancy and a senior adviser to Jones Lang LaSalle ("JLL"), having stepped down from his role as chairman for healthcare at JLL in December 2017. He has advised on primary healthcare premises, residential care and nursing homes (including those for learning disabilities/mental health clients), hospitals, extra care, domiciliary care and dental practices/dental laboratories. He has also advised more broadly in the social care sector, including on children's homes and day nurseries. In particular, he has advised on the restructuring of Southern Cross and its legacy and was a member of its landlord committee which steered the wind up of Southern Cross and the transfer of its residents and staff to new operators. He has also advised on a number of lease and loan restructuring transactions, capital expenditure programmes and turnaround strategies.

Before joining JLL, Philip was a founding shareholder and managing director of Taylors Business Surveyors and Valuers Ltd, a chartered surveying company, which he sold in 2005. In addition, he is the author of *"The Valuation of Care Homes, Valuation: Principles into Practice"*, which was published in 2008. Philip is a member of the Royal Institution of Chartered Surveyors.

Other current directorships/ memberships

- Deben Healthcare Consultancy, 2017-present, director

Investment Adviser

Andrew Cowley MA (Oxon), Managing Partner

Andrew is an experienced fund manager, working in infrastructure and private equity investment since 2000.

He was a senior managing director at Macquarie and deputy chief executive of the listed Macquarie Airports. Before this, he was a Managing Director at Allianz, responsible for investments in alternative assets; a director of Kleinwort Benson and chairman of Dresdner Kleinwort Benson's business in Russia; he began his career at SG Warburg.

Andrew has served on company boards, including various international airports, Moto Holdings, Creative Broadcast Services and as chairman of Halterm Container Terminal in Canada.

Mahesh Patel ACA, Managing Partner

Mahesh is a qualified accountant who has over 30 years' experience in healthcare-related industries and assets, including positions in finance.

Prior to 2006, he built up and then sold three healthcare-related businesses, Highclear and Kingsclear (focused on residential care for the elderly) and a supported living business, Independent Living. In addition he is also a co-founder and director of Precision Dental, which invests in dental laboratories.

Mahesh has helped found and grow the residential healthcare for the elderly groups Minster and Croftwood, along with Pathways Care, which provides specialist support for people with various disabilities.

David Yaldron FCA, Finance Director

David has over 20 years' experience, having held senior financial roles in real estate and investment companies.

From 2012, David was a director at Grosvenor, Britain & Ireland responsible for projects and new investments, eventually becoming the senior director responsible for all investments, developments and strategic land activities outside London.

Prior to Grosvenor, David worked for Europa Capital, managing its corporate investments and divestments across Europe and before this was Head of Investment Monitoring at Coller Capital.

David trained and spent the first 10 years of his career at KPMG, working in the Transaction Services team.

Effectiveness

Independence
All the directors except for Paul Craig are independent, and all are independent of the Investment Adviser and Investment Manager. The Chairman was independent on appointment.

Evaluation
Our first board evaluation was conducted internally this year. It was based on the completion of questionnaires by board members assessing the following criteria: Strategy, risks, decision making, communication, relevance and timeliness of matters discussed and board skills. Due to the changes in the structure and composition of the committees it was decided not to include their assessment in the board evaluation process this year. This will form part of the evaluation process for 2019.

The results were reviewed by the Chairman and then discussed by the nomination committee and the board. Rosemary Boot, as the Senior Independent director, led the review of the Chairman's performance.

The conclusion reached was that the board, performed well in the first year and, unsurprisingly, that there are areas for enhancement.

The following points were highlighted and actions initiated where appropriate:

- Pressure needs to be maintained on clarity with regard to strategy and decision making and more streamlined processes.
- The audit committee Chairman should join the Risk sub-committee run by the AIFM.
- There is a supportive relationship between the management and the board; however, it has not been tested under stress.
- There should be more peer performance comparisons included in reporting.
- As part of good practice the board should contact the top shareholders, reminding them that they are available for discussion.

Chairman's significant commitments
The Chairman's other significant commitments have not changed and he continues to have sufficient time to function effectively as Chairman.

Annual election
The directors are all standing for re-election at the AGM. Our view is that each of the directors standing for re-election or election should be appointed, as we believe that they have the skills required for the board to discharge its responsibilities, as outlined in each of their biographies set out on pages 42-43, have demonstrated those skills, and have the time and commitment to contribute to the success of the Company.

Nomination committee report

Due to the changes in the relevant governance codes and developing best practice for REITs, the board decided to separate the original remuneration and nomination committee into two distinct committees in April 2018.

As a consequence, the nomination committee reviewed a draft Terms of Reference in detail at our meeting in August 2018. The revised Terms of Reference of the nomination committee were subsequently approved by the board in November 2018 and are available on our website at https://www.impactreit.uk/about/corporate-governance. The main changes made were to reflect the separation of the previous remuneration and nomination committee into two separate committees and to ensure consistency of style and approach.

Committee membership

The nomination committee membership during the year was Rosemary Boot, David Brooks (until his death in July 2018), Phil Hall and me, Rupert Barclay (Committee Chairman).

The nomination committee meets formally at least once a year and also when required. The attendance at our meeting in August is set out on page 41.

JTC attends our meetings as Secretary to the committee. In addition, we will invite representatives of the Investment Advisers to attend as required.

Role

The committee has various functions, the most important of which are:

- Reviewing annually the structure, size and composition (including the skills, experience, independence, knowledge and diversity) required of the board and making recommendations to the board with regard to any necessary changes.
- Considering the succession planning and replenishment of directors as the board and Company progresses, identifying and nominating candidates to fill board vacancies as and when they arise, and taking into account the challenges and opportunities facing the Company, and what skills and expertise are needed on the board for the future.
- Reviewing annually the time required from the directors and using performance evaluation to assess whether the directors are spending enough time on their duties.
- Considering the recommendations for re-election on retirement, and also the re-appointment of any director at the conclusion of his/her specified term of office.
- Taking into account all factors which it deems necessary to fulfil this role, including relevant legal and regulatory requirements, the principles of the AIC Code, the relevant provisions of the UK Corporate Governance Code and any associated recommendations and guidance.

For 2019, we will take into account the new AIC Code and any applicable new legislation.

Succession planning

As part of our succession planning, with the loss of David Brooks, the Committee was able to ask Rosemary Boot take up the role of SID, and also to become interim Chairman of the audit committee, pending the outcome of a search for a new independent non-executive director. Rosemary is well-suited to the SID role, with experience and a keen interest in governance matters, and her experience as a banker and finance director was felt to be appropriate for her temporary role in the audit committee in line with the stipulations of the Code.

Recruitment of new non-executive director

The committee discussed the skills and experience required for David Brooks' replacement. The brief was that the core skill set should be financial and audit expertise with property knowledge and that the Company's approach to diversity should be borne in mind. We asked three recruitment consultants to tender for the assignment and selected NuRole. NuRole has no other connection with the Company. The committee was presented with a short-list of five candidates and the committee interviewed three of them. Amanda Aldridge was appointed as a non-executive director on 1 March 2019 and will become chairman of the audit committee after the AGM in May 2019. Amanda brings with her significant experience through over 20 years as an audit and advisory partner at KPMG and we are confident that this expertise as well as Amanda's knowledge of real estate will further strengthen the board and make an invaluable contribution to the Group.

Diversity

The board recognises the benefits that diversity brings. Our approach is to appoint the best possible candidate, considered on merit and against objective criteria (and in accordance with the Equality Act 2010). At the year end, 25% of the board was female and the appointment of Amanda Aldridge after the year end takes this to 40%.

In the light of ongoing development in governance best practice, the committee has decided that the Company should have a formal Diversity Policy which the board adopted in March 2019.

Rupert Barclay
Committee Chairman
28 March 2019

Accountability

Introduction

The responsibilities of the board for audit, reporting, risk management and internal control are covered in this section of the Corporate governance statement. This has been presented in two parts. The first part concerns the elements that the board and directors own collectively. The second part is the audit committee report and covers elements that have been delegated, especially on audit and key financial judgements.

Approach to risk management and internal control

The directors acknowledge their responsibility for maintaining the Company's system of internal control and risk management, in order to safeguard the Company's assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks that are inherent to the Company, and to manage rather than eliminate the risk of failure to achieve business objectives. As such, it and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

As part of each quarterly board meeting, the directors reviewed the financial position of the Company and assessed any risks in relation to the Company's business model and the Group's future performance, liquidity and solvency.

To facilitate this process the Investment Adviser produced financial reports, which included the latest management accounts, a review and report on the Company's financial model, substantiation of any dividend payments, including the review of a liquidity forecast every time we consider the dividend, and a general update on the financial health of the Company. The Company also now has quarterly valuations from the valuer, Cushman & Wakefield ("CW"), which are reviewed by the Company before announcing the quarterly NAV.

A robust assessment of the principal business risks of the Company is performed annually and reviewed quarterly. The Company's principal risks can be found on pages 22-25 of the Annual report. This assessment is facilitated by a report with quarterly updates from the risk committee, augmented by JTC. JTC also provided a report on its internal controls in accordance with ISAE 3402 to the AIFM, with independent assurance from PricewaterhouseCoopers. The AIFM reviews any findings and reports to the Company.

The audit committee, on behalf of the board, considered again whether the Company should employ an internal audit function during 2018 and concluded that, due to the Company's structure, the nature of its activities and taking into account the controls already in place and, more particularly, the external service already provided by the Administrator and the Manager, an internal audit function was not necessary.

As the Company grows, it is developing a more complex Group structure. The board is working with the Investment Adviser and Administrator to further develop the agreed set of policies covering key operational areas. This is to ensure the directors have established procedures which continue to provide a reasonable basis for them to make proper judgements as to the financial position and prospects of the Company and the Group.

The AIFM risk committee

A combination of the Manager's risk systems, acting in its capacity as AIFM, and the Investment Adviser's risk systems are used to identify, monitor, measure and manage portfolio risk within the Company. A risk committee has been established by the Manager, for the purposes of monitoring the risk management framework of the Company. The risk committee has responsibility for overseeing the performance of the risk management function and monitoring the effectiveness of the controls in place to mitigate risk at a Company and Group level.

The risk committee is appointed by, and reports to, the board of the Manager and from the Manager to the board of the Company.

The membership of the risk committee is drawn from the Manager and Investment Adviser but, during the year, the board decided that the audit committee Chairman should also sit on the risk committee.

As the Investment Adviser has become the AIFM, the risk function will remain outsourced to Carne, as a contractor to the new AIFM, and the procedures above will continue to apply.

Risk committee activities

The risk committee ensures that Market Risk, Liquidity Risk, Counterparty Risk, Credit Risk, Regulatory Risk and Operational Risk are identified, measured, monitored and managed in line with the Company's Risk Management Framework and consistent with the Company's stated strategy and risk policies.

The risk committee is a key part of the control and governance framework for the Manager, ensuring it establishes, oversees and monitors appropriate management information, risk controls, risk management practices, processes and control framework within the agreed business risk appetite. This provides the effective oversight of risk in respect of the Company, to which it acts as Manager, whilst fulfilling the requirements of the Alternative Investment Fund Managers Directive ("AIFMD").

Operational risks

The risk committee identifies and logs key investment and operational risks of the Company in a Risk Register and measures the likelihood and impact of each risk. Operational risks are reviewed on a regular basis and any issues arising are investigated and appropriate remedies are put in place.

Oversight and reporting

The risk committee receives regular reports from the Company's service providers, including the Investment Adviser and the Administrator. Examples of such reports include:

- A quarterly portfolio risk report from the investment Adviser which considers the risks to the Company, and the activities that are being undertaken to mitigate these risks and how the political, market or business activities in the quarter are impairing these risks.
- The Investment Adviser also provides quarterly management accounts, cash flow forecasting and covenant compliance reporting to the committee to assess and benchmark the financial risks for the business.
- The Administrator provides input into the quarterly risk review reporting together with service level reporting from the registrar.

- In addition the investment Adviser and Administrator provide a joint compliance report to the risk committee and the board reporting on the Company's compliance with its investment policies and restrictions, including compliance with the REIT obligations.

The risk committee meets on a quarterly basis to review the reporting received from the service providers to the Company to ensure that risk issues are identified and documented, appropriate controls are in place to mitigate risks, and action is being taken against risks outside agreed risk tolerances. The committee addresses any risk-related issues and escalates to the board of the Manager and to the Company board, if necessary.

The Manager presents a quarterly risk report to the Company board. The report summarises the findings of the Manager as a consequence of its risk monitoring function, including details of any significant incidents.

Robust assessment of principal risks

The risk committee assesses the principal risks to the business including the vulnerability of the portfolio to extreme or unusual market events or conditions. The Manager also monitors to see if limit levels are being approached and ensures that the Investment Adviser has appropriate procedures in place to ensure that limits are not breached. Appropriate escalation procedures are in place to ensure that any breach, or potential breach, is mitigated and, if necessary, reported to the Company's board.

During the period, the risk committee, on behalf of the board, also conducted a robust assessment of the principal risks to the Company's business model, future prospects, solvency and liquidity. This process incorporated information from the periodic stress tests and scenario analyses conducted by the Investment Adviser during the year and involved the appraisal of the impacts and likelihoods of the risks before and after mitigations were applied. An evaluation of the residual risk indicates its materiality for the purposes of the necessary disclosures in the Annual report. This assessment forms the basis of the statement made by the board with regard to this topic on page 36. Our principal risks and uncertainties are set out on pages 22-25.

Internal control processes

The Group's internal control systems include a detailed authorisation process, formal documentation of all transactions, a robust system of financial planning (including cash flow forecasting and scenario testing) and a robust appraisal process for all property investments. In addition, the board has prepared and approved a Financial Position & Prospects Procedures ("FPPP") board memorandum. This sets out the procedures operating to identify the information needed to monitor the business and manage risk so as to make proper judgements on its financial position and prospects. In addition, it sets out the procedures to identify, assess and document the risk factors likely to impact on the Company's financial position, prospects and any changes and on the preparation and communication to the directors of related information.

Changes to internal controls, or controls to respond to changing risks identified, are addressed by the risk committee with appropriate escalation to the board as required.

The directors along with the Investment Adviser and Administrator, have established an internal control framework to provide reasonable assurance on the effectiveness of internal controls. This covers capital expenditure approval and authorisation of capital funding, investment acquisition and disposal approval, annual budget approval, expenditure and supplier contract approval, NAV and dividend authorisation, equity and debt approval and formal communications with investors.

These have been presented and approved in the form of a controls matrix and incorporates authorisation by the board or delegated responsibility to individual board members or the Investment Adviser.

The board receives and considers quarterly reports from the Investment Adviser, giving full details of the portfolio and all transactions and of the financial position of the Group. Additional ad hoc reports are received as required and directors have access at all times to the advice and services of the Company Secretary, who is responsible to the board for ensuring that board procedures are followed and for the compliance with applicable rules and regulations.

Carne, the AIFM and Investment Manager, conducts checks to ensure continuity and quality of service on the key functions delegated by the Company to third party service providers. These are the administration and Company secretarial function, performed by JTC (UK) Ltd, and the registrar function, performed by Link Asset Services. Carne performs the following checks:

- Review of copies of the annual service organisation control ("SOC") reports. SOC reports are a standard for documenting that a service organisation has adequate internal controls in place, and are produced by an independent firm of auditors who provide an opinion as to whether controls are operating effectively within the organisation. Any issues flagged by the auditors would be reported to the board of the Company, and the oversight team monitors to ensure that these are resolved.
- Where the service provider maintains an internal audit function, Carne obtains details of audits undertaken and any issues arising as a result of those audits.
- On a quarterly basis, Carne asks the service providers to give details of any business continuity or cyber security issues that have arisen, and to confirm whether disaster recovery testing has taken place. The oversight team monitors to ensure that these are resolved.

In addition, Carne undertakes the following checks specific to each service provider:

- On a quarterly basis, Carne asks JTC to confirm if there have been any investor complaints, or any errors/breaches arising from the performance of the administration function.
- On a quarterly basis, Carne reviews JTC's NAV production process to ensure that the NAV is produced on a timely and accurate basis, and in accordance with the terms of the SLA.
- On a quarterly basis, Carne asks Link to confirm whether there have been any anti money laundering issues associated with the onboarding of new investors.
- Monthly confirmation by Link that all service level agreement requirements have been met.

During 2018 the Manager sought feedback from the board members on the Company's risk register, its prioritisation, ranking and mitigation. This was fed into the annual risk review by the risk committee in October 2018.

The board also reviews and discusses the formal annual risk assessment conducted by the risk committee, led by the Investment Manager, with quarterly updates and assessments against these risks.

Financial reporting

The Group, with the support of its Investment Adviser and Administrator, has internal control and risk management arrangements in relation to the Group's financial reporting processes and the preparation of its consolidated accounts. Internal management reporting and external statutory reporting timetables and delivery requirements have been established and documented. Control of these is maintained by the Administrator and communicated regularly.

The arrangements include procedures implemented by the Administrator to ensure the maintenance of records which accurately and fairly reflect transactions. These are reviewed and commented on by the Investment Adviser to confirm the appropriate treatment.

Where new reporting standards or financial reporting approaches are being adopted, either as a result of changing regulation or as a result of new contractual arrangements, the Administrator, in collaboration with the Investment Adviser , prepares an assessment of this treatment and discusses this with the audit committee. Where required, third party advisers are consulted.

This enables the preparation of financial statements in accordance with International Financial Reporting Standards (as adopted by the EU) or FRS 102, as appropriate, with reasonable assurance and requiring reported data to be reviewed and reconciled with appropriate monitoring internally and by the audit committee.

Ongoing financial performance is monitored through regular reporting to the Investment Adviser by the Administrator and is then reported to the board.

Capital investment and all revenue expenditure are regulated by a budgetary process and authorisation levels, with post-investment and period end reviews as required. A budget is prepared by the Investment Adviser which is approved by the board and reported to the board quarterly. Payments are presented to an individual director for sign off.

Expenditure and investment is tracked by the Administrator against these budgets.

Review of risk management and internal control

The board confirms that, in accordance with the AIC Code, it has established a continuing process for identifying, evaluating and managing the risks the Company faces and has reviewed the effectiveness of the internal control systems.

Audit committee report

Sadly, the Chairman of the audit committee, David Brooks, died in July 2018 and I took on the role on an interim basis, pending the appointment of a new non-executive.

Key activities relating to the 2018 financial year

- Reviewed the interim and final valuations with the valuers.
- Discussed with the valuer and auditor the approach to be taken at the year end in the valuation for capital expenditure.
- Reviewed the revised financial position and prospects procedures ("FPPP").
- Approved non-audit work.
- Reviewed the subsidiary accounts.
- Considered the impact and reporting of the debt facility and the hedging.
- Instructed EY to conduct a formal review of PID compliance for our dividends.
- Gave consideration to and recommended to the board the write-off of costs in relation to the potential acquisition that the Company was unable to pursue.
- Reviewed and then advised the board that the annual report and accounts and the interim report, taken as whole, were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- Reviewed and considered the basis of the going concern and viability statement made by the directors; see page 30.
- Monitored the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and reviewed any significant financial reporting judgements contained in them.
- Ensured the processes and controls expected from our operating structure are embedded and working effectively, with appropriate control and independence on decision making activities.
- 2018 audit planning including; materiality levels, audit risk and scope and key judgement areas.
- Reviewed and monitored the independence, objectivity and performance of the auditor and the effectiveness of the audit process.
- Ensured the appropriate use of accounting policies with particular attention on IFRS 9 (financial instruments) and 15 (revenue from contracts with customers) and the commencement of IFRS 16 (leases) in the next period.
- A range of work to provide support for the Company's growth and development activities.
- Considered the need for internal audit.

Committee membership

Rosemary Boot (Interim Committee Chairman from July 2018), **Rupert Barclay,** and **Phil Hall. David Brooks** was Chairman until July 2018. **Amanda Aldridge**, a new Independent director, joined the board and the audit committee on 1 March 2019 and will become the audit committee Chairman after the AGM in May 2019.

Rupert, Amanda and I are considered to have recent and relevant financial experience, as we have audit, accountancy or chief financial officer experience, in addition to our various board directorships. Rupert and Amanda are chartered accountants.

The board has also concluded that the audit committee as a whole has competence relevant to the sector in which the Company operates, bringing a broad range of skills and experience to bear.

Relevant experience and competence

Amanda Aldridge FCA: joined KPMG in 1984 and was an audit and advisory partner from 1996 until 2017. She has experience of audit in quoted companies in the retail, consumer and distribution sectors, and advisory roles on transactions and internal controls. Her work in both areas included clients with significant property portfolios.

Rupert Barclay FCA: senior management positions in listed and private companies, including executive and non-executive board membership; M&A and strategy.

Rosemary Boot: social care and housing sectors; senior management and CFO positions in private companies, executive and non-executive board membership; M&A, investment banking and strategy.

Philip Hall: healthcare, social care and real estate sectors; senior executive positions in a property company; surveying and valuation, and capex, turnaround and restructuring programmes.

Role

The audit committee's role is to oversee the Company's financial reporting process, the valuation of the property portfolio, the Group's compliance with accepted accounting standards and other regulatory requirements as well as the activities of the auditors.

Terms of reference We operate within defined terms of reference, which are available on our website at http://www.impactreit.uk/documents. The terms of reference are unchanged from 2017; we decided to review them in 2019 after the new AIC Code was issued and when the new audit committee Chairman was in post and able to give input.

Meetings We met four times during 2018 and attendance is set out in the table below. The Company Secretary ensured that the meetings were of sufficient length to allow the committee to consider all the matters of importance and the committee was satisfied that it received full information in a timely manner to allow it to fulfil its obligations. These meetings were attended by the committee members, as well as representatives of the Investment Adviser (Impact Health Partners LLP), the Company Secretary (JTC (UK) Limited) and the auditor (BDO LLP). In addition our valuer, Cushman & Wakefield (CW), attended the August meeting on the interims and a specific meeting in January 2019 with only the members of the audit committee prior to publication of 31 December 2018 NAV. Additional audit committee meetings are convened by the Company Secretary at my request when necessary.

Meetings attendance

Member	Meeting eligible to attend	Meetings attended
David Brooks (Chairman until July 2018)	2	1
Rosemary Boot (Chairman from July 2018)	4	4
Rupert Barclay	4	4
Philip Hall	4	4

In addition, as interim Chairman of the audit committee, I held a number of preparatory discussions with the Finance Director of the Investment Adviser and the external auditors to ensure they delivered in line with the scope of services and were well placed to hold a constructive discussion with the audit committee. I also met with the external auditor independently of the Investment Adviser.

Financial reporting and significant judgements

We monitored the integrity of the financial information published in the interim and annual financial statements and considered whether the Investment Adviser had made suitable and appropriate estimates and judgements in respect of areas which could have a material impact on the financial statements. We sought support from the external auditor to assess these significant judgements. We also considered the processes undertaken by the Investment Adviser to ensure that the financial statements were fair, balanced and understandable.

The Investment Adviser and the auditor updated us on changes to accounting policies, legislation and best practice and areas of significant judgement by the Investment Adviser. They paid particular attention to transactions which they deemed important due to size or complexity. The main areas where a significant judgement was required included the assessment over fair values of investment property, business combinations, operating lease contracts, impairment of financial assets and the fair value of interest rate derivatives. As a consequence, we asked CW to also attend meetings in order to provide appropriate valuation insight.

Valuation of property portfolio

The property portfolio was valued by CW quarterly in 2018. The audit committee discussed the half year valuation with the valuers.

Prior to the publication of the unaudited 31 December 2018 NAV in January 2019, the audit committee members discussed at length the approach undertaken by CW in the valuation of the assets and the assumptions underlying the property valuations. We sought clarity from CW on their approach to capital expenditure and the valuation of capital improvements in the year. We discussed the level of inspections undertaken by CW in the year and each quarter and sought confirmation that no undue influence had been applied by the Company or its Investment Adviser in reaching their conclusion.

At the time of publication of the unaudited NAV in January 2019, CW had not had sight of the operator reporting for the quarter to 31 December 2018. CW were asked to review this information and confirm their valuation for the year end prior to the publication of the audited NAV for the year.

The Group had property assets of £223.8 million at 31 December 2018 as detailed on the Group statement of financial position. As explained in note 12 to the financial statements, CW independently valued the properties in accordance with IAS 40: Investment Property. The total portfolio valuation at the year end was £223.8 million.

We discussed with the auditors their review of the valuation, included in their independent auditors' report on pages 61-65, and what could be improved, in terms of the process for information to support the valuation.

Business combinations

At the time of acquiring a subsidiary that owns investment properties, the Group considers whether each acquisition represents the acquisition of a business or the acquisition of an asset. Where the acquisitions are not judged to be the acquisition of a business, they are not treated as business combinations.

All acquisitions in the period have been judged not to be acquisitions of a business.

Operating lease contracts

The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all significant risks and rewards of ownership of its properties and so accounts for the leases as operating leases.

Financing and valuation of financial instruments

The committee considered the implication of the adoption of IFRS 9: Financial Instruments on the Group Financial Statements from 1 January 2018 including the appropriateness of continuing to use hedge accounting, Impairment provisioning of trade receivables and possible adjustments arising from debt modifications. The Group will continue to apply the hedge accounting requirements of IAS 39 and there have been no material impacts from the adoption of IFRS 9.

The Group hedges its exposure to interest rate risk swaps using financial instruments. This is a complex area of accounting and accordingly the committee monitors the work of the Adviser and where it feels necessary seeks advice on the Company's compliance with such requirements and evaluations. The valuation of the financial instruments is undertaken by JCRA, an independent specialist in this area.

Adjusted Earnings per Share

The committee considered the implications of reporting adjusted earnings per share that are different to IFRS and EPRA calculations. The committee reviews the reported adjusted earnings to ensure they reflect the underlying sustainable cash earnings of the Company.

Fair, balanced and understandable statement

The production and audit of the Company's annual report and accounts is a comprehensive process, requiring input from a number of contributors. To reach a conclusion on whether the Company's annual report and accounts, taken as a whole, are fair, balanced and understandable, as required under the AIC Code, the board requested that the audit committee advise on whether

Non audit work undertaken	Rationale for using the external auditor	Fee 2018	Fee 2017
Reporting accountant on the Company's Placing Programme and initial public offerings	Detailed knowledge and understanding of the business and the requirements of the exercise, having acted as reporting accountant on the Placing Programme and IPO for the Company. Low risk of self-interest and self-renewal threat, as the work is not used in the audit of the financial statements.	£55,000	£60,000
Agreed upon procedures relating to 30 June interim accounts	Appointed to perform certain agreed upon procedures in relation to the 30 June interim accounts and report findings to the board.	£10,500	£10,500
Audit of 30 April 2017 initial accounts of parent Company	To perform the audit of the accounts of the parent Company at 30 April 2017.	–	£8,500
Total		**£65,500**	**£79,000**

we considered that the annual report fulfilled these requirements. In outlining our advice, we considered the detailed reviews undertaken at various stages of the production process by the Investment Adviser, Administrator, auditor and the audit committee, which are intended to ensure consistency and overall balance.

We then discussed with the Investment Adviser and Administrator the process of how this was put together and received a series of drafts of the Company's annual report and accounts. These were scrutinised and discussed thoroughly at two separate audit committee meetings.

Additional comfort was also sought from the Investment Adviser and Administrator in relation to the conclusion reached by the board.

As a result of the work performed, we have concluded and reported to the board that the annual report and accounts for the period ended 31 December 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The board's conclusions in this respect are set out on page 36.

External auditor

BDO was appointed as the Company's auditor following a formal tender as part of the IPO in March 2017. This was a competitive process and involved BDO, EY and Grant Thornton. Richard Levy has been the lead audit partner since BDO's appointment and Richard's team was refreshed during 2018.

The Committee met the team at the start of the audit planning process and we considered that the Audit team assigned to the Company by BDO had a good understanding of the Company's business. I met with Richard independently before the audit planning process began and the committee met with the auditors before the annual results were prepared, to plan and discuss the scope of the audit, to ensure its rigour. We also met with the auditor to discuss the details of the external audit and interim review and to consider and evaluate any findings in depth.

The audit committee assessed the performance of the external auditor in relation to the 2017 annual report. In assessing the performance of the auditor in the prior period, we considered both the qualifications and expertise of the team proposed by BDO as well as the quality of the work produced and whether it was carried out on time and in accordance with the agreed audit plan.

BDO has formally confirmed its independence as part of the annual reporting process.

The audit committee has recommended that a resolution to appoint BDO is proposed to shareholders at the next AGM.

We believe that, in some circumstances, the external auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work.

In developing this approach, we have considered the Financial Reporting Council's Ethical Standard. We have reviewed the terms under which BDO is able to provide non-audit services and are satisfied with the measures put in place by BDO to preserve the audit team's independence and to protect the confidentiality of the Company's business. Most notably, reporting accountant work is provided by separate teams within BDO and all documents and other information relating to the Company is securely stored and protected.

The £65,500 non-audit fees were authorised in the period, and outlined in the table above.

The board has accepted our proposals relating to the provision of non-audit services by the auditor. We are therefore satisfied that the audit is independent, objective and effective.

Total audit fees for the period were £90,000 and non-audit fees were £65,500. Non-audit fees as a percentage of audit fees are 72.8% as a result of the reporting accountants role. This is expected to reduce comfortably below 70% over a three year period.

Effectiveness of the committee

Due to the changes in the structure and composition of the committees it was decided not to include their assessment in the board evaluation process this year. This will form part of the evaluation process for 2019.

As part of ongoing training and development, I have attended NED briefing sessions at Deloitte and PwC, and Philip Hall and I have also visited several Company properties during the year.

Rosemary Boot
Interim Chairman of the audit committee
28 March 2019

Management engagement committee report

Introduction

The management engagement committee has a membership comprised of all the Independent directors of the Company: Rosemary Boot, David Brooks (until his death in July 2018), Philip Hall and me, Rupert Barclay (Committee Chairman). I am independent of the Investment Adviser (the "Adviser") and the Investment Manager (the "Manager").

The management engagement committee meets as and when required but formally at least once a year.

We held our first meeting in August 2018, after the Company had completed a full annual cycle. Attendance is set out on page 41.

JTC (UK) Limited attends our meetings as Secretary to the committee. In addition, we invite representatives of the Investment Adviser, the Investment Manager and our external auditor to attend as required.

Role

The committee has several functions, the most important of which are:

- To review annually the compliance by the Investment Adviser with the Company's investment policy as established by the board when sourcing potential investment opportunities and with the investment advisory agreement entered into between the Company and the Investment Adviser.
- To review annually the compliance by the Investment Manager with the Company's investment policy as established by the board and with the investment management agreement entered into between the Company and the Investment Manager.
- To review annually the performance of any other key service providers to the Company.

The full Terms of Reference of the management engagement committee are available on our website at: https://www.impactreit.uk/about/corporate-governance.

Investment Adviser

Impact Health Partners LLP served as Investment Adviser to the Company during the year. Under the terms of the Investment Advisory Agreement, the Adviser provided certain advisory services to the Group including:

- ongoing monitoring of the portfolio and asset management; and
- sourcing potential opportunities in which the Company may invest.

In addition, the Investment Advisory Agreement imposes certain restrictions on the Adviser and its associates from acquiring, developing, leasing or operating competing businesses, and:

(a) grants the Group a right of pre-emption in respect of any investment opportunities within the Company's investment policy of which the Adviser or its associates become aware.

(b) grants the Company the right to terminate the agreement upon the failure of any tenant, in which any principal of the Adviser (from time to time) has a beneficial interest, to pay rent or any other sums due in excess of £50,000 under the leases or upon the winding up or liquidation of any tenant, in which any principal of the Adviser or any of its Associates (from time to time) has a beneficial interest.

(c) grants the Company the right to terminate the agreement if the Financial Report provided to the Company by Minster Care Group Limited shows that its rent cover is less than 1.1 times in two consecutive quarterly financial reports or in any two quarterly financial reports in any 12 month period.

(d) grants the Company the right to seek advice from a third party property adviser in circumstances where the Adviser is conflicted.

(e) prohibits the Adviser from taking any decision, or making any recommendation to the board or the Manager relating to decisions on enforcement of the Group's rights on certain covenant breaches by a tenant, in which any principal of the Adviser or any of its associates (from time to time) has a beneficial interest.

The Investment Advisory Agreement may be terminated by either party on 12 months' notice, such notice not to be served before the fourth anniversary of IPO, and may be immediately terminated by either party in certain circumstances such as a material breach which is not remedied.

Review of performance

Given the stage of development of the Company, the committee has conducted a robust review of the first year of delivery in order to ensure a sound basis for future development.

The committee discussed the size and infrastructure of the Adviser in terms of staff members and resource, and noted that other Investment Advisory companies of the Company's peer group have larger headcounts. We then discussed the effectiveness of the Adviser's processes and the infrastructure put in place to ensure adequate information flow, and felt a concern regarding the limited resource within the Adviser's team: we looked at the levels of adequate asset monitoring, due diligence and tenant liaison and whether it is carried out in a logical and consistent way.

The committee has suggested that the Adviser should undertake more frequent visits to the Company's portfolio of properties and that there should be follow up procedures in regards to maintenance, as well as regular structured communication with management and staff at each tenant which will aid the enhancement of transparency of costs.

We also discussed the potential risk that the Adviser's focus may be on deal creation rather than ongoing monitoring of existing assets, which might pressure the Company into taking on deals which may be unsuitable. After detailed debate, the Committee concluded that, as the Company looks to grow and diversify the tenant base, the importance of due diligence has been firmly emphasised to the Adviser and we felt that there are adequate controls in place to avoid the Adviser spending time on deals that do not fit the Company's investment policy.

The committee also reflected on the results from the board evaluation which prompted a meeting between the Secretary and the Adviser to discuss ways in which to improve their liaison.

Review of the remuneration of the Investment Adviser

Under the terms of the Investment Advisory Agreement, the Adviser is entitled to an advisory fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The advisory fee is 1% per annum (plus VAT) of the Company's Net Asset Value up to £500 million and 0.70% per annum (plus VAT) thereafter, payable quarterly.

The committee discussed the potential for requesting a reduction in the Adviser's fees but recognised that the Adviser was in the process of amending their fee agreement to include the provision of AIFM services which would result in a net cost saving and that the fees were in line with those of comparable REITs. As a result, we decided that the committee was comfortable with the Adviser's current remuneration.

Investment Adviser – transition to AIFM status and Investment Manager

Following approval by the FCA, on 15 March 2019, the Investment Adviser was appointed as the UK Alternative Investment Fund Manager ("AIFM") to the Company. On this date, Carne Global AIFM Solutions (C.I.) Limited ("Carne") ceased to act as Investment Manager for the Company. Carne has been retained by the Investment Adviser to continue providing risk management function to the AIFM.

The new AIFM will receive a further £95,000 pa in addition to its fees outlined below. This is to cover the incremental cost of providing additional services as AIFM.

Upon appointment of the new UK AIFM, the Company was obliged to appoint a Depository and Indos Financial Limited was selected and appointed on 15 March 2019.

It is anticipated that this arrangement will result in a net cost saving to the Company primarily due to saving of irrecoverable VAT.

Investment Manager

During 2018 the Company's Investment Manager was Carne Global AIFM Solutions (C.I.) Limited. The Manager is authorised and regulated by the Jersey Financial Services Commission.

The Manager was appointed as a non-EU AIFM to the Company, to provide portfolio and risk management services. In this role it provided the customary services of discretionary investment management. Under the terms of the Investment Management Agreement, the Manager's performance was, at all times, subject to the supervision of the board.

Under the terms of the Investment Management Agreement, the Manager was entitled to an annual management fee of £95,000 together with reimbursement of all costs and expenses properly incurred by it in the performance of its duties.

The Investment Management Agreement could be terminated by either party on six months' notice, and could be immediately terminated by either party in certain circumstances such as a material breach which is not remedied.

The Manager's services were terminated on 15 March 2019 upon the appointment of the Investment Adviser as the new UK AIFM. The transition was undertaken in open dialogue with the Manager and no termination payment was payable. As discussed above, Carne has been retained by the Investment Adviser to provide the Risk management function. The Company would like to thank Carne Global AIFM Solutions (C.I.) Limited for their services to the Company as AIFM since IPO.

Administrator and Company Secretary

JTC (UK) Limited ("JTC") serves as Administrator and Company Secretary.

Under the terms of the Administration and Company Secretarial Services Agreement, JTC as Administrator is entitled to:

(a) a set up fee of £4,000 per new subsidiary entity incorporated

(b) an annual fee in respect of the valuation and accounting services it will provide of £50,000.

(c) a fee equal to 0.05% of NAV to the extent that such NAV exceeds £200 million.

As Company Secretary, JTC is also entitled to receive an annual fee of £50,000.

The Administration and Company Secretarial Services Agreement is in force and can be terminated by either party, either in accordance with the agreement (e.g. in the case of a material breach of agreement or of the insolvency of a party, whereby the agreement may be terminated immediately upon notice), or provided written notice is given to the other party at least three months prior to termination.

Review of other service providers

The committee reviewed the service level of the appointed service providers of the Company and concluded that the performance of all of the Service Providers was satisfactory and there were no concerns to address.

Rupert Barclay
Committee Chairman
28 March 2019

Relations with shareholders

The primary objectives of our investor relations activities are to:

- Broaden and deepen understanding of the business, the benefits of portfolio management and growth opportunities.
- Increase awareness of the Company's investment case.
- Better define our market and differentiate us from our peers.
- Strengthen the relationships of the Company with the investment community.
- Achieve a strong, supportive shareholder base with ongoing investment appetite.
- Ensure the board has a clear and sound understanding of the market's view of Impact Healthcare REIT.

We are committed to fostering and maintaining strong relationships with the Company's shareholders and recognise the importance of good communications. In 2018 the board continued to expand the Company's communications policy with current and future shareholders.

Mahesh Patel, Andrew Cowley and David Yaldron, from our Investment Adviser (the Adviser), are the Company's principal spokesmen with the Company's shareholders, the press, analysts, investors, debt finance providers and other stakeholders. Rupert Barclay, our Chairman, and Rosemary Boot, our Senior Independent director, are available to speak to any shareholders to discuss any matters relating to the Company; no investor has asked for a meeting with either the Chairman or SID.

The Adviser provides the board with regular Investor Relations updates, which include major press coverage, analyst reports and shareholder feedback from meetings and calls. In addition, Paul Craig sits on the board and brings an institutional investor's viewpoint as he represents the largest shareholder of the Company.

During the year, the Investment Adviser, working together with the Company's corporate broker and communications adviser, met regularly with institutional investors, analysts and the financial press to update them on the Company's progress.

The board meets periodically, on a formal and informal basis, with the Company's corporate broker and other professional advisers in order to better understand the views of major shareholders on the Company.

Annual General Meeting

Shareholders are encouraged to attend and vote at the Company's general meetings so they can discuss governance and strategy with the board and the Manager. This enables the board to better understand shareholders' views. The full board usually attends the Annual General Meeting and the directors make themselves available to answer shareholder questions at all the general meetings of the Company.

The Chairman can be contacted by emailing the Company at Impact.CoSec@jtcgroup.com

Public communications

The Company ensures that any price sensitive information is released to all shareholders at the same time and in accordance with regulatory requirements. All public information and Company announcements released through the London Stock Exchange are made available on the Company's website at http://www.impactreit.uk.

Directors' remuneration committee report

Annual statement

It has been a busy year for the Company, and this has been reflected in the activities of the remuneration committee.

Due to the changes in the relevant governance codes and developing best practice for REITs, the board decided to separate the original remuneration and nomination committee into two distinct committees in April 2018.

As a consequence, the remuneration committee reviewed a draft Terms of Reference in detail at our August 2018 meeting. The revised Terms of Reference of the remuneration committee were subsequently approved by the board in November 2018 and are available on our website at https://www.impactreit.uk/about/corporate-governance. The main changes made were to reflect the separation of the previous remuneration and nomination committee into two committees and to ensure consistency of style and approach.

Committee membership

The remuneration committee membership is made up of all of the Independent directors.

During the year the committee members were Rupert Barclay, Phil Hall and me, Rosemary Boot (Chairman). Amanda Aldridge, a new Independent director joined the board and the remuneration committee on 1 March 2019. I have previous experience of serving on a remuneration committee.

No director is involved in the setting of their individual package.

The remuneration committee meets formally once a year and otherwise as and when necessary. For the period under review, we have had one meeting. Attendance is set out on page 41.

JTC attends our meetings as Secretary to the committee. In addition, we invite representatives of the Investment Adviser to attend as required.

Role

- Determining, and agreeing with the board, the framework and broad policy for the remuneration of the board and to review the ongoing appropriateness and relevance of the remuneration policy to meet the needs of the Company.
- Taking into account all factors which the committee deems necessary, including relevant legal and regulatory requirements, the principles of the AIC Code, the relevant provisions of the UK Corporate Governance Code and any associated recommendations and guidance.
- Agreeing the policy for the authorisation of claims for expenses by the directors.

Activities

The general principles for remuneration were set at IPO and remain in force. The remuneration matters facing the Company during the year were straightforward as there were no changes in remuneration policy.

As indicated in our last Report, we felt it was appropriate to conduct a review of remuneration after completing a full annual cycle of activity with an established governance framework in place. We have drawn upon benchmarking research during the year to provide objective data upon which to base any decisions for change.

At IPO, it was anticipated that the board would meet at least five times a year (quarterly board meetings and an annual strategy discussion) and each director was expected to devote such time as is necessary for the proper performance of their duties and that such time commitment would increase if appointed to additional committees of the board. However, in 2018, there were 26 board meetings or calls, far in excess of the anticipated number – this level of activity is driven both by the nature of the Company as a REIT and the number of acquisition opportunities we have considered.

We considered a benchmarking report from Trust Associates – Investment Companies Non-Executive Directors Fees Review 2017 which included average fees and growth percentages on fees for directors of investment companies, and kept in mind that the majority of investment companies reviewed were not REITs and did not place the same demands on their non-executive directors. As a consequence we also took into account research that included 2017 or 2018 fees for directors for the Company's REIT peer group.

In comparison with other companies in the peer group, the fees paid to our directors were low.

We discussed the possibility of providing additional remuneration based on individual contributions, in accordance with the Articles of Association, on the basis that any director who by request of the board performs special services may be paid such extra remuneration as the board may decide. We thought that such an approach might perhaps be considered in future if certain directors are called upon more than others. However, we felt that rebasing the level of remuneration for all directors would provide a more predictable and transparent approach and would reflect the additional time commitments that all directors have made.

The committee considered the level of any increase with due care and consideration against external perceptions and the total hours committed by each board member. No committee member voted on their own remuneration. The board is satisfied that the changes are compliant with the Remuneration Policy as set out and approved by the shareholders at the AGM in April 2018.

The committee proposed, and the board adopted, the following changes on the annual board remuneration, effective from 1 September 2018:

- £46,000 for the Chairman of the board.
- £33,000 for the non-executive directors.
- An additional £5,000 for the audit committee Chairman.

Directors' remuneration committee report (continued)

By taking this approach, the remuneration for 2018 is £42,000 for the Chairman, £32,667 for the audit committee Chairman and £31,000 for the non-executives, and, over a two-year period this equates to a 15% increase in remuneration for the board Chairman, 27% increase for the audit committee Chairman and 10% increase for the non-executive directors.

In addition, we are considering the changes made to the legislation and to the UK Corporate Governance Code in mid-2018, with the subsequent changes to the AIC Code, all of which came into effect for us on 1 January 2019 and so do not apply to the period under review. We are taking these changes into account as appropriate in our ongoing work, although the most significant alterations and additions do not apply to the Company as it has no executive directors or employees.

The Annual Statement and annual report on Remuneration will be presented at the AGM for shareholder consideration for indicative advisory approval.

Rosemary Boot
Committee Chairman
28 March 2019

Directors' Remuneration Policy

The Directors' Remuneration Policy was considered and approved by the shareholders at the first AGM, on 26 April 2018. For ease of reference it has been set out in full below.

The Company's policy is to determine the level of directors' fees with due regard to the experience of the board as a whole, the time commitment required and to be fair and comparable to non-executive directors of similar companies. The Company may also periodically choose to benchmark directors' fees with an independent review, to ensure they remain fair and reasonable.

Directors' fees will be adjusted from time to time and will be subject to shareholder approval in the subsequent AGM. The directors may elect to apply the cash amount equal to their annual fee to subscribe for or to purchase ordinary shares.

The directors are entitled only to their annual fee and their reasonable expenses. No element of the directors' remuneration is performance related, nor does any director have any entitlement to pensions, share options or any long-term incentive plans from the Company.

The directors hold their office in accordance with the Articles and their appointment letters. No director has a service contract with the Company, nor are any such contracts proposed. The directors' appointments can be terminated in accordance with the Articles and without compensation.

Under the Company's Articles of Association, all directors are entitled to remuneration determined from time to time by the board and approved by the shareholders.

Directors' remuneration

In line with the Remuneration Policy above, since 1 September 2018, each director is entitled to an annual fee of £33,000 per annum. The Chairman is paid a further £13,000 per annum and the Audit Chairman is paid a further £5,000 per annum.

Company-wide considerations

There are no executive directors, nor are there any employees of the Company, so there are no statements to make on any consultations, comparisons, or pay and employment conditions within the Company.

Recruitment

The same remuneration policy will be applied for any recruitment purposes.

Statement of consideration of shareholder views

No comments were received in meetings held with shareholders in 2018 in relation to directors' fees. Following publication of the 2018 annual report and prior to the AGM, the Company will offer to meet with shareholders to discuss the Group's performance and prospects and give shareholders the opportunity to ask questions about the remuneration policy and levels of remuneration.

Directors' fees for the year under review (audited)

The directors only receive fees and reasonable expenses for services as non-executive directors – no taxable benefits or bonuses are paid.

Director	Period to 31 Dec 2018 Total 2018	Period to 31 Dec 2017 Total 2017
Rupert Barclay (Chairman)	£42,000	£32,923
Rosemary Boot	£32,667	£24,692
David Brooks[3]	£16,154	£24,692
Paul Craig	£31,000	£15,115
Philip Hall	£31,000	£24,692

1 The figures given for 2017 apply to a partial year of operation, from 7 March 2017 for all except Paul Craig, who was appointed 30 June 2017.

2 In addition, each director is entitled to recover all reasonable expenses properly incurred in connection with performing his or her duties as a director. Directors' expenses for the period to 31 December 2018 totalled £513. No other remuneration was paid or payable during the period to any director.

3 David Brooks died on 13 July 2018

Since the start of 2019, the Company has maintained directors' and officers' liability insurance cover and also public offering of securities insurance, at its expense, on the directors' behalf.

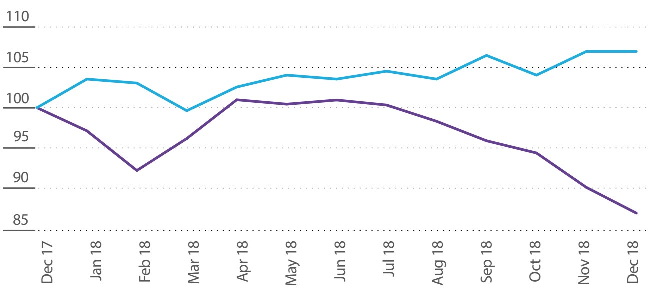
Payments to past directors or for loss of office

There are no payments to disclose. Under the terms of the Directors' Remuneration Policy there would be no compensation for loss of office.

Total shareholder return

The graph below shows the total shareholder return of the Company's ordinary shares relative to a return on a hypothetical holding over the same period in the FTSE EPRA/NAREIT UK Index:

Total shareholder return (p)



Source: FTSE Russel monthly total return index / Investis

Directors' shareholdings (audited)

There is no requirement for the directors of the Company to own shares in the Company. As at the year end, the directors held the shareholdings listed below.

Director*	Number of shares held	Percentage of issued share capital as at 31 Dec 2018
Rupert Barclay (Chairman)	100,000	0.05%
Rosemary Boot	30,000	0.01%
David Brooks[3]	30,000	0.01%
Paul Craig**	39,617,784	20.61%
Philip Hall	30,000	0.01%

* Includes directors and persons closely associated (as defined by the EU Market Abuse Regulation) shareholdings.

** These shares are held by funds owned by Quilter Investors of which Paul Craig is Investment Manager.

The shareholdings of the directors other than Paul Craig are not significant and, therefore, do not compromise their independence. Paul Craig has been identified as non-independent as he is an employee of the largest shareholder in the Company, Quilter Investors.

Statement of implementation of remuneration policy for financial year 2018

The committee adopted the following fees, effective from 1 September 2018:

- £46,000 for the Chairman of the board.
- £33,000 for the non-executive directors.
- An additional £5,000 for the audit committee Chairman.

Committee

The membership, activities and role of the committee are discussed in the Annual Statement above.

External advisers

The committee has not received any external advice with respect to Remuneration and has not appointed an external remuneration adviser.

Statement of voting at the 2018 Annual General Meeting

Shareholder voting at general meeting

The directors' Remuneration Policy was put to a binding vote at the AGM on 26 April 2018. The remuneration committee Chairman's Annual Statement and the Annual report on remuneration were subject to an advisory vote at the AGM on 26 April 2018. Above we outline the voting outcomes in respect of approving the Directors' remuneration report and approving the Directors' Remuneration Policy.

Rosemary Boot
Committee Chairman
28 March 2019

Annual report on Remuneration

Statement of voting at the 2018 Annual General Meeting

Resolution	Votes For	%	Votes Against	%	Total votes validly cast	Total votes cast as % of issued share capital	Votes withheld
Approve directors' remuneration report	65,149,093	99.99	9,587	0.01	65,158,680	33.90%	0
Approve directors' remuneration policy	65,149,093	99.99	9,587	0.01	65,158,680	33.90%	0

Directors' report

Introduction

The directors are pleased to present the annual report, including the Company's audited financial statements as at, and for the period ended, 31 December 2018.

The Directors' report, together with the Strategic report, comprise the "Management Report", for the purposes of Disclosure Guidance and Transparency Rule 4.1.5R.

Statutory information contained elsewhere in the annual report

Information required to be part of this Directors' report can be found elsewhere in the annual report and is incorporated into this report by reference, as indicated below:

Financial results and dividends page 1

Events subsequent to the year end date pages 94-95

Future developments pages 4-18

Corporate governance statement pages 34-54

Directors' names and biographies pages 42-43

Manager and service providers pages 39-40

Directors' interests in shares page 57

Share capital page 91

Related party transactions page 92

Financial instruments pages 89-90

Substantial shareholdings

As at 28 March 2019, the Company is aware of the following substantial shareholdings, which were directly or indirectly interested in 3% or more of the total voting rights in the Company's issued share capital:

Investor	Number of ordinary shares	% holding of issued share capital
Quilter Investors	39,617,784	20.61%
Schroder & Co Limited	20,069,267	10.65%
Premier Fund Managers	12,307,391	6.40%
Baillie Gifford & Co	10,392,000	5.41%
Maal Limited	10,000,000	5.20%
Valu-Trac Investment Management Limited	9,558,589	4.97%
Brooks Macdonald Asset Management	7,783,860	4.05%
CCLA Investment Management	7,375,388	3.84%
Nedbank Group Ltd	5,936,952	3.09%
Integrated Financial Arrangements	5,770,937	3.00%

Source: Argus Vickers and DTR 5 Disclosure notices.

Based on 192,206,831 ordinary shares in issue as at 31 December 2018.

No individual underlying shareholder or fund owns more than 10%.

The Company only has one class of share.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except as a result of:

- the FCA's Listing Rules, which require certain individuals to have approval to deal in the Company's shares; and
- the Company's Articles of Association, which allow the board to decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company or the Manager breaching any law or regulation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on transferring securities in the Company.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Change of control

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, 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 on the net purchase price of assets acquired since IPO.

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.

Directors' share dealings

The directors have adopted a code of directors' dealings in ordinary shares, which is in accordance with the Market Abuse Regulation. The board is responsible for taking all proper and reasonable steps to ensure any dealings by directors, or persons closely associated with them, are in compliance with the Market Abuse Regulation.

Greenhouse gas emissions reporting
The board has considered the requirement to disclose the Company's measured carbon emissions sources under the Companies Act 2006 (Strategic report and Directors' report) Regulations 2013.

During the period ended 31 December 2018:

- any emissions from the Group's properties have been the tenants' responsibility rather than the Group's, so the principle of operational control has been applied.
- any emissions that are either produced from the Company's registered office or from offices used to provide administrative support are deemed to fall under the Adviser's responsibility.
- the Group has not leased or owned any vehicles which fall under the requirements of Mandatory Emissions Reporting.

As such, the board believes that the Company has no reportable emissions for the period ended 31 December 2018.

The Group has committed to undertaking a strategic sustainability review and developing a practical action plan aligned to key environmental and social focus areas.

Political donations
No political donations were made during the period.

Employees
The Group has no employees and therefore no employee share scheme or policies for the employment of disabled persons or employee engagement.

Articles of Association
These are available on our website at http://www.impactreit.uk/documents or by application to the Company Secretary. Any amendment to the Company's Articles of Association may only be made by passing a special resolution of the shareholders of the Company.

Branches outside the UK
The Company does not have any branches outside the UK.

Powers of the directors
The board manages the Company's business and may exercise all the Company's powers, subject to the Articles of Association, the Companies Act and any directions given by the Company by special resolution.

Powers in relation to the Company issuing its shares
Subject to Company law and the Articles of Association, the directors are authorised to issue shares of such number of tranches and on such terms as they determine, provided that such terms are consistent with the provisions of the Articles.

Appointment and replacement of directors
All directors will seek election at the AGM in accordance with the Company's Articles of Association and the recommendations of the Code.

A director may be appointed by ordinary resolution of the shareholders in a general meeting following nomination by the board or a member (or members) entitled to vote at such a meeting. In addition, the directors may appoint a director to fill a vacancy or as an additional director, provided that the individual retires at the next AGM.

A director may be removed by the Company in certain circumstances set out in the Company's articles of association or by an ordinary resolution of the Company.

Full details of the processes by which directors can be appointed or replaced are set out in the Articles of Association.

Independent auditor
BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2019.

Additional information
There are no disclosures required in accordance with LR 9.8.4 R.

Annual General Meeting
The Company's AGM will be held at 12pm at Travers Smith LLP, 10 Snow Hill, London EC1A 2AL, on Tuesday, 14 May 2019.
A copy of the Notice is available on our website at http://www.impactreit.uk

Signed on behalf of the board by

Rupert Barclay
Chairman
28 March 2019

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. These can be found on pages 58-59, 1-31, 55-57 and 34-54, respectively.

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.

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 Management Report includes a fair review of the development and performance of the business and the financial position of the 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 and Company's performance, business model and strategy.

Signed on behalf of the board by:

Rupert Barclay
Chairman
28 March 2019

Independent auditor's report

to the members of Impact Healthcare REIT plc

Opinion

We have audited the financial statements of Impact Healthcare REIT plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018 which comprise Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Parent company statement of financial position, the Consolidated and parent Company statements of changes in equity, the Consolidated statement of cash flow and Notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 22-25 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 36 in the annual report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 30 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 30 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether 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 period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report (continued)

The table below shows the key audit matters that we identified.

This is not a complete list of all risks identified for our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of investment property (See notes 2, notes 12) The valuation of investment property requires significant judgement and estimates by the directors and their independent valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The Group owns care home investment properties that are leased to tenant operators under long-term rental agreements. The properties are independently externally valued by Cushman & Wakefield (CW) using the income capitalisation method. Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the consolidated statement of comprehensive income or the consolidated statement of financial position. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations.	**Experience of CW and relevance of its work** We read CW's report and confirmed that the approaches used were consistent with the requirements of accounting standards. We assessed CW's competence and capabilities and read their terms of engagement with the Group, determining that there were no matters that affected their independence and objectivity or imposed scope limitations upon them. **Data provided to CW** We checked the data provided to CW by the Investment Manager and found that it was consistent with the information we audited. This data included inputs such as current rent and lease term, which we have agreed on a sample basis to executed lease agreements as part of our audit work. **Assumptions and estimates used by CW** We met CW, who valued all of the Group's investment properties, to understand the assumptions and methodologies used in valuing these properties, the market evidence supporting the valuation assumptions and the valuation movements in the period. We have considered the assumptions utilised by CW within the valuation and benchmarked the valuation to our expectations developed using independent data around the period end. We agreed a sample of key observable valuation inputs supplied to and used by CW to supporting documentation. We performed a reconciliation of the CW valuation total to the aggregate fair value of the investment properties in the financial statements.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds.

	Financial statement materiality	Specific materiality – EPRA earnings
Materiality	**£2.23 million**	**£620,000**
Performance materiality	**£1.7 million**	**£465,000**
Reporting threshold	**£111,500**	**£31,000**

Materiality

We consider materiality to be the magnitude of an omission or misstatement that, individually or in the aggregate could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the Consolidated financial statements as a whole to be £2.23 million, which was set at 1% of Group total assets (2017: £1.6 million based on 0.8% of Group total assets). We determined the materiality of the Parent Company financial statements as a whole to be £1.92 million, which was set out as 1% of the Parent Company total assets (2017: £1.5 million based on 0.08% of the Parent Company total assets). This provides a basis for determining the nature and extent of our risk procedures, identifying and assessing the risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that the Group total assets would be the most appropriate basis for determining overall materiality as we consider this one of the principal considerations for members of the Parent Company in assessing the financial performance of the Group.

We determined the component materiality using the same bases as the Group. Component materiality has been set in the range of £83,000 to £1.9 million.

We set a specific materiality for particular classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users of the financial statements. In this context, we applied a specific materiality of £0.62 million (2017: £0.35 million) to those items which may affect European Public Real Estate Association ("EPRA") earnings, including revenue, property expenses, administrative expenses, finance cost and finance income and taxation. This specific materiality represents 5% of EPRA earnings for the period (2017: 5%).

Specific materiality for the Parent Company was set on the same basis as the Group at £350,000 (2017: £350,000).

Performance materiality

This is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75% of materiality, namely £1.7 million (2017: £0.8 million based on be 50% of materiality). We used a similar basis for specific materiality.

Performance materiality and specific performance materiality for the Parent Company was set on the same basis as for the Group at £1.4 million and £0.3 million (2017: £1 million and £0.2 million) respectively.

Reporting threshold

We agreed with the audit committee that we would report all individual audit differences for the Group in excess of £111,500 which is 5% of Group materiality (2017: £81,000) to the audit committee and any other differences that, in our view, warranted reporting on qualitative grounds. We have also agreed to report differences impacting EPRA earnings in excess of £31,000 (£17,500 in prior year).

We agreed that the reporting threshold for the Parent Company would be £17,500 (2017: £17,500).

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, applicable legal and regulatory framework and the industry in which it operates, and assessing the risks of material misstatement at the Group and Parent Company level.

The Group operates solely in the United Kingdom and operates through one segment, investment property, structured through 10 subsidiary Special Purpose Vehicle ("SPV") companies. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions. None of the subsidiary SPVs were considered to be significant components, and as such the audit approach included undertaking audit work on the key risks of material misstatement identified for the group across the SPV subsidiaries.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements.

We undertook audit procedures to respond to the risk of non-compliance with laws and regulations, focussing on those that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules, and the REIT regime requirements.

We made enquiries of directors to obtain further understanding of risks of non-compliance. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We addressed the risk of management override of internal controls, by undertaking procedures to review journal entries processed during the year end and evaluate whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 36** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 49-51** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 35** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 60, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

We consider that the audit procedures we have undertaken in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatement or other irregularities that would not be considered to be material to the financial statements.

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

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by appointed by the directors in September 2017 to audit the financial statements for the period ending 31 December 2017 and subsequent financial periods. In respect of the financial year ended 31 December 2018, we were appointed by resolution of the members of the Company at the annual general meeting held 26 April 2018. The period of total uninterrupted engagement is two financial years covering the finance years ended 31 December 2017 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Richard Levy (Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
London
United Kingdom
28 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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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.

The accompanying notes form an integral part of these financial statements.

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

The accompanying notes form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

	Notes	31 December 2018 Total £'000	Period from 7 November 2016 to 31 December 2017 Total £'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 year/period		**1,470**	**38,387**

The accompanying notes form an integral part of these financial statements.

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 financial statements

For the year ended 31 December 2018

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 principal risks are set out on pages 22-25, and note 18 to the financial statements on pages 89-90 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 to the statement of comprehensive income.

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

Notes to the consolidated financial statements

For the year ended 31 December 2018

3. Summary of significant accounting policies

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 considers 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 reflected 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 licences are spread evenly over the remaining lease term from the date of signing the licence 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 a 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 that the compensation becomes receivable. Service, insurance and other similar charges that 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 and is therefore exempt from tax, subject to the Group maintaining it's 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) that 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. The investment properties are recognised when the risks 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 disposal 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 12-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).

Notes to the consolidated financial statements
For the year ended 31 December 2018

3. Summary of significant accounting policies (continued)

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 million, 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.

4. Standards issued and effective from 1 January 2018 (continued)

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	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

1 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.
2 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

	Notes	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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

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 ordinary 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 change in fair value of 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 a true and fair view, the weighted average number of shares should be determined for the period 7 March 2017 to 31 December 2017 when the Company was active and the period to which earnings relate.

Had EPS been calculated in accordance with the requirements of IAS 33, the weighted average number of shares for the period ended 31 December 2017 would have been 115,998,067 and the reported basic and diluted EPS would have been 8.15p.

11. Dividends

	Dividend rate per share pence	Year ended 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 1.5 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 1.5 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 1 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 the 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 the International Valuation Standards Committee and are compliant with IFRS 13. Factors reflected include current market conditions, annual rentals, lease lengths, property condition, including improvements effected 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

12. Investment property (continued)

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 six 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:

	31 December 2018 Total £'000	Period from 7 November 2016 to 31 December 2017 Total £'000
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**

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 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 a Deed 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 Total £'000	Period ended 31 December 2017 Total £'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 premiums and future guaranteed rent uplifts[3]		**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 condition, annual rentals, lease lengths, property conditions including improvements effected during the year, 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

12. Investment property (continued)

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**
Assets measured at fair value:					
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 September 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 Total £'000	31 December 2017 Total £'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 lenders 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.

Notes to the consolidated financial statements

For the year ended 31 December 2018

16. Bank borrowings (continued)

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 year[2]	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	–

1 Included in the Group's consolidated statement of comprehensive income are net loan finance costs of £632,000 which includes loan arrangement and commitment fees of £192,000.
2 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 drawn £'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 one-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, bank borrowings, interest rate derivative 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[1] £'000	Level 2[1] £'000	Level 3[1] £'000
Assets measured at fair value:					
Interest rate derivative	31 December 2018	–	–	477	–

1 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.

18. Financial instruments and financial risk management (continued)

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 buy back 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 two 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 majority owned by the principals of the Investment Adviser. 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 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 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	**103.18p**	**100.65p**
EPRA NAV per share	**102.94p**	**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**	**411,707**

	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 Group's consolidated statement of comprehensive income are net finance costs of £632,000 which includes loan arrangement and commitment fees of £192,000.

Notes to the consolidated financial statements

For the year ended 31 December 2018

25. Capital commitments

The Group has entered into a Licence for Alteration and Deed of Variation contracts 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 £8.3 million (2017: £3.7 million) 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 £4.9 million (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 £2.6 million 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 an audit and advisory partner 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 7 March 2019 in relation to the portfolio of assets acquired in May 2017 in relation to the IPO, let to Minster and Croftwood.
- On 16 March 2019 in relation to the single asset let to Prestige.
- On 23 March 2019 in relation to the 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

	Notes	31 December 2018 £'000	31 December 2017 £'000
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

The accompanying notes form an integral part of these financial statements.

Company statement of changes in equity

	Notes	Undistributable reserves Share capital £'000	Share premium £'000	Distributable reserves Capital reduction reserve £'000	Retained earnings £'000	Total £'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**

The accompanying notes form an integral part of these financial statements.

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 parent 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 the 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 million, 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:

	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.

Notes to the Company financial statements

For the year ended 31 December 2018

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 as at 31 December 2018:

	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
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 W1J 8DW, England.

7. Trade and other receivables

	31 December 2018 £'000	31 December 2017 £'000
Loan to Group companies	39,694	–
Loan receivable	250	–
Prepayments	19	91
	39,963	91

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 September 2020.

As at 31 December 2018, there were no trade receivables past due or impaired (2017: nil).

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 to Group Companies	36,147	9,453
Trade and other payables	1,007	354
Withholding tax payable – (PID Dividends)	250	329
	37,404	10,136

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 FRS 102 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 NAV 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**

Notes to the Company financial statements

For the year ended 31 December 2018

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.

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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 crystallise 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)		
Annualised 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 £'000	31 December 2017 £'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 £'000	31 December 2017 £'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 £'000	31 December 2017 £'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 NNAV 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.

Notes to the EPRA performance measures (unaudited)

For the year ended 31 December 2018

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

	31 December 2018 £'000	31 December 2017 £'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**
Property outgoings (non-recoverable insurance)	(3)	–
Annualised net rents (A)	**16,217**	**11,600**
Add: Contractual uplifts on rent-free periods of funded capital improvements	276	–
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 £'000	31 December 2017 £'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 £'000	31 December 2017 £'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	9392
Total EPRA cost ratio (including, and excluding, vacant property costs)	**24.69%**	**24.68%**

AIFM statement (unaudited)

Quantitative remuneration disclosure for the AIFM

Carne Global AIFM Solutions (C.I.) Limited served as Alternative Investment Fund Manager to the Company throughout the financial year. It was replaced as AIFM with effect from 15 March 2019. References in this statement to "AIFM" are to Carne Global AIFM Solutions (C.I.) Limited.

The total fee paid to the AIFM by the Company for the year ended 31 December 2018 is disclosed in note 6.

The AIFM is not subject to the provisions of Article 13 of the AIFM Directive, which require the AIFM to adopt remuneration policies and practices in line with the principles detailed in Annex II of the Directive. However, in accordance with Article 22 of the AIFM Directive and Article 107 of the AIFM Regulations, the AIFM must make certain disclosures in respect of the remuneration paid to its staff.

The AIFM has identified nine staff as falling within the scope of the disclosure requirements (the "Identified Staff"). These Identified Staff are senior management, named as Designated Persons of the AIFM's managerial functions, members of the board of directors, and a risk officer as control function. All Identified Staff of the AIFM are employees of the Carne Group and as such receive no separate remuneration for their role within the AIFM. Instead they are remunerated as employees of other Carne Group companies with a combination of fixed and variable discretionary remuneration where the latter is assessed on the basis of their overall individual contribution to the Group, with reference to both financial and non-financial criteria, and not directly linked to the performance of the staff of specific business units or targets reached. The annualised remuneration amount paid to all of the Identified Staff of the AIFM in respect of their work for the Company for the 12-month period to 31 March 2018 was £52,327. There was no variable component to this remuneration and none of the AIFM's Identified Staff are in a position to materially impact the risk profile of the Company. The AIFM manages other alternative investment funds (AIFs) and has no staff other than the Identified Staff.

Liquidity

Liquidity risk is monitored by the AIFM on an ongoing basis. The Risk Committee for the AIFM monitors the liquidity risk of the Company in line with the Company's risk management framework and consistent with the Company's stated strategy and risk policies.

At the date of this annual report there are no assets held by the Company which are subject to special arrangements arising from their illiquid nature. There has been no change to the liquidity management system and procedures during the period since incorporation. Please refer to note 18 in the financial statements for an analysis of the Company's liabilities and their maturity dates at 31 December 2018.

The current risk profile of the Company and the risk management systems employed by the AIFM to manage those risks

During the financial year a combination of the risk systems of the AIFM and the Investment Adviser's risk systems were used to identify, monitor, measure and manage risk within the Company. A Risk Committee has been established by the AIFM for the purposes of monitoring the risk management framework of the Company. The Risk Committee has responsibility for overseeing the performance of the risk management function and monitoring the effectiveness of the controls in place to mitigate risk at Company level. The committee is appointed by, and reports to, the board of directors of the AIFM, and from the AIFM to the board of the Company. The membership of the Risk Committee is drawn from the AIFM and Investment Adviser.

The Risk Committee has ultimate responsibility for risk management and controls of the Company and for reviewing their effectiveness on a regular basis, including taking appropriate remedial action to correct any deficiencies. The Risk Committee manages the risks of the Company through the risk management framework. The Risk Committee monitors all risk limits to ensure compliance or that corrective action is taken in the event of breaches. The Risk Committee monitors to see if limit levels are being approached and endeavours to take appropriate steps to avoid limit breaches. The Risk Committee is responsible for the implementation of the risk management framework. Operational risk is monitored through periodic due diligence of service providers, and through ongoing monitoring of reporting from service providers.

AIFM statement (unaudited)

The Risk Committee has oversight of the risk management framework of the Company and specifically the effectiveness of the risk management function with respect to governance and risk compliance. The committee ensures that market risk, liquidity risk, credit risk, counterparty risk and operational risk are identified, measured, monitored and managed in line with the AIFM's risk management framework and consistent with the Prospectus of the Company. The committee addresses any risk-related issues and escalates to the AIFM board if necessary. The committee is appointed by and reports to the AIFM board and from the AIFM to the board of the Company.

Please refer to pages 22-25 for the board's assessment of the principal risks and uncertainties facing the Company. The AIFM has assessed the current risk profile of the Company to be low.

Leverage

During the financial year the leverage limitation provisions of the AIFM Directive did not apply to the Company because the AIFM is a "non-EU AIFM". Consequently, the AIFM is not required to set a maximum level of leverage (as calculated pursuant to the AIFM Directive) for the Company. Notwithstanding this, the Company has set a limit such that borrowings as a percentage of gross assets may not exceed 35% at the time of drawdown.

There has been no change to the maximum level of leverage which the AIFM may employ on behalf of the Company. The actual level of gearing employed by the Company at 31 December 2018 was 11.6%.

Material changes to information

Article 23 of the AIFM Directive requires certain information to be made available to investors before they invest and requires material changes to this information to be disclosed in the annual report. An updated copy of the Company's Article 23 disclosure schedule was published following the change of AIFM on 15 March 2019. Other than the changes to the Company's AIFM (and the consequential appointment of Indos Financial Limited as the Company's depository following the Company's appointment of a full-scope UK AIFM), which is described on page 5 of this annual report. There have been no other material changes to the information requiring disclosure.

Glossary

Adjusted EPS: Adjusted Earnings per Share

Administrator: JTC (UK) Limited

AIC: Association of Investment Companies

AIFM: Alternative Investment Fund Manager

BDO: BDO LLP

Capex: Capital Expenditure

CMA: Competitions and Markets Authority

Contracted Yield: Contracted rent roll divided by the independent market value of the portfolio

CQC: Care Quality Commission

EPRA: European Public Real Estate Association

EPS: Earnings per Share

Investment Adviser/Adviser/IHP: Impact Health Partners LLP
Note: The Investment Adviser became the AIFM/Investment Manager (from 15 March 2019).

Investment Manager/Manager/AIFM: Carne Global AIFM Solutions (C.I.) Limited (until 15 March 2018)

IPO: Initial Public Offering

LTV: Loan to Value

Management Report: As defined by the FCA handbook and governed by DTR 4.1.8, incorporated within the strategic report and governance section of this annual report

NAV: Net Asset Value

NIY: Net Initial Yield

Premium Listing/Premium List: The transfer of our shares to the premium listing segment of the London Stock Exchange's main market and admitted to the premium listing segment of the FCA's Official List

RCF: Revolving Credit Facility

REIT: Real Estate Investment Trust

RICS 'Red Book': RICS Valuation – Global Standards 2017

RPI: Retail Price Index

Seed Portfolio: Initial portfolio of 56 assets (including two option assets) acquired in May 2017

WAULT: Weighted Average Unexpired Lease Term

Corporate information

Directors
Amanda Aldridge non-executive director (from 1 March 2019)

Rupert Barclay non-executive Chairman

Rosemary Boot non-executive director

Paul Craig non-executive director

Philip Hall non-executive director

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7th Floor 9 Berkeley Street
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Investment Manager and AIFM (to 15 March 2019)
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Investment Adviser (and Investment Manager and AIFM from 15 March 2019)
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Legal Advisers
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Valuer
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London
W1A 3BG

Company Registration Number
10464966

Financial calendar

Announcement of full year results	29 March 2019
Annual general meeting	14 May 2019
Half year end	30 June 2019
Announcement of half year results	August 2019
Full year end	31 December 2019

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