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MedicX Fund

Interim Report
to 31 March 2016

Who we are

MedicX Fund Limited ("MXF", or the "Company", or together with its subsidiaries, the "Fund" or the "Group") the specialist primary care infrastructure investor in modern, purpose-built primary healthcare properties in the United Kingdom & Republic of Ireland, listed on the London Stock Exchange in November 2006. It has committed investment of £573.0 million and a portfolio of 151 properties.

The Investment Adviser to the Company is Octopus Healthcare Adviser Ltd, which is part of the Octopus Healthcare Group. Octopus Healthcare invests in and develops properties as well as creating partnerships to deliver innovative healthcare buildings to improve the health, wealth and wellbeing of the UK. It currently manages over £1 billion of healthcare investments across a number of platforms, with a focus on four core areas: GP surgeries, care homes, retirement housing and private hospitals. Octopus Healthcare is part of the Octopus group, a fast-growing UK fund management business with leading positions in several specialist sectors including healthcare property, energy, property finance and smaller company investing. Octopus manages £5.5 billion of funds for more than 50,000 retail and institutional investors.

Octopus Healthcare Adviser Ltd is authorised and regulated by the Financial Conduct Authority.

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What we do

The Fund works with its various stakeholders to own and maintain a high quality portfolio of mainly modern, purpose-built primary healthcare properties fit to deliver primary healthcare services over the long term.

At inception, the properties are typically let for 20 to 25 years directly to the NHS or to GPs subject to NHS rent reimbursement. The Fund seeks to put in place low cost fixed rate long term debt thereby locking into a spread between the property yield and financing cost. As the portfolio grows, economies of scale will improve shareholder returns as will rental increases which are typically achieved on a three yearly basis. This business model supports the Fund's key investment objective of achieving rising rental income and capital growth to support a rising dividend.

Name: **Grange Medical Practice**
Location: Grangetown, Cardiff

Financial Highlights

	2016	2015	
Committed investment[1] (£m)	**573.0**	559.5	+2.4%
Annualised rent roll[1] (£m)	**36.7**	35.8	+2.5%
Total shareholder return[2,6]	**16.9%**	5.4%	+213.0%
EPRA earnings[6] (£m)	**6.8**	7.0	-2.8%
EPRA NAV[5] (£m)	**267.2**	258.4	+3.4%
EPRA NAV per share[5] (pence)	**71.2**	70.8	+0.6%
EPRA NAV total return[3,6]	**4.7%**	9.1%	-48.3%
Dividends declared and paid in period[6] (pence per share)	**2.9625**	2.925	+1.3%
Weighted average debt term[5] (years)	**14.5**	15.0	-3.3%
Property valuation net surplus[6] (£m)	**4.1**	12.8	-68.0%

Name: **Wollaton Park Medical Centre**
Location: Wollaton, Nottingham

Financial results

- 0.4 pence per share increase in EPRA NAV for the period to 31 March 2016 to 71.2 pence per share (30 September 2015: 70.8 pence per share)
- Quarterly dividend of 1.4875p per share announced in April 2016[4]; total dividends of 5.95p per share expected for the year or 6.8% dividend yield, an increase of 0.8% (2015: total dividends of 5.9p per share; 7.0% dividend yield)[4,7]
- EPRA earnings of £6.8 million, equivalent to 1.8p per share (31 March 2015: £7.0 million; 2.0p per share)[8]
- Dividend and underlying dividend cover of 63% and 71% for the six month period (31 March 2015: 67% and 67%)[9]
- EPRA NNNAV of £226.3 million equivalent to 60.3p per share (30 September 2015: 228.9 million; 62.7p per share)[8]

Investments

- New committed investments between 1 October 2015 and 31 March 2016 of £27.4 million
- £573.0 million committed investment in 151 primary healthcare properties, an increase of 2.4% over the period (4 December 2015: £559.5 million, 148 properties)[1,10]
- Annualised rent roll now £36.7 million with 87% of rents reimbursed by the NHS, an increase of £0.9 million, or 2.5%, since 4 December 2015[1]
- Strong pipeline of approximately £144.0 million of further acquisition opportunities[1]

Funding

- Market capitalisation £328.5 million[1] including £8.5 million net proceeds raised from 10.0 million shares issued since 1 October 2015 at an average issue price of 85.0p per share
- Total drawn debt facilities at 31 March 2016 of £337.4 million with an average all-in fixed rate of debt of 4.45% and an average unexpired term of 14.5 years, close to the average unexpired lease term of the investment properties of 15.7 years and compared with 4.45% and 15.0 years at 30 September 2015
- Net debt of £311.6 million equating to 52.3% adjusted gearing at 31 March 2016 (30 September 2015: £281.4 million; 50.2%)

1 As at 19 May 2016; comparative at 4 December 2015
2 Based on share price growth between 1 October 2015 and 31 March 2016 and dividends during the period
3 Movement on EPRA NAV per share between 1 October 2015 and 30 March 2016 and dividends paid during the year, divided by opening EPRA NAV per share
4 Ex-dividend date 19 May 2016, Record date 20 May 2016, Payment date 30 June 2016
5 Comparative as at 30 September 2015
6 Comparative for the 6 months ended 31 March 2015
7 Total dividends declared divided by share price at 19 May 2016 (2015: at 4 December 2015)
8 As disclosed in note 7 to these financial statements
9 Dividend cover excludes revaluation gains, performance fee and fair value on reset of loans. Underlying dividend cover includes impact of properties under construction treated as completed properties
10 Includes completed properties, properties under construction and committed investment (being any acquisition the Fund is legally committed to following exchange of contracts)

Chairman's statement

Overview

The NHS published its transformation plan entitled "General Practice Forward View" on 21 April 2016. This plan promises substantial reform through an increased share of the NHS spending budget being directed towards primary healthcare. The additional £2.4bn per annum, equating to an increase from 7% to 11% of the NHS England budget is being made available to invest in additional clinical staff, including 5,000 additional GPs as well as specifically identifying £500m to transform services and £900m of capital for premises projects. The plan is encouraging and is welcomed by us. The Fund, together with its development partners and contacts in the healthcare market, remains well positioned to help deliver the transformational changes needed to meet the growing healthcare needs of the population.

Demand for primary care continues to grow, with political support to provide wider local community patient choice, as consultations and the range of services offered continue to increase. To respond to the challenge, GP practices are merging, forming federations or provider groups to create super practices with patient lists in excess of 50,000 individuals. The formation of larger practices is driving the need for large, modern purpose built facilities to replace older existing premises, many of which are judged inadequate by the British Medical Association. All Clinical Commissioning Groups ("CCGs") have been tasked with preparing and publishing their Estates Strategies. These evolving Estates Strategies underpin the successful expansion of service delivery and represent a strong opportunity for the Fund to be at the forefront of change by investing in best in class primary healthcare medical centres, thereby generating long term sustainable income from our investments. The Estates Strategy and increasing collaboration of practices has led to a number of asset improvement opportunities for the Fund and its tenants.

The Fund continues to look to invest in properties that will generate returns for shareholders well beyond their original lease term by acquiring assets that are not only tailored to the current needs of our tenants but also their expected needs as they respond to increasing pressure and demand for primary care services. As a result of this focus and the value-adding property acquisitions carried out over the past few years, the Fund has created a market leading modern primary care portfolio.

The requirements for investment returns and clinical efficiency are aligned, with both delivered when properties facilitate a wide range of high quality services well beyond their original or current lease terms. The UK market has become increasingly competitive with relatively high values being paid for assets of variable quality. In the face of these market conditions the Fund has maintained its price discipline and continued to only acquire assets of the highest quality that meet the Fund's investment criteria. Despite these unfavourable conditions, the Fund has succeeded in securing seven high quality developments in the UK during the six months ended 31 March 2016. Furthermore, the Fund has continued to look further afield and has maintained its strategy of seeking new investment opportunities in the Republic of Ireland where one further development was committed. The Irish primary healthcare market has a well-defined strategy whereby the Health Service Executive (the Republic of Ireland's equivalent of the NHS) is seeking to procure space in new dominant properties offering a wide range of primary healthcare and complimentary services which fully meet the Fund's investment criteria. During the six months ended 31 March 2016, we made our second investment into a project to deliver a new primary care centre in Crumlin, located on the outskirts of Dublin. In addition, we have two further forward funding opportunities at the date of this report in solicitor's hands and a number of opportunities are currently undergoing legal due diligence.

The Board continue to believe that the Republic of Ireland offers good yields for quality properties, let on long leases, generating principally government backed income, making Irish healthcare property opportunities an attractive fit with the Fund's investment objective. The yields available in the Republic of Ireland, as the market develops, currently remain significantly higher than those available for similar quality properties in the UK. The Fund will seek to hedge the currency exposure as much as possible where it is cost effective to do so and negotiations with potential financiers remain ongoing. At the AGM in February 2016, the resolution to amend the Company's Investment Policy to enable the Company to invest up to a maximum of 20% of the Company's property asset value, at the time of investment, in properties located in the Republic of Ireland was approved. The Board does not intend to exceed a limit of approximately 15% of the Company's property asset value to be invested in primary healthcare properties in the Republic of Ireland.

Results overview

Since my report accompanying the year-end results, I am pleased to report that total shareholder return has recovered from the dip in the share price that occurred over the Company's year end. The share price quickly recovered from 77.5 pence at 30 September 2015 and for the six months ended 31 March 2016 the total shareholder return was 16.9%, putting the Fund back on track with its long term returns.

The Board continues to believe that EPRA measures are the most appropriate measures to use to enable shareholders and other readers of our financial statements to gain a comparable, relevant and transparent view of our results.

EPRA Net Asset Value ("EPRA NAV") as at 31 March 2016 increased by 3.4% to £267.2 million or 71.2 pence per share (30 September 2015: £258.4 million or 70.8 pence per share).

At 31 March 2016 and at the date of this report, the Fund had committed investment of £573.0 million across 151 properties of which seven were under construction, including two within the Republic of Ireland.

It is not appropriate to value the Fund's assets without also having regard to the value of all its liabilities and therefore the Fund reports the mark to market value of its debt. Gilt rates have decreased markedly and shown significant volatility since September 2015 resulting in an increase in the mark to market liability of the Fund's debt facilities from £25.2 million at 1 October 2015, to £36.4 million or 9.8 pence per share at 31 March 2016. As a result the EPRA NNNAV was 60.3 pence per share having fallen from 62.7 pence per share since 1 October 2015.

Rental income grew by £1.1 million or 6.6% versus the period to 31 March 2015. Costs are in line with expectations given the level of activity and the focus of the Fund on maintaining the portfolio in the best possible condition. Finance costs incurred during the period were higher than in the prior period, due to a new loan of £50 million, half of which was received on 30 September 2015. As highlighted above, the Fund has worked effectively to deploy its cash into new investments and this will generate future income from the same finance cost base.

The carrying value of the portfolio at 31 March 2016 was £589.0 million which reflected a net valuation gain of £4.1 million for the period. This was in spite of the unexpected rise in stamp duty in the March 2016 budget which had the one off impact of reducing the independent valuer's appraisal by £4.1 million (equivalent to a 1.0 pence per share NAV reduction).

Funding

Demand for the Fund's shares remained high during the period and the Company was able to raise £8.4 million net from the sale of its shares from treasury. The shares held in treasury will continue to be utilised to satisfy further demand for shares in the Company, including any demand for shares under the scrip dividend scheme. These shares will however only be sold at a premium to EPRA NAV.

Gilt rates have continued to remain low and thus the Fund continues to aim to secure the best available long term debt to mitigate the risk of interest rate volatility and lock into a secure low cost capital structure. It is currently in discussions to renew its revolving credit facility. The Fund has an average cost of debt of 4.45%.

The weighted average unexpired term of all drawn debt at 31 March 2016 was 14.5 years, closely matching the average remaining unexpired lease term of 15.7 years of the Fund's portfolio.

The adjusted gearing as at 31 March 2016 was 52.3%. This remains close to the target of 50% set by the Board. The Directors will continue to target borrowings of approximately 50% on average over time but not exceeding 65% of the Company's total assets.

The covenants on all debt facilities were complied with in the period.

Dividends

The Fund maintained its progressive dividend policy, with total dividends of 2.975 pence per Ordinary Share declared in respect of the period ended 31 March 2016. Subject to unforeseen circumstances, the Directors expect that the Company will pay dividends totalling 5.95 pence for the financial year ending 30 September 2016.

During April 2016, the Directors approved a quarterly dividend of 1.4875 pence per Ordinary Share in respect of the period 1 January 2016 to 31 March 2016. The dividend will be paid on 30 June 2016 to shareholders on the register as at close of business on 20 May 2016 (the "Record Date"). The corresponding ex-dividend date was 19 May 2016.

The Company offers qualifying shareholders the opportunity to take additional Ordinary Shares in the Company, credited as fully paid, in lieu of the cash dividend to be paid on 30 June 2016, by participating in the Scrip Dividend Scheme (the "Scheme"). An average of 2.7% of the dividends paid in the period ended 31 March 2016 were in the form of scrip dividends (2015: 12.9%). These dividends did not result in a cash outflow for the Company.

The Fund pays a high proportion of its return in the form of a dividend, with its shares yielding 6.8% as at the date of this report. Dividend cover measured against adjusted earnings was 63% for the period to 31 March 2016 (31 March 2015: 67%). The temporary decrease in dividend cover was expected and reflects the Fund's period of investing proceeds from previous debt raisings in high quality assets and the deployment of funds into the Republic of Ireland into assets which will only generate income from their completion dates targeted for later this calendar year. The dividend cover for the year ending September 2016 is expected to be lower than that for the full year ended September 2015 as fresh funds from the recent loan note issue are deployed into income generating assets. Underlying dividend cover, adjusted to reflect completion of properties under construction was 71% assuming full rent on all properties and associated incremental interest costs and other expenses (31 March 2015: 67%).

As the Fund continues to grow, deploy capital and complete properties under construction it is expected that dividend cover and underlying dividend cover will improve further and will align themselves. The Fund will continue to look to improve cover over time, with progress on initiatives having been made over the six month period.

Annual General Meeting

At the Annual General Meeting held on 16 February 2016, all proposed resolutions were passed almost unanimously by shareholders.

Board of directors

The Board is committed to improving the opportunities for people from a diverse range of backgrounds to understand and prepare for membership of corporate boards. During the period under review we appointed a second apprentice from Board Apprentice Limited, which is a not-for-profit organisation dedicated to increasing diversity on boards by widening the pool of board-ready candidates and looks at diversity as beyond gender and encompassing ethnicity, culture, age, disability, personality and skill set. For a period of one year, commencing on 1 March 2016, we have appointed Joanna Watts as a replacement for Ellen Lederman as a Board apprentice, and in that capacity, Joanna attends all Board and Committee meetings and will take part in discussions when invited to do so by the Board. Joanna receives no remuneration from the Company.

Share price and outlook

In the period to 31 March 2016, the total shareholder return, as measured by dividends and share price growth, was 16.9%. Of this return, 3.5% was attributable to dividends with the remainder from growth in the share price. At 19 May 2016, the mid-market share price was 87.50 pence per share ex dividend, which represents an annualised 6.8% dividend yield based upon the 2.9625 pence per share dividends paid for the period, and a premium of 22.9% to the EPRA net asset value of 71.2 pence per share and a discount of 8.7% to the discounted cash flow net asset value of 95.8 pence per share which is described in detail in the Investment Adviser's report.

The Directors continue to keep under review the possibility of conversion to a Real Estate Investment Trust ("REIT") but have no immediate plans to convert.

The Fund's focus on the quality of the portfolio together with ongoing demand for high quality healthcare property, such as those owned and maintained by the Fund, has led to the Company's shares continuing to represent an attractive investment proposition. With a strong pipeline of investment opportunities to complement the existing portfolio, the Fund remains well positioned for further sustainable growth.

David Staples
Chairman

23 May 2016

Investment Adviser’s report

Market

The demand for new modern primary care infrastructure remains strong in both the UK and Republic of Ireland as their populations’ age and a wider range of clinical services are delivered in their communities by GPs and associated healthcare providers.

With a backdrop of positive political will, investment in UK primary healthcare premises has remained highly competitive. Strategic estate strategies were expected to be published in early 2016 and a significant number are yet to be finalised. This ongoing planning, coupled with the next phase of submissions under the £1 billion Primary Care Transformation Fund, now rebranded as the Estates and Technology Fund, is expected to provide an overdue impetus to increase to the rate of approvals for new primary care developments in the medium term.

As well as rising clinical demand, it has been well publicised that pressures on GPs from increased regulation and a need for more GP numbers to deliver longer hours of service are having an effect. The pace of change is accelerating with GPs working more collaboratively with more Provider Groups and Super Practices emerging which is another driver for new premises, fit to deliver services for larger patient numbers.

In April 2016, NHS England published “General Practice Forward View”. The transformation plan promises a substantial uplift in recurrent spending on primary care from the current 7% of NHSE budget to 11% in real terms by 2021 which equates to an additional 14% real terms increase of £2.4bn per annum. The plan promises some 10,000 additional clinical staff including 5,000 net additional GPs along with significant increases in related clinical professionals within five years as well as identifying £500m of the £2.4bn as spending to transform services and £900 million of capital for premises and IT projects.

MedicX Fund is well positioned to deliver the new schemes needed by working closely with its preferred developers and provider groups of the future.

The 2015 IPD UK Healthcare Index published in March 2016 provided the opportunity to compare the Fund’s performance for the year to December 2015 against the benchmark for all healthcare properties in the Healthcare Index as the asset class matures. The Fund has recorded a consistent total property return of between 9-10% per annum over 1, 3 and 5 years which exceeds the IPD primary care benchmark of 8.6% over the same five year period year and is marginally behind the one year benchmark of 10.5% because it is actively investing in a new geographical market. This strong track record demonstrates the quality of the underlying properties in the Fund portfolio.

In the Republic of Ireland, although the market is less mature, similar demographic pressure and political will are enabling the Health Service Executive to drive forward its programme of putting in place a modern purpose-built estate to deliver provision of world class healthcare. The Fund, with schemes underway in both Mullingar and Crumlin, is well positioned and has connected with various developers to lead this growth.

Overall, the primary care investment sector has continued to see further yield compression during the period due to investor demand and limited supply, further reinforcing the attractiveness of the asset class. Decreasing yields together with positive rent reviews and an appreciation of the quality of the Fund’s portfolio has reflected positively on the property valuation gains achieved by the Fund.

Market rental growth continues to remain challenging due to a lack of new schemes which will set new rental evidence. The increasing demand for improved GPs premises for the reasons described above is expected to drive forward approvals for new schemes, which in turn will help drive rental growth.

Portfolio update

The Fund currently has committed investment of £573 million, in 151 primary healthcare properties. The annualised rent roll of the property portfolio is now £36.7 million, providing good economies of scale and a stable platform to its operations.

The portfolio valuation based on the independent valuer’s appraisal at 31 March 2016, stood at £605.9 million on the basis that all properties were complete, reflecting a net initial yield of 5.36% (5.46% as at 30 September 2015) for the UK assets. Notional purchaser’s costs, included as a deduction in arriving at the independent portfolio valuation above were £38.7 million, or approximately 10 pence per share. The carrying value of £589.0 million reflects the cost to complete the assets currently under development.

At 19 May 2016, the property portfolio had an average age of 7.8 years, remaining average unexpired lease length of 15.7 years and an average property value of £4.0 million. Of the rents receivable, 87.4% are from UK government-funded doctors and the NHS, 8.3% from pharmacies and 4.3% from other tenants including the HSE.

During the six month period ended 31 March 2016, the Fund remained disciplined targeting best in class assets in a competitive market with limited supply. The Fund acquired a total of eight properties to complement the existing portfolio, representing a total commitment of £27.4 million. In addition, during the six month period, successful completions were achieved for two properties previously under construction at Maidstone and Briton Ferry with a further property reaching completion in early May at Kingsbury. All three projects, with a combined value of £15.8 million were delivered within budget under fixed price contracts.

Construction continued on the existing projects at Stevenage, Streatham, Benllech and Mullingar. Projects commenced at Brynhyfryd in Swansea and the Fund agreed to forward fund its second investment project in the Republic of Ireland in Crumlin, a suburb of Dublin. The outstanding commitment on these six properties at 31 March 2016 was £16.9 million, with all properties expected to complete within the next 12 months.

The Fund has a pipeline of identified investment opportunities of approximately £85 million in the UK and €75 million in the Republic of Ireland. The majority of these investment opportunities are forward funding opportunities. They will be sourced from best in class developers and tailored specifically to the needs of the GPs and other care service providers to facilitate the best possible end product.

As set out above, the net initial valuation yield on UK investments was 5.36% compared with the Group’s weighted average fixed rate debt of 4.45% and a benchmark 20-year gilt rate of 2.32% at 31 March 2016. The spread achieved for Irish assets is expected to be wider than seen in the UK market. This spread has enabled growth through committing new investment since 1 October 2014 of £27.4 million. As the pipeline opportunities are converted and assets in the Republic of Ireland in particular complete, the Fund is set to continue to grow and deliver value to its shareholders as it locks into the differential underpinned by long term returns on high quality assets and the low cost of long term funding in place.

During the period the Fund sold one non-core property with a value of £89,000 at a profit of £31,000. The Fund is seeking offers on a further two properties.

Asset management

During the period to 31 March 2016, the Fund averaged a weighted uplift of 1.2% per annum on its rent reviews. Of these reviews, 0.8% per annum was achieved on open market reviews, 1.8% on fixed uplifts and 1.9% increases per annum on RPI based reviews. Reviews of £15.9 million of passing rent were under negotiation as at 31 March 2016.

We continually review the Fund's portfolio for asset management opportunities and have identified a number of opportunities to enhance the portfolio and increase valuations. In conjunction with its tenants, the Fund has had initial approval on a number of property initiation documents submitted to NHS England in a bid to secure funding for property improvements. These projects together with the potential to convert expansion space in the portfolio into rented space are expected to further increase the rent roll without significant new investment.

Of the £36.7 million annualised rent roll at 19 May 2016, 72% was subject to open market review, 23% was subject to RPI reviews and 5% was subject to fixed uplift reviews.

Discounted cash flow valuation of assets

On the Fund's behalf the Investment Adviser has carried out a discounted cash flow ("DCF") valuation of the Group assets and associated debt at each period end. The basis of preparation is similar to that calculated by infrastructure funds. The values of each investment are derived from the present value of the property's expected future cash flows, after allowing for debt and taxation, using reasonable assumptions and forecasts based on the predominant lease at each property. The total of the present values of each property and associated debt cash flows so calculated is then aggregated with the surplus cash position of the Group.

At 31 March 2016, the DCF valuation was £359.8 million or 95.8 pence per share compared with £346.3 million or 94.9 pence per share at 30 September 2015, the increase resulting primarily from the property acquisitions made in the period.

In order to provide a consistent approach the assumptions applied in previous periods remain unchanged. The discount rates used are 7% for completed and occupied properties and 8% for properties under construction. These represent 2.5% and 3.5% risk premiums to an assumed 4.5% long term gilt rate. The weighted average discount rate is 7.06% and this represented a 4.74% risk premium to the 20 year gilt rate at 31 March 2016 of 2.32%.

The discounted cash flows assume an average 2.5% per annum increase in individual property rents at their respective review dates and also assume the level of gearing and cost of debt are maintained at current levels. Residual values continue to be based upon capital growth at 1% per annum from the current valuation until the expiry of leases (when the properties are notionally sold).

For the discounted cash flow net asset value to equate to the share price as at 31 March 2016 of 87.5 pence per share, the discounted cash flow calculation would have to assume a 1.0% increase in rents per annum, or a weighted average discount rate of 8.0% or no capital growth.

Net asset value sensitivity

A review of sensitivities has been carried out in relation to the valuation of properties. If valuation yields firmed by 0.5% to a net initial yield of 4.86%, the EPRA NAV would increase by approximately 16 pence per share to 87.2 pence per share and the EPRA NNNAV would increase to 76.3 pence per share. However, if valuation yields widened by 0.5% to a net initial yield of 5.86%, the EPRA NAV would decrease by approximately 14 pence per share to 57.2 pence per share and the EPRA NNNAV would decrease to 46.3 pence per share.

Pipeline and investment opportunity

The spread between the yields at which the Fund can acquire properties and the cost of long term debt and government gilts remains significant. The Investment Adviser has continued to successfully source properties both through Octopus Healthcare's development arm, Octopus Healthcare Property Ltd, and through its established relationships with investors, developers and agents in the sector. The Fund currently has access to a property pipeline, subject to contract, which is estimated to be worth approximately £144 million in value when fully developed.

Interest in voting rights of the Company

The Investment Adviser has a beneficial interest in the following number of shares in the Company:

	March 2016	September 2015
Octopus Healthcare Adviser Ltd	**2,079,447**	2,009,360

The number of shares held by Octopus Healthcare Adviser Ltd as at the date of this report is 2,079,044, equivalent to 0.55% of the issued share capital of the Company.

During the period the Investment Adviser received dividends on its holding in the Company in addition to fees received for services. With the Scrip Dividend Scheme in place, the Investment Adviser received its dividends in the form of new Ordinary Shares. The cash equivalent of the dividends received by the Investment Adviser was £56,546, compared with £29,125 in the period ended 31 March 2015.

Mike Adams
Chief Executive Officer

Octopus Healthcare Adviser Ltd

Risk management

The principal risks and uncertainties relating to the Group are regularly reviewed by the Board along with the internal controls and risk management processes that are used to mitigate these risks. The principal risks and management of those risks are described below:

	Risks & impacts	Key mitigation factors
Government policy	Changes to the NHS funding model for the primary healthcare sector could lead to a reduction in development opportunities available to the Company. The NHS currently reimburses GP's rental costs for premises used for providing primary healthcare. In the event of a change to this mechanism, the Company may not receive rental income when due and/or the total income received may be lower than due under the current contract. A change in the tax status or residency of the Company or a change in tax legislation could adversely affect returns.	The Investment Adviser provides an update on any expected changes in NHS provision at each Board meeting for consideration by the Board. The current government has stated that one of its policy objectives is to increase the provision of primary healthcare services in the community so a reduction in funding or support in this sector is considered unlikely. The GPs have contracts with the NHS to cover the length of their lease (on average 15.7 years on properties held by the Company) and so a change to this reimbursement policy would be expected to have little impact in the immediate future. The Company maintains a tax forecast and receives regular reports from its tax advisers and the Investment Adviser. This includes keeping potential REIT conversion under review.
Property yields	A significant reduction in property yields could result in them falling below the cost of capital, or not being available with an acceptable rate of return. A property recession could materially adversely affect the value of properties which could put financial covenants under pressure (see below).	For existing properties contractual cash flows are fixed over the long-term so have little impact on EPRA returns. The Board regularly reviews the Company's budget and five year forecast and completes a risk assessment and a long-term viability assessment which incorporates the Company WACC, dividend policy and sets the minimum property yield boundaries for future acquisitions.
Financing and debt management	A significant reduction in the availability of financing could affect the Company's ability to source new funding for both refinancing purposes and to use for future acquisitions.	The Company mainly holds long-term facilities which greatly reduce the refinancing risk. The Company maintains relationships with a number of potential financing sources ensuring a range of financing options. The Investment Adviser also regularly monitors and manages the debt facilities and reports on a regular basis to the Board.
Covenants	A significant reduction in property valuations or income could result in a breach of loan covenants.	Covenants are measured and reported by the Investment Adviser on a quarterly basis and considered by the Board. The impact of potential property de-valuations on the covenants are considered by the Investment Adviser and discussed by the Board at quarterly Board meetings.

Further details of the Audit Committee's risk monitoring activities may be found in the Report of the directors on page 19, the Report of the audit committee on page 22 and the Corporate governance statement on page 24 of MedicX Fund Limited's annual report and financial statements for the year ended 30 September 2015.

Statement of directors' responsibilities

The Directors confirm that, to the best of their knowledge, the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union, and gives a true and fair view of the assets, liabilities, financial position and profit or loss of the undertakings included in the consolidation as a whole.

The half-yearly financial report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the company during that period, and any changes in the related party transactions described in the last annual report that could have a material effect on the financial position or performance of the company in the first six months of the current financial year.

The condensed consolidated interim financial information, in addition to the paper version, will be published on the Company's website, www.medicxfund.com. The maintenance and integrity of the Company's website is the responsibility of the Directors.

By order of the Board:

David Staples
Director

23 May 2016

Name: **Lytham Primary Care Centre**
Location: Lytham St Annes, Lancashire

Independent Review Report

to MedicX Fund Limited

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2016 which comprises the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 March 2016 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FCA.

Bill Holland
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London, E14 5GL

23 May 2016

Consolidated Statement of Comprehensive Income

For the six months ended 31 March 2016

	Notes	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Income			
Rent receivable		**17,746**	16,652
Other income		**148**	382
Total income		**17,894**	17,034
Realised and unrealised valuation movements			
Net valuation gain on investment properties	8	**4,064**	12,767
Profit on disposal of investment properties		**31**	–
		4,095	12,767
Expenses			
Direct property expenses		**508**	470
Investment advisory fee	16	**1,968**	1,845
Property management fee	16	**440**	422
Administrative fees	16	**66**	42
Audit fees		**88**	57
Professional fees		**181**	221
Directors' fees		**72**	75
Other expenses		**160**	119
Total expenses		**(3,483)**	(3,251)
Profit before interest and tax		**18,506**	26,550
Finance cost	4	**(7,948)**	(6,720)
Finance income	5	**393**	26
Profit before tax		**10,951**	19,856
Taxation	6	**(151)**	(1,130)
Profit attributable to equity holders of the parent		**10,800**	18,726
Other comprehensive income		**–**	–
Total comprehensive income attributable to equity holders of the parent		**10,800**	18,726
Earnings per Ordinary Share			
Basic and diluted	7	**2.9p**	5.2p

Consolidated Statement of Financial Position

As at 31 March 2016

	Notes	31 March 2016 £'000	31 September 2015 £'000
Non-current assets			
Investment properties	8	**589,020**	553,479
Total non-current assets		**589,020**	553,479
Current assets			
Trade and other receivables		**6,722**	6,778
Cash and cash equivalents	13	**25,793**	56,910
Total current assets		**32,515**	63,688
Total assets		**621,535**	617,167
Current liabilities			
Trade and other payables		**15,552**	18,966
Loans due within one year	9	**1,939**	1,896
Total current liabilities		**17,491**	20,862
Non-current liabilities			
Loans due after one year	9	**335,444**	336,412
Head lease liabilities	10	**1,388**	1,405
Rental deposits		**60**	60
Deferred tax liability	6	**4,482**	4,331
Total non-current liabilities		**341,374**	342,208
Total liabilities		**358,865**	363,070
Net assets		**262,670**	254,097
Equity			
Share capital	11	**–**	–
Share premium	11	**232,826**	232,770
Treasury shares	11	**(15,680)**	(24,321)
Other reserves		**45,524**	45,648
Total attributable to equity holders of the parent		**262,670**	254,097
Net asset value per share			
Basic and diluted	7	**70.0p**	69.6p

The financial statements were approved and authorised for issue by the Board of Directors on 23 May 2016 and were signed on its behalf by:

David Staples
Director

Consolidated Statement of Changes in Equity

For the period ended 31 March 2016

	Notes	Share Premium £'000	Treasury Shares £'000	Other Reserve £'000	Total £'000
Balance at 30 September 2014		**204,946**	**(5,293)**	**31,047**	**230,700**
Shares issued and immediately repurchased and held in treasury	11	27,393	(27,393)	–	–
Shares sold from treasury		401	6,424	–	6,825
Scrip issue of shares from treasury (net of costs)		154	1,298	–	1,452
Share issue costs		(98)	–	–	(98)
Total comprehensive income for the period		–	–	18,726	18,726
Dividends paid	14	–	–	(10,470)	(10,470)
Balance at 31 March 2015		**232,796**	**(24,964)**	**39,303**	**247,135**
Balance at 30 September 2015		**232,770**	**(24,321)**	**45,648**	**254,097**
Shares sold from treasury		145	8,350	–	8,495
Scrip issue of shares from treasury (net of costs)		7	291	–	298
Share issue costs		(96)	–	–	(96)
Total comprehensive income for the period		–	–	10,800	10,800
Dividends paid	14	–	–	(10,924)	(10,924)
Balance at 31 March 2016		**232,826**	**(15,680)**	**45,524**	**262,670**

Consolidated Statement of Cash Flows

For the period ended 31 March 2016

	Notes	**Six months ended 31 March 2016 £'000**	Six months ended 31 March 2015 £'000
Operating activities			
Profit before taxation		**10,951**	19,856
Adjustments for:			
Net valuation gain on investment properties	8	**(4,064)**	(12,767)
Profit on disposal of investment properties		**(31)**	–
Financial income receivable	5	**(393)**	(26)
Finance costs payable and similar charges	4	**7,948**	6,720
		14,411	13,783
Decrease in trade and other receivables		**61**	1,286
Decrease in trade and other payables		**(3,799)**	(6,035)
Interest paid		**(7,435)**	(6,304)
Interest received		**31**	38
Net cash inflow from operating activities		**3,269**	2,768
Investing activities			
Acquisitions net of cash acquired		**(6,631)**	–
Additions to investment properties and properties under construction		**(24,511)**	(10,438)
Proceeds from sale of investment properties		**120**	–
Net cash outflow from investing activities		**(31,022)**	(10,438)
Financing activities			
Net proceeds from issue of share capital		**8,399**	6,825
New loan facilities drawn	9	**–**	35,000
Net repayment of long-term borrowings	9	**(937)**	(32,044)
Loan issue costs	9	**(200)**	(195)
Dividends paid	14	**(10,626)**	(9,116)
Net cash (outflow)/inflow from financing activities		**(3,364)**	470
Decrease in cash and cash equivalents		**(31,117)**	(7,200)
Opening cash and cash equivalents		**56,910**	31,125
Closing cash and cash equivalents	13	**25,793**	23,925

Notes to the financial statements

For the six months ended 31 March 2016

1. General information

The Company is a limited liability company incorporated and domiciled in Guernsey. The address of its registered office is Regency Court, Glategny Esplanade, St Peter Port, Guernsey, GY1 1WW.

The Company has a premium listing on the London Stock Exchange.

The condensed consolidated interim financial information does not constitute the statutory financial statements of the Group within the meaning of section 245 of The Companies (Guernsey) Law, 2008. The Board of Directors approved the statutory financial statements for the year ended 30 September 2015 on 8 December 2015. The report of the auditors on those financial statements was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 263 of The Companies (Guernsey) Law, 2008.

The condensed consolidated interim financial information will be published on the Company's website, www.medicxfund.com. The maintenance and integrity of the Company's website is the responsibility of the Directors.

The condensed consolidated interim financial information for the six months ended 31 March 2016 has been reviewed, not audited, and was approved and authorised for issue by the Board of Directors on 23 May 2016.

The Directors are of the opinion that the Group is engaged in a single segment of business, being investment in primary healthcare properties in the United Kingdom and Republic of Ireland.

2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 31 March 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 30 September 2015, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Going concern

The Group has cash reserves and assets available to secure further funding if required together with long term leases across different geographic areas within the United Kingdom and the Republic of Ireland. The Directors have reviewed the Group's forecast commitments, including commitments to development projects and proposed acquisitions, against the future funding availability, with particular reference to the utilisation of, and continued access to existing debt facilities. The Directors have also reviewed the Group's compliance with covenants on lending facilities.

The Group's financial forecasts show that it can remain within its lending facilities and meet its financial obligations as they fall due for at least the next twelve months. The Directors also believe that the Group is well placed to manage its business risks successfully in the current economic environment. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3. Accounting policies

The accounting policies and presentation of figures applied are consistent with those of the annual financial statements for the year ended 30 September 2015, as described in those annual financial statements, except as disclosed below:

Taxation

Taxes on profits in interim periods are accrued using the tax rate that would be applicable to expected total annual profits.

Use of estimates

In the process of applying the Group's accounting policies described within the financial statements for the year ended 30 September 2015, the Directors are required to make certain judgements and estimates to arrive at the carrying value for its assets and liabilities.

Significant areas requiring judgement in the preparation of these financial statements include the valuation of properties, the estimated expected uplift in rent reviews past their review dates, the recognition of deferred tax assets and the investment advisory performance fee accrual. The significant areas requiring judgement are consistent with those reported within the financial statements for the year ended 30 September 2015, with the exception of the investment advisory performance fee accrual, which is known at the year end and as such does not require significant judgement as it does in these financial statements.

Notes to the financial statements (continued)

For the six months ended 31 March 2016

4. Finance costs

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Interest payable on long-term loans	**7,792**	6,728
Amortisation of loan issue costs	**682**	596
Amortisation of fair value of acquired loans	**(466)**	(482)
	8,008	6,842
Interest capitalised on properties under construction	**(60)**	(122)
	7,948	6,720

During the period interest costs on funding attributable to investment properties under construction were capitalised at an effective interest rate of 4.81% (31 March 2015: 4.81%). The funding was sourced from the Aviva £100 million loan facility which has an effective interest rate of 5.008% and the Aviva £50 million loan facility which has an effective interest rate of 4.37%. No properties under construction were secured against any specific loan for the period.

5. Finance income

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Bank interest receivable	**31**	26
Foreign exchange gain	**362**	–
	393	26

6. Taxation

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Deferred tax		
Charge for the period	**151**	1,130
Total tax charge	**151**	1,130

The Board has estimated that for the period under review the Group does not have any profits chargeable to tax in jurisdictions in the UK or elsewhere outside of Guernsey.

The Company has obtained exempt company status in Guernsey under the terms of Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 so that it is exempt from Guernsey taxation on income arising outside Guernsey and on bank interest receivable. The Company is, therefore, only liable to a fixed fee of £1,200 per annum. The Directors intend to conduct the Group's affairs such that the Company continues to remain eligible for the exemption. Guernsey companies are subject to UK taxation on UK net rental income. During the period no tax arose in respect of the income of any of the Guernsey companies. The Company's UK subsidiaries are subject to United Kingdom corporation tax on their taxable profits.

A reconciliation of the tax charge to the notional tax charge applying the average standard rate of UK corporation tax of 20% (2015: 21%) is set out below:

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Profit on ordinary activities before tax	**10,951**	19,856
Profit on ordinary activities multiplied by the average standard rate of corporation tax in the UK of 20% (2015: 21%)	**2,190**	4,170
Net income/expenses not taxable/deductible for tax purposes	**(610)**	(3,318)
Losses/profits not subject to UK taxation	**(1,077)**	479
Movement in unrecognised deferred tax	**(352)**	(201)
Total tax charge	**151**	1,130

6. Taxation (continued)

A breakdown of the deferred tax liability/(asset) is set out below:

	Fair value gains £'000	Accelerated capital allowances £'000	Unrelieved management expenses £'000	Total £'000
At 30 September 2014	**187**	**2,303**	**(1,452)**	**1,038**
Provided/(released) in year	583	3,782	(1,072)	3,293
At 30 September 2015	**770**	**6,085**	**(2,524)**	**4,331**
Provided/(released) in period	(140)	(11)	302	151
At 31 March 2016	**630**	**6,074**	**(2,222)**	**4,482**

As required by IAS 12 "Income taxes", full provision has been made for the temporary differences arising on the fair value gains of investment properties held by UK resident companies that have passed through the Group's Consolidated Statement of Comprehensive Income. In the opinion of the Directors, this provision is only required to ensure compliance with IAS 12.

On 26 October 2015 the Finance No.2 Bill 2015 was substantively enacted, reducing corporation tax rates to 19% from 1 April 2017 and 18% from 1 April 2020. The deferred tax liabilities of the Group are not expected to be materially realised before 1 April 2020, and as such it is considered appropriate for the deferred liabilities of the Group to be calculated using a rate of 18%.

The Group had accumulated tax losses of £12.3 million (30 Sept 2015: 20%: £12.6 million) which gave rise to a recognised deferred tax asset of £2.2 million (30 September 2015: £2.5 million) at a rate of 18% (30 September 2015: 20%). The deferred tax assets are netted off the deferred tax liabilities where they may be offset in future.

During the previous year the quantum of potential brought forward losses not recognised in the financial statements was reassessed, at which point it was considered appropriate to decrease the majority of the brought forward losses previously disclosed but not recognised. There are accumulated tax losses of £3.7 million within the Group (30 September 2015: £3.6 million), which are currently not recognised as a deferred tax asset within the financial statements of the Group, because they relate to losses in acquired companies.

As a result of the deferred tax recognition exemption for asset acquisitions, deferred tax liabilities of £9,648,000 (30 September 2015: £9,918,000) in respect of fair value gains and £2,055,000 (30 September 2015: £819,000) in respect of capital allowances, and deferred tax assets of £708,000 (30 September 2015: £708,000) in respect of unrelieved management expenses, have not been recognised.

7. Earnings and net asset value per Ordinary Share

Basic and diluted earnings and net asset value per share

The basic and diluted earnings per Ordinary Share are based on the profit for the period attributable to Ordinary Shares of £10,800,000 (2015: £18,726,000) and on 372,305,925 (2015: 356,808,274) Ordinary Shares, being the weighted average aggregate of Ordinary Shares in issue calculated over the period, excluding shares held in treasury. This gives rise to a basic and diluted earnings per Ordinary Share of 2.9 pence (2015: 5.2 pence) per Ordinary Share.

The basic and diluted net asset value per ordinary share are based on the net asset position at the period end attributable to Ordinary Shares of £262,670,000 (30 September 2015: £254,097,000) and on 375,474,334 (30 September 2015: 365,125,306) Ordinary Shares being the aggregate of Ordinary Shares in issue, excluding amounts held in treasury, at the period end. This gives rise to a basic and diluted net asset value per Ordinary Share of 70.0 pence per Ordinary Share (2015: 69.6 pence per Ordinary Share).

Notes to the financial statements (continued)

For the six months ended 31 March 2016

7. Earnings and net asset value per Ordinary Share (continued)

EPRA earnings per share and net asset value per share

The Directors believe that the following EPRA earnings per Ordinary Share and net asset value per Ordinary Share are more meaningful key performance indicators for the Group:

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Profit attributable to equity holders of the parent	**10,800,000**	18,726,000
Adjusted for:		
Deferred tax charge	**151,000**	1,130,000
Revaluation gain	**(4,064,000)**	(12,767,000)
Fair value gain on acquired loans	**(56,000)**	(66,000)
EPRA earnings	**6,831,000**	7,023,000
EPRA EPS	**1.8p**	2.0p
Weighted average number of Ordinary Shares	**372,305,925**	356,808,274

	31 March 2016 £	30 September 2015 £
Net assets	**262,670,000**	254,097,000
Adjusted for:		
Deferred tax liability	**4,482,000**	4,331,000
EPRA net assets	**267,152,000**	258,428,000
EPRA net asset value per Ordinary share – basic and diluted	**71.2p**	70.8p

	31 March 2016 £	30 September 2015 £
Net assets	**262,670,000**	254,097,000
Adjusted for:		
Fair value of debt	**(36,371,000)**	(25,212,000)
EPRA NNNAV	**226,299,000**	228,885,000
EPRA NNNAV per Ordinary share – basic and diluted	**60.3p**	62.7p
Ordinary Shares in issue at the period end	**375,474,334**	365,125,306

8. Investment properties

Completed investment properties are initially recognised at cost and then subsequently measured at fair value, which has been determined based on the market valuations performed by Jones Lang LaSalle Limited for the properties held within the United Kingdom and the Republic of Ireland as at 31 March 2016. The valuation takes account of the rental yield and the fact that a purchaser's offer price to the Group would be net of purchaser's costs (which are estimated at 6.15% (2015: 5.8%) of what would otherwise be the purchase price).

Investment properties under construction are also initially recognised at cost, and are subsequently measured at fair value as at the period end based on market valuations performed by Jones Lang LaSalle Limited as at 31 March 2016. In accordance with industry standards, the valuation is net of purchaser costs and then the remaining costs to complete properties under construction are also deducted.

The freehold and long leasehold interests in the property investments of the Group were valued at an aggregate of £605,893,650 as at 31 March 2016 by Jones Lang LaSalle Limited. This valuation assumes that all properties, including those under construction, are complete and includes the value of assets under construction translated at an exchange rate of £0.79 per €1 for those assets located in the Republic of Ireland. The difference between the total valuation and the carrying value is the cost to complete those properties under construction, adjustments for the fair value of ground rents and lease incentive adjustments as at 31 March 2016.

The valuer's opinion of market value was derived using valuation techniques and comparable recent market transactions on arm's length terms. Jones Lang LaSalle Limited has valued the Group's properties for reporting purposes since 31 March 2008.

The market valuation was carried out in accordance with the requirements of the Valuation Standards published by the Royal Institution of Chartered Surveyors, and accounting standards. The properties were valued to market value assuming that they would be sold in prudent lots (i.e. not as portfolios) subject to the existing leases, or agreements for lease where the leases had not yet been completed at the date of valuation.

8. Investment properties (continued)

The net initial yield applied to the UK portfolio at 31 March 2016 was 5.36% (30 Sep 2015: 5.46%). Properties in the Republic of Ireland which are currently under construction represent less than 1% of the portfolio.

The fair value of investment properties is considered to be based on a number of significant assumptions. If the valuation yield were to shift by 0.25% on each property, this would result in an impact on the valuation of the properties of approximately £25,036,000.

	Completed investment properties £'000	Properties under construction £'000	Total investment properties £'000
Fair value 30 September 2014	**492,252**	**10,654**	**502,906**
Additions	3,712	21,258	24,970
Transfer to completed properties	23,145	(23,145)	–
Revaluation	25,381	222	25,603
Fair value 30 September 2015	**544,490**	**8,989**	**553,479**
Additions	22,730	8,836	31,566
Disposals	(89)	–	(89)
Transfer to completed properties	7,164	(7,164)	–
Revaluation	3,819	245	4,064
Total investment property	**578,114**	**10,906**	**589,020**

	Total investment properties £'000
Fair value per JLL valuation report	**561,704**
Ground rents recognised as finance leases	1,405
Rent incentives	(1,424)
Cost to complete properties under construction	(8,206)
Fair value 30 September 2015	**553,479**
Fair value per JLL valuation report	**605,894**
Ground rents recognised as finance leases	1,422
Rent incentives	(1,516)
Cost to complete properties under construction	(16,780)
Fair value 31 March 2016	**589,020**

Some of the investment properties are security for the long-term loans as disclosed in note 9. Of the completed investment properties £136,565,000 (30 September 2015: £129,837,000) are leasehold properties.

During the period a portion of the Aviva £100m loan facility and the Aviva £50m loan disclosed in note 4 were utilised to fund development work on investment properties under construction. Interest costs of £60,000 (2015: £122,000) attributable to development work in progress were capitalised.

9. Loans

	31 March 2016 £'000	31 September 2015 £'000
Total facilities drawn down	**337,707**	338,687
Loan issue costs	**(14,308)**	(14,108)
Amortisation of loan issue costs	**3,998**	3,316
Fair value arising on acquisition of subsidiaries	**11,645**	11,645
Amortisation of fair value adjustment on acquisition	**(3,598)**	(3,128)
	335,444	336,412
Loans due within one year	**1,939**	1,896
	337,383	338,308

Notes to the financial statements (continued)

For the six months ended 31 March 2016

9. Loans (continued)

The Group has six primary debt facilities drawn and a smaller loan facility for a single property. In addition the Group has a revolving loan facility with RBS. The RBS facility was undrawn at 31 March 2016. Details of each facility are disclosed below. Repayments of the loans listed above fall due as follows:

	31 March 2016 £'000	31 September 2015 £'000
Due within one year	**1,939**	1,896
Between one and two years	**2,036**	1,983
Between two and five years	**7,981**	7,602
Over five years	**325,427**	326,827
Due after one year	**335,444**	336,412
	337,383	338,308

Mark to market of fixed rate debt

The Group does not mark to market its fixed interest debt in its financial statements, other than the recognition of a fair value adjustment on the acquisition of debt facilities. The unamortised fair value increase of the outstanding acquired Aviva PMPI loans was £8,047,000 as at 31 March 2016 (30 September 2015: £8,517,000).

A mark to market calculation gives an indication of the benefit or cost to the Group of the fixed rate debt given the prevailing cost of debt over the remaining life of the debt. An approximate mark to market calculation has been undertaken following advice from the Group's bankers, with reference to the fixed interest rate on the individual debt facilities, and the fixed interest rate, including margin, achievable on the last business day of the financial period for a loan with similar terms to match the existing facilities.

The debt benefit or liability is calculated as the difference between the present values of the debt cash flows at the two rates over the remaining term of the loan, discounting the cash flows at the prevailing LIBOR rate. The approximate mark to market liability of the total fixed rate debt to the Group was £36,371,000 as at 31 March 2016 (30 September 2015 liability: £25,212,000).

Cash flow movements

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Draw down of loan note facility	**–**	35,000
New loan facilities drawn	**–**	35,000
Repayment of mortgage principal	**(33)**	(31)
Repayment of Aviva PMPI loan facility	**(626)**	(420)
Repayment of Aviva GPG loan facilities	**(278)**	(393)
Repayment of loans acquired	**–**	–
Repayment of GE Capital loan facilities	**–**	(31,200)
Net repayment of long-term borrowings	**(937)**	(32,044)
Standard Life loan facility costs	**(145)**	–
Aviva GPG loan facility costs	**(40)**	(7)
Aviva £100m loan facility costs	**–**	(19)
Aviva Fakenham loan facility costs	**(13)**	–
RBS loan facility costs	**(5)**	(2)
Loan note facility	**3**	(167)
Loan issue costs	**(200)**	(195)

10. Head lease liabilities

	31 March 2016		30 September 2015	
	Present value £'000	**Minimum lease payments £'000**	Present value £'000	Minimum leas payments £'000
Due within one year	**93**	**102**	94	103
Between one and five years	**300**	**407**	300	411
Over five years	**995**	**7,864**	1,011	8,197
	1,388	**8,373**	1,405	8,711
Less future interest costs	**–**	**(6,985)**	–	(7,306)
	1,388	**1,388**	1,405	1,405

The Group holds certain long leasehold properties which are classified as investment properties. The head leases are accounted for as finance leases. These leases typically have lease terms between 32 and 999 years and fixed rentals.

11. Share capital

Ordinary Shares of no par value were issued during the period as detailed below:

	Number of shares	Issue price per share
Total shares issued as at 31 September 2015	**394,252,182**	
Shares issued:	–	
Total shares issued as at 31 March 2016	**394,252,182**	
Shares held in treasury (see below)	(18,777,848)	
Total voting rights in issue as at 31 March 2016	**375,474,334**	

Treasury shares were utilised to satisfy general market demand for shares and in lieu of cash payment for those dividends payable which were elected as scrip. The transactions and relevant price per share are noted below:

	Number of shares	Price per share
Total shares held in treasury as at 30 September 2015	**29,126,876**	
Shares sold for cash:		
9 December 2015	(3,000,000)	84.00 pence
16 December 2015	(2,000,000)	86.25 pence
8 January 2016	(1,000,000)	84.75 pence
28 January 2016	(1,000,000)	85.00 pence
18 February 2016	(2,000,000)	84.00 pence
10 March 2016	(1,000,000)	87.25 pence
	(10,000,000)	
Shares utilised in lieu of cash payment of dividends:		
31 December 2015	(185,789)	84.65 pence
31 March 2015	(163,239)	86.70 pence
	(349,028)	
Total shares held in treasury as at 31 March 2016	**18,777,848**	

The closing value of shares held in treasury issued at 83.50 pence per share is £15,680,000 (30 September 2015: £24,321,000).

Any cash consideration received in excess of the price the treasury shares were purchased at has been included as part of the share premium.

12. Other reserves

The movement in other reserves is set out in the Statement of Changes in Equity.

The Companies (Guernsey) Law 2008, as amended ("2008 Law") made new provisions as to how the consideration received or due for an issue of shares is accounted for and how these sums may be distributed to members.

The other reserves are freely distributable with no restrictions. In addition, distributions from the share premium account do not require the sanction of the court. The Directors may authorise a distribution at any time from share premium or accumulated gains provided that they are satisfied on reasonable grounds that the Company will immediately after the distribution satisfy the solvency test prescribed in the 2008 Law and that it satisfies any other requirements in its memorandum and articles.

Notes to the financial statements (continued)

For the six months ended 31 March 2016

13. Cash and cash equivalents

	31 March 2016 £'000	31 September 2015 £'000
Cash and balances with banks	**25,793**	56,910

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Included in the above amounts are balances that are held in restricted accounts which are not immediately available for use by the Group of £107,000 (31 September 2015: £11,030,000). These amounts will be made available when sufficient property has been secured against the facility and all documentation has been completed.

14. Dividends

	Six months ended 31 March 2016		Six months ended 31 March 2015	
	£'000	**Dividend per share**	£'000	Dividend per share
Quarterly dividend declared and paid 31 December	**5,387**	**1.4750p**	5,139	1.450p
Quarterly dividend declared and paid 31 March	**5,537**	**1.4875p**	5,331	1.475p
Total dividends declared and paid during the period	**10,924**		10,470	
Quarterly dividend declared after period end	**5,585**	**1.4875p**	5,374	1.475p
Cash flow impact of scrip dividends:				
Total dividend declared and paid during the period	**10,924**		10,470	
Total cash equivalent value of scrip shares issued	**(298)**		(1,354)	
Cash payments made for dividends declared and paid	**10,626**		9,116	

Dividends are scheduled for the end of March, June, September and December of each year, subject to Board approval and shareholder approval at the AGM of the dividend policy. On 29 April 2016, the Board approved a dividend of 1.4875 pence per share, bringing the total dividend declared in respect of the period to 31 March 2016 to 2.975 pence per share. The record date for the dividend was 20 May 2016 and the payment date is 30 June 2016. The amount disclosed above is the cash equivalent of the declared dividend. The option to issue scrip dividends in lieu of cash dividends, with effect from the quarterly dividend paid in June 2010, was approved by a resolution of Shareholders at the Company's Annual General Meeting on 10 February 2010. On 4 May 2016 the Board announced an opportunity for qualifying Shareholders to receive the June 2016 dividend in new Ordinary Shares instead of cash.

15. Commitments

At 31 March 2016, the Group had commitments of £16.8 million (30 September 2015: £16.0 million) to complete properties under construction.

16. Material contracts

Investment Adviser

Octopus Healthcare Adviser Ltd is appointed to provide investment advice under the terms of an agreement dated 17 October 2006 as subsequently amended 20 March 2009, 17 February 2012, 24 September 2013 and 20 November 2015 (the "Investment Advisory Agreement" or "Agreement"). Fees payable under this agreement are:

(i) a tiered investment advisory fee set at 0.50% per annum on healthcare property assets up to £750 million, 0.40% per annum payable on assets between £750 million and £1 billion, and 0.30% per annum payable on assets over £1 billion subject to a total minimum annual fee of £3.878 million or, if lower, the fee that would have been payable under the former fee structure until the consolidated property asset value reaches £782 million after which no minimum fee shall apply;

(ii) a property management fee of 3% of gross rental income up to £25 million, and 1.5% property management fee on gross rental income over £25 million;

(iii) a corporate transaction fee of 1% of the gross asset value of any property owning subsidiary company acquired;

(iv) a performance fee based upon total shareholder return.

16. Material contracts (continued)

Investment Adviser (continued)

The annual performance fee is 15% of the amount by which the total shareholder return (using an average share price for the month of September) exceeds a compound hurdle rate calculated from the 69.0 pence issue price at 8 April 2009, subject to a high watermark. If in any year the total shareholder return falls short of this hurdle, the deficit in the total shareholder return has to be made up in subsequent years before any performance fee can be earned. The compounding of the hurdle rate is adjusted upwards to compound from the high watermark level at which the performance fee was last earned.

The hurdle rate applied in the period ended 31 March 2016 was 10% per annum (2015: 10%). The high watermark used for the calculation of the performance fee for the year to 30 September 2015 was the theoretical price which would have given a compounded 10% total shareholder return over the average share price during September 2014 (83.58 pence per share) with dividends reinvested. The current high watermark is set with reference to the hurdle share price during September 2015, being approximately 85.5 pence per share.

The investment advisory base fee and performance fee earned in aggregate in any one financial year cannot be paid in excess of 1.5% of gross assets (excluding cash). The excess, if any, of the aggregate of the investment advisory base fee and performance fee earned in any one financial year over 1.5% of gross assets (excluding cash) is not payable but is carried forward to future years or termination of the Investment Advisory Agreement, subject at all times to the annual 1.5% of gross assets (excluding cash) fee limit. Until 20 November 2015, the Agreement was terminable at the end of an initial seven year term and each three year term thereafter, with 12 months' notice.

On 20 November 2015 the Fund agreed to the renewal of the Investment Advisory Agreement, with revised renewal and notice terms to provide a rolling contract subject to the Company's ability to serve two years' notice at any time.

The Investment Adviser provides accounting administration services for no additional fee.

During the period, the agreements with Octopus Healthcare Adviser gave rise to £2,408,000 (2015: £2,267,000) of fees as follows:

	Six months ended 31 March 2016 £'000	Six months ended 31 March 2015 £'000
Expensed to the consolidated statement of comprehensive income:		
Investment advisory fee	**1,968**	1,845
Investment advisory performance fee	**–**	–
Property management fees	**440**	422
Capitalised as part of property acquisition costs:		
Corporate acquisition fees	**68**	–
Total Fees	**2,408**	2,267

Of these fees, £911,000 (2015: £911,000) remained unbilled or outstanding at the end of the period. No investment advisory performance fee has been included above or is included in accruals at 31 March 2016.

During the period property development costs of £nil (2015: £552,000) were paid to Octopus Healthcare Property Ltd, a member of the same group of companies as Octopus Healthcare Adviser Ltd.

Administrator

Each Group company has entered into a separate administration agreement with International Administration Group (Guernsey) Limited for the provision of administrative services. Under these agreements fees were incurred totalling £66,000 (March 2015: £42,000) for the provision of corporate secretarial services to all Group companies and other administrative services. Of these fees £nil (March 2015: £nil) remained unbilled or outstanding at the period end.

17. Related party transactions

During the period fees of £10,000 (March 2015: £13,000) were paid to Aitchison Raffety Limited to negotiate rent reviews, and to act as agent for the disposal of properties, of which £2,000 (March 2015: £nil) remained unbilled or outstanding at the period end. John Hearle was Group Chairman of Aitchison Raffety Limited until 1 October 2015 at which time his shareholding was sold. John Hearle remains a non-executive Director of Aitchison Raffety Limited.

During the year Aitchison Raffety Limited managed the service charges for a number of properties held by the Group. No fees have been paid to date for this service, nor are any payable as at 31 March 2016. The management agreement with Aitchison Raffety was terminated with effect from 31 December 2015.

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