Investing in care.
Delivering returns.

Target Healthcare REIT plc
Annual Report and Financial Statements 2021

Responsible investment with a clear purpose – improving the UK's care home real estate

– UK's first social impact investment trust[1] – our portfolio delivers for residents, their carers & local communities
– Conscientious & committed partner to our tenants as an engaged landlord and a strong advocate of the sector

Our responsible investment in care delivers long-term, sustainable returns.

1 Source: The Association of Investment Companies/Jura Capital.

Financial highlights

EPRA NTA per share (pence)

110.4 +2.1%

2021	110.4
2020	108.1
2019	107.5

Accounting total return (per cent)[1]

8.8

2021	8.8
2020	7.0
2019	8.1

Dividend per share (pence)

6.72 +0.6%

2021	6.72
2020	6.68
2019	6.58

IFRS profit (£ million)

43.9 +39%

2021	43.9
2020	31.6
2019	29.9

Dividend cover (per cent)[2]

80

2021	80
2020	76
2019	82

Portfolio value (£ million)

684.8 +11%

2021	684.8
2020	617.6
2019	500.9

1 Based on EPRA NTA movement and dividends paid, see alternative performance measures on page 93.
2 Based on adjusted EPRA earnings, see note 8 to the consolidated financial statements and the alternative performance measures on page 93.

This document is important and requires your immediate attention.

If you are in any doubt about the action you should take, you are recommended to seek your own independent financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom or, if not, from another appropriately authorised financial adviser. If you have sold or otherwise transferred all your ordinary shares in Target Healthcare REIT plc, please forward this document, together with the accompanying documents immediately to the purchaser or transferee, or to the stockbroker bank or agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Principled investment exclusively in well-designed, purpose-built care homes

We believe privacy and dignity to be fundamental objectives of care provision. That is why our homes provide en suite wet-rooms for all residents[1], alongside social & outdoor spaces and a range of intelligently designed modern amenities.

Our portfolio is designed to provide stable income returns from a diversified group of tenants and rental levels which are sustainable over the long term.

High quality real estate

Scale
5,351 beds

Wet-rooms[1]
96%

EPC ratings
92% A-B ratings[2]
100% A-C ratings[2]

Diversified

Annualised accounting return
7.8% since launch

Tenants
28

Fee sources
62% private
38% public

Long-term focus

WAULT
28.8 years

Net loan-to-value
15.9%

Upwards only rent reviews[3]
96% inflation-linked leases
4% fixed/other leases

1 Rooms may be acquired without wet-rooms if upgrading is possible.
2 Non-English homes converted to English equivalent ratings.
3 93% of assets in the portfolio are subject to annual uplifts linked to inflation. The remaining homes have either fixed or five-yearly uplifts.

Number of our homes/sites

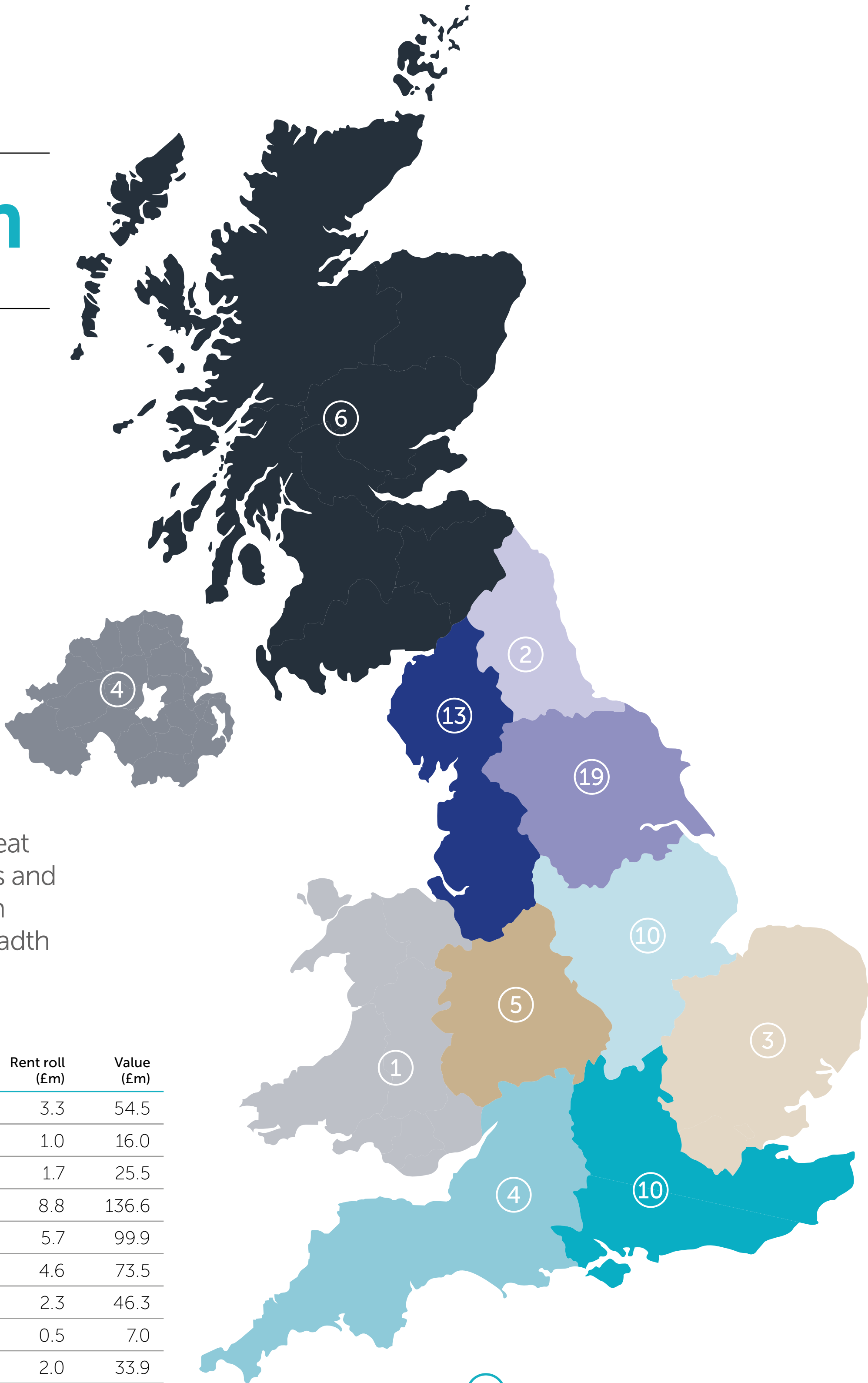
77

Total valuation

£684.8m

Contractual rent roll

£41.2m



Our portfolio

We have clear criteria for home design, quality and facilities to provide great environments for residents and care providers. We invest in homes the length and breadth of the UK, with portfolio diversification being key.

Location	Number of properties	Rent roll (£m)	Value (£m)
Scotland	6	3.3	54.5
North East	2	1.0	16.0
Northern Ireland	4	1.7	25.5
Yorkshire & The Humber	19	8.8	136.6
North West	13	5.7	99.9
East Midlands	10	4.6	73.5
West Midlands	5	2.3	46.3
Wales	1	0.5	7.0
East of England	3	2.0	33.9
South East	10	7.7	130.4
South West	4	3.6	61.2
Total	**77**	**41.2**	**684.8**

Investing in care, delivering returns

Dear Shareholder,

We are once again pleased to have achieved our key objectives: stable investment returns provided to shareholders and excellent care home real estate to our tenants and their residents. It is crucial to us that our longstanding approach is "doing the right thing" through the provision of fit-for-purpose care facilities which are also comfortable living, visiting & social spaces.

1. Performance

Our financial performance during the year has been robust, with EPRA NTA* growth of 2.1% (110.4 pence from 108.1 pence) underpinned by a portfolio which has performed resiliently – 95% of rents have been collected, with rent cover at our mature homes, a key underlying profitability metric, at 1.5 times which compares well to the 1.6 times we would expect in normal trading conditions. Our tenants have been reporting steady increases in occupancy since the sector's low point earlier this year as the COVID-19 pandemic eases somewhat.

Growth in the portfolio's valuation has exceeded that which is driven by rental uplifts, with an overall like-for-like increase of 3.8% as market pricing reacts to the portfolio's stable returns relative to other commercial property classes and demand from a number of buyers in the market. Contracted rent has increased by 5.6% to £41.2 million and adjusted EPRA earnings have increased by 11.8% to £26.0 million. This translates to dividend cover of 80% and an adjusted EPRA EPS of 5.46 pence. Under the more widely-used EPRA earnings metric the dividend was 105% covered.

The COVID-19 pandemic has had an impact on our business, however rental concessions have only been requested by a limited number of our tenants. Physical restrictions have translated to some delays in portfolio initiatives, though we are pleased with progress made more recently with acquisition and re-tenanting transactions as we build and shape a robust portfolio as a basis for long-term stable returns.

We look forward to growing earnings and dividend cover following our recent equity raise and significant pipeline of imminent acquisitions, and take pride in having delivered a NAV total return of 8.8% for the year.

* Further details on the EPRA and alternative performance measures quoted in this report are included in both the glossary and on pages 93 to 95.

EPRA NTA per share growth

2.1%

Dividend cover

80%

+4ppts

2. Business model and investment case

Whilst financial performance and tenant feedback on our real estate have been satisfying, following the impact of the COVID-19 pandemic it would be inappropriate not to have reflected fully on our strategy and objectives – it is important to us that we can be a supportive partner to the social care sector now and for many years to come.

Our business model is on pages 10-11 and, whilst we have not amended it significantly in response to COVID-19, our reflections provided three findings of note:

1. We unapologetically use en suite wet-room provision as a proxy for **real estate quality.** By this, we mean fully private and functional spaces for each resident's personal hygiene requirements, often with assistance. Eleven years into my involvement in the sector I still find it astonishing that 72% of care home places in the UK fail to provide this. This will continue to be a strict requirement of our responsible investment approach.
2. **Sustainable rents are crucial.** The social care sector needs long-term, patient capital partners who understand and support the investment and commitments made by care providers. Setting rents at appropriate levels to weather variable trading performance, whether that be local/seasonal or pandemic-type events, helps drive good behaviours and long-term thinking at care providers, and investment returns for us. We will continue to act with discipline when assessing what rent a home will support over the long-term.
3. **ESG and our responsibilities to society**. We take pride in having delivered a positive social impact from day one, both directly via our investment approach and via our wider advocacy of responsible investment in the sector. We will enhance our environmental sustainability efforts, firstly by more explicit incorporation into our acquisition, development and portfolio management activities, and secondly by moving towards comprehensive collection, analysis and reporting of data from our tenants on energy usage at our homes.

See pages 10-11 for our business model and strategy on pages 14-21 for investment case support.

Further details on ESG principles are on pages 8-9.

3. COVID-19 – outlook

We talk more about the impact and our response on page 6. The most significant impact has been on our tenants in their caring for residents and their staff, and their experience of challenging trading conditions for a prolonged period as resident occupancy levels dropped and remained depressed. Our tenants have responded well, with resident care as a priority, but also commercially and operationally to protect their businesses and meet their obligations to us as long-term capital providers. We are pleased to see underlying resident occupancy levels now recovering and increased optimism from our tenants.

General staff availability, the effect of mandatory vaccinations, and local authority funding constraints will continue to challenge our tenants in the coming weeks and months, though we believe our portfolio is well-placed to manage these and it is comforting to report that COVID-19 cases across the portfolio now are very low. Vigilance will be required in respect of emerging variants, though the booster vaccination programme will benefit residents ahead of the general population. The focus in care homes is on managing the return to normalised occupancy levels safely. As restrictions ease, homes should once again experience the full vibrancy which increased socialising, activities and community interaction bring.

See page 6 for more in-depth analysis.

4. Governance

Board Succession

With the majority of the current Directors having been appointed at the Company's launch in 2013, we continue the process of refreshment started in the prior year. Subsequent to the year end, I am pleased to welcome Mr Vince Niblett to the Board. Mr Niblett has many years of financial and commercial experience and is expected to be appointed as Chair of the Audit Committee shortly, with Mr Coull assuming the role of Senior Independent Director. I would also like to take the opportunity to express the Board's gratitude for the service and expertise provided by Mr Hutchison and Professor Andrews, both of whom will retire following the conclusion of the forthcoming AGM.

Annual General Meeting ('AGM')

The AGM will be held on 14 December 2021. Shareholders are encouraged to make use of the proxy form provided in order to lodge their votes and to raise any questions or comments they may have in advance of the AGM through the Company Secretary.

5. Outlook and dividend

I stated last year that our business model, which prioritises stability of returns, and our portfolio resiliency were fundamentals which stood out strongly during a period of uncertainty. We own real estate of the highest standards and build relationships with tenants who have proven to be capable of caring for residents and operating commercially well through the most challenging of conditions. Allied with the non-cyclical, needs-based demand for places in care homes such as ours we are confident in being well-placed to continue to deliver on our objectives.

We once again are grateful for shareholder support by way of our recent £125 million equity issuance, which follows our £60 million issuance during the year. This capital, alongside additional debt capacity, allows us to add further assets to the portfolio, including our first significant portfolio of 18 assets which will deliver £9.1 million of annual rent immediately following completion of the acquisition, expected imminently.

We have carefully considered portfolio performance and trading conditions as we emerge from pandemic conditions in setting our target dividend level for the year to June 2022, and remain committed to providing a progressive dividend. As previously announced, in the absence of unforeseen circumstances, the Board intends to increase quarterly dividend levels by 0.6% to 1.69 pence per share, providing an annual dividend of 6.76 pence per share.

The Board remains confident in the Group's prospects, whilst remaining cautious and patient with respect to the portfolio returning to normalised trading levels. Our strategy and decisions will reflect our commitment to being a long-term backer of our tenants and the social care sector, doing so in a responsible and supportive manner.

Malcolm Naish
Chairman
19 October 2021

Responsible and engaged response

Our robust balance sheet and approach as a knowledgeable and engaged landlord allowed us to focus on supporting our tenants to care for their residents.

Impact summary

- Difficult trading conditions for our tenants with depressed occupancy levels within their homes
- 95% rental collection achieved
- Reported COVID-19 cases in portfolio peaked at 3.2% of beds in Spring 2020, currently very low at five known cases across three homes
- Occupancy levels and home trading recovering across the portfolio as tenants and families become more relaxed towards new admissions

The nature of the COVID-19 pandemic changed over the year: from the temporary relaxation of summer 2020; the Christmas lockdown of that year; the vaccination rollout in late 2020/early 2021; and onto this summer's easing of restrictions. These peaks and troughs were not repeated within care homes, which experienced a more consistent level of "lockdown" throughout.

Actions and priorities

Our priority areas in response to COVID-19 have been:

1

Helping our tenants navigate the pandemic landscape

From the early chaos through to the calmer conditions of today we have put our tenants first.

As well as our own thoughtful consideration, we asked our tenants what we could do to help, which involved:

- Sharing our understanding of key guidance changes to help tenants digest and respond quickly (e.g. government PPE guidance changed 20 times over the course of 28 days)
- Using our network to:
  - i. Make backup source of PPE supplies available to our tenants at times of peak scarcity
  - ii. Source rapid COVID-19 test kits in Autumn 2020 which were available to homes to facilitate visitors for residents
- Shared learning on hot topics (e.g. vaccination rollout) via webinar hosting to assist with practicalities and legal considerations
- Offering flexibility on rental payments, where supportable, to allow care for residents to be the tenants' priority.

Total return
8.8%

Rent collection
95%

Low COVID-19 prevalence

2

Willingness to adapt our real estate to help

We adopted a collaborative approach with our tenants to consider changes which delivered real benefits to carers and residents.

The most common improvement was not new equipment, but rather intelligent use of accessible indoor and outdoor space and entrance/exit reconfiguration to facilitate visiting and maintenance of bubbles.

3

Safeguarding/duty to socially distance

We continued our policy to not physically visit the Company's properties until post-vaccination rollout, and now doing so only when essential and are closely respecting each home operator's status/attitude.

We have adopted new methods of engaging with our tenants using virtual/remote technologies. The team at the Investment Manager continue to work from home following government guidance with enhanced processes in place in respect of digital security and data protection.

Impact – financial and portfolio
Our business model is designed to be resilient, with a strong yet conservative balance sheet and a quality portfolio with rental levels set at levels which should be sustainable beyond short-term shocks within the longer-term business cycle.
- 95% rents collected for the year
- Balance sheet strengthened with £60m equity issuance, plus extension and additions to debt facilities during the year, and £125 million equity issuance post-year end
- Ability to support tenants with 34% of rent roll received monthly in advance
- Accounting total return ahead of expectations at 8.8% for the year
- No government support/furlough at the Group or the Investment Manager. The latter continued to grow its team to manage the portfolio through the pandemic and beyond
- Investment programme delayed, with £70 million of acquisitions during the year. Capital now fully allocated to pipeline deals in diligence

Look forward and residual risks:
Across the portfolio COVID-19 case numbers remain very low amongst residents, with the vaccination effort providing further assurance. Our tenants are returning to normalised trading/operating conditions and high enquiry levels are converting to increased resident occupancies.

We will be monitoring:
- A small number of tenants who have endured 18 months of depressed trading and where we anticipate financial reserves to be replenished as occupancy recovers.
- Autumn/winter vaccination "boosters"
- Staffing availability as other sectors open-up and vaccinations become mandatory for staff
- Investment market competition given weight of capital seeking non-cyclical and stable returns which the portfolio has continued to evidence

Read more about risks on pages 22 and 23.

Targeting Tomorrow

Targeting Tomorrow is our Environmental, Social & Governance ("ESG") charter to ensure the social impact objective we launched with remains embedded for years to come. We take a responsible approach to every aspect of our business, including environmental sustainability and governance standards.

Targeting tomorrow gives us the platform to work with shareholders, tenants and other stakeholders more effectively than ever to supply care home real estate that tangibly delivers.

Collaborative approach

Our commitment to a responsible approach means the views of all our stakeholders matter to us, from the direct relationships we have with shareholders and tenants, to the ultimate users of our real estate in residents, care professionals and local communities. We asked stakeholders what their environmental, social and governance priorities are, and we defined our approach based on feedback. Key feedback was:

- We are considered to be leaders in social impact and responsible investment, however measurement and reporting thereof is encouraged.
- We should ensure ESG factors are embedded into our acquisition process and report on that with quantification if possible.
- We should continue to be authentic and transparent in our business relationships.

Care home real estate that leads the way

The purpose of our business is to improve the standard of care home real estate, using our influence as a leading investor in the sector to encourage improvements in quality. In turn, our own investment approach will not compromise quality.

Our approach isn't changing, we will continue to focus on "doing the right thing" led by providing fit-for-purpose real estate for the long term to care providers who share our care ethos and can demonstrate operational capabilities. We support the United Nation's sustainable development goals ("SDGs") which our strategy is aligned with. We report in more detail on those SDGs where we can achieve a tangible impact.

ESG as a concept is evolving, and will continue to do so. Reliable and comparable measurement standards remain elusive in some areas, particularly for social impact which is our core purpose. Our ESG framework has been developed as a guide to help us deliver and articulate our actions and progress in a fair, balanced and understandable manner.

The three pillars which govern our approach are below, with the investment and partnerships pillars being those which are most material to our business:

- **Responsible investment:** As an investor we understand that our actions have influence. We use our platform to lead by example through embedding appropriate ESG considerations into our decision-making.
- **Responsible partnerships:** We engage with all our stakeholders to drive the creation of economic, social and environmental value around our buildings and in wider society.
- **Responsible business**: We will treat all stakeholders with respect and deal fairly in a manner consistent with how we would expect to be treated ourselves.

Read more about our ESG Engagement on pages 20 and 21 >>

ESG highlights

Commitment to SDGs

The SDGs which are most relevant to our business model, and where we believe we can make a tangible, positive impact, are:

Environmental – Real estate

Our portfolio is modern and well-designed, with environmental credentials ahead of upcoming legislative requirements.

EPC Rating	% portfolio
A	6%
B	86%
C	8%
D or below	–
Total	100%

Tenant engagement/ relationships

Comprehensive survey undertaken to ensure our tenants' views are considered and our real estate and approach is delivering for them:

Score	Question
10/10	Find working with us to be a positive experience.
8/10	Believe our declared values, ethics and purpose are clearly evident in our discussions with them.
10/10	Believe we actively listen, take time to understand their business and proactively resolve questions and issues.

Environmental – relationships

As a real estate owner with a growing number of properties we are committed to using our platform to positively influence behaviours of the users of our buildings. We have commenced gathering energy consumption/emissions data from our tenants, which we will analyse alongside other portfolio information, to allow us to plan and recommend actions and initiatives aimed at improving energy consumption/efficiency.

The data collection will also allow us to transparently report on the impact the usage of our real estate is having.

We recognise our responsibility as a long-term real estate investor and resolve to take intelligent actions balanced with our social impact priority and value for money for all stakeholders.

Making a real difference to people's lives

We are driven by our purpose to improve the standard of living for older people in the UK. Target accelerates the improvement in the physical standards of UK care homes through long-term, responsible investment in modern real estate which delivers our return objectives to shareholders.

We are advocates of the benefits that intelligently designed, purpose-built care homes can bring and we want more residents, care professionals and local communities to benefit from their positive social impact.

What we do

We attract capital to the sector, only investing in the highest quality real estate and ensuring that we get the right tenants. We provide each tenant with the security of a long lease at a sustainable rent, allowing them to grow and improve their business.

Our Investment Manager is a specialist who understands the operational challenges our tenants face on a daily basis when providing quality care, and is there to help them every step of the way.

Responsible investment underpins our strategy

Objectives

To grow a robust portfolio
Our focus is on real estate quality and stability for the long-term.

Read more on pages 14 and 15 >>

Sustainable returns from a portfolio management approach with valued relationships as its core
To manage relationships effectively within a complex sector as a highly engaged landlord.

Read more on pages 16 and 17 >>

Regular dividends for shareholders
Our focus is on disciplined & conservative financial and risk management to deliver earnings supporting quarterly dividends.

Read more on pages 18 and 19 >>

To achieve our social purpose via responsible & sustainable investment
Our focus is on our social impact, allied with a firm commitment to environmental sustainability and good governance.

Read more on pages 20 and 21 >>

How we do it

- A firm investment approach with a compelling track record on investible care home real estate
- Detailed bottom-up assessment of real estate and the characteristics of its local market
- Experienced & knowledgeable sector experts to assess sustainable rent levels
- Diversification of portfolio by tenant, geography and end-user payment profile

- Collaborative approach to working with our tenants, from day one
- Specialist sector knowledge and insight, sharing of best practice
- Regular asset visits and frequent dialogue with tenants at operational and senior management levels
- Data-led, comprehensive management information collected monthly for each asset

- Leverage balance sheet strength, enhanced returns from gearing levels appropriate for our long-term commitment to the sector
- Cost control via operational efficiency with benefits of increasing scale
- Long income visibility with inflation-linked uplifts

- Commit to our approach, and understand our influence
- Learn, reflect, respond to feedback
- Hold ourselves to the high standards expected of social care responsibility

Impact

£684.8m portfolio value

28 tenants

100% portfolio occupancy

10/10 positive tenant experience

Read more on page 9

6.72 pence dividend

5.46 pence adjusted EPRA EPS

8.8% total return

1.55% ongoing charge

96% wet-rooms

92% EPC A-B[1]

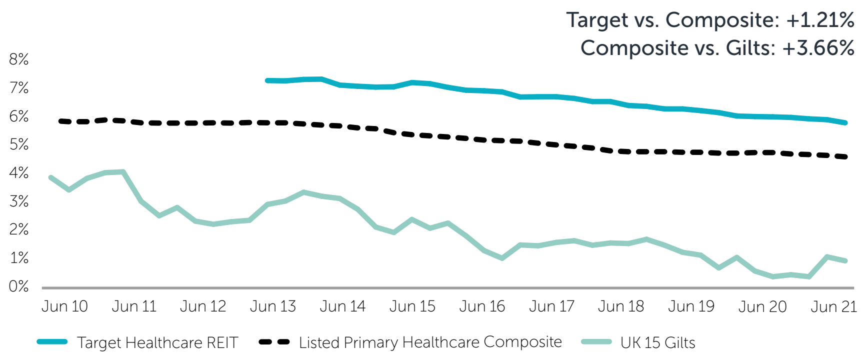
100% EPC A-C[1]

1 Non-English homes converted to English equivalent ratings.

We believe in taking a long-term view

The portfolio has outperformed the MSCI UK Annual Healthcare Property Index once again, in respect of the calendar year to 31 December 2020, with a portfolio total return of 8.2% relative to the Index's 6.8%.

Yield progression chart



Investment yields continue their modest and consistent tightening (i.e. asset valuations increase and/or the perceived risk level decreases)

Portfolio review

The portfolio has outperformed the MSCI UK Annual Healthcare Property Index once again, in respect of the calendar year to 31 December 2020, with a portfolio total return of 8.2% relative to the Index's 6.8%. The portfolio's annualised total return since launch now stands at 11.2% while the portfolio's last five-year period has an annualised total return of 10.5% relative to 8.6% for the Index.

The investment progression chart (shown opposite) and the risk/return chart based on data from MSCI (in data centre on page 96) both demonstrate stable returns and movements consistent with other stable and "lower risk" asset classes in UK gilts

Health & social care

We write at a time when our tenants report a positive outlook and underlying occupancies within the homes they run are increasing towards normalised levels as we emerge from the pandemic. We believe the combination of quality real estate, talented operators, and the demographic tailwinds supporting demand for needs-based care will translate to improved trading with time. In the meantime, we note below a number of areas which are prominent in our minds and those of our tenants:

Path to occupancy recovery

Occupancy has been depressed from normal levels in the past 18 months, not necessarily through unusually high deaths, but through lack of admissions as families sought to keep their loved ones at home. Many families found more time to care due to furlough and working from home. As lockdowns dissipate and furloughs come to an end, occupancy is on the rise again, for what is a "needs-based" service. We anticipate steady increases as homes cautiously admit new residents in small numbers, ensuring people settle into their new homes with adequate staffing and care plans effected.

Sector reputation

Early on in the pandemic, care home sector reputations appeared to suffer from the perception operators were unable to adequately protect those in their care, despite the strength of pre-existing infection control protocols which we are now all familiar with applying. More recently that perception has shifted somewhat, as evidence emerged of unreasonable pressure put on operators by the volume of hospital discharge patients into homes with undue haste and lack of robust testing protocols. We pause at this point to pay tribute to those staff who worked through these outbreaks, and the care they provided, and would endorse a positive view of the people in the sector.

Staffing pressures

We see evidence of staffing shortages affecting our sector similar to leisure, hospitality and some logistics businesses. The majority of our tenants feel this will be manageable and are enhancing their recruitment and HR functions in response, as well as taking advantage of some flexibility in immigration allowances to find suitably skilled individuals. Good staffing management is crucial to good care provision, and as the largest single item on a care provider's expense line, is directly core to profitability. Regardless of our tenants' ability to manage this well, we do foresee wage cost inflation in response to these supply-side challenges. We anticipate our tenants will effectively manage these through fee increases, principally through privately-funded residents.

and the listed primary healthcare composite which consists primarily of GP surgery funds with almost 100% government-backed underlying income. The portfolio's EPRA topped-up NIY now stands at 5.83%, down from 6.04% in 2020, which reflects well the shift in market pricing we have seen. This valuation level also reflects the portfolio's underlying trading performance, robust rent collection and positive outlook/demand for our real estate through, and emerging from, the COVID-19 pandemic.

The portfolio's low volatility measure, as shown on the MSCI chart, is a core aspect of the investment case, which anticipates stable, non-cyclical returns at a total return level which could suggest a mis-pricing of the asset class. Although we acknowledge this may be partially driven by the relatively low collateral in our tenants' balance sheets (as they tend to be family/owner-managed regional businesses), we believe our investment approach, skill in investment appraisal, and assembly of a diversified portfolio of scale helps in mitigation.

We report on portfolio management activities in more detail on pages 14-17.

UK care home investment market

The market experienced a subdued 2020 due to the COVID-19 pandemic, as market participants focussed on managing their way through the crisis, protecting residents and their own personnel. Asset visits for inspections, home management meetings and general marketing were logistically difficult, and not a priority for operators regardless.

As restrictions eased later in the year we saw activity pick-up again, with pricing continuing to respond to significant investment demand in what is a competitive market for the type of assets we acquire and hold. We did not see many acquisition opportunities reflecting distressed circumstances as the sector traded robustly, and would expect sales processes for assets whose trading has been significantly affected by COVID-19 to delay until resident occupancy recovers towards normalised levels.

As well as demand from the typical domestic investors, the main change we have noted in the year has been an uptick in activity from European investors, these are generally larger and less specialist healthcare real estate investors whose home markets are saturated and lower-yielding. Their initial forays were into poorer quality real estate, by way of portfolio acquisitions in recent years, though they are currently more active in their pursuit of the real estate we have been advocating for as fit-for-purpose.

None of this is a surprise in a market where only 28% of beds meet our quality standards, and which needs substantial modernisation overall. The non-cyclical nature of returns, which are still relatively high-yielding, make the investment desirable for the income investor. Whilst we welcome new capital to support development of real estate and operator growth, we would argue that specialist knowledge and a committed long-term holder would be characteristics of the suitable investor.

Residual COVID-19 considerations

Mandatory vaccinations for social care staff is a point of discussion currently. Many of our larger tenants are reporting staff vaccination rates at 95% plus, and are not unduly concerned, though find it to be a frustration that other healthcare sectors' staff do not have the same restrictions. We will all be alert to the possibility of new variants and waning immunity with time, though this sector will likely have the advantage of priority access to booster vaccinations and any necessary supplemental vaccination rollouts.

Government policy (support and onwards)

Government minds have once again been concentrated on social care reform and a funding solution. Deadlines for a comprehensive solution via a detailed White Paper have slipped, having been replaced with some interim measures. These measures, whilst bordering on being a weak positive for the sector overall in recognising and delivering some funding, are statistically insignificant given (a) the overall size of the funding need and (b) being unclear on the efficiency of directing funding to the care providers.

Government financial support through the pandemic was, however, well-targeted and well-received, with England's Infection Control Fund (similar in other UK nations) covering some of the costs of staff overtime, additional equipment and supplies, as well as the management burden of the testing regime.

Summary

At the height of the pandemic, there were calls to review the use of care homes as a future resource for our ageing elders. We in the social care sector and wider healthcare environment know that to be naive; care homes will always be required as part of the mix of resources in this rapidly ageing society, but quality of facility must improve, and we are pleased to be at the forefront of that provision.

Our Strategy

Our purpose to improve the standard of living for older people in the UK is achieved through our four strategic pillars as detailed in our business model on pages 10 and 11. You can read more about these over the next eight pages.

Strategic pillar #1

To grow a robust portfolio

We are creating a portfolio of scale with a clear focus on the quality of real estate and diversification of income sources to provide a stable long-term platform for returns.

Acquisitions and developments
£70 million of investment, inclusive of costs, has been committed to five new assets during the year, growing the portfolio to 77 assets, inclusive of 73 operational care homes and four development sites, the latter being underpinned by fixed-price or capped development agreements and which are pre-let on long (30 years plus) FRI leases to trusted operating partners.

These investment commitments made during the year along with the acquisition of a further three assets completed post-period end have fully committed the capital raised in the March 2021 equity issuance.

One of the Group's existing development sites reached practical completion early in the year with that brand new care home in Burscough welcoming residents in July 2020. A further two development sites have reached practical completion since the period end, with the three homes together providing a combined total of 214 new beds to their local markets, all benefiting from en suite wet rooms within modern, fit-for-purpose homes.

Real estate standards: commitment to responsible investing
We have a clear vision on what makes care home real estate fit-for-purpose, with the principal objective that residents can live with choice, dignity and privacy in a comfortable and pleasant environment. We also want intelligent layouts and facilities for our tenants to efficiently deliver their services. We require our homes to include generous bedrooms, spacious communal areas and en suite wetroom facilities that are vital for both dignity during care and for infection control within a home. 96% of the 5,351 beds in the portfolio are equipped with en suite wet rooms while 100% have en suites. We are committed to upgrading the remaining beds in the portfolio that do not meet this minimum requirement as identified during diligence on these acquisitions.

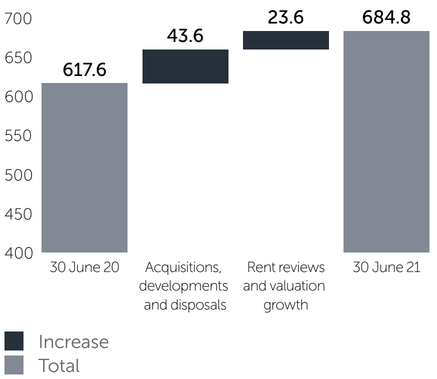
The national comparator on en suite wet rooms has grown to be 28% currently from only 17% in 2017, driven both by the provision of new homes and the exit of many non-compliant older homes from the market.

Diversification
Diversification continues to be a focus for the Group in order to manage portfolio risk with the metrics remaining broadly unchanged from 2020 other than the positive addition of two (net) new tenants bringing the total to 28. The largest tenant is unchanged from 2020 being Ideal Carehomes, accounting for 13.1 per cent of the Group's contractual rent.

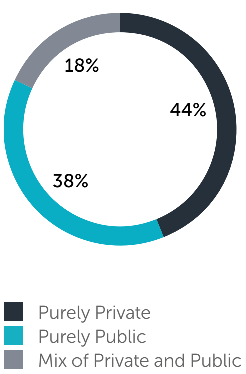
Sources of resident fees, the underlying income received by our tenants, continue to originate from both public and private sources, with a deliberate bias towards the latter in our portfolio assembly. Census data collected during the period notes that 44 per cent of the portfolio's underlying residents are funded exclusively from private sources, 18 per cent by a mix of private and public funding, where "top-up" payments are made by Local Authorities, and 38 per cent are funded from public sources.

Geographically, the largest region by asset value remains Yorkshire & the Humber, with 20 per cent. The Group's portfolio contains homes from all regions of the UK and the Investment Manager continues to explore opportunities for acquisitions that will further enhance the existing geographic diversification.

Valuation Growth analysis (£ millions)



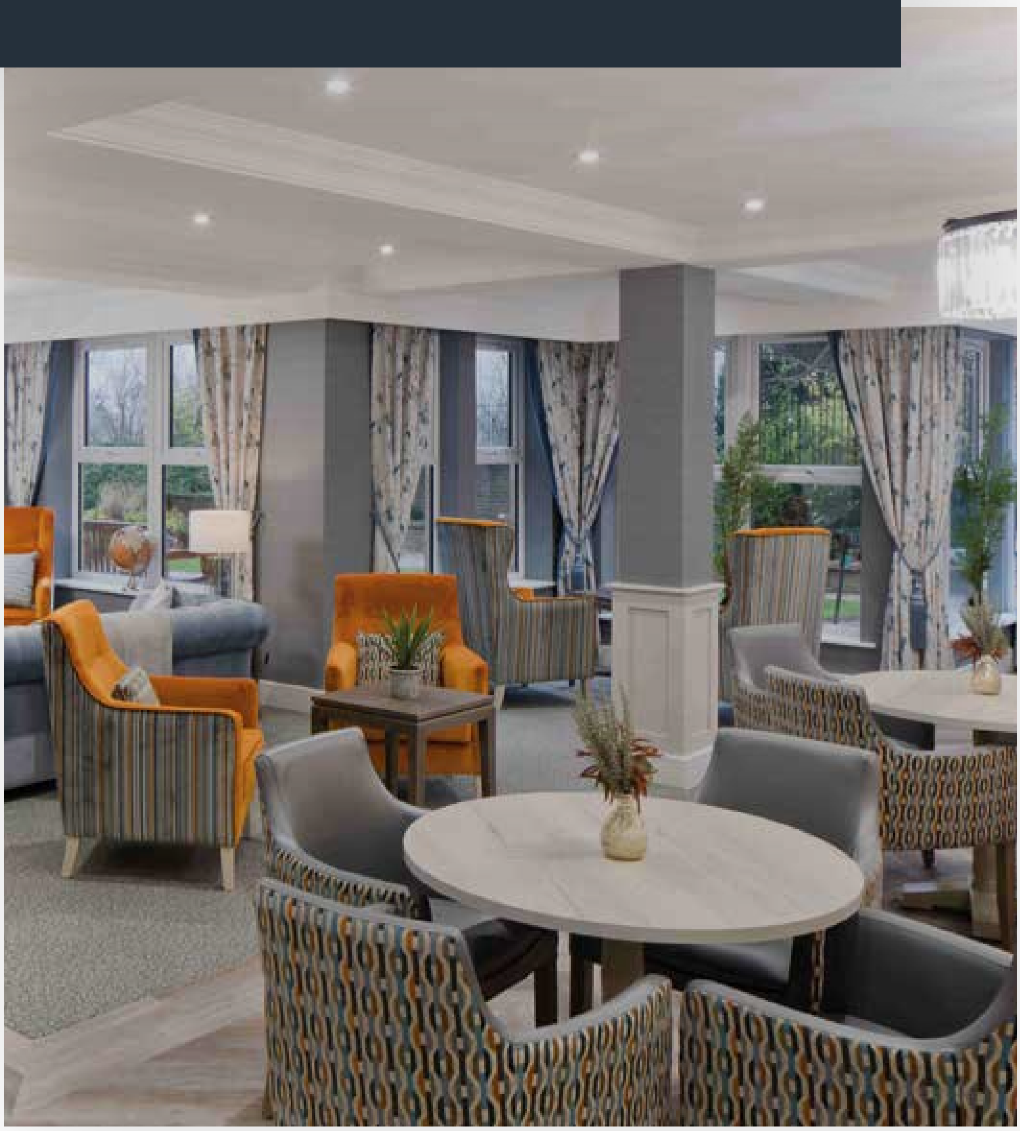
Underlying fee income diversification



The Manor

The Manor is a luxury care home located in Edinburgh and is well established as one of the best homes in the region. The impressive real estate houses 74 large bedrooms with full provision of en suite wet-room shower facilities, wide corridors and an intelligently designed layout. Residents and their visiting friends and families benefit from substantial public lounges, a cinema room, hair & beauty salon, activities room and outdoor spaces on all floors resulting in one of the highest space per resident ratios of any home in the portfolio.

Since opening in April 2018, the home has developed a strong local reputation and has filled quickly with occupancy largely comprised of private fee-paying residents. The densely populated area surrounding the home provides a large catchment population with strong demographic demand characteristics. Following the exit of the original operator of The Manor as part of the acquisition, the home has been leased to Caring Homes group, a well-respected family-run group with care homes throughout the UK and an existing tenant of the Group for some years.



Key portfolio statistics

En suite wet-rooms
96%

Real estate standards
47m²
per resident across portfolio

Average property age
8 years

Strategic pillar #2

Sustainable returns from a portfolio management approach with valued relationships as its core

The Investment Manager has deep experience within the sector and uses that specialism to engage effectively with our tenants, understanding the complexities inherent in the sector.

Engaged

The Investment Manager has continued to support the Group's growing base of 28 tenants while the importance of selecting operators demonstrating high levels of care ethos and expertise has been reaffirmed throughout the pandemic. We once again pay tribute to the carers, staff and management who have performed admirably throughout the challenges that the care sector has faced over the last year. As a highly engaged landlord, the Group through its Investment Manager will continue to liaise closely with its tenants to ensure that the Group's income is protected through sustainable rental levels and that we remain supportive of operators that seek to raise the overall standard of care.

As part of our ongoing desire to be an effective and engaged landlord, we invited our tenants to participate in a survey to evaluate their satisfaction with our engagement. The results from this survey were very encouraging:

- 100% of responders agreed that working with us is a positive experience and that we actively listen, taking time to understand their business, proactively resolving questions and issues.
- 82% also agreed that we demonstrate our commitment to investing in homes that provide the best environments for residents and their care providers.

We look forward to enhancing this survey in future years to supplement our ongoing discussions with our tenants and addressing any concerns or suggested improvements forthcoming.

As part of our ongoing data gathering and support of our tenants during the year we:

- Collected and analysed monthly management information for each home.
- Visited (either virtually or physically) each home in the portfolio.
- Had >1,000 calls/interactions with our operators at all levels of management.

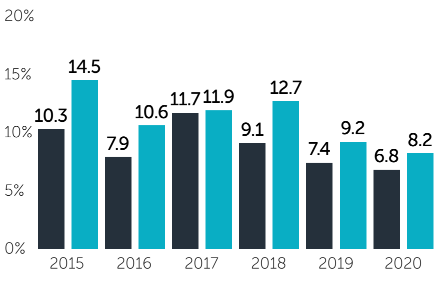
While these calls were often emotional during lockdown as a number of homes experienced difficulties through COVID-19 outbreaks, the dedication and diligence of the care staff across the portfolio was demonstrated repeatedly while their appreciation for our engagement was also noted.

Performance

The Group's key metrics have performed positively. The **portfolio total return** has again outperformed the MSCI UK Annual Healthcare Property Index, with a total return for the calendar year to December 2020 of 8.2 per cent relative to the Index's 6.8 per cent.

The portfolio has outperformed the Index each year since launch, as shown in the chart below.

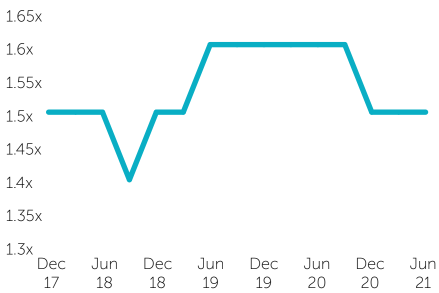
Portfolio total return vs MSCI



MSCI UK Annual Healthcare Property Index Total Return

Target Healthcare REIT Portfolio Total Return

Mature homes rent cover



Valuation growth on a like-for-like basis was 3.8 per cent and a substantial driver to overall growth in the portfolio value of 10.9 per cent during the year. The remainder was driven by acquisitions and developments at 4.0 per cent (net of disposals) and 3.1 per cent respectively. Contractual rent increased by 5.6 per cent over the period with new acquisitions, net of disposals, contributing 3.8 per cent, and the completion of developments contributing 1.8 per cent. The **annual uplifts from rent-reviews in the year of 1.8%** were netted off by rental reallocations and adjustments made as a result of asset management initiatives.

Rental collection has continued its robust performance throughout the pandemic, at 95% for the year. This strong performance in a challenging context demonstrates the portfolio's resiliency with its sustainable rent levels and diversified tenant base, further supported by **portfolio rent cover of 1.5x.** This metric reflects the underlying profitability at the homes, over a period substantially affected by depressed occupancy levels as a result of COVID-19. Sustainable rent levels; commercially astute trading by our tenants; and some government support have each contributed. The portfolio has retained a level of rent cover (1.2x) if non-recurring government contributions are excluded. Recovery in occupancy levels, as reported by our tenants as COVID-19 restrictions ease, provides a platform for the portfolio to return to normalised trading conditions which we anticipate will translate to steady growth to stable rent cover levels at or above 1.6x in time.

Current COVID-19 prevalence across the portfolio is very low, however the Investment Manager continues to collect case numbers from the Group's operators and will monitor this closely.

Portfolio Management

The Investment Manager has been closely monitoring a small number of tenants and completed some initiatives to further improve rent collection and portfolio resiliency going forward. A tenant operating two of the Group's homes had been a contributor to rental arrears for some time as they experienced financial distress and went through a restructuring of their business. The Group has resolved its position with this tenant, reaching an agreement for partial settlement of outstanding rent and a consensual re-tenanting of both homes. The re-tenanting of one of these homes was completed during the year to a family-owned operator providing an immediate valuation and net income uplift. The re-tenanting of the second home is expected to complete imminently with revised rental terms and a lengthened lease duration.

A further re-tenanting was completed during the year from a large national operator to a family-owned operator on a lengthened lease term with a substantial transfer payment received from the outgoing tenant which will fund capital expenditure on the home along with the rental incentives provided to the new tenant. The impact on residents and staff was minimised during this transition.

The Investment Manager's experience and sector expertise has been apparent in a conviction to support the Group's other tenant who has been a significant contributor to rent arrears. That tenant's two high-end, immature homes are now trading well, with strong occupancy levels and growing rent covers, with full value recovery to investment case levels anticipated.

The combination of decisive re-tenanting action when required alongside patience and support when justified for the right operators reflect our approach to achieving shareholder returns in a responsible manner.

KPIs

Portfolio total returns

8.2% vs. 6.8%

ahead of the relevant annual MSCI index (year to 31 December 2020)

East Midlands Home

The Group owns a modern, purpose-built home in the East Midlands which it originally acquired in 2014. The home's location provides supportive local supply and demand characteristics, and ranks well with regard to the quality of competing homes in its 10-minute drive time. After operating the home successfully for a number of years, the original tenant operator's relationship with the Local Authority deteriorated, culminating in an embargo on publicly funded residents entering the home. Recognising the potential for significant impact on residents for the home, as well as seeking to protect the long-term future of the home, the Investment Manager met with both parties and worked with them to resolve the situation with minimal impact on residents by re-affirming its commitment to the home. The home was re-tenanted to a new operator in 2018, utilising the Investment Manager's relationships within the sector, with the outgoing operator committing to a financial contribution to improve the home and providing a three-year rent guarantee. This has allowed the incoming operator to improve trading in a sustainable manner and provided protection to the Group's investment, with the guarantee being called upon during the current year to recoup rent arrears from the transition period. Occupancy in the home has reached 100% in recent quarters with consistently strong trading and corresponding rent cover allied with pleasing operations and care provision. The Group is pleased that this long-term approach and committed asset management activity has resulted in a home that is once again thriving, to the benefit of the local community.

Strategic pillar #3

Regular dividends for shareholders

Total dividends of 6.72 pence per share were declared and paid in respect of the year to 30 June 2021, an increase of 0.6 per cent on 2020, and reflecting a yield of 5.8 per cent based on the 30 June 2021 closing share price of 115.4 pence.

Earnings & dividend

Adjusted EPRA earnings per share, used by management as a key metric in assessing operational performance, increased to 5.46 pence for the year. Dividend cover using the adjusted earnings measure also increased, to 80% for the year. Applying the more widely used comparative of EPRA earnings, the dividend was fully covered at 105%.

The Group anticipates achieving a covered dividend when fully invested at an appropriate gearing level. The significant share issuance subsequent to year-end is intended to fund a substantial pipeline of imminent acquisitions, the majority of which are fully income generating immediately on completion. The Group's current scale, patiently earned through modest fund raises to date, its track record as a reliable counterparty and its flexible debt arrangements, provide the platform to grow the portfolio and earnings whilst minimising the cash drag effect of undeployed capital on dividend cover.

For the year under review, cash drag has impacted earnings and dividend cover as acquisitions were slowed due to COVID-19 initially. The oversubscribed equity issuance of £60 million in March 2021 has been deployed during the final quarter and subsequent to the year-end, with earnings now accruing on this capital. Admin expenses of £11.1 million (2020: £9.5 million) includes £2.7 million of provisions for doubtful rental income, also adversely impacting reported dividend cover. The Investment Manager has implemented a number of asset management initiatives during the year and the Group is confident of successful solutions being reached on the other homes contributing to arrears which have shown much improved performance in recent months. The quality of the real estate available and supportive local demographics for these homes reaffirms the Group's view that we expect to see positive developments in these homes in the coming weeks and months.

As previously announced, and reflecting a cautiously optimistic outlook for the portfolio, in the absence of unforeseen circumstances the Board intends to increase quarterly dividend levels by 0.6% to 1.69 pence per share, providing an annual dividend of 6.76 pence per share.

Total Returns

The Group targets modest capital growth as well as its income priority, with a belief that a quality portfolio of modern care home real estate is likely to be in demand. Despite the difficult trading conditions across the portfolio from COVID-19, and depressed occupancy levels from slower admissions, the portfolio has continued to perform, with robust rent collection, and has a positive outlook. Being one of the first investment asset classes to fully benefit from the COVID-19 vaccination programme has helped stimulate the anticipated return towards normalised trading.

This robust and sustainable performance, the completion of some portfolio initiatives, and the investment demand for the stable, non-cyclical returns from a diversified portfolio of quality assets, has seen asset value appreciation. EPRA NTA has grown 2.1 per cent to 110.4 pence per share from 108.1 pence per share, NAV total return for the year has been 8.8 per cent, and annualised NAV total return over the period since the Group's launch in March 2013 has been 7.8 per cent. The portfolio's EPRA topped-up NIY has tightened to 5.83 per cent from 6.04 per cent.

Efficient capital structure

In November 2020, the Group entered into agreements with two of its existing lenders (RBS and HSBC) in order to extend the terms and increase its facilities with each. These revised arrangements increased available facilities to £220 million from £180 million while maintaining the weighted average cost of debt and extending the weighted average term to maturity. At 30 June 2021, these metrics were 2.9% (2020: 2.9%) and 4.8 years respectively (2020: 4.2 years).

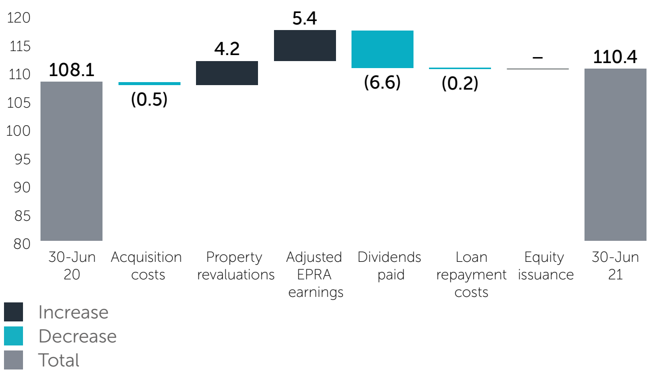
The Group was also the first real estate client of each of these lenders to transition its facilities to a SONIA interest basis from LIBOR, with the latter due to be phased-out by June 2023.

The Group retains flexibility through its debt-mix with £140 million of the £220 million being fully revolving facilities and continues to focus on achieving competitively-priced debt at appropriate durations.

Subsequent to the year-end the Group has agreed heads of terms for an additional £100 million of long-term facilities with an existing lender which are intended to complement the equity issuance to efficiently fund the significant pipeline. Diligence procedures and legal documentation are currently being completed on this anticipated facility increase.

EPRA NTA per share (pence)

EPRA NTA per share has increased to 110.4 pence, primarily driven by an increase in property valuations. See the yield progression chart on page 12 for more context.



Earnings summary

	2021 (£m)	Movement	2020 (£m)
Rental income (excluding guaranteed uplifts)	**41.2**	+14%	36.0
Admin expenses (including management fee)	**(11.1)**	+17%	(9.5)
Net financing costs	**(4.8)**	+12%	(4.3)
Interest from development funding	**0.6**	-40%	1.0
Adjusted EPRA earnings	**26.0**	+12%	23.2
Adjusted EPRA EPS (pence)	**5.46**	+3.6%	5.27
EPRA EPS (pence)	**7.16**	+3.5%	6.92
Adjusted EPRA cost ratio	**26.6%**	+90bps	25.7%
EPRA cost ratio	**22.3%**	+80bps	21.5%
Ongoing charges figure ('OCF')	**1.55%**	+4bps	1.51%

Strategic pillar #4

To achieve our social purpose

Pillar	What this means for Target
Responsible investment As an investor we understand that our actions have influence. We use our platform to lead by example through embedding appropriate ESG considerations into our decision-making.	**Leading in social impact for care home real estate** – We understand the importance of maintaining a portfolio that supports the needs of tenants and residents, which in turn contributes to the long-term sustainability of social care infrastructure in the UK. **Energy and climate change: Responsible acquisitions & portfolio management** – Energy efficiency is a specific consideration in our investment analysis for acquisitions, developments and portfolio management decisions. – In our role as a responsible landlord we are committed to helping our tenants identify and implement energy reduction and efficiency measures.
Responsible partnerships We engage with all our stakeholders to drive the creation of economic, social and environmental value around our buildings and in wider society.	**Tenant selection, engagement & collaboration** – As a responsible, proactive landlord we prioritise good, open relationships with our tenants. – We make sure that we solicit, assess and respond to feedback on our portfolio and our behaviours to ensure carers and residents can be respected and cared for with dignity. – We only select tenants who share our care ethos and can deliver operationally. **Communities and society** – We fully appreciate the vital role that care homes play in every community, and take decisions in the best interest of maintaining continuity of care for residents. – Advocate for and support the sector.
Responsible business We will treat all stakeholders with respect and deal fairly in a manner consistent with how we would expect to be treated ourselves.	**Governance & transparency** – We uphold the highest ethical standards and adhere to best practice in every aspect of our business. – Our governance and behaviour treat transparency for all of our stakeholders as core. **People, culture and wellbeing** – We encourage employment practices across our key service providers that reflect our core values, with a focus on wellbeing, fairness and opportunity for all.

SDGs	What we did in 2021	What we'll do in 2022 and beyond
3 GOOD HEALTH AND WELL-BEING 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES	**Social** – 5 homes acquired, 344 resident spaces – Development commitments for 272 new beds as at year-end – 96% wet-rooms – Homes provide space of 47m^2 per resident – All real estate has generous social and outdoor space **Energy** – 100% A-C EPC ratings – Introduced energy efficiency consideration into policies – Instructed BREEAM-in use assessment for a representative sample of portfolio – "Green" provision on energy usage reporting introduced into our standard lease – Target Fund Managers supports the Edinburgh Science Climate and Sustainability programme and became a founding pledger of its Mission Net Zero project in 2021	**Social** – Continue to advocate for quality real estate – Monitor new ideas (architecture, dementia-friendly design, energy) – Monitor design and innovation response to COVID-19 **Energy** – Balanced assessment of data & recommendations obtained from BREEAM reports – Increase proportion of leases with "green" reporting provisions to gather more data on energy consumption patterns from our tenants for use in decision-making – Manager to use toolkit and resources to progress its net zero journey
11 SUSTAINABLE CITIES AND COMMUNITIES	**Tenants** – 10/10 "positive experience" satisfaction score – Committed engagement with our tenants to consider and consent to real estate alterations in response to COVID-19 challenge **Communities** – Re-tenanted two homes with new tenants committed to continuing care provision	**Tenants** – Focus on supporting our tenants with COVID-19 recovery, considering further real estate design enhancements in response – Invest in fully understanding and responding to lower-scoring areas from tenant survey **Communities** – Complete re-tenanting initiatives identified which will benefit long-term care continuity – Continue to facilitate tenant interaction and learning sessions as COVID-19 restrictions ease

8 DECENT WORK AND ECONOMIC GROWTH	**Governance & transparency**
	– Undertook director recruitment process resulting in Mr Niblett being appointed post year end
	– Investment Manager successfully applied to become signatory to the FRC Stewardship Code
	– £3 million taxation directly paid to the UK government by way of VAT and stamp duty land taxes. Dividends paid of £32 million are assessed for tax upon reaching shareholders
		Governance & transparency
		– To prepare and publish enhanced reporting suite, inclusive of:
		  – GRESB reporting following data collection process
		  – Comprehensive sustainability reporting, inclusive of EPRA measures

Principal and emerging risks

Risk	Description of risk and factors affecting risk rating	Mitigation	Risk rating & change
Poor performance of assets	There is a risk that a tenant's business could become unsustainable if it fails to trade successfully and sustain a sufficient rent cover. This could lead to a loss of income for the Group and an adverse impact on the Group's results and shareholder returns. The strategy of investing in new purpose-built care homes could lead to additional fill-up risk and there may be a limited amount of time that small regional operators can fund start-up losses. There is also a risk that the effects of COVID-19 may lead to longer fill times before a home becomes mature.	Tenant diversification across the Group's portfolio is an important criteria taken into consideration before any investment transaction. Investment decisions are made with reference to the Investment Manager's analysis and projections, based on the local market dynamics for the home, and the Investment Manager focuses on ensuring that rents are set at sustainable levels. Rent deposits or other guarantees are sought, where appropriate, to provide additional security for the Group. As at 30 June 2021, the Group had a diversified portfolio consisting of 28 tenants. The Investment Manager has ongoing engagement with the Group's tenants to proactively assist and monitor performance.	High
Pandemic reduces demand for care home beds	As a result of the COVID-19 pandemic, there is a risk that overall demand for care home beds is reduced causing asset performance to fall below expectations. While demographic shifts and the realities of needs-based demand remain intact, and the rollout of the vaccination programme has been a positive development, occupancy levels have fallen across the sector and the speed of recovery may depend on the prevalence of COVID-19 in the UK generally, increased levels of resident admissions by tenants, the availability of booster vaccines and the efficacy of existing vaccines.	The Group is committed to investing in high quality real estate with high quality operators. These assets are expected to experience demand ahead of the sector average while in the wider market a large number of care homes without fit-for-purpose facilities are expected to close. Our tenants are well-versed in best practice for responding to infection control and the wider pandemic while the Investment Manager has been actively engaged with the tenants in the portfolio during the outbreak and continues to maintain good lines of communication.	High
Availability of capital	Without access to equity or debt capital, the Group may be unable to grow through acquisition of attractive investment opportunities. This is likely to be driven by both investor demand and lender appetite which will reflect Group performance, competitor performance, general market conditions and the relative attractiveness of investment in UK healthcare property.	The Group maintains regular communication with investors and existing debt providers, and, with the assistance of its broker and sponsor, regularly monitors the Group's capital requirements and investment pipeline alongside opportunities to raise both equity and debt. During the year, the Group has extended the weighted average term of its debt facilities (30 June 2021: 4.8 years).	Medium
Breach of REIT regulations	A breach of REIT regulations, primarily in relation to making the necessary level of distributions, may result in loss of tax advantages derived from the Group's REIT status. The Group remains fully compliant with the REIT regulations and is fully domiciled in the UK.	The Group's activities, including the level of distributions, are monitored to ensure all conditions are adhered to. The REIT rules are considered during investment appraisal and transactions structured to ensure conditions are met.	Medium
Changes in government policies	Changes in government policies, including those affecting local authority funding of elderly care, may render the Group's strategy inappropriate. Secure income and property valuations will be at risk if tenant finances suffer from policy changes. Whilst the care sector is facing significant challenges and reform has been mooted by successive governments, including the recent introduction of the health and social care levy, a white paper containing full detail is still awaited.	Government policy is monitored by the Group to increase the ability to anticipate changes. The Group's tenants also typically have a multiplicity of income sources, with their business models dependent on government funding.	Medium

Strategic objectives

To grow a robust portfolio | Dividend focus | Specialist, engaged manager | Responsible investment

Risk trend

Risk increased | Risk unchanged | Risk decreased

Risk	Description of risk and factors affecting risk rating	Mitigation	Risk rating & change
Debt covenant compliance/ adverse interest rate fluctuations	Falls in property valuations could adversely affect the Group's borrowing capacity which is primarily linked to the value of its properties. Property valuations are inherently subjective and can fluctuate dependent on market conditions. Similarly, a large increase in market interest rates would be detrimental to overall returns and may limit borrowing capacity.	The Group has a conservative gearing strategy although net gearing is anticipated to increase from its level of 15.9% at 30 June 2021 as the Group nears full investment. Loan covenants and liquidity levels are closely monitored for compliance and headroom is projected. The Group has fixed interest costs on its £80 million of fixed term borrowings as at 30 June 2021.	Medium (Risk increased)
Reliance on third party service providers	The Group is externally managed and, as such, relies on a number of service providers. Poor quality service from providers such as the Investment Manager, company secretary, broker, legal advisers or depositary could have potentially negative impacts on the Group's investment performance, legal obligations and compliance as well as shareholder relations.	The Investment Manager, along with all other service providers, is subject to regular performance appraisal by the Board. The Manager has retained key personnel since the Group's IPO and has successfully hired further skilled individuals and invested in its systems. The sustained number of years of service from both the Investment Manager and other key providers further mitigates this risk.	Medium (Risk unchanged)
Reduced availability of carers, nurses and other care home staff	The combined impacts of the pandemic and Brexit has reduced the availability of key staff in the care sector which may result in a reduction in the quality of care for underlying residents, restrict tenants from being able to admit residents or result in wage inflation. Mandatory vaccination for care home staff and an expected recovery in other sectors, such as retail or hospitality, that may draw further staff from the care sector introduces further uncertainties.	The Group is committed to investing in high quality real estate with high quality operators and these should be better placed to attract staff. The Investment Manager continues to engage with tenants in the portfolio and to share examples of best practice in recruitment and retention of staff.	Medium NEW and EMERGING
Failure to differentiate qualities from competitors & to communicate ESG strategy	Failing to differentiate strategy and qualities from competitors is a significant risk for the business with increased competition in the healthcare real estate sector. The failure to communicate effectively the ESG and sustainable impact qualities of the Group to investors and other stakeholders could have a negative impact on future demand for equity raises and wider reputational damage as investor groups demand greater participation in sustainability pledges/disclosures.	The stakeholder communications strategy of the Group has always been to highlight the quality of the real estate in which the Group invests and the ESG KPIs, as set out on pages 8 and 9, continue to be developed and improved. The regular production of investor relations materials (annual and interim reports, investor presentations and quarterly factsheets) along with direct engagement with investors has helped to mitigate this risk.	Medium (Risk unchanged)
Risk to business continuity from IT downtime/ loss of data	The loss of confidential information through a breach of the Manager's IT systems could have a significant detrimental effect on the business activities of the Group as well as the potential for financial loss from fraud, breach of GDPR legislation and reputational damage to the Group. As some business activities are now being carried out virtually, there is an increased reliance on the IT systems and the control environment surrounding them.	The Investment Manager has IT policies and associated cyber-insurance which mitigate the potential for loss of data while key data is also held with other service providers (solicitors, registrars and depositary). The Group's control environment is also assessed annually by a third party who report to the Board.	Medium (Risk decreased)

The Company's risk matrix is reviewed regularly by the Board as detailed on page 43. Emerging risks are identified though regular discussion at Board meetings of matters relevant to the Company and the sectors in which it operates; including matters that may impact on the underlying tenant operators. In addition, the Board holds an annual two-day strategy meeting which includes presentations from relevant external parties to ensure that the Board are fully briefed on relevant matters. At the strategy meeting principal and emerging risks are discussed and reviewed to ensure that they have all been appropriately identified and, where necessary, addressed.

The detailed consideration of the Company's viability and its continuation as a going concern, including sensitivity analysis to address the appropriate risks, is set out on pages 32 and 33.

Promoting the success of Target Healthcare REIT plc

The Board considers that it has made decisions during the year which will promote the success of the Group for the benefit of its members as a whole.

This section, which serves as the Company's section 172 statement, explains how the Directors have had regard to the matters set out in section 172(a)-(f) of the Companies Act 2006 for the financial year to 30 June 2021, taking into account the likely long-term consequences of decisions and the need to foster relationships with all stakeholders in accordance with the AIC Code.

a) The likely consequences of any decision in the long term	Our investment approach is long-term with an average lease length of 28.8 years. We believe this is the most responsible approach to provide stability and sustainability to tenants and key stakeholders. Therefore, most decisions require consideration of long-term consequences, from determining a sustainable rent level and the right tenant partner for each investment, to considering the impact of debt and key contracts with service providers on the recurring earnings which support dividends to shareholders.
b) The interests of the Company's employees	The Company is externally managed and therefore has no employees.
c) The need to foster the Company's business relationships with suppliers, customers and others	As a REIT with no employees, the Board works in close partnership with the Manager, which runs the Group's operations and portfolio within parameters set by the Board and subject to appropriate oversight. The Manager has deep relationships with tenants, the wider care home sector, and many of the Group's other suppliers. These are set out in more detail in the following table.
d) The impact of the Company's operations on the community and the environment	The Board is confident the Group's approach to investing in a sensitive sector is responsible with regard to social and environmental impact. This is set out in more detail in the community and the environment section of the table on the following page.
e) The desirability of the Company maintaining a reputation for high standards of business conduct	The Board requires high standards of itself, service providers and stakeholders. The Group's purpose and investment objectives dictate that these standards are met in order to retain credibility. The ethos and tone is set by the Board and the Manager.
f) The need to act fairly as between members of the Company	The Board encourages an active dialogue with shareholders to ensure effective communication, either directly or via its broker and/or Manager. The interests of all shareholders are considered when issuing new shares.

The significant transactions where the interests of stakeholders were actively considered by the Board during the year were:

Dividends paid
The Board recognised the importance of dividends to its shareholders and, after careful analysis of the Group's forecast cash position and expected rental collection, concluded that continuing dividend payments at the level announced in the Annual Report 2020 remained in the interests of all stakeholders. With rental collection remaining robust, the Company recently announced an increase in the expected dividend level, barring unforeseen circumstances, for the year ending 30 June 2022.

Ongoing investment and asset management activity
Following a short hiatus towards the end of the previous financial year, the Group recommenced its investment activity in July 2020. Progress was made in resolving a position with a distressed tenant with a settlement agreed, a re-tenanting completed, and limited rent concessions were granted, ensuring on each occasion that the transactions agreed appropriately balanced the interest of shareholders, tenants (both incoming and outgoing) and the underlying residents of the relevant care homes.

Capital financing
During the year, the Group refinanced its loan facilities with the Royal Bank of Scotland and HSBC Bank, extending the term and increasing the quantum of each on terms that are expected to be beneficial to significant stakeholders over the duration of the facilities. The Company also issued £60 million of ordinary shares, at a premium to NAV, in March 2021 and a further £125 million post year end. The equity raised was used to temporarily repay some of the Group's loan facilities whilst it awaited investment.

Appointment of a Director
Subsequent to the year end, as part of the Board succession plan, Mr Niblett was appointed as a Director. Mr Niblett's significant financial experience and expertise is expected to benefit all stakeholders over the period of his appointment.

Stakeholders

The Company is a REIT and has no executive directors or employees and is governed by the Board of Directors. Its main stakeholders are shareholders, tenants and their underlying residents, debt providers, the Investment Manager, other service providers and the community and the environment. The Board considers the long-term consequences of its decisions on its stakeholders to ensure the long term sustainability of the Company.

Shareholders	Shareholders are key stakeholders and the Board proactively seeks the views of its shareholders and places great importance on communication with them. The Board reviews the detail of significant shareholders and recent movements at each Board Meeting and receives regular reports from the Investment Manager and Broker on the views of shareholders, and prospective shareholders, as well as updates on general market trends and expectations. The Chairman and other Directors make themselves available to meet shareholders when required to discuss the Group's business and address shareholder queries. Whilst government guidelines prevented the holding of a physical AGM during the year, provisions were made for any questions to be raised with the Board by email in advance of the meeting. The Company and Investment Manager also provide regular updates to shareholders and the market through the Annual Report, Interim Report, regular RNS announcements (including the quarterly NAV), quarterly investor reports and the Company's website. The Investment Manager will also meet with analysts and members of the financial press.
Tenants and underlying residents	As set out in more detail on pages 6 to 7 and 16 to 17, the Investment Manager liaises closely with tenants to understand their needs, and those of their underlying residents, through visits to properties and regular communication with both care home personnel and senior management of the tenant operators. The effectiveness of this engagement is assessed through an annual survey. The Investment Manager also receives, and analyses, management information provided by each tenant at least quarterly and regularly monitors the CQC, or equivalent, rating for each home and any online reviews. Any significant matters are discussed with the tenant and included within the Board reporting.
Debt providers	The Group has term loan and revolving credit facilities with the Royal Bank of Scotland plc, HSBC Bank plc and ReAssure Limited (see note 14 to the Consolidated Financial Statements for more information). The Company maintains a positive working relationship with each of its lenders and provides regular updates, at least quarterly, on portfolio activity and compliance with its loan covenants in relation to each loan facility.
Investment Manager	The Investment Manager has responsibility for the day-to-day management of the Group pursuant to the Investment Management Agreement. The Board, and its committees, are in regular communication with the Investment Manager and receive formal presentations at every Board Meeting to aid its oversight of the Group's activities and the formulation of its ongoing strategy. The Board, through the Management Engagement Committee, formally reviews the performance of the Investment Manager, the terms of its appointment and the quality of the other services provided at least annually. Further details on this process and the conclusions reached in relation to the year ended 30 June 2021 are contained on page 39.
Other service providers	The Board, through the Management Engagement Committee, formally reviews the performance of each of its significant service providers at least annually. The reviews will include the Company's legal advisers, brokers, tax advisers, auditors, depositary, valuers, company secretary, insurance broker, surveyors and registrar. The purpose of the review is to ensure that the quality of the service provided remains of the standard expected by the Board and that overall costs and other contractual arrangements remain in the interests of the Group and other significant stakeholders. The Investment Manager also reports regularly to the Board on these relationships. The significant other service providers, particularly the Group's legal advisers and brokers, will be invited to attend Board Meetings and report directly to the Directors where appropriate.
Community and the environment	The Group's principal non-financial objective is to generate a positive social impact for the end-users of its real estate. Investment decisions are made based on the fundamental premise that the real estate is suitable for its residents, the staff who care for them, and their friends, families and local communities, both on original acquisition and for the long-term. Environmental considerations are an integral part of the acquisition and portfolio management process, given the strategy of only acquiring modern buildings which benchmark well from an energy efficiency aspect. The Group's ESG strategy is currently prioritising the gathering of useful energy/consumption data on our portfolio which will be used to align the portfolio appropriately with benchmarks over the medium and longer term.

Board of Directors

Our experienced and knowledgeable Board are responsible for the effective stewardship of the Company.

MALCOLM NAISH

Independent Non-Executive Chairman

Mr Naish has chaired the Company since its launch in 2013, and also has listed Company Board experience via his current role as a non-executive director of GCP Student Living plc and, until March 2021, his former role as chairman of Ground Rents Income Fund plc.

Mr Naish has over 45 years of real estate experience, having qualified as a Chartered Surveyor in 1976, most recently from his role as Head of Property at Scottish Widows Investment Partnership ('SWIP') from 2007 to 2012 where he had responsibility for a multi-billion pound portfolio of commercial property assets.

Mr Naish was chairman of the Scottish Property Federation for 2010/11 and holds a number of advisory roles in the private and charity sectors.

PROFESSOR JUNE ANDREWS OBE

Independent Non-Executive Director

Professor Andrews is a Fellow of the Royal College of Nursing and a world-renowned dementia specialist. She set up and directed the Centre for Change and Innovation in the Scottish Executive Health Department and was the director of the Dementia Services Development Centre at the University of Stirling. Professor Andrews is a former trade union leader, NHS manager and senior civil servant and is on the board of the Scottish Legal Complaints Commission.

GORDON COULL

Independent Non-Executive Director and Chair of Audit Committee

Mr Coull has served as Chair of the Audit Committee since the Group's launch in 2013, and also has Board experience as a former non-executive director of Cornelian Asset Managers group until early 2020 and as a former member of the audit committee of the Universities Superannuation scheme, one of the UK's largest pension funds.

Mr Coull is a qualified chartered accountant and, prior to his retirement in 2011, was a senior partner in the financial services practice of Ernst & Young LLP. As an audit and advisory partner he specialised in asset management, working with a range of asset managers and their funds, both in the UK and Europe.

	Malcolm Naish	Professor June Andrews OBE	Gordon Coull
Date of appointment	30 January 2013	30 January 2013	30 January 2013
Country of residence	UK	UK	UK
Independent	Yes	Yes	Yes
Other public company directorships	GCP Student Living Plc	None	None
Committee Membership	Investment Committee (Chair) Management Engagement Committee (Chair) Nomination Committee Audit Committee Remuneration Committee	Audit Committee Investment Committee Nomination Committee Management Engagement Committee Remuneration Committee	Audit Committee (Chair) Investment Committee Management Engagement Committee Nomination Committee Remuneration Committee

ALISON FYFE	THOMAS HUTCHISON III	VINCE NIBLETT
Independent Non-Executive Director and Chair of Nomination and Remuneration Committees	Independent Non-Executive Director and Senior Independent Director	Independent Non-Executive Director
Ms Fyfe is a highly experienced property professional with 35 years of experience in surveying, banking and property finance. Having trained and worked as a commercial surveyor with Knight Frank in both London and Edinburgh, she joined the Royal Bank of Scotland in 1996 to specialise in property finance. Over a period of 19 years with the bank she fulfilled several senior property finance roles, ultimately serving for five years as Head of Real Estate Restructuring in Scotland before leaving the bank in 2015. She has subsequently acted as a director of a number of companies in the property and debt finance sectors whilst also continuing to undertake property finance consultancy work. In August 2021, she was elected as a Governing Board Member of Hillcrest Homes (Scotland). Ms Fyfe is a member of the Royal Institution of Chartered Surveyors, a member of the Investment Property Forum and a former Policy Board member of the Scottish Property Federation.	Mr Hutchison has significant experience within real estate operations and investment, having held senior executive roles across each of the senior housing, hotels, hospitality and financial services sectors. Mr Hutchison is the principal founder of Legacy Hotel Advisors, LLC and Legacy Healthcare Properties, LLC where he served as the chairman of both companies. He held several key executive positions over a seven-year period at CNL Financial Group, Inc. – one of the largest, privately held real estate investment and finance companies in the US. Mr Hutchison is currently a director for Hersha Hospitality Trust, Marriott Vacations Worldwide Corporation, Trinity Forum Europe and Alexander Arms and is a former director for ClubCorp, Inc. Mr Hutchison is also a member of The Real Estate Roundtable and the Leadership Council for Communities in Schools. He serves as a senior adviser to various service industry public companies.	Mr Niblett has many years of financial and commercial experience having been the Global Managing Partner Audit for Deloitte. He held a number of senior leadership roles within Deloitte including as a member of the UK Board of Partners and of the Global Executive Group and the UK Executive Group before his retirement from Deloitte in May 2015. During his career at Deloitte, Mr Niblett served some of the firm's most significant public company clients, working with them on commercial and strategic issues as well as providing audit services. Mr Niblett is an independent non-executive director and chairman of the audit committee of Forterra plc and an independent non-executive director and senior independent director of Big Yellow Group plc. He also serves as a trustee of the Ruth Strauss Foundation.
01 May 2020	30 January 2013	25 August 2021
UK	United States of America	UK
Yes	Yes	Yes
None	None	Big Yellow Group plc Forterra plc
Remuneration Committee (Chair) Nomination Committee (Chair) Audit Committee Investment Committee Management Engagement Committee	Audit Committee Investment Committee Management Engagement Committee Nomination Committee Remuneration Committee	Audit Committee Investment Committee Management Engagement Committee Nomination Committee Remuneration Committee

Specialists in the sector

The Investment Manager
The Group has appointed Target Fund Managers Limited ('Target' or the 'Investment Manager') as its investment manager pursuant to the Investment Management Agreement. The Investment Manager is a limited company which is authorised and regulated by the FCA and has the responsibility for the day-to-day management of the Group and advises the Group on the acquisition of its investment portfolio and on the development, management and disposal of UK care homes and other healthcare assets in the portfolio. It comprises a team of experienced individuals with expertise in the operation of and investment in healthcare property assets.

Alternative Investment Fund Managers Directive ('AIFMD')
The Board has appointed Target as the Group's AIFM and Target has received FCA approval to act as AIFM of the Group. An additional requirement of the AIFMD is for the Group to appoint a depositary, which oversees the property transactions and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed IQ EQ Depositary Company (UK) Limited to act as the Company's depositary.

Key personnel of the Investment Manager
The key personnel who are responsible for managing the Group's activities are:

Kenneth MacKenzie MA CA
Kenneth MacKenzie is the founder and Chief Executive of Target. He is a Chartered Accountant with over 40 years of business leadership experience with the last fifteen in healthcare. In addition to his responsibilities as Target's chief executive, Kenneth leads the creation and management of Target's client funds and oversees fundraising and investor liaison for the Group. In 2005, he led the acquisition of Independent Living Services ('ILS'), Scotland's largest independent domiciliary care provider. Kenneth grew this business by acquisition and put in place a new senior management team before exiting via a disposal to a private equity house. Prior to his involvement with ILS, Kenneth negotiated the proposed acquisition of a UK independent living business in a JV with the large US care home operator, Sunrise Senior Living. Prior to his involvement in the healthcare sector, Kenneth has owned businesses in the publishing, IT, shipping and accountancy sectors and he holds a number of pro-bono charitable roles.

John Flannelly BAcc FCA
John Flannelly is Head of Investment at Target. He is a Chartered Accountant with over 20 years' experience, the last fifteen of which have been in real estate investment management. He has primary responsibility for investment activity across the Target business. John has been involved in the appraisal of several hundred care home opportunities resulting in the acquisition of circa 100 properties for those client funds. Prior to joining Target, during his time as investment director for an institutional investor, John held board positions at a UK top-10 care home operator and a care home development business. John started his career at Arthur Andersen where he worked on audits, financial due diligence and corporate finance projects before moving to the Bank of Scotland initially to structure finance packages for management buy-outs and latterly to a role in real estate investment management.

Andrew Brown
Andrew Brown is Head of Healthcare at Target. His primary responsibilities include inspecting properties owned by Target's client funds as well as prospective acquisitions during due diligence. Target's in-house demographic and market analysis is performed by his team. Andrew has spent most of his life in the senior care sector. Prior to his current role, he and his family developed one of the largest and most unique continuing care retirement communities in the UK, Auchlochan Trust. Andrew has played the role of developer, builder and operator of care homes resulting in a community of approximately 350 care beds, almost 100 retirement properties and a staff of over 300. These facilities included both residential care homes and nursing homes and Andrew was directly responsible for operations. Auchlochan Trust was also involved in Trinity Care plc as an investor.

Scott Steven MA
Scott Steven is Head of Asset Management at Target. Scott joined Target in 2017 from Lloyds Banking Group. Prior to joining Target, Scott had been responsible for a portfolio of Lloyds Banking Group's loans to large property groups, including care home owners and operators. During 2018, Scott took over the Head of Asset Management role at Target, and holds responsibility for tenant engagement and portfolio decision-making with a team of healthcare and asset management professionals.

Gordon Bland BAcc CA
Gordon Bland is Finance Director at Target. He is a Chartered Accountant with extensive experience of financial reporting within the asset management industry. He provides financial input to the strategic and commercial activities of the senior team, and leads the finance function where his key responsibilities include: financial planning and analysis; risk management; ownership of relationships with debt providers, Treasury services; and financial reporting to Shareholders. Gordon previously worked at PricewaterhouseCoopers for almost ten years, serving asset management and financial services clients in the UK, Canada and Australia.

Donald Cameron BCom CA
Donald Cameron is Company Secretary and Director of Financial Reporting at Target. He is a Chartered Accountant with more than 15 years' experience of financial reporting and company secretarial services within the closed-ended investment company sector. Having originally qualified with Deloitte LLP, he then worked for over ten years in the Investment Trust Company Secretarial team at F&C Asset Management (now known as BMO Asset Management), acting for both property and equity investment companies. He is responsible for providing company secretarial services to the Board and for statutory financial reporting. He joined Target in 2019, having provided similar services to the Group for over three years whilst working for Maitland Group, a third-party provider of corporate secretarial and administration services.

Directors' Report

The Directors present their report, along with the financial statements of the Group and Company on pages 56 to 86, for the year ended 30 June 2021.

The Directors consider that, following advice from the Audit Committee, the Annual Report and Consolidated Financial Statements taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Audit Committee has reviewed the Annual Report and Consolidated Financial Statements for the purpose of this assessment. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Consolidated Financial Statements would have a reasonable level of knowledge of the investment industry in general and Real Estate Investment Trusts in particular. The outlook for the Group can be found in the Chairman's Statement on pages 4 and 5 and the Investment Manager's Report on pages 12 and 13. Principal and emerging risks and uncertainties can be found on pages 22 and 23 with further information in note 17 to the Consolidated Financial Statements.

Results and dividends

The results for the year are set out in the following Consolidated Financial Statements. The Group has paid four quarterly interim dividends, each of 1.68 pence per share, to shareholders in relation to the year ended 30 June 2021. Details of the dividends paid are set out in note 7 to the Consolidated Financial Statements.

The Company

The Company is registered as a Public Limited Company in terms of the Companies Act 2006 (Registered number: 11990238) and is an investment company under section 833 of the Companies Act 2006.

The Group carries on business as a Real Estate Investment Trust and has been approved as such by HM Revenue & Customs ('HMRC'), subject to it continuing to meet the relevant eligibility conditions and ongoing requirements. As a result, the profits of the Group's property rental business, comprising both income and capital gains, are exempt from UK taxation. The Company intends to conduct its affairs so as to enable it to continue to comply with the requirements.

The Target Healthcare REIT group was originally established in March 2013 and, following a scheme of arrangement to introduce a parent company to the Group that was incorporated in the United Kingdom, the Company became the parent company of the Group in August 2019. The Company's shares have been admitted to the premium segment of the Official List of the UK Listing Authority and to trading on the Main Market of the London Stock Exchange.

The Company is a member of the Association of Investment Companies (the 'AIC') and the European Public Real Estate Association ('EPRA').

Investment Objective

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

Investment Policy

The Group pursues its objective by investing in a portfolio of care homes, predominantly in the UK, that are let to care home operators on full repairing and insuring leases that are subject to annual uplifts based on increases in the UK retail prices index (subject to caps and collars) or fixed uplifts. The Group is also able to generate up to 15 per cent of its gross income, in any financial year, from non-rental revenue or profit related payments from care home operators under management contracts in addition to the rental income due under fully repairing and insuring leases.

In order to spread risk and diversify its portfolio, the Group is also permitted to invest up to: (i) 15 per cent of its gross assets, at the time of investment, in other healthcare assets, such as properties which accommodate GP practices and other healthcare related services including occupational health and physiotherapy practices, pharmacies, special care schools and hospitals; and (ii) 25 per cent of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Group. The Directors have no current intention to acquire other healthcare assets or indirect property investment funds. The Group may also acquire or establish companies, funds or other SPVs which themselves own assets falling within the Group's investment policy.

The Group may either invest in assets that require development or that are under development, which when completed would fall within the Group's investment policy to invest in UK care homes and other healthcare assets, including by means of the forward funding of developments and forward commitments to purchase completed developments, provided that the Group will not undertake speculative development and that the gross budgeted development costs to the Group of all such developments, including forward funding and forward commitments, does not exceed 25 per cent of the Group's gross assets on the commencement of the relevant development. Any development will only be for investment purposes.

In order to manage risk in the portfolio, at the time of investment, no single asset shall exceed in value 20 per cent of the Group's gross asset value and, in any financial year beginning after the Group is fully invested, the rent received from a single tenant or tenants within the same group (other than from central or local government, or primary health trusts) is not expected to exceed 30 per cent of the total income of the Group, at the time of investment.

The Group will not acquire any asset or enter into any lease or related agreement if that would result in a breach of the conditions applying to the Group's REIT status.

The Group is permitted to invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds.

Gearing, calculated as borrowings as a percentage of the Group's gross assets, may not exceed 35 per cent at the time of drawdown. The Board currently intends that, over the medium term, borrowings of the Group will represent approximately 25 per cent of the Group's gross assets at the time of drawdown. However, it is expected that Group borrowings will exceed this level from time to time as borrowings are incurred to finance the growth of the Group's property portfolio.

Any material change to the investment policy will require the prior approval of shareholders.

Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to shareholders on a quarterly basis. In order to ensure that the Company continues to pay the required level of distribution to maintain Group REIT status and to allow consistent dividends to be paid on a regular quarterly basis, the Board intends to continue to pay all dividends as interim dividends. The Company does not therefore announce a final dividend. The Board believes this policy remains appropriate to the Group's circumstances and is in the best interests of shareholders.

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on pages 26 and 27. As explained in more detail in the Corporate Governance Statement on page 39, any new appointment by the Board is subject to election by shareholders at the Annual General Meeting ('AGM') following the appointment. Thereafter the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

The Directors of the Company at 30 June 2021 were each re-elected at the AGM held on 2 December 2020. Other than Professor Andrews and Mr Hutchison, who intend to step down from the Board at the conclusion of the forthcoming AGM in line with the Board's succession plan, each of these Directors will seek annual re-election at the AGM to be held on 14 December 2021. Mr Niblett was appointed to the Board with effect from 25 August 2021 and will be subject to election by shareholders at the forthcoming AGM.

In relation to the appointment of Mr Niblett, the Group appointed Odgers Berndtson to provide external search consultancy services for which they received a fee of £45,000 (plus VAT). Neither the Company nor any of the individual Directors has any other connection with Odgers Berndtson.

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Group to enable it to provide effective strategic leadership and proper guidance of the Group. However, recognising that consideration should be given to the length of service of the Board as a whole, and that its membership should be regularly refreshed, the Board is continuing to implement its succession plan.

It is currently anticipated that two of the four original Directors, Mr Hutchison and Professor Andrews, will not stand for re-election at the forthcoming AGM, and the Board would like to take the opportunity to thank them for their committed service and expert guidance over the period since the Group's launch in 2013. Following the retirement of Mr Hutchison, Mr Coull will assume the role of Senior Independent Director and Mr Niblett, who was recently appointed to the Board, will assume the additional role of chair of the Audit Committee. Noting the skills gap on the Board that will arise from the retirement of Professor Andrews and Mr Hutchison, it is intended that a Director with suitable experience will be appointed in the near term. The recruitment process in relation to this appointment has commenced, with a recruitment consultant, Nurole, having been engaged. The process of recruitment is expected to be similar to that followed in relation to the appointment of Mr Niblett, as described on page 40.

It is further intended that two additional appointments will be made to the Board over the course of the following year and, provided this is achieved, it is anticipated that Mr Naish and Mr Coull will retire at the AGM in November 2022. However, due to the continuing uncertainties arising from the COVID-19 pandemic, which the Directors believe increases the importance of stability and continuity of experience on the Board, it is possible that this proposed rotation of the Board may be staggered over a longer time period. The Board intends to continue to use the services of external search consultants to assist in the identification of suitable candidates. Further details on the Board's policy in relation to diversity and tenure can be found on page 39.

The Directors consider that continuity and experience on the Board remains important and therefore, whilst the long-term intention is for the Board to consist of no more than five Directors, this number may be temporarily exceeded over the period of succession in order to provide a period of overlap during which the corporate knowledge and experience of the retiring Directors can be passed on, subject to the overall level of Directors' fees remaining within the limit determined by the Company's Articles.

The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 40 the performance of each of the Directors continues to be effective and demonstrates commitment to the role. There are no service contracts in existence between the Company and any Director but each of the Directors has been issued with, and accepted the terms of, a letter of appointment that sets out the main terms of his or her appointment. Amongst other things, the letter includes confirmation that the Directors have a sufficient understanding of the Group and the sector in which it operates, and sufficient time available to discharge their duties effectively taking into account their other commitments. These letters are available for inspection upon request at the Company's registered office.

Capital Structure and Voting Rights

Details of the Company's share capital are set out in note 16 to the Consolidated Financial Statements. Details of voting rights are also set out in the Notes to the Notice of Annual General Meeting. There are no significant restrictions concerning the transfer of securities in the Company (other than certain restrictions imposed by laws and regulations such as insider trading laws); no agreements known to the Company concerning restrictions on the transfer of securities in the Company or on voting rights; and no special rights with regard to control attached to securities. There are no significant agreements which the Company is a party to that might be affected by a change of control of the Company following a takeover bid, provided following such bid the Company's shares continue to be traded on the main market of the London Stock Exchange.

The Group's borrowings are detailed in note 14 to the Consolidated Financial Statements.

Substantial Interests in Share Capital

As at 30 June 2021, the Company had received notification of the following holdings of voting rights (under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules):

	Number of Ordinary Shares held	Percentage held*
Baillie Gifford & Co	25,601,878	5.0
Premier Miton Group plc	24,348,972	4.8
Alder Investment Management Limited	23,681,156	4.6
Investec Wealth & Investment Limited	23,385,150	4.6
CCLA Investment Management Limited	17,918,605	3.5
Rathbone Investment Management Limited	17,462,203	3.4

* Based on 511,541,694 ordinary shares in issue as at 30 June 2021.

As at 19 October 2021, the Company has been notified that Baillie Gifford & Co has reduced its holding of voting rights below the disclosable level. The Company has not received notification of any other changes in the holdings of voting rights (under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules) compared with those above.

Share issuance and share buybacks

At the Annual General Meeting held on 2 December 2020, shareholders granted authority for the Company to issue up to 45,748,764 ordinary shares on a non pre-emptive basis for cash. This equated to 10% of the shares in issue at the time of passing of the resolution. As at 19 October 2021, the Company has issued 12,749,706 shares under this authority. The remaining authority to issue up to a further 32,999,058 ordinary shares expires on the earlier of the conclusion of the forthcoming AGM, which is expected to be held on 14 December 2021, or 2 March 2022. It is expected that the Company will continue to seek this authority on an annual basis.

At the General Meeting held on 1 March 2021, shareholders granted authority for the Company to issue up to a further 150 million ordinary shares in connection with an Initial Placing, Offer for Subscription, Intermediaries Offer and Placing Programme as described in the prospectus published on 12 February 2021, without first offering them to existing shareholders in proportion to their existing holdings. As at 30 June 2021, the Company had issued a total of 54,054,054 ordinary shares under this authority at a price of 111.0 pence per ordinary share. In September 2021, the Company issued the 95,945,946 ordinary shares remaining under this authority at a price of 115.0 pence per ordinary share.

At the Annual General Meeting held on 2 December 2020, shareholders granted authority for the Company to buy back up to 68,577,397 ordinary shares for cancellation or for holding in treasury. The Company did not buy back any shares under this authority, which will expire at the conclusion of the forthcoming AGM.

Statement of Disclosure of Information to Auditor

As far as the Directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Continuation Vote

In accordance with the Company's Articles of Association, an ordinary resolution is required to be put to shareholders at the AGM to be held in 2022 and at every fifth annual general meeting thereafter to seek their approval to the continuation of the Company.

Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

They have considered the current cash position of the Group, forecast rental income and other forecast cash flows; taking into consideration the potential impact of COVID-19 on both the Group and any increase in the likelihood that the tenants of its investment properties will not be able to meet their contractual rental obligations on a timely basis. The Group has agreements relating to its borrowing facilities with which it has complied during the year and the Board has considered the ability of the Group to repay, refinance or increase these facilities on, or before, their expected maturity date. The Directors have also considered the issue of ordinary shares in September 2021, which raised gross proceeds of £125 million, and the pipeline of investment opportunities. Based on all the information considered, the Directors believe that the Group has the ability to meet its financial obligations as they fall due to 31 December 2022, which is a period of at least twelve months from the date of approval of the financial statements. For this reason, the Board continue to adopt the going concern basis in preparing the financial statements.

Viability Statement

The AIC Code requires the Board to assess the Group's prospects, including a robust assessment of the emerging and principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity. This assessment is undertaken with the aim of stating that the Directors have a reasonable expectation that the Group will continue in operation and be able to meet its liabilities as they fall due over the period of their assessment.

The Board has conducted this review over a five-year time horizon, which is a period thought to be appropriate for a company investing in UK care homes with a long-term investment outlook. At each Board Meeting, the Directors consider the key outputs from a detailed financial model covering a similar five year rolling period, as this is considered the maximum timescale over which the performance of the Group can be forecast with a reasonable degree of accuracy. The Group has a property portfolio at 30 June 2021 which has long leases and a weighted average unexpired lease term of 28.8 years. The Group has borrowings of £130.0 million, on which the interest rate has been fixed, either directly or through the use of interest rate swaps, on £80.0 million at 2.98 per cent per annum (excluding the amortisation of arrangement costs), and the remaining £50.0 million carries interest at SONIA plus a weighted margin of 2.17 per cent per annum (excluding the amortisation of arrangement costs). The Group has access to a further £90.0 million of available debt under committed loan facilities.

The Group's committed loan facilities have staggered expiry dates with £100.0 million being committed to 5 November 2023, £70.0 million to 5 November 2025 and £50.0 million to 12 January 2032. Discussions with existing and/or new potential lenders do not indicate any issues with re-financing and/or increasing the quantum of these loans on acceptable terms in due course.

The Directors' assessment of the Group's principal risks are highlighted on pages 22 and 23. The most significant risks identified as relevant to the viability statement were those relating to:

- Poor performance of assets. The risk that a tenant is unable to sustain a sufficient rental cover, leading to a loss of rental income for the Group;
- Pandemic reduces demand for care home beds. The risk that overall demand for care home beds is reduced resulting in a decline in the capital and/or income return from the property portfolio;
- Reduced availability of care home staff. The risk that unavailability of staff restricts the ability of tenants to admit residents or results in significant wage cost inflation, impacting on the tenant's rental cover and leading to a loss of rental income for the Group; and
- Debt finance. The risk that falls in property valuations or rental income from the portfolio reduce the Group's borrowing capacity, or that an increase in interest rates reduces net returns.

In assessing the Group's viability, the Board has considered the key outputs from a detailed model of the Group's expected cashflows over the coming five years under both normal and stressed conditions. The stressed conditions, which were intended to represent severe but plausible scenarios, included modelling increases in interest rates, movements in the capital value of the property portfolio and a significant default on rental receipts from the Group's tenants. The stressed level of default from the Group's tenants assumed in the financial modelling was based on a detailed assessment of the financial position of each individual tenant or tenant group, the structure in place to secure rental income (such as the strength of tenants' balance sheets, rental guarantees in place or rental deposits held) and included consideration of the financial impact on each tenant from the COVID-19 pandemic.

Based on the results of the scenario analysis outlined above, the Board has 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 of its assessment.

Significant votes against previous resolutions

The Board notes that, although a special resolution in relation to the amendment of the Company's Articles of Association was passed at the AGM held on 2 December 2020 with 78.6 per cent of the votes cast being in favour, a significant number of votes were lodged against this resolution. This amendment was primarily to permit the Company to hold shareholder meetings on a virtual basis whereby shareholders are not required to attend the meeting in person at a physical location but may instead attend and participate using electronic means.

The Board engaged in consultation with some shareholders who together accounted for a significant proportion of the votes cast against the resolution. These shareholders had expressed concern that, in theory, the structure of virtual-only meetings could prevent meaningful shareholder engagement and allow management to more easily avoid difficult questions. In order to address such concerns, the Board confirmed at the time of the AGM, and re-iterates, its commitment to enabling shareholder attendance at meetings wherever possible and that it does not intend to restrict the ability of shareholders to physically attend shareholder meetings, except in limited situations such as where travel or congregation in a physical location at the date of the meeting is forecast to be difficult, dangerous or otherwise restricted by government guidance or legislation.

Resolutions to be proposed at the AGM

Directors' remuneration report

The Directors' remuneration policy and annual report, which can be found on pages 47 to 49, provide detailed information on the remuneration arrangements for the Directors of the Company. Included is the Directors' Remuneration Policy which shareholders approved at the AGM in November 2019 and which will again be put to shareholders at the AGM in 2022. Shareholders are requested to approve the Directors' Annual Report on Directors' Remuneration for the year ended 30 June 2021 (resolution 2).

Dividend policy

The Company's dividend policy is set out on page 31. In order to be able to continue paying a consistent dividend on a regular basis, and to ensure that sufficient distributions are made to meet the Company's REIT status, the Company intends to continue to pay all dividends as interim dividends. Recognising that this means that shareholders will not have the opportunity to vote on a final dividend, the Company will instead propose a non-binding resolution to approve the Company's dividend policy at the AGM (resolution 3). The Directors anticipate that such non-binding resolution to approve the Company's dividend policy will be proposed annually.

Auditor

The Independent Auditor's Report can be found on pages 50 to 55. Ernst & Young LLP ('EY') has indicated its willingness to continue in office and a resolution will be proposed at the AGM to re-appoint EY as Auditor until the conclusion of the AGM to be held in 2022 (resolution 4).

A separate resolution will be proposed to authorise the Directors to determine the Auditor's remuneration (resolution 5).

Election of Directors

As explained in more detail on page 39, each Director is subject under the Articles to election by shareholders at the AGM following the appointment and, by policy of the Board, by annual re-election thereafter. Resolutions 6 to 9 therefore propose each of the relevant Directors for election/re-election. The biographies of each of the Directors, which include the skills and experience each Director brings to the Board for the long-term sustainable success of the Company, are detailed on pages 26 and 27. Having considered the knowledge, experience and contribution of each Director putting themselves forward the Board has no hesitation in recommending their election/re-election to shareholders.

Resolutions to be proposed at the AGM continued

Share Issuance Authority

The Directors are seeking authority to allot additional new shares which would not require the publication of a prospectus. Resolution 10 will, if passed, authorise the Directors to allot new shares of £0.01 each up to an aggregate nominal amount representing 10% of the issued shares at the date of the passing of resolution 10. Based on the shares in issue at 19 October 2021, this resolution would therefore authorise the Directors to allot up to 62,023,734 ordinary shares.

In accordance with the provisions of the Company's Articles of Association and the Listing Rules, the directors of a premium listed company are not permitted to allot new shares (or grant rights over shares) for cash at a price below the net asset value per share of those shares without first offering them to existing shareholders in proportion to their existing holdings. Resolution 11, which is a special resolution, seeks to provide the Directors with the authority to issue shares of £0.01 each or sell shares held in treasury on a non-pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount representing 10% of the issued ordinary share capital of the Company at the date of the passing of resolution 11.

The authorities granted under resolutions 10 and 11 will expire at the conclusion of the next AGM of the Company after the passing of the resolutions, expected to be held in November 2022, or on the expiry of 15 months from the passing of the resolutions, unless they are previously renewed, varied or revoked. It is expected that the Company will seek these authorities on an annual basis. The authorities sought under resolutions 10 and 11 will only be used to issue shares at a premium to net asset value and only when the Directors believe that it would be in the best interests of shareholders as a whole to do so.

Authority to Buyback Ordinary Shares

Given the Company is engaged in growth, subject to market conditions, it is unlikely that the Directors will buy back any ordinary shares in the near term. Thereafter any buy back of ordinary shares will be subject to the Companies Act 2006 (as amended), the Listing Rules and within guidelines established by the Board from time to time (which will take into account the income and cash flow requirements of the Company).

Resolution 12 will be proposed as a special resolution and seeks to provide the Directors with the authority to purchase up to 92,973,578 ordinary shares or, if less, the number representing approximately 14.99% of the Company's ordinary shares in issue at the date of the passing of resolution 12. Any shares purchased by the Company may be cancelled or held in treasury. The Company does not currently hold any shares in treasury.

For each ordinary share, the minimum price (excluding expenses) that may be paid on the exercise of this authority will not be less than the nominal value of each ordinary share at the date of purchase. Under the Listing Rules, the maximum price that may be paid on the exercise of this authority must not exceed the higher of: (i) 105% of the average of the middle market quotations (as derived from the Daily Official List of the London Stock Exchange) for the shares over the five business days immediately preceding the date of purchase; and (ii) the higher of the last independent trade and the highest current independent bid on the trading venue on which the purchase is carried out.

This authority will expire at the conclusion of the next AGM of the Company after the passing of this resolution unless it is previously renewed, varied or revoked.

Notice for General Meetings

Resolution 13 is being proposed to reflect the provisions of the Companies Act 2006 relating to meetings and the minimum notice period for listed company General Meetings being increased to 21 clear days, but with an ability for companies to reduce this period to 14 clear days (other than for AGMs), provided that the Company offers facilities for shareholders to vote by electronic means and that there is an annual resolution of shareholders approving the reduction in the minimum period for notice of General Meetings (other than for AGMs) from 21 clear days to 14 clear days. The Board is therefore proposing resolution 13 as a special resolution to ensure that the minimum required period for notice of General Meetings of the Company (other than for AGMs) is 14 clear days.

The approval will be effective until the earlier of 15 months from the passing of the resolution or the conclusion of the next AGM of the Company at which it is intended that a similar resolution will be proposed. The Board intends that this flexibility of a shorter notice period to be available to the Company will be used only for non-routine business and only where needed in the interests of shareholders as a whole.

Recommendation

The Directors consider each resolution being proposed at the Annual General Meeting to be in the best interests of the Company and its shareholders as a whole and they unanimously recommend that all shareholders vote in favour of them, as they intend to do in respect of their own beneficial holdings of shares which amount in aggregate to 150,455 ordinary shares representing approximately 0.02 per cent of the current issued share capital of the Company.

Directors' Deeds of Indemnity

During the year ended 30 June 2021, the Company entered into updated deeds of indemnity in favour of each of the Directors, with a deed of indemnity in favour of Mr Niblett also being entered into on his date of appointment. The deeds give each Director the benefit of an indemnity to the extent permitted by the Companies Act 2006 against liabilities incurred by each of them in the execution of their duties and the exercise of their powers. A copy of each deed of indemnity is available for inspection at the Company's registered office during normal business hours and will be available for inspection at the Annual General Meeting. The Company also maintains directors' and officers' liability insurance.

Conflicts of Interest

Under the Companies Act 2006 a Director must avoid a situation where he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a Director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles of Association contain a provision to this effect. The Company's Articles of Association give the Directors authority to approve such situations. The Company maintains an up-to-date register of Directors' conflicts of interest which have been disclosed to, and approved by, the other Directors. This register is considered at each scheduled Board meeting. The Directors are required to disclose to the Company Secretary any changes to conflicts or any potential new conflicts.

Depositary

IQ EQ Depositary (UK) Limited (the 'Depositary') acts as the Group's depositary in accordance with the AIFM Directive. The Depositary's responsibilities, which are set out in an Investor Disclosure Document available on the Company's website, include cash monitoring, record keeping and verification of non-custodial assets and general oversight of the Group's portfolio. The Depositary receives for its services a fee based on the value and activity of the property portfolio, payable quarterly. For the year ended 30 June 2021, the fees paid totalled £135,000.

Other Companies Act 2006 Disclosures

The rules for appointment and replacement of Directors are contained in the Articles of Association of the Company. In respect of retiral by rotation, the Articles of Association provide that each Director is required to retire at the third annual general meeting after the annual general meeting at which last elected. As mentioned on page 31, the Board has agreed that all Directors will retire annually.

Any amendment of the Company's Articles of Association and powers to issue and buy back shares require shareholder authority.

There are no agreements between the Company and the Directors providing for compensation for loss of office that occurs because of a takeover bid.

Future Developments of the Company

The future success of the Company in pursuit of its investment objective is dependent primarily on the performance of its investments and the outlook for the Company is set out in the Chairman's Statement on pages 4 and 5 and the Investment Manager's Report on pages 12 to 13.

Environmental, Social and Governance Principles

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration in relation to investment decisions taken on behalf of the Group. Further details are contained on pages 8 and 9 and in the Corporate Governance Statement on page 41.

Greenhouse Gas Emissions/Streamlined Energy and Carbon Reporting

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions. As the Group has entered into operational leases on its property portfolio, the Company does not have operational control over these properties and therefore assesses that the tenant should report on any carbon emissions associated with the operation of the care homes. Following this assessment, the Group is categorised as a lower energy user under the HM Government Environmental Reporting Guidelines March 2019 ('the Guidelines') and is not required to make the detailed disclosures of energy and carbon information set out within the Guidelines.

Taskforce on Climate-related Financial Disclosures ('TCFD')

The Company acknowledges the recommendations of the Financial Stability Board TCFD to improve and increase reporting of climate-related financial information and will work towards mitigating, where appropriate, the physical climate risks and opportunities arising in the property portfolio.

Modern Slavery Act 2015

As an investment company with no employees or customers and which does not provide goods or services in the normal course of business, the Company considers that it does not fall within the scope of the Modern Slavery Act 2015 and it is not, therefore, obliged to make a human trafficking statement. The Company's own supply chain which consists predominantly of professional advisers and service providers in the financial services industry, is considered to be low risk in relation to this matter.

Criminal Finances Act 2017

The Company has a zero tolerance policy to tax evasion and the facilitation of tax evasion. The Company is fully committed to complying with all legislation and appropriate guidelines designed to prevent tax evasion and the facilitation of tax evasion in the jurisdictions in which the Company, its service providers and business partners operate.

The Company is subject to the Criminal Finances Act 2017 and has adopted a policy, endorsed by the Board, designed to prevent tax evasion and the facilitation of tax evasion. Our policy establishes a culture across the Company and in relation to our service providers and other counterparties, in which tax evasion and the facilitation of tax evasion is unacceptable. The policy is based on a detailed risk assessment undertaken by the Board annually.

UK Bribery Act 2010

In order to ensure compliance with the UK Bribery Act 2010, the Directors confirm that the Company follows a zero tolerance approach towards bribery, insofar as it applies to any Directors of the Company or employee of the Investment Manager or any other organisation with which the Company conducts business, and a commitment to carry out business openly, honestly and fairly.

The Board also ensures that adequate procedures are in place and followed in respect of the appointment of third-party service providers and the acceptance of gifts and/or hospitality.

Financial Instruments

The Company's financial instruments comprise its cash balances, bank debt and debtors and creditors that arise directly from its operations such as deposits held on behalf of tenants and accrued rental income. The financial risk management objectives and policies arising from its financial instruments and the exposure of the Company to risk are disclosed in note 17 to the Consolidated Financial Statements.

Annual General Meeting

The Company is required by law to hold an Annual General Meeting and it will be held at the offices of Dickson Minto W.S., 16 Charlotte Square, Edinburgh EH2 4DF on 14 December 2021 at 4.00 p.m. The Notice of Annual General Meeting is set out on pages 87 to 89.

We would strongly encourage all shareholders to make use of the proxy form provided in order to lodge your votes. Shareholders are also encouraged to raise any questions or comments they may have in advance of the AGM through the Company Secretary (info@targetfundmanagers.com). These will be relayed to the Board and either the Company Secretary or the Board will respond in due course either directly or by making available a summary of responses to any frequently asked questions on the Company's website.

On behalf of the Board

Malcolm Naish
Chairman
19 October 2021

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the Companies Act 2006 and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, in relation to the Consolidated Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report in accordance with applicable law and regulations. The Directors consider the Annual Report and the Financial Statements, taken as a whole, provide the information necessary to assess the Company's position, performance, business model and strategy and are fair, balanced and understandable.

Directors' responsibility statement under the disclosure guidance and transparency rules

To the best of our knowledge:

- the Consolidated Financial Statements, prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, 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 taken as a whole; and
- the Annual Report, including the Strategic Report and the Directors' Report, includes a fair review of the development and performance of the business and the 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.

Disclosure of information to the auditor

The Directors confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

On behalf of the Board

Malcolm Naish
Chairman
19 October 2021

Corporate Governance Statement

Welcome to the corporate governance section of the Annual Report. The aim of this section is to set out the framework under which the independent Board, and its various sub-committees, ensure that both the Company and the service providers acting on its behalf make appropriate decisions and undertake actions in line with the interests of the Company's stakeholders.

Malcolm Naish
Chairman

Introduction

The Board of Target Healthcare REIT plc has considered the Principles and Provisions of the AIC Code of Corporate Governance ('AIC Code'). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the 'UK Code'), as well as setting out additional Provisions on issues that are of specific relevance to the Company.

The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council, provides more relevant information to shareholders. The Company has complied with the Principles and Provisions of the AIC Code. The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies. The UK Code is available on the website of the Financial Reporting Council: www.frc.org.uk

The Board

The Board is responsible for the effective stewardship of the Group's affairs and reviews the schedule of matters reserved for its decision, which are categorised under various headings. These include investment strategy, investment policy, finance, risk, investment restrictions, performance, marketing, adviser appointments and the constitution of the Board. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters which are all reviewed regularly. The Board as a whole, through the Investment Committee, is responsible for authorising all purchases and sales within the Group's portfolio and for reviewing the quarterly independent property valuation reports produced by Colliers International Healthcare Property Consultants Limited.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting, the Board reviews the Group's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting investment and gearing limits within which the Investment Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Investment Manager.

The table below sets out the number of scheduled Board and Committee meetings held during the year and the number of meetings attended by each Director. This includes a two-day strategy meeting held virtually by the Board during October 2020 in order to consider strategic issues. In addition to these scheduled meetings, there were a further 25 Board and Board Committee meetings held during the year. These additional meetings included regular updates with the Investment Manager and other appropriate advisers on significant matters arising from the COVID-19 pandemic to ensure that appropriate actions were taken on a timely basis.

	Board		Audit Committee		Investment Committee		Management Engagement Committee		Nomination Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Malcolm Naish	5	5	3	3	4	4	4	4	3	3	1	1
June Andrews OBE	5	5	3	3	4	4	4	4	3	3	1	1
Gordon Coull	5	5	3	3	4	4	4	4	3	3	1	1
Tom Hutchison	5	5	3	3	4	4	4	4	3	3	1	1
Alison Fyfe	5	5	3	3	4	4	4	4	3	3	1	1

Each of the Directors has signed a letter of appointment with the Group which includes twelve months' notice of termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also made available at annual general meetings.

Individual Directors may, at the expense of the Group, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Group maintains appropriate directors' and officers' liability insurance. The Board has direct access to company secretarial advice and services. The Company Secretary is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with.

Investment management

Target provides investment management and other services to the Group. Details of the arrangements between the Group and the Investment Manager in respect of management services are provided in the financial statements. The Board keeps the appropriateness of the Investment Manager's appointment under review. In doing so the Board reviews performance quarterly and considers the past investment performance of the Group and the capability and resources of the Investment Manager to deliver satisfactory investment performance in the future. It also reviews the length of the notice period of the investment management agreement ('IMA') and the fees payable to the Investment Manager, together with the standard of the other services provided.

During the year, through the Management Engagement Committee, the Board considered the appropriateness of the terms of the Investment Manager's appointment and concluded that:

- the level of fees payable to the Investment Manager, which were considered both in isolation and against a schedule of the fees payable across the Company's peer group prepared by the Company's brokers, remained appropriate. This conclusion took into account the tiered management fee structure which, following the equity issuance in March 2021, had reduced the management fee rate applicable to net assets in excess of £500 million. The assessment also took into consideration the previous amendment, with effect from 1 January 2018, which, given the continued outperformance of the Group's portfolio against the MSCI UK Annual Healthcare Property Index, has resulted in an overall reduction in the total management fees which would otherwise have been paid in each year since the amendment took effect;
- the specialist nature of the properties in which the Company invests requires a detailed knowledge of the sector, and that the nature of the asset class means that investment decisions tend to be long-term in nature, and that therefore the longer-term notice period which took effect in May 2020 remains appropriate; balancing the interests of the Company in supporting the performance of its incumbent Investment Manager against retaining the Company's ultimate sanction of being able to replace the Investment Manager; and
- the standard of other services provided remained appropriate.

The Directors are satisfied with the Investment Manager's ability to deliver satisfactory investment performance and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole.

Appointments, diversity and succession planning

Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next AGM following their appointment. The Company's Articles of Association require all Directors to retire by rotation at least every three years. However, in accordance with the recommendations of the AIC Code, the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

The Board believes in the benefits of having a diverse range of skills and backgrounds, including gender and length of service, on its Board of Directors. The current Board composition consists of four male and two female Directors. None of the current Directors come from an ethnic minority background. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed. However, as set out on page 31, the current Board succession plan does not envisage that any current Director will serve for significantly more than the nine-year period that the AIC Code considers could impair, or could appear to impair, a non-executive Directors' independence. This may, however, be adjusted for reasons of flexibility and continuity should this be recommended by the Nomination Committee and concluded by the Board to be in the best interests of the Company.

Whenever there are new appointments, these Directors receive an induction from the Investment Manager and Company Secretary on joining the Board. All Directors receive other relevant training, collectively or individually, as necessary.

Removal of Directors

The Company may by special resolution remove any Director before the expiration of his or her period of office.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. Mr Hutchison performs the role of Senior Independent Director. All the Directors have been assessed by the Board as remaining independent of the Investment Manager and of the Group itself; none has a past or current connection with the Investment Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Group that are likely to affect that judgement.

The basis on which the Group aims to generate value over the longer term is set out in its objective and investment policy as contained on pages 30 and 31. A management agreement between the Group and Target sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including investment and dividend policies, corporate strategy, gearing, corporate governance procedures and risk management, are reserved for the approval of the Board of Directors.

The Board meets at least quarterly and receives full information on the Group's investment performance, assets, liabilities and other relevant information in advance of Board meetings. Throughout the year a number of committees have been in place as detailed below. The committees operate within clearly defined terms of reference which are available on request or for inspection at the Company's registered office during normal business hours.

Audit Committee

The Board has established an Audit Committee, the role and responsibilities of which are set out in the report on pages 42 to 44.

Remuneration Committee

During the year, the Board established a Remuneration Committee, the role and responsibilities of which are set out in the report on page 47.

Management Engagement Committee

The Board has established a Management Engagement Committee which comprises all the Directors and which is chaired by Mr Naish. The Committee reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof on a regular basis. It also reviews the terms and quality of service received from other service providers on a regular basis. Further details of the work undertaken by the Management Engagement Committee in relation to the terms of appointment of the Investment Manager is set out on page 39.

Investment Committee

The Board has established an Investment Committee which comprises all the Directors and which is chaired by Mr Naish. The Committee reviews each investment paper prepared by the Investment Manager and is responsible for authorising all purchases and sales, and significant capital expenditure or asset management activities, within the Company's portfolio. The Investment Committee considered each investment paper as and when circulated by the Investment Manager, providing independent challenge where appropriate, and met quarterly to formally ratify the Committee's decision to approve or decline each of the investment recommendations proposed.

Nomination Committee

The Board has established a Nomination Committee which comprises all the Directors. Ms Fyfe was appointed as chair of the Nomination Committee with effect from 2 December 2020 and chaired all meetings held throughout the year. The Committee's terms of reference do not permit the Committee to be chaired by the Chair of the Board when considering the appointment of their successor. The Board considers that, given its size, it would be unnecessarily burdensome to establish a separate nomination committee which did not include the entire Board. This is considered appropriate given the Board consists solely of independent, non-executive Directors and ensures that all Directors are kept fully informed of any issues that arise.

The Nomination Committee is responsible for:

- reviewing and nominating candidates for the approval of the Board to fill vacancies on the Board of Directors and to lead the process for appointments, including the selection and appointment of any external recruitment consultant;
- considering and reviewing the composition and balance of the Board;
- ensuring that plans are in place for orderly succession to the Board and overseeing the development of a diverse pipeline for succession; and
- reviewing the re-appointment of Directors, as they fall due for re-election, under the terms of their appointment and the AIC Code, and making recommendations to the Board as considered appropriate.

All of the Nomination Committee's responsibilities have been carried out over the period of review.

The Nomination Committee met on three occasions throughout the year to ensure that the plans in place for an orderly succession to the Board, as set out on page 31, remained appropriate and to undertake the recruitment process for the Director appointed shortly after the year end. Similar to the process in place in the prior year regarding the appointment of Ms Fyfe, the Nomination Committee worked with an external recruitment consultant to determine the appropriate skills and experience required of the next appointee(s) and to agree the appropriate method of recruitment, selection and appointment. After considering applications, reviewing a long-list of candidates and conducting interviews with the short-listed candidates, the Committee recommended that Mr Niblett be appointed as a Director with effect from 25 August 2021.

Assessment of the Board and Committees

During the year, the performance of the Board, Committees and individual Directors was evaluated through an assessment process led by an external facilitator, Fletcher Jones Limited. This process was tailored to the specific environment, operating style and strategic goals and challenges faced by the Company and involved each Director completing a confidential survey, followed by private one-to-one conversations between the external facilitator and each director and with representatives of the Company's Investment Manager, broker and legal adviser. The external facilitator was paid a fee in relation to this engagement and, other than also being engaged to undertake an independent review of the Directors' remuneration, as described on page 48 and in relation to which Fletcher Jones received a separate fee, has no other connection or conflict of interest with the Company.

A formal report of their findings was provided by the external facilitator to, and considered by, the Nomination Committee. This presented an objective view on the current working of the Board, as well as the strengths of the current Board together with any potential gaps and areas that could further strengthen the working of the Board. The report also considered the challenges, opportunities and strategic direction of travel anticipated over the near to medium-term. The main findings of the external evaluation were:

- that the Board was operating well, with skill and focus on all the areas of importance; including proactive consideration of the Company's performance, risk profile and future growth;
- that the Directors formed a harmonious and supportive Board with a good relationship with a well-performing and values-driven Investment Manager;
- that the Board had identified the main matters for consideration over the following twelve months, including continued consideration of the impact of COVID-19, the continued growth of the Company whilst maintaining the quality and differentiation of its portfolio, and engaging and reporting further on ESG matters; and
- that the Board should continue to consider succession planning, in relation to both the Board and the Investment Manager, to ensure that the current effective running of the Company was maintained.

The conclusion from the appraisal process conducted in relation to the year ended 30 June 2021 was that the Board and each committee was operating effectively, with an appropriate and sufficient balance of experience and skills. The Board anticipates having an externally facilitated Board evaluation conducted at least every three years.

Relations with shareholders

The Group proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports from the Investment Manager and Broker on the views of shareholders, and the Chairman and other Directors make themselves available to meet shareholders when required to discuss the Group's business and address shareholder queries. The Chairman has held a number of discussions, and entered into correspondence, with shareholders over the course of the year on specific areas of interest, such as the resolutions proposed at the AGM, the level and structure of the Group's management fees and the Group's responsible investment policies. It is expected that such meetings will continue to be made available although, depending on any prevailing restrictions on travel and/or guidance on social distancing, this may be through the use of video conferencing facilities.

The Notice regarding the Annual General Meeting is included on pages 87 to 89. It is currently intended that the AGM will be held physically at the offices of Dickson Minto, 16 Charlotte Square, Edinburgh EH2 4DF. However, as set out on page 36, shareholders are encouraged to lodge their votes either by use of the proxy form provided, or by electronic means, and to submit any questions they may have for the Directors or Investment Manager in advance through the Company Secretary (info@targetfundmanagers.com). The Annual Report and Notice of Annual General Meeting are posted to shareholders at least 21 clear days before the Annual General Meeting.

Environmental, Social and Human Rights Issues

Responsible Investment and Environmental, Social and Governance ('ESG') considerations are core values of the Group and its Investment Manager. These are considered in more detail on pages 8 and 9.

- ESG considerations lie at the heart of the Group's approach because of our belief that a strong care ethos is essential for the long-term health of our investments. The Investment Manager commits extensive resources to incorporating ESG (and responsible investing principles) throughout their investment and decision-making processes, both at the time of the acquisition of any asset and on an ongoing basis.
- Before acquiring any home, the Investment Manager reviews on a granular level, inter alia: the position of the home in the community and how the home engages with its community, the building lay-out and facilities, the natural environment of the home, the management team and general governance shown by the tenant as well as any relevant ratings by regulatory bodies such as the Care Quality Commission.
- Once the Group has acquired a care home, the Investment Manager undertakes regular reviews of the environmental, social, governance and ethical policies that the home has in place and (to the extent possible) their adherence to these policies in the delivery of their services.
- The Investment Manager's role as an engaged landlord includes careful monitoring of the home and ongoing dialogue with management. In usual circumstances, the Investment Manager will visit every home at least every six months, occasionally visit the properties unannounced to gauge the culture and engaging with tenants who wish to improve their homes, potentially providing support and funding for this. During the COVID-19 pandemic, the Investment Manager has continued to stay in touch with its tenants in order to provide support and to share market practice and published guidance, where appropriate.
- The Group's vision of care includes promoting the conservation, protection and improvement of the physical and natural environments surrounding care homes not least because this makes the care home more attractive for both tenants and residents.

Stewardship Code

Following the Financial Reporting Council's publication of The UK Stewardship Code 2020 (the 'Stewardship Code'), which extended the application of the previous code to include investment properties, the Investment Manager completed an application to become a signatory to the Stewardship Code. The Investment Manager was successful in its application and was included in the first list of signatories to the Stewardship Code published by the Financial Reporting Council on 6 September 2021. The Investment Manager's Stewardship Code Statement of Compliance for the year ended 31 December 2020 is available on its website at www.targetfundmanagers.com.

Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Stewardship Code sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

On behalf of the Board

Malcolm Naish
Chairman
19 October 2021

Report of the Audit Committee

Welcome to the Report of the Audit Committee. During a year of continuing uncertainty, this report sets out the role, responsibilities and actions taken by the Audit Committee to ensure that the suitable controls continue to operate and that appropriate financial information continues to be issued on a timely basis to the Company's stakeholders.

Gordon Coull
Chair of the Audit Committee

Composition of the Audit Committee

An Audit Committee chaired by Mr Coull has been established with written terms of reference which are reviewed at each meeting and which are available on request. The Audit Committee currently comprises all Directors. The Board will consider each Director's membership of the Audit Committee on a case-by-case basis but, in general, believes that, given the Group's size, a committee which includes all Directors is appropriate and will enable all Directors to be kept fully informed of any issues that arise.

The Board consider that the Chairman's experience of the property sector is invaluable to the Audit Committee, particularly in regard to assessing and providing challenge to the external valuation of the Group's property portfolio, and therefore, in line with the AIC Code, the Board believes it appropriate that the Chairman remains a member of the Committee.

At least one member of the Audit Committee has recent and relevant financial experience and the Committee as a whole has competence relevant to the sectors in which the Group operates; which are considered to be healthcare, property and investment.

Role of the Audit Committee

The Committee's responsibilities are shown in the table below together with a description of how they have been discharged. More detailed information on certain aspects of the Committee's work is given in the subsequent text.

Responsibilities of the Audit Committee	How they have been discharged
Monitoring the integrity of the half-year and annual financial statements, and any formal announcements relative to the Group's financial performance, including the appropriateness of the accounting policies applied and any significant financial reporting judgements and key assumptions.	The Committee has met three times during the year to: – review the contents of the half-yearly report, and to consider the audit plan and the proposed audit fee; – consider, in advance of the Company's year end, any significant changes to accounting standards or other disclosure requirements and any significant financial reporting judgements and key assumptions expected to apply at the Group's year end; and – review the contents of the Annual Report. The Investment Manager and Company Secretary attended each of these meetings, with the Auditor also attending the meetings at which the audit plan and the contents of the half-yearly and annual reports were reviewed. The significant matters considered by the Group are listed on pages 45 and 46. In addition, during the year, the Committee kept under review the Investment Manager's plan in relation to the implementation of a new financial accounting and reporting system, the statutory financial reporting of each of the Group's subsidiaries for the period ended 30 June 2020 and the internal financing structure of the Group.
Assessment of the prospects of the Company, taking account of the Company's position and principal risks, and consideration of the period of time over which such evaluation can be made.	The Committee has reviewed the assessment described in more detail under the section 'Viability Statement' within the Directors' Report, and the underlying data on which such assessment was based, to ensure that the work undertaken, the conclusions reached and the disclosures included within the Annual Report were appropriate.

Responsibilities of the Audit Committee	How they have been discharged
Evaluation of the effectiveness of the internal controls and risk management systems and procedures.	The Investment Manager maintains a risk matrix which summarises the Group's key risks. The risk matrix is considered by the Directors at least semi-annually, with key principal and emerging risks also discussed at the Group's annual two-day strategy meeting. The Committee appoints a reporting accountant to review and report on the operation of certain internal controls including those over significant IT functions in place within the Investment Manager. This review is completed annually, although the scope of work is amended each year, by direct discussion between the Committee and the reporting accountant, to focus on areas that the Committee believes to be of highest risk or where there has been significant change over the year under review. In the current year, this independent review focused on the continued operation of key controls over rental collection, property valuations, NAV and financial statement production, analysis of tenant management information, the IT environment and risk management. In addition the review included consideration of the Investment Manager's implementation plan for a new and improved accounting system. From a review of the matrices, the outcome of the procedures undertaken by the reporting accountant and the regular management information received by the Board and Committees, combined with discussion with the Investment Manager and Company Secretary, the Committee has satisfied itself on the effectiveness of the risk and control procedures.
Consideration of dividend calculations both in relation to PID/non-PID payments made by the Company and other dividends paid internally within the Group.	The Committee has reviewed the calculation of the split of distributions between PID and non-PID, including consideration of the suitability of the allocation of the costs of the Group between its property rental business and its residual business. The Committee has reviewed the methodology followed by the Investment Manager, and directors of the subsidiaries, in determining and recommending the level of other dividends paid internally within the Group.
Consideration of the narrative elements of the annual financial report, including whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.	The Committee has reviewed the content and presentation of the Annual Report and ensured that it achieves the three criteria opposite. As part of this review, the Committee considered the nine characteristics of good corporate reporting set out in the FRC's Annual Review of Corporate Reporting.
Evaluation of reports received from the Auditor with respect to the annual financial statements and assessment of quality of the audit.	The Auditor's planning report, timetable and fee proposal were discussed with the Auditor in advance of work commencing, together with the areas of audit focus, the level of materiality and the audit work proposed to be undertaken. The Committee paid particular attention to any changes in accounting standards or in the nature of activities undertaken by the Group and ensured that the audit plan appropriately addressed these areas. The Committee specifically challenged the Auditors, at both the planning and reporting stage, in relation to the audit work undertaken in relation to any particular elements of judgement or estimation; including the property valuations and the credit loss allowance. The Committee specifically considered the external valuation of the Group's property portfolio, with the external valuers attending the meeting at which the annual results were discussed in order to present directly to the Committee a summary of their valuation process and any significant matters they wished to highlight either in relation to the valuation methodology generally or to specific individual properties or tenants. At the conclusion of the audit, the Committee discussed the audit results report with the Auditor, Company Secretary and Investment Manager. This review considered the quality of the audit through ensuring that the audit risks identified and the audit work undertaken did, in the opinion of the Audit Committee, capture and appropriately consider those matters which gave rise to the risk of material misstatement to the financial statements and disclosures. Further detail on the assessment of the quality of the audit is included in the section entitled 'The Auditor' on pages 44 and 45.
Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.	The Committee ensures, through its Legal Adviser, Investment Manager, Company Secretary and Auditor, that any developments impacting on the Company's responsibilities are tabled for discussion at Committee or Board meetings. The Committee ensured that the Company was fully compliant with the AIC Code. The Committee also ensured, through summaries provided at regular update meetings held by the Board during the COVID-19 pandemic, that the Group continued to be aware of, and remain compliant with, rapidly changing regulatory guidance.

Responsibilities of the Audit Committee	How they have been discharged
Management of the relationship with the external Auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their audit.	The Auditor attended the meetings of the Committee at which the Company's audit plan, half-yearly report and year end accounts were reviewed and also met separately with the chairman of the Committee on two occasions, firstly, to discuss the findings of their interim review and the audit plan for the year ahead and, secondly, to consider the findings of their annual audit. The scope of the audit was discussed at the planning stage along with the staffing and timing of audit procedures to ensure that an effective audit could be undertaken. The Committee has also reviewed the independence and objectivity of the Auditor and has considered the effectiveness of the audit, as set out in more detail in the section entitled 'The Auditor' below and on the following page.

Risk management and internal controls
The principal and emerging risks faced by the Group together with the procedures employed to manage them are described in the Strategic Report on pages 22 and 23.

Internal controls
The Board is responsible for the internal financial control systems of the Group and for reviewing their effectiveness. It has contractually delegated to external agencies the services the Group requires, but the Directors are fully informed of the internal control framework established by the Investment Manager to provide reasonable assurance on the effectiveness of internal financial control in the following areas:

- Income flows, including rental income, the assessment of the financial position of tenants and the appropriateness of credit loss impairments;
- Expenditure, including operating and finance costs;
- Raising finance, including debt facilities and equity fund-raising;
- Capital expenditure, including pre-acquisition diligence and authorisation procedures;
- Dividend payments, including the calculation of Property Income Distributions;
- Monitoring of covenants on loan facilities;
- Data security;
- The maintenance of proper accounting records; and
- The reliability of the financial information upon which business decisions are made and which is used for publication, whether to report Net Asset Values or used as the basis for a prospectus, a circular to Shareholders or the annual report.

As the Group has evolved, the Investment Manager has developed a system of internal controls covering the processes listed above. As referred to on page 43 in relation to the year ended 30 June 2021, the Group engaged a reporting accountant to undertake an overview of the control environment of the Investment Manager. This review focused on ensuring that any recommendations made following a similar review in the prior year had been implemented appropriately and checking the controls over any areas of significant change. No significant issues were noted.

Committee members receive and consider quarterly reports from the Investment Manager, giving full details of the portfolio and all transactions and of all aspects 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, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Investment Manager reports in writing to the Board on operations and compliance issues prior to each meeting, and otherwise as necessary. The Investment Manager reports directly to the Audit Committee concerning the internal controls applicable to the Investment Manager's investment and general office procedures, including information technology systems.

In addition, the Board keeps under its own direct control, through the Investment Committee, all property transactions including any significant capital expenditure. The Board also retains direct control over any decisions regarding the Group's long-term borrowings.

The review procedures detailed above have been in place throughout the year and up to the date of this report and the Board is satisfied with their effectiveness and that they are in accordance with the guidance in the Financial Reporting Council's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting' in so far as applicable given the Group's size and structure. There were no significant weaknesses or failings to report. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Investment Manager and the Administrator, and the work carried out by the Group's Reporting Accountant, provide sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary.

The Auditor
As part of the review of auditor independence and effectiveness, EY has confirmed that they are independent of the Group and have complied with relevant auditing standards. In reviewing EY's independence, the Committee noted that EY did not provide any non-audit services to the Group other than the review of the Group's Interim Report.

In evaluating EY's performance, the Audit Committee has taken into consideration the standing, skills and experience of the firm and of the audit team, along with their robustness and perceptiveness in their identification, consideration and reporting of the key accounting and audit judgements. The Committee assessed the effectiveness of the audit process through the quality of the formal reports it received from EY at the planning and conclusion of the audit, including the reasons for any variation from the original audit plan, together with the contribution which EY made to the discussion of any matters raised in these reports or by Committee members. The Committee also reviewed the FRC's Audit Quality Inspection Report on Ernst & Young LLP published in July 2021 and took into account any relevant observations made by the Investment Manager and Company Secretary. The Committee is satisfied that EY provides an effective independent challenge in carrying out its responsibilities.

EY has been the auditor to the Group since its launch in 2013. Following professional guidelines, the audit principal rotates after five years. The current audit principal is Caroline Mercer and the audit for the year ended 30 June 2021 constitutes the fourth year of her term. Having considered the effectiveness of the audit, the Audit Committee has recommended the continuing appointment of EY as the Group's auditor to the Board. The performance of the Auditor will continue to be reviewed annually taking into account all relevant guidance and best practice. After careful consideration, the Audit Committee will conduct a tender of audit services to the Group during the course of the year with the successful party being proposed for appointment at the 2022 AGM, in relation to the audit of the Group for the year ending 30 June 2023. This will correspond with both the fifth year of the term of the current audit principal and the tenth year of EY's term. The Audit Committee currently intends that EY will be invited to participate in the tender process.

In relation to the provision of non-audit services by the auditor, it has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance so as not to endanger the independence of EY as auditor. In this respect it considers that the provision of the non-audit service shown in the table below does not constitute such a threat.

Other than the review of the interim financial information, the auditors were not engaged to undertake any non-audit services either during the year or over the prior three-year rolling period. Different accountancy firms were engaged to provide tax advice and compliance, to act as Reporting Accountant in relation to the shares issued under the prospectus and to undertake the review of the internal controls within the Investment Manager. The Audit Committee will also seek to ensure that the provision of non-audit services will not endanger the independence of any party that the Company may wish to invite to participate in the next audit tender.

Service provided	Fee (£'000)
Statutory audit of the Company for the year ended 30 June 2021	104
Statutory audit of the Company's subsidiaries for the year ended 30 June 2021	194
Review of interim financial information for the six months ended 31 December 2020	15
Total	**313**

The fees quoted above are inclusive of irrecoverable VAT.

Annual Report and Financial Statements

The Board of Directors is responsible for preparing the Annual Report and financial statements. The Audit Committee advises the Board on the form and content of the Annual Report and financial statements, any issues which may arise and any specific areas which require judgement. The Audit Committee considered certain significant issues during the year. These are noted in the table below.

Matter	Audit Committee action
Valuation and ownership of the investment property portfolio The Group's property portfolio accounted for 88.7 per cent of its total assets as at 30 June 2021. Although valued by an independent firm of valuers, Colliers International Healthcare Property Consultants Limited ('Colliers'), the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group's net asset value. Further information about the property portfolio and inputs to the valuations is set out in notes 9 and 10 to the Consolidated Financial Statements.	The Investment Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation process throughout the year and the Directors had the opportunity to discuss the detail of each of the quarterly valuations with the Investment Manager. The Committee discussed the valuation as at 30 June 2021 directly with Colliers to ensure that they understood the assumptions underlying the valuation and the sensitivities inherent in the valuation and any significant area of judgement. The Committee also discussed with the Auditor the work performed to confirm the valuation and ownership of the properties in the portfolio and noted the report of the Depositary, particularly the sections regarding the Depositary's responsibilities and work in relation to asset verification. The Committee considered the significant estimates and judgements inherent in the valuation process and considered how the auditors had challenged these by discussing the outcome of the review of the property valuations directly with the Auditor's valuation specialists; focussing particularly on any areas of difference between the judgement of the external valuers and the auditors.

Income recognition Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share, its level of dividend cover and compliance with REIT regulations.	The Audit Committee reviewed the Investment Manager's processes and controls around the recording of investment income. It also compared the final level of income received for the year to forecasts. Particular attention was paid to any variable income recognised, such as that arising on leases where the rental level paid may be partially based on the earnings of the underlying tenant operator, and considered the basis of calculation of the Group's estimated credit losses. The Committee particularly considered the accounting treatment of a payment made by an outgoing tenant as part of an asset management initiative. The Audit Committee assessed the appropriateness of the accounting treatment of the fixed rental uplifts and other lease incentives and how this impacted the Property Income component of dividends paid or payable by the Company.
Internal Controls Incomplete design or ineffective operation of internal controls may result in a loss of the Group's assets, a misstatement of the financial statements or a breach of legal, tax or other regulations.	The Audit Committee reviewed the Group's internal control environment, considering its completeness and efficiency and identifying any areas where the Board, or Committees, did not have direct means of ensuring that the internal controls in place within the Investment Manager were operating as designed. As described on page 43, an external Reporting Accountant was appointed to complete a review of certain aspects of the control environment of the Investment Manager, based on a scope of work agreed directly between the Reporting Accountant and the Audit Committee, and they reported their findings directly to the Audit Committee. There were no material control deficiencies or weaknesses identified through this review.
Impact of COVID-19 Given the potentially significant impact of COVID-19 on the economic conditions in which the Group was operating, the Audit Committee kept under review the requirement to make any additional market announcements and have placed a particular focus on the appropriateness of continuing to adopt the going concern basis in preparing the financial statements for the year ended 30 June 2021.	The Directors continued to meet regularly throughout the year to consider the economic and market conditions within which the Company was operating and, under the guidance of the Chairman of the Audit Committee, to consider the necessity, content and timing of announcement of financial information to the market, both to meet the Company's regulatory obligations and to keep investors informed. The Audit Committee also considered the assessment of the Company's going concern position, as set out in more detail in the accounting policies on page 61 and the viability statement on pages 32 and 33. The Audit Committee considered the FCA's published guidance, along with emerging market practice, in conducting this assessment.

The Audit Committee noted that there were no unadjusted errors reported by the Auditors or any other indication of systemic weaknesses in the Group's internal controls or financial reporting processes and that no adjustments were required to the financial statements as presented.

Conclusion with respect to the Annual Report and Financial Statements

The Audit Committee has concluded that the report and financial statements for the year ended 30 June 2021, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document, discussion, and enquiries of the various parties involved in the preparation of the report and financial statements.

Gordon Coull
Chairman of the Audit Committee
19 October 2021

Directors' Remuneration Report

Welcome to the Directors' Remuneration Report. The aim of this report is to set out the policy used by the Company in setting the Directors' remuneration, as well as declaring the actual fees paid during the year and expectations for the following twelve months. In the current year, the Committee engaged an external remuneration consultant to ensure that the fees paid to the non-executive directors are at an appropriate level.

Alison Fyfe
Chair of the Remuneration Committee

Composition and Role of the Remuneration Committee

During the year, a Remuneration Committee chaired by Ms Fyfe was established with written terms of reference. These are reviewed at each meeting and are available on request. The Remuneration Committee is currently comprised of all Directors which is considered appropriate given the Group's size and as the Board comprises only independent non-executive Directors. The Company has no executive Directors or employees. Prior to her appointment as chair of the Committee, the Board concluded that Ms Fyfe had relevant experience and understanding of the Company.

The role of the Remuneration Committee is to design remuneration policies and practices to support the Group's strategy and to promote its long-term sustainable success. The objective of such policy shall be to attract, retain and motivate non-executive Directors of the quality required to govern the Company successfully without paying more than is necessary, having regard to views of shareholders and other stakeholders. The policy shall be reviewed by the Committee at least annually to ensure its ongoing appropriateness and relevance.

The Committee shall recommend a level of remuneration for each of the Directors to the Board, within the limits set in the Articles of Association or as otherwise approved by the Company's shareholders.

Full details of the Group's policy with regards to Directors' fees, the fees paid to each Director during the year ended 30 June 2021 and the intended fees to be paid in relation to the forthcoming year are shown on the following page.

Remuneration policy

The Group's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Group properly and to reflect its specific circumstances. The policy also provides for the Company's reimbursement of all reasonable travel and associated expenses incurred by the Directors in attending Board and Committee meetings. There were no changes to the policy during the year and it is intended that this policy will continue to apply for the year ending 30 June 2022.

The fees for the Directors are determined within the limit set out in the Company's Articles of Association. The present limit is an aggregate of £250,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment setting out the terms and conditions of his or her appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for fifteen minutes prior to and during the forthcoming Annual General Meeting.

The terms of Directors' appointments provide that Directors should retire and be subject to election at the first Annual General Meeting after his or her appointment and, in accordance with the recommendations of the AIC Code, the Board has agreed that all Directors will retire annually and, if they wish, to offer themselves for re-election. There is no notice period and no provision for compensation upon termination of appointment.

Voting at Annual General Meeting on the Directors' Remuneration Policy

The Company has not received any direct communications from its shareholders in respect of the levels of Directors' remuneration. Shareholders last approved the Directors' Remuneration Policy at the Company's AGM held on 28 November 2019. 100 per cent of the votes cast were in favour of the resolution and votes withheld represented less than 0.002 per cent of the shares in issue. It is currently intended that the above policy will continue for a three-year period and will therefore next be considered at the AGM to be held in 2022.

Directors' Fees

The Board considers the level of Directors' fees at least annually. At the end of the current year, an external consultant was appointed to provide advice on the level of Directors' Remuneration in order to ensure that the level of remuneration remains in line with the market level necessary to attract, retain and motivate non-executive Directors of the quality required to govern the Company successfully. Both the remuneration and nomination committees consider this to be of particular importance at the current time given the ongoing implementation of the Directors' succession plan. This review was undertaken by Fletcher Jones Limited, a firm which was also appointed to undertake the external appraisal of the Board as reported in more detail on page 40. It is expected that external advice in relation to the level of Directors' remuneration will continue to be sought every three years.

As reported in the prior year, following a review by the Remuneration Committee of the level of fees paid by the Group's peer group and consultation with various of the Group's advisers in relation to their experiences of market practice at that time, the Board concluded that the level of Directors' fees paid by the Company was below that paid by other similar companies. However, mindful of the circumstances being faced by the healthcare sector and uncertainty over the general economic environment, it was considered appropriate to maintain fees at the existing level for the year ended 30 June 2021.

The independent external review recommended that the appropriate market level of fees would be £57,700 per annum for the Chairman, £44,600 per annum for the Audit Committee Chair and £39,200 per annum for the other Directors. This assessment considered the level of fees paid by the Company's peers, taking into consideration the significant differences in the size and structure of companies across the sector, and the expected workload of each of the Directors' roles, which is expected to be higher than the average investment company due to the requirement to approve each property acquisition and disposal and the complexities of tax and accounting matters that arise in relation to the underlying property assets. After careful consideration, the Remuneration Committee concluded that it was appropriate to increase the Directors' fee levels with effect from 1 July 2021. The fees approved by the Remuneration Committee which are, in aggregate, 6% lower than the external consultant's recommendation, are set out below:

	Year ending 30 June 2022 £'s	Year ended 30 June 2021 £'s
Chairman	50,000	44,000
Audit Committee Chair	44,000	39,000
Director	37,500	32,750

Annual Report on Directors' Remuneration

Directors' emoluments for the year (audited)

The Directors who served during the year received the following emoluments in the form of fees and, assuming there are no further changes to the members of the Board, or their appointed roles, during the forthcoming year, are expected to receive the following in respect of the year ending 30 June 2022. No other forms of remuneration or taxable benefits were paid during the year.

	Year ending 30 June 2022 (unaudited) £'s	Year ended 30 June 2021 (audited) £'s	Year ended 30 June 2020 (audited) £'s	Change in year ended 30 June 2021 %
Malcolm Naish (Chairman)	50,000	44,000	44,000	–
Gordon Coull (Audit Committee Chair)	44,000	39,000	39,000	–
June Andrews	37,500	32,750	32,750	–
Tom Hutchison	37,500	32,750	32,750	–
Alison Fyfe (appointed 1 May 2020)	37,500	32,750	5,459	600.0
Vince Niblett (appointed 25 August 2021)	31,250	–	–	–
Hilary Jones (retired 4 September 2019)	–	–	2,959	(100.0)
Craig Stewart (retired 4 September 2019)	–	–	2,959	(100.0)
Total	237,750	181,250	159,877	13.4

The remuneration paid in relation to each Director remained unchanged in the year ended 30 June 2021. The increase in aggregate is due primarily to the annualisation of the fee paid following the appointment of an additional Director, with Ms Fyfe being appointed towards the end of the prior financial year.

Relative importance of spend on pay

The table below compares the change in the level of Directors' remuneration compared to other expenses and distributions to shareholders.

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000	Change %
Aggregate Directors' remuneration	181	160	+13.4
Management fee and other revenue expenses*	11,130	9,525	+16.9
Distributions paid to shareholders in respect of the year	32,560	30,560	+6.5

* As an investment company with an external manager, the Group does not have any employees other than the Directors. The Directors therefore deem the level of the management fee and other revenue expenses, calculated in accordance with the Group's usual accounting policies, to be an appropriate measure to assist in understanding the relative importance of the Group's spend on Directors' pay.

Directors' shareholdings (audited)

The Directors who held office at the year-end and their interests (all of which were beneficially held) in the ordinary shares of the Company as at 30 June 2021 were as follows:

	Ordinary shares 30 June 2021	Ordinary shares 30 June 2020
Malcolm Naish	**45,001**	45,001
June Andrews	**–**	–
Gordon Coull	**35,454**	35,454
Tom Hutchison	**70,000**	70,000
Alison Fyfe	**–**	–
Total	**150,455**	150,455

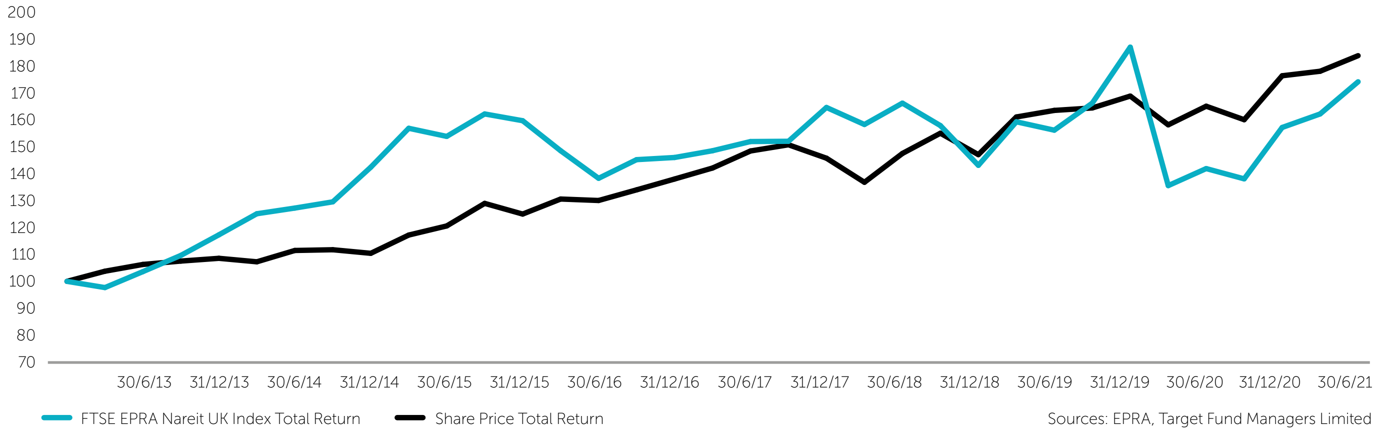
There have not been any changes in the Directors' interests between 30 June 2021 and 19 October 2021. Mr Niblett did not hold any ordinary shares in the Company at the date of his appointment nor at 19 October 2021.

Group performance

The Board is responsible for the Group's investment strategy and performance, although the management of the Group's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to on page 28.

The graph below compares, from launch to 30 June 2021, the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the total return on the FTSE EPRA Nareit UK Index. The index was chosen for comparative purposes as it represents the performance of real estate companies and REITs listed on the London Stock Exchange; however, it should be noted that this index will contain types of property assets that may perform significantly differently from the care home properties within the Group's investment remit.

Share Price Total Return and the FTSE EPRA Nareit UK Index Total Return Performance Graph (rebased to 100 at 7 March 2013)



Sources: EPRA, Target Fund Managers Limited

The share price total return performance included in the above graph is based on the listed share price of Target Healthcare REIT Limited to 7 August 2019 and, following the reconstruction of the Group to introduce a new listed parent company, Target Healthcare REIT plc thereafter.

Voting at Annual General Meeting on the Annual Directors' Remuneration Report

At the Company's previous AGM, held on 2 December 2020, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2020. 100 per cent of the votes cast were in favour of the resolution and votes withheld represented less than 0.3 per cent of the shares in issue.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting to be held on 14 December 2021.

On behalf of the Board

Alison Fyfe
Director
19 October 2021

Independent Auditor's Report
to the members of Target Healthcare REIT plc

Opinion

In our opinion:

- Target Healthcare REIT plc's Group financial statements and parent company financial statements (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 30 June 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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.

We have audited the financial statements of Target Healthcare REIT plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 June 2021 which comprise:

Group	Parent company
Consolidated Statement of Comprehensive Income for the year ended 30 June 2021	Statement of Financial Position as at 30 June 2021
Consolidated Statement of Financial Position as at 30 June 2021	Statement of Changes in Equity for the year ended 30 June 2021
Consolidated Statement of Changes in Equity for the year ended 30 June 2021	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Cash Flows for the year ended 30 June 2021	
Related notes 1 to 24 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 Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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 FRS 101 "Reduced Disclosure Framework".

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 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 going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We confirmed our understanding of the Group's going concern assessment process and engaged with the Directors and the Company Secretary to determine if all key factors were considered in their assessment.
- We inspected the Directors' assessment of going concern, including the revenue and expenses forecast, for the period to 31 December 2022 which is at least twelve months from the date the financial statements are authorised for issue. In preparing the revenue and expenses forecast, the Group has concluded that it is able to continue to meet its ongoing costs as they fall due.
- We have reviewed the factors and assumptions, including the impact of the COVID-19 pandemic, as applied to the revenue and expenses forecast. We considered the appropriateness of the methods used to calculate the revenue and expenses forecast, and determined, through testing of the methodology and calculations, that the methods, inputs and assumptions utilised were appropriate to be able to make an assessment for the Group.
- In relation to the Group's borrowing arrangements, we inspected the Directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Group's portfolio. We recalculated the Group's compliance with debt covenants in the scenarios assessed by the Directors and performed reverse stress testing in order to identify what factors would lead to the Group breaching the financial covenants.
- We considered the mitigating factors included in the revenue forecasts and covenant calculations that are within the control of the Group.
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period to 31 December 2022, which is at least 12 months from when the financial statements are authorised for issue.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	– Incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives – Incorrect valuation or ownership, and the calculation of unrealised gains/(losses) of investment properties and properties held for sale
Materiality	– Overall Group materiality of £5.65 million which represents 1% of Group net assets.

An overview of the scope of the Group and parent company audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group and Parent Company. This enables us to form an opinion on the Consolidated and Parent Company financial statements. We take into account size, risk profile, the organisation of the Group and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the Group audit engagement team.

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) that we identified. These matters included 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate recognition of rental income including accounting for rental uplifts and lease incentives (£49.91 million, 2020: £44.24 million) (Refer to Report of the Audit Committee (page 46) and Accounting Policies (page 61)) The rental income receivable by the Group during the period is a significant factor in the Group's decision to make a dividend payment to shareholders. Rental income from the investment properties is recognised on an accrual basis with the exception of contingent rents which are recognised on a receipt basis. The lease agreements tend to have durations of multiple years and minimum and maximum fixed annual rental increase clauses. Leases may also include lease incentives such as rent-free periods. IFRS 16 'Leases' requires that lessors recognise lease payments as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit derived from the use of the underlying asset is diminished. During the year ended 30 June 2021, £49.91m (2020: £44.24m) has been recognised as rental income. Of this £41.17m (2020: £36.03m) has been recorded as revenue in the Consolidated Statement of Comprehensive Income and £8.74m (2020: £8.22m) as capital relating to fixed rental uplifts which are being spread over the applicable lease term. There is a risk of incomplete or inaccurate recognition of income through the failure to recognise the proper entitlements or applying the appropriate accounting treatment.	**We performed the following procedures:** We obtained an understanding of the processes and controls surrounding rental income recognition including accounting for rental uplifts and lease incentives by performing walkthrough procedures. We have reviewed the Group's accounting policies in respect of rental income recognition and ensured they have been consistently applied throughout the year and are in accordance with applicable accounting standards. We have verified 100% of the rental rates to lease agreements and recalculated the rental income. We re-performed the calculations of the rental adjustments required for fixed rental uplifts and lease incentives under IFRS 16 for all tenants and tested the allocation between revenue and capital. We agreed a sample of rental income recorded as received to bank statements. We tested that a sample of expected rent receipts had been recorded with reference to executed lease agreements to ensure completeness.	The results of our procedures identified no material misstatement in relation to the risk of incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives.

Independent Auditor's Report
to the members of Target Healthcare REIT plc continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation or ownership, and the calculation of unrealised gains/(losses) of investment properties and properties held for sale (£684.85 million; 2020: £617.58 million) (Refer to Report of the Audit Committee (page 45); Accounting policies (page 62); and Notes 9 and 10 to the Consolidated Financial Statements (pages 67 to 69)). The valuation of the properties held in the investment portfolio, and unrealised gains or losses on the investment portfolio are the key drivers of the Group's net asset value and total return. Incorrect pricing, including the judgement involved in the valuation of property investments could have a significant impact on the portfolio valuation and the return generated for shareholders. Failure to maintain proper legal title of the Group's Investments could result in assets not being recognisable within the Consolidated Statement of Financial Position. The valuation of investment property requires significant judgement and estimates by management and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements and estimates (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Consolidated Statement of Financial Position and in the Consolidated Statement of Comprehensive Income. The properties are valued externally on behalf of the Group by Colliers International Healthcare Property Consultants Limited ('Colliers') and recorded in the Consolidated Financial Statements at their carrying value, being the Colliers open market valuation adjusted for the impact of lease incentives and fixed rental uplifts. At 30 June 2021, the Group's investment portfolio consists of UK healthcare properties, with a market value of £677.53m (2020: £610.08m) and carrying value of £629.61m (2020: £570.09m), which is net of a deduction of £47.92m (2020: £40.00m) to account for lease incentives and fixed rental uplifts. The Group's investment portfolio also includes investment properties held for sale at a value of £7.32m (2020: £7.50m).	**We performed the following procedures:** We obtained an understanding of the processes and controls surrounding investment valuation, legal title and unrealised gains and losses by performing walkthrough procedures. We agreed the value of all the properties held at the year end to the open market valuations included in the valuation report provided by Colliers. We agreed a sample of inputs used by Colliers in the valuation to source data. We used our property valuation specialists to perform a review of the property valuations, which included: – A review of the assumptions used by Colliers in undertaking their valuation and an assessment of the valuation methodology adopted; – Discussions with Colliers which included a high-level overview of the portfolio, covenant strength of the tenants within the portfolio and historical rent cover for a sample of properties; and – A detailed assessment of a sample of the individual property valuations, including properties which were re-tenanted in the year, as at 30 June 2021 examining key valuation inputs and assumptions applied. Where our testing of models and model assumptions identified instances where valuations were towards the higher end of the expected range, we held further discussions with Colliers and management. In those discussions, we obtained detailed evidence including overall quality and specification of the properties, latest rental cover and trends, and both the location of the care home and desirability of the asset to support the explanations received. We concluded that all sampled valuations were not materially misstated. We reviewed the accounting policy and recalculated the adjustments made to the Colliers fair value in respect of lease incentives and rental smoothing, to validate the carrying value of investment property. We ensured the consolidated financial statements contain adequate disclosures regarding the methods and assumption used in the valuation, including the required sensitivity analysis under IFRS 13 'Fair value measurement'. We obtained direct confirmation from independent third parties of the investment properties and development sites held as at 30 June 2021. We agreed a sample of key transaction details (e.g. property and trade date) of purchases and sales recorded by the Administrator to legal agreements, completion statements and bank statements. We recalculated the unrealised gains/losses on investment properties as at the year-end using the book cost reconciliation.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation or ownership, and the calculation of unrealised gains/(losses) of investment properties and properties held for sale.

In the prior year, our auditor's report included a key audit matter in relation to the impact of COVID-19. The impact of COVID-19 on going concern continued to be relevant to the audit of the Group and we considered this as part of our overall work on going concern, which is set out under 'Conclusions relating to going concern'. The other elements of the prior year key audit matter have not been included as a separate key audit matter as it was determined that they did not have a significant impact on our audit strategy for this year's audit.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

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. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £5.65 million (2020: £4.94 million), which is 1% (2020: 1%) of Group's net assets. We believe that net assets provides us with materiality aligned to a key measurement of the Group's performance.

We determined materiality for the Parent Company to be £5.45 million (2020: £4.94 million), which is 1% (2020: 1%) of the Parent Company's net assets.

Performance materiality

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 assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £4.24m (2020: £3.71m). We have set performance materiality at this percentage due to our past experience of the audit that indicates a lower risk of misstatements, both corrected and uncorrected.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.28m (2020: £0.25m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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 course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Group's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Independent Auditor's Report
to the members of Target Healthcare REIT plc continued

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the 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; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

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 Group and 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; or
- a Corporate Governance Statement has not been prepared by the Group.

Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and parent company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:
- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 32;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 32 and 33;
- Directors' statement on fair, balanced and understandable set out on page 30;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 32;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 44; and;
- The section describing the work of the audit committee set out on pages 42 to 46.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 37, 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 and 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are International Accounting Standards in conformity with the Companies Act 2006, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union, FRS 101 "Reduced Disclosure Framework", the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the Association of Investment Companies' Code and Statement of Recommended Practice, Part 12 of the Corporation Tax Act 2010 and the Companies (Miscellaneous Reporting) Regulations 2018.
- We understood how the Group is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of documented policies and procedures.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified fraud risks with respect to the incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives; and incorrect valuation and the calculation of unrealised gains/(losses) of investment properties and properties held for sale. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved substantive audit procedures including a review of legal expenses incurred, review of the reporting to the Directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Group and parent company.

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

Other matters we are required to address

- We were appointed as auditors by the Group, whose parent company at that time was Target Healthcare REIT Limited, on 10 September 2013. Following a group reconstruction in August 2019, Target Healthcare REIT plc became the parent company of the Group and re-appointed us as auditor of the Group on 4 September 2019.
- The period of total uninterrupted engagement following reconstruction and including previous renewals and reappointments is two years, covering the period ending 30 June 2021.
- 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 the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Caroline Mercer (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
19 October 2021

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 Revenue £'000	Year ended 30 June 2021 Capital £'000	Year ended 30 June 2021 Total £'000	Year ended 30 June 2020 Revenue £'000	Year ended 30 June 2020 Capital £'000	Year ended 30 June 2020 Total £'000
Revenue							
Rental income		**41,168**	**8,739**	**49,907**	36,025	8,219	44,244
Other income		**73**	**–**	**73**	23	–	23
Total revenue		**41,241**	**8,739**	**49,980**	36,048	8,219	44,267
Gains on revaluation of investment properties	9	**–**	**9,536**	**9,536**	–	198	198
Gains on investment properties realised	9	**–**	**1,306**	**1,306**	–	642	642
(Losses)/gains on revaluation of properties held for sale	10	**–**	**(92)**	**(92)**	–	1,505	1,505
Total income		**41,241**	**19,489**	**60,730**	36,048	10,564	46,612
Expenditure							
Investment management fee	2	**(5,796)**	**–**	**(5,796)**	(5,264)	–	(5,264)
Credit loss allowance and bad debts	3	**(2,717)**	**–**	**(2,717)**	(2,171)	–	(2,171)
Other expenses	3	**(2,617)**	**–**	**(2,617)**	(2,090)	(47)	(2,137)
Total expenditure		**(11,130)**	**–**	**(11,130)**	(9,525)	(47)	(9,572)
Profit before finance costs and taxation		**30,111**	**19,489**	**49,600**	26,523	10,517	37,040
Net finance costs							
Interest receivable	4	**39**	**–**	**39**	111	–	111
Interest payable and similar charges	5	**(4,850)**	**(913)**	**(5,763)**	(4,388)	(1,144)	(5,532)
Profit before taxation		**25,300**	**18,576**	**43,876**	22,246	9,373	31,619
Taxation	6	**8**	**–**	**8**	3	–	3
Profit for the year		**25,308**	**18,576**	**43,884**	22,249	9,373	31,622
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate swaps	14	**–**	**298**	**298**	–	(232)	(232)
Reclassification to profit and loss on discontinuation of interest rate swaps	14	**–**	**180**	**180**	–	712	712
Total comprehensive income for the year		**25,308**	**19,054**	**44,362**	22,249	9,853	32,102
Earnings per share (pence)	8	**5.32**	**3.91**	**9.23**	5.05	2.13	7.18

The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

All revenue and capital items in the above statement are derived from continuing operations. No operations were discontinued in the year.

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

Consolidated Statement of Financial Position
As at 30 June 2021

	Notes	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Non-current assets			
Investment properties	9	**629,606**	570,086
Trade and other receivables	11	**54,580**	46,044
Interest rate swaps	14	**251**	–
		684,437	616,130
Current assets			
Trade and other receivables	11	**5,531**	3,702
Cash and cash equivalents	13	**21,106**	36,440
		26,637	40,142
Properties held for sale	10	**7,320**	7,500
		33,957	47,642
Total assets		**718,394**	663,772
Non-current liabilities			
Bank loans	14	**(127,904)**	(150,135)
Interest rate swaps	14	**–**	(227)
Trade and other payables	15	**(6,840)**	(6,183)
		(134,744)	(156,545)
Current liabilities			
Trade and other payables	15	**(18,465)**	(13,114)
Total liabilities		**(153,209)**	(169,659)
Net assets		**565,185**	494,113
Share capital and reserves			
Share capital	16	**5,115**	4,575
Share premium		**135,228**	77,452
Merger reserve		**47,751**	47,751
Distributable reserve		**265,164**	296,770
Hedging reserve		**251**	(227)
Capital reserve		**64,112**	45,536
Revenue reserve		**47,564**	22,256
Equity shareholders' funds		**565,185**	494,113
Net asset value per ordinary share (pence)	8	**110.5**	108.0

Company number: 11990238.

The financial statements on pages 56 to 76 were approved by the Board of Directors and authorised for issue on 19 October 2021 and were signed on its behalf by:

Malcolm Naish
Chairman

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2020		**4,575**	**77,452**	**47,751**	**296,770**	**(227)**	**45,536**	**22,256**	**494,113**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**478**	**18,576**	**25,308**	**44,362**
Transactions with owners recognised in equity:									
Dividends paid	7	**–**	**–**	**–**	**(31,606)**	**–**	**–**	**–**	**(31,606)**
Issue of ordinary shares	16	**540**	**59,460**	**–**	**–**	**–**	**–**	**–**	**60,000**
Expenses of issue	16	**–**	**(1,684)**	**–**	**–**	**–**	**–**	**–**	**(1,684)**
At 30 June 2021		**5,115**	**135,228**	**47,751**	**265,164**	**251**	**64,112**	**47,564**	**565,185**

For the year ended 30 June 2020

	Notes	Stated capital account £'000	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2019		372,685	–	–	–	–	(707)	36,163	4,948	413,089
Total comprehensive income for the year		–	–	–	–	–	480	9,373	22,249	32,102
Transactions with owners recognised in equity:										
Group reconstruction		(371,292)	385,090	–	47,751	(61,549)	–	–	–	–
Reduction of share capital		–	(381,239)	–	–	381,239	–	–	–	–
Dividends paid	7	(1,393)	–	–	–	(22,920)	–	–	(4,941)	(29,254)
Issue of ordinary shares	16	–	724	79,276	–	–	–	–	–	80,000
Expenses of issue	16	–	–	(1,824)	–	–	–	–	–	(1,824)
At 30 June 2020		–	4,575	77,452	47,751	296,770	(227)	45,536	22,256	494,113

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Cash flows from operating activities			
Profit before tax		**43,876**	31,619
Adjustments for:			
Interest receivable		**(39)**	(111)
Interest payable		**5,763**	5,532
Revaluation gains on investment properties and movements in lease incentives, net of acquisition costs written off	9	**(19,581)**	(9,059)
Revaluation losses/(gains) on properties held for sale	10	**92**	(1,505)
Increase in trade and other receivables		**(2,782)**	(1,238)
Increase in trade and other payables		**1,859**	370
		29,188	25,608
Interest paid		**(4,266)**	(4,177)
Interest received		**39**	111
Tax paid		**(5)**	(73)
		(4,232)	(4,139)
Net cash inflow from operating activities		**24,956**	21,469
Cash flows from investing activities			
Purchase of investment properties and properties held for sale, including acquisition costs		**(51,400)**	(117,501)
Disposal of investment properties and properties held for sale, net of lease incentives		**7,825**	14,086
Net cash outflow from investing activities		**(43,575)**	(103,415)
Cash flows from financing activities			
Issue of ordinary share capital	16	**60,000**	80,000
Expenses of issue of ordinary share capital	16	**(1,684)**	(1,824)
Drawdown of bank loan facilities	14	**152,000**	162,000
Repayment of bank loan facilities	14	**(174,000)**	(118,000)
Expenses of arrangement of bank loan facilities	14	**(1,538)**	(1,585)
Dividends paid		**(31,493)**	(29,151)
Net cash inflow from financing activities		**3,285**	91,440
Net (decrease)/increase in cash and cash equivalents		**(15,334)**	9,494
Opening cash and cash equivalents		**36,440**	26,946
Closing cash and cash equivalents	13	**21,106**	36,440
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		**9,656**	10,014
Fixed or guaranteed rent reviews derecognised on disposal or re-tenanting		**(1,556)**	(988)
Total		**8,100**	9,026

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

Notes to the Consolidated Financial Statements

1. Accounting policies

(a) Basis of preparation
A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

Basis of accounting
These Consolidated Financial Statements have been prepared and approved in accordance with International Financial Reporting Standards ('IFRS') adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, interpretations issued by the International Financial Reporting Interpretations Committee, applicable legal and regulatory requirements of the Companies Act 2006 and the Listing Rules of the Financial Conduct Authority.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in April 2021, which the Group has adopted early, is consistent with the requirements of IFRS, the Directors have sought to prepare the Consolidated Financial Statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

Applicable standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except that the following new amendments to the standards have become effective in the current year:

- **Amendment to IFRS 3: Definition of a Business**
  The amendment to IFRS 3: Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the Consolidated Financial Statements of the Group, but may impact future periods should the Group enter into any business combinations.
- **Amendment to IFRS 16: COVID-19 Related Rent Concessions**
  On 28 May 2020, the IASB issued 'COVID-19-Related Rent Concessions - amendment to IFRS 16: Leases'. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient cannot be applied by lessors and therefore had no impact on the Consolidated Financial Statements of the Group.

Several other amendments and interpretations apply for the first time in 2021, principally being 'Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform' and 'Amendments to IAS 1 and IAS 8 Definition of Material'. These amendments do not have an impact on the Consolidated Financial Statements of the Group.

Standards issued but not yet effective
The amendments resulting from Annual Improvements to IFRS Standards 2018-2020 will become effective for annual periods beginning on or after 1 January 2022.

The Group does not consider that the future adoption of any new standards, amended standards or interpretations, in the form currently available, will have any material impact on the Consolidated Financial Statements as presented.

Significant estimates and judgements
The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Revaluation of investment properties
Significant estimates and assumptions are made in the valuation of the investment properties and properties held for sale. The Group engaged an independent valuation specialist to assess fair values for the investment properties and properties held for sale. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in notes 9, 10 and 17.

Property lease classification – Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the lease contracts, such as the lease term not constituting a major part of the economic life of the commercial property, the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property and/or the potential for the property to be re-tenanted prior to the end of the expected lease term, that it has not transferred substantially all the risks and rewards incidental to ownership of these properties and therefore accounts for the contracts as operating leases.

Provision for expected credit losses of rental income and trade receivables
The Group uses a provision matrix to calculate expected credit losses for rental income and trade receivables. The provision rates are initially based on the Group's historical observed default rates, adjusted for forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The continuing impact of COVID-19 is not expected to have a material impact on the provision rates set based on the Group's historical observed default rates. Where historical portfolio losses are not thought an appropriate measure of expected credit losses based on the circumstances of particular tenants, the expected credit losses are calculated by identifying scenarios that specify the amount and timing of cash flows for particular outcomes based on the Group's detailed knowledge, analysis and understanding of the financial standing of each individual rental income debtor (including, where appropriate, consideration of rental guarantees, rental deposits and other forms of surety). The expected credit loss is calculated by weighting the predicted loss under each scenario by an estimate of the probability of each of these outcomes.

The assessment of the correlation between historical observed default rates, forward looking information and estimated credit losses is a significant estimate, as is the assessment of the correlation between the identification of the potential scenarios that may arise and the estimated probability of each such scenario occurring. The amount of estimated credit losses is sensitive to changes in the financial circumstances of individual tenants and in forward-looking information. Further details are provided in notes 3 and 17.

Going concern

Given the potentially significant impact of COVID-19 on the economic conditions in which the Group is operating, the Directors have continued to place a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 30 June 2021. The Group's going concern assessment particularly considered that:

- The value of the Group's portfolio of assets significantly exceeds the value of its liabilities, with the valuation yield applied to the portfolio having tightened marginally since the start of the pandemic;
- The Group is contractually entitled to receive rental income which significantly exceeds its forecast expenses and loan interest;
- The Group remains within its loan covenants, with its finance facilities having been extended and increased during the period, resulting in a weighted average term to maturity of 4.8 years at 30 June 2021 and an earliest repayment date of November 2023; and
- That the Group issued further ordinary shares in September 2021, raising gross proceeds of £125 million.

The forecast cash flows considered as part of the going concern assessment are based on the twelve months from the date of approval of the financial statements as contained in the Group's five-year viability model (as set out on pages 32 and 33). The viability model is based on a severe but plausible downside scenario including the anticipated impact of COVID-19. Throughout this severe but plausible downside scenario the Group has sufficient cash reserves and is forecast to remain within the financial covenants for each of its loan facilities for a period of at least twelve months from the date of approval of these financial statements. The Group has a significant balance of cash and undrawn debt available and the Group's current policy is to prudently retain a proportion of this to ensure it can continue to pay the Group's expenses and loan interest in the unlikely scenario that the level of rental income received deteriorates significantly. The proportion retained will be kept under review dependent on portfolio performance and market conditions.

Based on these considerations, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and at least the next twelve months from the date of issuance of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements for the year ended 30 June 2021.

(b) Basis of consolidation

The Consolidated Financial Statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 30 June 2021. Subsidiaries are those entities, including special purpose entities, controlled by the Company and further information is provided in note 12. 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.

In preparing the Consolidated Financial Statements, intra group balances, transactions and unrealised gains or losses have been eliminated in full. Uniform accounting policies are adopted for all companies within the Group.

(c) Revenue recognition

Rental Income

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

- The lease agreements on the properties held within the Group's property portfolio generally allow for regular increases in the contracted rental level in line with inflation, within a cap and a collar, or at a fixed level. Any rental income from such future fixed and minimum guaranteed rent review uplifts is recalculated to reflect the actual rent uplift realised in the period and is recognised on a straight line basis over the remainder of the lease term;
- Lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option; and
- Contingent rents are recognised in the period in which they are received.

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

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

Interest Receivable

Interest receivable is accounted for on an accruals basis.

Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are included gross of the related costs, as the Directors consider the Group acts as principal in this respect. Property-related expenses which are not recoverable from tenants are recognised in expenses on an accruals basis.

(d) Expenses

Expenses are accounted for on an accruals basis and are inclusive of irrecoverable VAT. The Group's investment management and administration fees, finance costs and all other expenses are charged through the Statement of Comprehensive Income and are charged to revenue, except where such costs relate wholly to capital matters such as the reorganisation of the Group's equity structure or the early repayment of its external loan facilities.

1. Accounting policies continued

(e) Dividends
Dividends are accounted for in the period in which they are paid.

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

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

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

Entry to UK-REIT Regime
The Group entered the UK REIT regime with effect from 1 June 2013. The Company entered the Group REIT regime with effect from 7 August 2019, the date at which it become the parent company of the Group. The Group's subsidiaries all enter the Group REIT regime on acquisition/incorporation. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Group's property rental business, comprising both income and capital gains, being exempt from UK taxation.

The Group ensures that it complies with the UK-REIT regulations through monitoring the ongoing conditions required to maintain REIT status.

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

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

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

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

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

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

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

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

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

(i) Properties held for sale
Properties held for sale consist of properties whose carrying value is expected to be recovered principally through a sale transaction rather than continuing use and which are available for immediate sale in their present condition. They are initially recognised at cost, being the fair value of consideration given, and subsequently measured at fair value, with gains and losses recognised in the Statement of Comprehensive Income. Fair value is based on the open market valuation, as provided by Colliers International Healthcare Property Consultants Limited, in their capacity as external valuers, at the balance sheet date using recognised valuation techniques.

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

(k) Rent and other receivables
Rent receivables are carried at amortised cost. A provision for impairment of trade receivables is calculated through the expected credit loss method in accordance with IFRS 9. As part of this expected credit loss process the following is taken into account: significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is recognised in the Statement of Comprehensive Income in other expenses, separately disclosed as an impairment. Bad debts are written off once all avenues to recover the debt have been exhausted and the lease has ended, or a formal settlement agreement has been reached.

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

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

(m) Derivative financial instruments
The Group uses derivative financial instruments to hedge its risk associated with interest rate fluctuations. The Group's policy is not to trade in derivative instruments.

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

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

The Group considers that its interest rate swaps qualify for hedge accounting when the following criteria are satisfied:
- The instruments must be related to an asset or liability;
- They must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- They must match the principal amounts and maturity dates of the hedged items;
- As cash-flow hedges, the forecast transactions (incurring interest payable on the bank loans) that are subject to the hedges must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss;
- The hedge must be effective meaning that there must be an economic relationship between the hedged item and the hedging instrument; the effect of credit risk must not dominate the value changes that result from that economic relationship; and the hedge ratio of the hedging relationship must be the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item; and
- At the inception of the hedge there must be formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.

(n) Reserves
Share Premium
The share premium account represents the difference between the issue price of shares and their nominal value (excluding those issued as part of the Group reconstruction). This reserve is non-distributable.

Merger Reserve
The merger reserve arose on the reconstruction of the Group in August 2019 (the 'Group Reconstruction') and represents the difference between the nominal value and the fair value of the shares issued by the Company in exchange for the shares of the Group's previous parent company, Target Healthcare REIT Limited. This reserve is non-distributable.

Distributable Reserve
The distributable reserve represents the balance arising following the reduction of the nominal value of the shares issued as part of the Group Reconstruction from £1.00 per share to £0.01 per share, as approved by the High Court in September 2019. The distributable reserve was reduced by the difference between the fair value of the shares allotted by the Company, in exchange for the shares of Target Healthcare REIT Limited, and the stated capital of Target Healthcare REIT Limited immediately prior to the Group Reconstruction.

This reserve is distributable. Any dividends paid in excess of the balance of the Company's revenue reserve will be charged to this reserve.

Hedging Reserve
The following are accounted for in the hedging reserve:
- Increases and decreases in the fair value of interest rate swaps held at the period end.

1. Accounting policies continued

(n) Reserves continued

Capital Reserve

The following are accounted for in the capital reserve:

– Gains and losses on the disposal of investment properties;
– Gains and losses on the disposal of properties held for sale;
– Increases and decreases in the fair value of investment properties and properties held for sale which are held at the period end;
– Rent adjustments which represent the effect of spreading uplifts and incentives;
– Other expenses or finance costs charged to the capital column of the Statement of Comprehensive Income;
– Taxation arising on the acquisition or disposal of investment properties or properties held for sale;
– Recovery of any cost/tax where the original expense/tax has also been charged to capital; and
– The buyback of shares into, and resale of shares from, treasury.

Revenue Reserve

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

2. Fee paid to the Investment Manager

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Management fee	**5,796**	5,264
Total	**5,796**	5,264

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') is Target Fund Managers Limited. The Investment Manager is entitled to an annual management fee calculated on a tiered basis based on the net assets of the Group as set out below. Where applicable, VAT is payable in addition.

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

The Investment Manager is entitled to an additional fee of £121,000 per annum (plus VAT), increasing annually in line with inflation, in relation to their appointment as Company Secretary and Administrator to the Group.

The Investment Management Agreement can be terminated by either party on 24 months' written notice. Should the Company terminate the Investment Management Agreement earlier then compensation in lieu of notice will be payable to the Investment Manager. The Investment Management Agreement may be terminated immediately without compensation if the Investment Manager: is in material breach of the agreement; is guilty of negligence, wilful default or fraud; is the subject of insolvency proceedings; or there occurs a change of Key Managers to which the Board has not given its prior consent.

3. Other expenses

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Credit loss allowance	**1,697**	2,141
Bad debts written off	**1,020**	30
Valuation and other professional fees	**1,008**	707
Auditor's remuneration for:		
– statutory audit of the Company	**104**	71
– statutory audit of the Company's subsidiaries	**184**	209
– review of interim financial information	**15**	15
Other taxation compliance and advisory*	**436**	242
Public relations and marketing	**213**	185
Directors' fees	**181**	160
Secretarial and administration fees	**172**	186
Printing, postage and website	**92**	57
Listing & Registrar fees	**78**	89
Direct property costs	**32**	30
Other	**102**	139
Total	**5,334**	4,261

* The other taxation compliance and advisory fees were all paid to parties other than the Company's Auditor.

The valuers of the investment properties, Colliers International Healthcare Property Consultants Limited, have agreed to provide valuation services in respect of the property portfolio. The valuation agreement states that annual fees will be payable quarterly based on rates of 0.05 per cent of the aggregate value of the property portfolio up to £30 million, 0.04 per cent up to £60 million and 0.035 per cent greater than £60 million.

Expenses are inclusive of irrecoverable VAT as the Company, and the majority of its subsidiaries, are not VAT registered.

4. Interest receivable

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Deposit interest	**39**	111
Total	**39**	111

5. Interest payable and similar charges

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Interest paid on bank loans	**4,276**	3,616
Amortisation of loan costs	**574**	772
Cost of early redemption	**913**	1,144
Total	**5,763**	5,532

During the year ended 30 June 2021, the Group amended its existing £50.0 million term loan and revolving credit facility with RBS and closed out the interest rate swaps used to hedge the previous facility. The Group also amended its existing £80.0 million revolving credit facility with HSBC. The costs of early redemption, including the release of the unamortised loan costs remaining at the time of restatement of both the RBS and HSBC loans and the crystallisation of a loss of £180,000 on the early termination of the interest rate swaps that had previously been recognised through other comprehensive income, totalled £913,000 and have been charged to capital. Further detail on the amended and restated loans and the related interest rate swap entered into is provided in note 14.

6. Taxation

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Current tax	**–**	–
Adjustment to tax charge for prior years	**(8)**	(3)
Total tax credit	**(8)**	(3)

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

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Profit before tax	**43,876**	31,619
Tax at 19.0% (2020: 19.0%)	**8,336**	6,008
Effects of:		
REIT exempt profits	**(5,468)**	(4,713)
REIT exempt gains	**(1,920)**	(260)
Capital allowances	**(1,343)**	(1,188)
Excess management expenses carried forward	**212**	–
Utilisation of excess expenses brought forward	**–**	(73)
Expenses not deductible for tax purposes	**183**	226
Adjustment to tax charge for prior years	**(8)**	(3)
Total tax credit	**(8)**	(3)

The Directors intend to conduct the Company's affairs such that management and control is exercised in the United Kingdom and so that the Company carries on any trade in the United Kingdom.

Subject to continuing relevant UK-REIT criteria being met, the profits from the Group's property rental business, arising from both income and capital gains, are exempt from corporation tax.

The Group has unutilised tax losses carried forward in its residual business of £6.3 million at 30 June 2021 (2020: £5.2 million). No deferred tax asset has been recognised on this amount as the Group cannot be certain that there will be taxable profits arising within its residual business from which the future reversal of the deferred tax asset could be deducted.

7. Dividends

Amounts paid as distributions to equity holders during the year to 30 June 2021.

	Dividend rate (pence per share)	Year ended 30 June 2021 £'000
Fourth interim dividend for the year ended 30 June 2020	**1.67000**	7,640
First interim dividend for the year ended 30 June 2021	**1.68000**	7,686
Second interim dividend for the year ended 30 June 2021	**1.68000**	7,686
Third interim dividend for the year ended 30 June 2021	**1.68000**	8,594
Total	**6.71000**	31,606

Amounts paid as distributions to equity holders during the year to 30 June 2020.

	Dividend rate (pence per share)	Year ended 30 June 2020 £'000
Fourth interim dividend for the year ended 30 June 2019	**1.64475**	6,334
First interim dividend for the year ended 30 June 2020	**1.67000**	7,640
Second interim dividend for the year ended 30 June 2020	**1.67000**	7,640
Third interim dividend for the year ended 30 June 2020	**1.67000**	7,640
Total	**6.65475**	29,254

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. The fourth interim dividend in respect of the year ended 30 June 2021, of 1.68 pence per share, was paid on 27 August 2021 to shareholders on the register on 13 August 2021 and amounted to £8,594,000. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

8. Earnings per share and Net Asset Value per share

Earnings per share

	Year ended 30 June 2021		Year ended 30 June 2020	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	**25,308**	**5.32**	22,249	5.05
Capital earnings	**18,576**	**3.91**	9,373	2.13
Total earnings	**43,884**	**9.23**	31,622	7.18
Average number of shares in issue		**475,406,929**		440,278,234

There were no dilutive shares or potentially dilutive shares in issue.

EPRA is an industry body which issues best practice reporting guidelines for property companies and the Group report an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below and on the following page. Other EPRA measures are included in the EPRA Performance Measures on pages 94 and 95.

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties and other items of a capital nature and represents the revenue earned by the Group

The Group's specific adjusted EPRA earnings adjusts the EPRA earnings for rental income arising from recognising guaranteed rental review uplifts and for development interest received from developers in relation to monies advanced under forward fund agreements which, in the Group's IFRS financial statements, is required to be offset against the book cost of the property under development. The Board believes that the Group's specific adjusted EPRA earnings represents the underlying performance measure appropriate for the Group's business model as it illustrates the underlying revenue stream and costs generated by the Group's property portfolio. The reconciliations are provided in the table below:

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**43,884**	31,622
Adjusted for gains on investment properties realised	**(1,306)**	(642)
Adjusted for revaluations of investment properties	**(9,536)**	(198)
Adjusted for revaluations of properties held for sale	**92**	(1,505)
Adjusted for other capital items	**913**	1,191
EPRA earnings	**34,047**	30,468
Adjusted for rental income arising from recognising guaranteed rent review uplifts	**(8,739)**	(8,219)
Adjusted for development interest under forward fund agreements	**647**	975
Group specific adjusted EPRA earnings	**25,955**	23,224
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**9.23**	7.18
EPRA EPS	**7.16**	6.92
Group specific adjusted EPRA EPS	**5.46**	5.27

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 110.5 pence (2020: 108.0 pence) is based on equity shareholders' funds of £565,185,000 (2020: £494,113,000) and on 511,541,694 (2020: 457,487,640) ordinary shares, being the number of shares in issue at the year-end.

In October 2019, EPRA published new best practice recommendations for financial disclosures by public real estate companies for accounting periods commencing after 1 January 2020. These introduced a new set of EPRA NAV metrics that are arrived at by adjusting the net asset value calculated under International Financial Reporting Standards ('IFRS') to provide stakeholders with what EPRA believe to be the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios. The three EPRA NAV metrics are:

- **EPRA Net Reinstatement Value ('NRV'):** Assumes that entities never sell assets and aims to represent the value required to rebuild the entity. The objective is to highlight the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value movements on financial derivatives, are excluded and the costs of recreating the Group through investment markets, such as property acquisition costs and taxes, are included.
- **EPRA Net Tangible Assets ('NTA'):** Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. Given the Group's REIT status, it is not expected that significant deferred tax will be applicable to the Group.
- **EPRA Net Disposal Value ('NDV'):** Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. At 30 June 2021, the Group held all its material balance sheet items at fair value, or at a value considered to be a close approximation to fair value, in its financial statements apart from its fixed-rate debt facility where the fair value is estimated to be higher than the nominal value. See note 14 for further details on the Group's loan facilities.

Given the nature of the Group's assets and liabilities, the EPRA NTA is the same as the EPRA NAV reported in prior years, with the EPRA NDV being the same as the previously reported EPRA NNNAV.

	2021 EPRA NRV £'000	2021 EPRA NTA £'000	2021 EPRA NDV £'000	2020 EPRA NRV £'000	2020 EPRA NTA £'000	2020 EPRA NDV £'000
IFRS NAV per financial statements	**565,185**	**565,185**	**565,185**	494,113	494,113	494,113
Fair value of interest rate swaps	**(251)**	**(251)**	**–**	227	227	–
Fair value of loans	**–**	**–**	**(1,389)**	–	–	(1,511)
Estimated purchasers' costs	**44,696**	**–**	**–**	40,916	–	–
EPRA net assets	**609,630**	**564,934**	**563,796**	535,256	494,340	492,602
EPRA net assets (pence per share)	**119.2**	**110.4**	**110.2**	117.0	108.1	107.7

9. Investment properties

Freehold and leasehold properties

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Opening market value	**610,084**	500,884
Opening fixed or guaranteed rent reviews and lease incentives	**(39,998)**	(31,288)
Opening carrying value	**570,086**	469,596
Disposals – proceeds	**(7,616)**	(14,402)
– gain/(loss) on sale	**2,336**	(438)
Purchases	**52,295**	108,852
Acquisition costs capitalised	**2,264**	3,896
Acquisition costs written off	**(2,264)**	(3,896)
Unrealised (gain)/loss realised during the period	**(1,030)**	1,080
Revaluation movement – gains	**26,565**	18,905
Revaluation movement – losses	**(5,109)**	(4,797)
Movement in market value	**67,441**	109,200
Fixed or guaranteed rent reviews and lease incentives derecognised on disposal or re-tenanting	**1,735**	1,304
Movement in fixed or guaranteed rent reviews and lease incentives	**(9,656)**	(10,014)
Movement in carrying value	**59,520**	100,490
Closing market value	**677,525**	610,084
Closing fixed or guaranteed rent reviews and lease incentives	**(47,919)**	(39,998)
Closing carrying value	**629,606**	570,086

9. Investment properties continued

Changes in the valuation of investment properties

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Gain/(loss) on sale of investment properties	**2,336**	(438)
Unrealised (gain)/loss realised during the period	**(1,030)**	1,080
Gains on sale of investment properties realised	**1,306**	642
Revaluation movement	**21,456**	14,108
Acquisition costs written off	**(2,264)**	(3,896)
Movement in lease incentives	**(917)**	(1,795)
Movement in fixed or guaranteed rent reviews	**(8,739)**	(8,219)
Gains on revaluation of investment properties	**10,842**	840

The investment properties can be analysed as follows:

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Standing assets	**655,175**	597,484
Developments under forward fund agreements	**22,350**	12,600
Closing market value	**677,525**	610,084

The properties were valued at £677,525,000 (2020: £610,084,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation – Global Standards, incorporating the International Valuation Standards (the 'Red Book Global', 31 January 2020) issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Colliers has recent experience in the location and category of the investment properties being valued.

Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The quarterly property valuations are reviewed by the Board at each Board meeting. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £629,606,000 (2020: £570,086,000). The adjustment consisted of £41,949,000 (2020: £34,766,000) relating to fixed or guaranteed rent reviews and £5,970,000 (2020: £5,232,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the accounts as non-current or current assets within 'trade and other receivables' (see note 11).

All leasehold properties are carried at fair value rather than amortised over the term of the lease. The same valuation criteria are therefore applied to leasehold as freehold properties. Other than one property where the leasehold expires in 2265, all leasehold properties have more than 800 years remaining on the lease term.

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

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

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

Observable market data is considered to be that which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. In arriving at the valuation Colliers make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this involves the use of considerable judgement. Considering the Group's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Group's investment properties within level 3 of the fair value hierarchy.

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield ('NIY') on these assets, as measured by the EPRA topped up NIY, is 5.8 per cent. The yield on the majority of the individual assets ranges from 5.0 per cent to 8.0 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

The key unobservable inputs made in determining the fair values are:
– Contracted rental level: the rent payable under the lease agreement at the date of valuation or, where applicable, on expiry of the rent free period; and
– Yield: the yield is defined as the initial net income from a property at the date of valuation, expressed as a percentage of the gross purchase price including the costs of purchase.

The contracted rental level and yield are not directly correlated although they may be influenced by similar factors. Rent is set at a long-term, supportable level and is likely to be influenced by property-specific matters. The yield also reflects market sentiment and the strength of the covenant provided by the tenant with a stronger covenant attracting a lower yield.

The lease agreements on the properties held within the Group's property portfolio generally allow for annual increases in the contracted rental level in line with inflation, within a cap and a collar. An increase of 1.0 per cent in the contracted rental level will increase the fair value of the portfolio, and consequently the Group's reported income from unrealised gains on investments, by £6.8 million (2020: £6.1 million); an equal and opposite movement would have decreased net assets and decreased the Group's income by the same amount.

A decrease of 0.25 per cent in the yield applied to the portfolio will increase the fair value of the portfolio by £30.1 million (2020: £26.3 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £27.7 million (2020: £24.3 million) and reduce the Group's income.

10. Properties held for sale

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Opening fair value	**7,500**	–
Purchases	**300**	5,695
Acquisition costs capitalised	**–**	300
Acquisition costs written off	**–**	(300)
Disposals – proceeds	**(388)**	–
– gain on sale	**34**	–
Unrealised gain realised during the period	**(126)**	–
Revaluation movement – gains	**–**	1,805
Closing fair value	**7,320**	7,500

The properties held for sale were valued at £7,320,000 (30 June 2020: £7,500,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'). The properties held for sale consist of two blocks of apartments adjacent to an existing property holding which were acquired to consolidate ownership of the overall retirement village. The intention is to sell the leasehold on the individual apartments.

11. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Fixed rent reviews	**41,949**	34,766
Rental deposits held in escrow for tenants	**6,840**	6,183
Lease incentives	**5,791**	5,095
Total	**54,580**	46,044

Current trade and other receivables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Lease incentives	**179**	137
VAT recoverable	**732**	184
Accrued income – rent receivable	**955**	1,520
Accrued development interest under forward fund agreements	**739**	996
Other debtors and prepayments	**2,926**	865
Total	**5,531**	3,702

At the year-end, trade and other receivables include a fixed rent review debtor of £41,949,000 (2020: £34,766,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £5,970,000 (2020: £5,232,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease.

12. Investment in subsidiary undertakings

The Group included 50 subsidiary companies as at 30 June 2021 (30 June 2020: 46). All subsidiary companies were wholly owned, either directly or indirectly, by the Company and, from the date of acquisition onwards, the principal activity of each company within the Group was to act as an investment and property company. Other than one subsidiary incorporated in Jersey, two subsidiaries incorporated in Gibraltar and two subsidiaries incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

During the period, the Group incorporated four new subsidiaries, THR Number 37 Limited, THR Number 38 Limited, THR Number 39 Limited and THR Number 40 Limited. The Group includes eight companies which were acquired as part of previous corporate acquisitions which are currently dormant and which will be placed into liquidation imminently.

13. Cash and cash equivalents

All cash balances at the year-end were held in cash, current accounts or deposit accounts.

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Cash at bank and in hand	**19,330**	16,545
Short-term deposits	**1,776**	19,895
Total	**21,106**	36,440

14. Bank loans

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Principal amount outstanding	**130,000**	152,000
Set-up costs	**(2,476)**	(3,732)
Amortisation of set-up costs	**380**	1,867
Total	**127,904**	150,135

On 5 November 2020, the Group entered into an amended and restated £70.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.18 per cent per annum on £50.0 million of the facility and 2.33 per cent per annum on the remaining £20.0 million of the revolving credit facility, both for the duration of the loan. A non-utilisation fee of 1.13 per cent per annum is payable on the first £20 million of any undrawn element of the facility, reducing to 1.05 per cent per annum thereafter. Prior to the amendment, the interest on the £50.0 million facility was based on LIBOR plus a margin of 1.50 per cent per annum and a non-utilisation fee of 0.75 per cent per annum. As at 30 June 2021, the Group had drawn £30.0 million under this facility (30 June 2020: £50.0 million).

On 5 November 2020, the Group entered into an amended and restated £100.0 million revolving credit facility with HSBC Bank plc ('HSBC') which is repayable in November 2023, with the option of two one-year extensions thereafter subject to the consent of HSBC. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.17 per cent per annum for the duration of the loan and a non-utilisation fee of 0.92 per cent per annum is payable on any undrawn element of the facility. Prior to the amendment, the interest on the £80.0 million facility was based on LIBOR plus a margin of 1.70 per cent per annum and a non-utilisation fee of 0.75 per cent per annum. As at 30 June 2021, the Group had drawn £50.0 million under this facility (30 June 2020: £52.0 million).

The Group has a £50.0 million committed term loan facility with ReAssure which is repayable on 12 January 2032. Interest accrues on the loan at an aggregate fixed rate of interest of 3.28 per cent per annum and is payable quarterly. As at 30 June 2021, the Group had drawn £50.0 million under this facility (30 June 2020: £50.0 million).

The following interest rate swaps were in place during the year ended 30 June 2021:

Notional Value	Starting Date	Ending Date	Interest paid	Interest received	Counterparty
21,000,000	24 June 2019	1 September 2021*	0.70%	3-month LIBOR	RBS
9,000,000	7 April 2017	1 September 2021*	0.86%	3-month LIBOR	RBS
30,000,000	5 November 2020	5 November 2025	0.30%	Daily compounded SONIA (floor at -0.08%)	RBS

* These interest rate swaps were closed out in November 2020 at the time of amendment of the related loan. The cost of such early redemption was recognised in capital as described in note 5.

Inclusive of all interest rate swaps, the interest rate on £80.0 million of the Group's borrowings is fixed, inclusive of the amortisation of arrangement costs, at an all-in rate of 3.16 per cent per annum until at least 5 November 2025. The remaining £140.0 million of debt, of which £50.0 million was drawn at 30 June 2021, would, if fully drawn, carry interest at a variable rate equal to SONIA plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.44 per cent per annum.

The fair value of the interest rate swaps at 30 June 2021 was an aggregate asset of £251,000 (30 June 2020: liability of £227,000) and all interest rate swaps are categorised as level 2 in the fair value hierarchy (see note 9 for further explanation of the fair value hierarchy).

At 30 June 2021, the nominal value of the Group's loans equated to £130,000,000 (2020: £152,000,000). Excluding the interest rate swaps referred to above, the fair value of these loans, based on a discounted cashflow using the market rate on the relevant treasury plus an estimated margin based on market conditions at 30 June 2021, totalled, in aggregate, £131,389,000 (2020: £153,511,000). The payment required to redeem the loans in full, incorporating the terms of the Spens clause in relation to the ReAssure facility, would have been £139,748,000 (2020: £165,974,000). The loans are categorised as level 3 in the fair value hierarchy.

The RBS loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number One plc Group ('THR1 Group') which consists of THR1 and its two subsidiaries. The ReAssure loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consists of THR12 and its four subsidiaries. The HSBC loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 15 plc Group ('THR15 Group') which consists of THR15 and its 18 subsidiaries (excluding those subsidiaries which are currently dormant). In aggregate, the Group has granted a fixed charge over properties with a market value of £526 million as at 30 June 2021 (2020: £496 million).

Under the bank covenants related to the loans, the Group is to ensure that:
- the loan to value percentage for each of THR1 Group and THR15 Group does not exceed 50 per cent;
- the loan to value percentage for THR12 Group does not exceed 60 per cent; and
- the interest cover, or equivalent, for each of THR1 Group, THR12 Group and THR15 Group is greater than c.300 per cent on any calculation date.

All bank loan covenants have been complied with during the year.

Analysis of net debt:

	Cash and cash equivalents 2021 £'000	Borrowing 2021 £'000	Net debt 2021 £'000	Cash and cash equivalents 2020 £'000	Borrowing 2020 £'000	Net debt 2020 £'000
Opening balance	**36,440**	**(150,135)**	**(113,695)**	26,946	(106,420)	(79,474)
Cash flows	**(15,334)**	**23,538**	**8,204**	9,494	(42,511)	(33,017)
Non-cash flows	**–**	**(1,307)**	**(1,307)**	–	(1,204)	(1,204)
Closing balance as at 30 June	**21,106**	**(127,904)**	**(106,798)**	36,440	(150,135)	(113,695)

15. Trade and other payables

Non-current trade and other payables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Rental deposits	**6,840**	6,183
Total	**6,840**	6,183

Current trade and other payables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Rental income received in advance	**5,719**	5,835
Property acquisition and development costs accrued	**8,182**	3,430
Investment Manager's fees payable	**1,551**	1,364
Interest payable	**969**	779
Tax payable	**–**	13
Other payables	**2,044**	1,693
Total	**18,465**	13,114

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

16. Share capital

Allotted, called-up and fully paid ordinary shares of £0.01 each	Number of shares	£'000
Opening Balance	457,487,640	4,575
Issued on 1 March 2021	54,054,054	540
Balance as at 30 June 2021	**511,541,694**	**5,115**

Under the Company's Articles of Association, the Company may issue an unlimited number of ordinary shares. Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

During the year to 30 June 2021, the Company issued 54,054,054 (2020: 72,398,191) ordinary shares raising gross proceeds of £60,000,000 (2020: £80,000,000). The consideration received in excess of the par value of the ordinary shares issued, net of the expenses of issue of £1,684,000 (2020: £1,824,000), has been credited to the share premium account. See note 23 for details of ordinary shares issued subsequent to the year end.

During the year to 30 June 2021, the Company did not repurchase any ordinary shares into treasury (2020: nil) or resell any ordinary shares from treasury (2020: nil). At 30 June 2021, the Company did not hold any shares in treasury (2020: nil).

16. Share capital continued

Capital management

The Group's capital is represented by the share capital, share premium, merger reserve, distributable reserve, hedging reserve, capital reserve, revenue reserve and long-term borrowings. The Group is not subject to any externally-imposed capital requirements, other than the financial covenants on its loan facilities as detailed in note 14.

The capital of the Group is managed in accordance with its investment policy, in pursuit of its investment objective.

Capital risk management

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

The Board has responsibility for ensuring the Group's ability to continue as a going concern. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the Board on a regular basis.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or buyback shares for cancellation or for holding in treasury. The Company may also increase or decrease its level of long-term borrowings.

Where ordinary shares are held in treasury these are available to be sold to meet on-going market demand. The ordinary shares will be sold only at a premium to the prevailing NAV per share. The net proceeds of any subsequent sales of shares out of treasury will provide the Company with additional capital to enable it to take advantage of investment opportunities in the market and make further investments in accordance with the Company's investment policy and within its appraisal criteria. Holding shares in treasury for this purpose assists the Company in matching its on-going capital requirements to its investment opportunities and therefore reduces the negative effect of holding excess cash on its balance sheet over the longer term.

No changes were made in the capital management objectives, policies or processes during the year.

17. Financial instruments

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

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

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

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. At the reporting date, the Group's financial assets exposed to credit risk amounted to £24,563,000 (2020: £39,854,000), consisting of cash of £21,106,000 (2020: £36,440,000), net rent receivable of £955,000 (2020: £1,520,000), accrued development interest of £739,000 (2020: £996,000) and other debtors of £1,763,000 (2020: £898,000).

In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Group will suffer a rental shortfall and incur additional expenses until the property is relet. These expenses could include legal and surveyor's costs in reletting, maintenance costs, insurances, rates and marketing costs and may have a material adverse impact on the financial condition and performance of the Group and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants. The expected credit risk in relation to tenants is an inherent element of the due diligence considered by the Investment Manager on all property transactions with an emphasis being placed on ensuring that initial rents are set at a sustainable level. The risk is further mitigated by rental deposits or guarantees where considered appropriate. The majority of rental income is received in advance.

As at 30 June 2021, the Group had recognised a credit loss allowance totalling £4,098,000 against a gross rent receivable balance of £4,641,000 and gross loans to tenants totalling £1,262,000. Whilst this allowance has increased during the year ended 30 June 2021, it remains low relative to the Group's overall balance sheet, and relates primarily to the tenant of two immature homes which are now trading well as described on page 17. As at 30 June 2020, the gross rent receivable was £3,922,000, of which £660,000 was subsequently recovered, £753,000 was written off and £2,509,000 is still outstanding. There were no other financial assets which were either past due or considered impaired at 30 June 2021 (2020: nil).

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

Should the Group hold significant cash balances for an extended period, then counterparty risk will be spread, by placing cash across different financial institutions. At 30 June 2021 the Group held £20.9 million (2020: £36.4 million) with The Royal Bank of Scotland plc and £0.2 million (2020: £nil) with HSBC Bank plc.

Liquidity risk

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

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

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

Financial assets as at 30 June 2021	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Cash	**21,106**	**–**	**–**	**–**	**–**	**21,106**
Rental deposits held in escrow for tenants	**–**	**–**	**–**	**–**	**6,840**	**6,840**
Other debtors	**3,457**	**–**	**–**	**–**	**–**	**3,457**
Total	**24,563**	**–**	**–**	**–**	**6,840**	**31,403**

Financial assets as at 30 June 2020	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Cash	36,440	–	–	–	–	36,440
Rental deposits held in escrow for tenants	–	–	–	–	6,183	6,183
Other debtors	3,414	–	–	–	–	3,414
Total	39,854	–	–	–	6,183	46,037

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

Financial liabilities as at 30 June 2021	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Bank loans and interest rate swaps	**1,106**	**3,282**	**4,388**	**88,250**	**59,094**	**156,120**
Rental deposits	**–**	**–**	**–**	**–**	**6,840**	**6,840**
Other payables	**12,746**	**–**	**–**	**–**	**–**	**12,746**
Total	**13,852**	**3,282**	**4,388**	**88,250**	**65,934**	**175,706**

Financial liabilities as at 30 June 2020	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Bank loans and interest rate swaps	1,009	2,993	104,562	4,924	60,734	174,222
Rental deposits	–	–	–	–	6,183	6,183
Other payables	7,279	–	–	–	–	7,279
Total	8,288	2,993	104,562	4,924	66,917	187,684

The total amount due under the bank facilities includes the expected hedged interest payments due under both the loan and interest rate swaps combined (see note 14 for further details) assuming that both the drawn element of the loans and the notional value of the interest rate swaps remain unchanged from 30 June 2021 until the repayment date of the relevant loan and expiry date of the related interest rate swap. The interest rate on any unhedged element of the loans is based on the rate of SONIA at 30 June 2021 (three-month LIBOR at 30 June 2020) plus the relevant lending margin. The commitment fee payable on the undrawn element of any facility is included, where applicable.

Interest rate risk

Some of the Company's financial instruments are interest-bearing. Interest-rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates.

The Group's policy is to hold cash in variable rate or short-term fixed rate bank accounts. At 30 June 2021, interest was being received on cash at a weighted average variable rate of nil (2020: 0.01 per cent). Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

17. Financial instruments continued

The Group has £170.0 million (2020: £130.0 million) of committed term loans and revolving credit facilities which were charged interest at a rate of SONIA (2020: three-month LIBOR) plus the relevant margin. At the year-end £80.0 million of the variable rate facilities had been drawn down (2020: £102.0 million). The fair value of the variable rate borrowings is affected by changes in the market rate of the lending margin that would apply to similar loans. The variable rate borrowings are carried at amortised cost and the Group considers this to be a close approximation to fair value at 30 June 2021 and 30 June 2020.

The Group has not hedged its exposure on £50.0 million of the drawn variable rate borrowings at 30 June 2021 (2020: £72.0 million). On these loans the interest was payable at a variable rate equal to SONIA (2020: three-month LIBOR) plus the weighted average lending margin, including the amortisation of costs, of 2.43 per cent per annum (2020: 2.17 per cent). The variable rate borrowings expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

The Group has a £50.0 million fixed rate term loan (2020: £50.0 million) and has hedged its exposure on £30.0 million (2020: £30.0 million) of the variable rate loans, as referred to above, through entering into a fixed rate interest rate swap. Fixing the interest rate exposes the Group to fair value interest rate risk as the fair value of the fixed rate borrowings, or the fair value of the interest rate swap used to fix the interest rate on an otherwise variable rate loan, will be affected by movements in the market rate of interest. The £50.0 million fixed rate term loan is carried at amortised cost on the Group's balance sheet, with the estimated fair value and cost of repayment being disclosed in note 14, whereas the fair value of the interest rate swap is recognised directly on the Group's balance sheet. At 30 June 2021, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swap asset and increased the reported total comprehensive income for the year by £0.3 million (2020: £0.1 million). The same movement in interest rates would have decreased the fair value of the fixed rate term loan by £1.1 million (2020: £1.2 million); however, as the fixed rate loan is held at amortised cost, the reported total comprehensive income for the year would have remained unchanged. A decrease in interest rates would have had an approximately equal and opposite effect.

Further details on the Group's borrowings are detailed in note 14.

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

	As at 30 June 2021		As at 30 June 2020	
	Fixed rate £'000	**Variable rate £'000**	**Fixed rate £'000**	**Variable rate £'000**
Cash and cash equivalents	**–**	**21,106**	–	36,440
Bank loan	**(80,000)**	**(50,000)**	(80,000)	(72,000)
	(80,000)	**(28,894)**	(80,000)	(35,560)

Based on the Group's exposure to cash flow interest rate risk, an increase of 0.25 per cent in interest rates would have decreased the reported profit for the year and the net assets at the year end by £72,000 (2020: £89,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2021 (30 June 2020) and may not be reflective of actual future conditions.

Market price risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 9.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Group's investment property portfolio held at the balance sheet date are disclosed in note 9 and the properties held for sale are disclosed in note 10. A 10 per cent increase in the carrying value of the investment properties and properties held for sale as at 30 June 2021 (30 June 2020) would have increased net assets available to shareholders and increased the net income for the year by £63.7 million (2020: £57.8 million); an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

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

18. Capital commitments

The Group had capital commitments as follows:

	30 June 2021 £'000	30 June 2020 £'000
Amounts due to complete forward fund developments	**21,054**	5,394
Other capital expenditure commitments	**3,158**	530
Total	**24,212**	5,924

19. Contingent assets and liabilities

As at 30 June 2021, twelve (2020: ten) properties within the Group's investment property portfolio contained deferred consideration clauses meaning that, subject to contracted performance conditions being met, deferred payments totalling £20.03 million (2020: £18.03 million) may be payable by the Group to the vendors/tenants of these properties. The potential timings of these payments are also conditional on the date(s) at which the contracted performance conditions are met and are therefore uncertain.

It is highlighted that any deferred consideration subsequently paid will result in an increase in the rental income due from the tenant of the relevant property. As the net initial yield used to calculate the additional rental which would be payable is not significantly different from the investment yield used to arrive at the valuation of the properties, any deferred consideration paid would be expected to result in a commensurate increase in the value of the Group's investment property portfolio.

Having assessed each clause on an individual basis, the Group has determined that the contracted performance conditions were highly likely to be met in relation to one of these properties and therefore an amount of £1.55 million has been recognised as a liability at 30 June 2021 (2020: £nil). An equal but opposite amount has been recognised in other debtors to reflect the increase in the investment property value that would be expected to arise were the deferred consideration to be paid and the contracted rental income increased accordingly.

20. Lease length

The Group leases out its investment properties under operating leases.

The minimum lease payments based on the unexpired lessor lease length at the year-end were as follows (based on annual rentals):

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Less than one year	**41,068**	38,437
Between one and two years	**41,951**	39,925
Between two and three years	**42,762**	40,557
Between three and four years	**43,398**	41,158
Between four and five years	**44,061**	41,805
Over five years	**1,269,202**	1,220,165
Total	**1,482,442**	1,422,047

The largest single tenant at the year-end accounted for 13.1 per cent (2020: 11.5 per cent) of the current annual rental income. There were no unoccupied properties at the year-end (2020: none).

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with lease terms remaining of between 13 and 35 years.

21. Related party transactions

The Board of Directors is considered to be a related party. No Director has an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Group. The Directors of the Group received fees for their services. Total fees for the year were £181,000 (2020: £160,000) of which £12,000 (2020: £12,000) remained payable at the year-end.

The Investment Manager received £5,796,000 (inclusive of irrecoverable VAT) in management fees in relation to the year ended 30 June 2021 (2020: £5,264,000). Of this amount £1,551,000 (2020: £1,364,000) remained payable at the year-end. The Investment Manager received a further £146,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2021 (2020: £129,000) in relation to its appointment as Company Secretary and Administrator, of which £36,000 (2020: £35,000) remained payable at the year end. Certain employees of the Investment Manager are directors of some of the Group's subsidiaries. Neither they nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

There were related party transactions within the Group and its wholly-owned subsidiaries which are eliminated upon consolidation.

22. Operating segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance is the EPRA NTA. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NTA is detailed in note 8.

The view that the Group is engaged in a single segment of business is based on the following considerations:
- One of the key financial indicators received and reviewed by the Board is the total return from the property portfolio taken as a whole;
- There is no active allocation of resources to particular types or groups of properties in order to try to match the asset allocation of the benchmark; and
- The management of the portfolio is ultimately delegated to a single property manager, Target.

23. Post balance sheet events

Property transactions
Subsequent to the year end, practical completion was achieved at the Group's development site in Rudheath, Cheshire, delivering a 68-bed care home. The home was completed under a fixed-priced forward-fund arrangement and leased to L&M Healthcare, an existing tenant of the Group, on a 30-year lease with RPI-linked increases, subject to a cap and collar. Similarly, practical completion was achieved at the Group's development site in Droitwich Spa, Worcestershire and leased to the Group's largest tenant, Ideal Carehomes.

In addition the Company has acquired one operational care home and two forward fund developments, committing total capital of £32.0 million, plus acquisition costs.

Equity issuance
On 9 September 2021, the Company issued 108,695,652 ordinary shares at a price of 115.0 pence per share, raising gross proceeds of £125 million.

24. Alternative Investment Fund Managers ('AIFM') Directive

With effect from 22 July 2014, the Company's Investment Manager was authorised as an AIFM by the FCA under the AIFMD regulations. In accordance with the AIFM Directive, information in relation to the Group's leverage and the remuneration of the Company's AIFM, Target Fund Managers Limited, is required to be made available to investors. The Manager has provided disclosures on its website, www.targetfundmanagers.com, incorporating the requirements of the AIFMD regulations regarding remuneration.

The Group's maximum and average actual leverage levels at 30 June 2021 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	1.50	1.53

For the purposes of the AIFM Directive, leverage is any method which increases the Group's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a percentage of the Group's exposure to its net asset value and is calculated on both a gross and commitment method.

Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other. Both methods include the Group's interest rate swaps measured at notional value.

The leverage limits are set by the AIFM and approved by the Board and are in line with the maximum leverage levels permitted in the Company's Articles of Association. The AIFM is also required to comply with the gearing parameters set by the Board in relation to borrowings.

Detailed regulatory disclosures to investors in accordance with the AIFM Directive are contained in the Investor Disclosure Document which is made available on the Group's website at www.targethealthcarereit.co.uk.

Company Statement of Financial Position
As at 30 June 2021

	Notes	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Non-current assets			
Investment in subsidiary undertakings	3	**509,228**	457,731
Investment properties	4	**20,506**	6,595
Trade and other receivables	5	**1,046**	403
		530,780	464,729
Current assets			
Trade and other receivables	5	**32,411**	32,062
Cash and cash equivalents	6	**3,024**	5,556
		35,435	37,618
Total assets		**566,215**	502,347
Non-current liabilities			
Trade and other payables	7	**(240)**	(79)
Current liabilities			
Trade and other payables	7	**(2,179)**	(9,666)
Total liabilities		**(2,419)**	(9,745)
Net assets		**563,796**	492,602
Share capital and reserves			
Share capital	8	**5,115**	4,575
Share premium	8	**135,228**	77,452
Merger reserve		**47,751**	47,751
Distributable reserve		**326,713**	358,319
Capital reserve		**47,652**	6,077
Revenue reserve		**1,337**	(1,572)
Equity shareholders' funds		**563,796**	492,602
Net asset value per ordinary share (pence)	9	**110.2**	107.7

Company number: 11990238

The Company made a profit for the year ended 30 June 2021 of £44,484,000 (2020: £4,505,000).

The financial statements on pages 77 to 86 were approved by the Board of Directors and authorised for issue on 19 October 2021 and were signed on its behalf by:

Malcolm Naish
Chairman

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

Company Statement of Changes in Equity

For the year ended 30 June 2021

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2020		**4,575**	**77,452**	**47,751**	**358,319**	**6,077**	**(1,572)**	**492,602**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**41,575**	**2,909**	**44,484**
Transactions with owners recognised in equity:								
Dividends paid	2	**–**	**–**	**–**	**(31,606)**	**–**	**–**	**(31,606)**
Issue of ordinary shares	8	**540**	**59,460**	**–**	**–**	**–**	**–**	**60,000**
Expenses of issue	8	**–**	**(1,684)**	**–**	**–**	**–**	**–**	**(1,684)**
At 30 June 2021		**5,115**	**135,228**	**47,751**	**326,713**	**47,652**	**1,337**	**563,796**

For the year ended 30 June 2020

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2019		–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	6,077	(1,572)	4,505
Transactions with owners recognised in equity:								
Group reconstruction		385,090	–	47,751	–	–	–	432,841
Reduction of share capital		(381,239)	–	–	381,239	–	–	–
Dividends paid	2	–	–	–	(22,920)	–	–	(22,920)
Issue of ordinary shares	8	724	79,276	–	–	–	–	80,000
Expenses of issue	8	–	(1,824)	–	–	–	–	(1,824)
At 30 June 2020		4,575	77,452	47,751	358,319	6,077	(1,572)	492,602

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

Notes to the Company Financial Statements

1. Accounting policies

(a) Basis of preparation

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below.

Basis of accounting

The Company Financial Statements have been prepared in accordance with FRS 101: Reduced Disclosure Framework and applicable legal and regulatory requirements of the Companies Act 2006.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in April 2021, which the Company has adopted early, is consistent with the requirements of FRS 101, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

The results of the Company have been included in the Consolidated Financial Statements as presented on pages 56 to 76. The accounting policies adopted are consistent with those adopted by the Group as stated in note 1 to the Consolidated Financial Statements. The only additional policies applied are in relation to investments in subsidiary undertakings and dividends received and these are set out below.

The Company has taken advantage of the following exemptions permitted under FRS 101:
- an exemption from preparing the Company cash flow statement and related notes;
- an exemption from listing any new or revised standards that have not been adopted or providing information about their likely impact; and
- an exemption from disclosing transactions between the Company and its wholly-owned subsidiaries.

Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Group's business and assets, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and at least the next twelve months from the date of issuance of this report. This assessment took into consideration the potential impact of COVID-19 as set out in the Strategic Report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Further explanation of the assessment undertaken is provided in the Consolidated Financial Statements on page 61.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at fair value with changes in fair value recognised in profit or loss. Investments in subsidiaries are initially recognised at fair value at the date at which control is acquired, with subsequent gains or losses arising from changes in fair value being recognised in net profit or loss for the period as a capital item and transferred to the Capital Reserve. Investments in subsidiaries are derecognised at the date on which the Company transfers control and substantially all the risks and rewards of ownership to another party.

Dividends received

Dividends received are recognised on the date on which entitlement to receive payment is established. Where dividends are received by way of an in-specie transfer of assets from a subsidiary undertaking, the dividend is recognised at the fair value of the assets received through profit or loss as a capital item and transferred to the Capital Reserve.

Company Profit for the financial year

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The profit after tax for the year was £44,484,000 (2020: £4,505,000).

The Company does not have any employees (2020: nil). Details of the Directors' fees paid during the year are disclosed in the Group's Remuneration Report and in note 3 to the Consolidated Financial Statements. The Company has paid the Directors' fees which equated to £181,000 during the year ended 30 June 2021 (2020: £117,000).

Audit fees in relation to the parent company were £106,000 (2020: £74,000), including irrecoverable VAT. This included £2,000 payable by the Company on behalf of certain subsidiaries (2020: £3,000). The fee for assurance related services, being the review of the Company's Interim Report, was £15,000 (2020: £15,000). There were no other non-audit fees paid to E&Y LLP by the Company during the year (2020: £nil).

2. Dividends

Amounts paid as distributions to equity holders.

	Dividend rate (pence per share)	Year ended 30 June 2021 £'000	Dividend rate (pence per share)	Year ended 30 June 2020 £'000
Fourth interim dividend for the prior year	**1.67**	**7,640**	–	–
First interim dividend	**1.68**	**7,686**	1.67	7,640
Second interim dividend	**1.68**	**7,686**	1.67	7,640
Third interim dividend	**1.68**	**8,594**	1.67	7,640
Total	**6.71**	**31,606**	5.01	22,920

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. The fourth interim dividend in respect of the year ended 30 June 2021, of 1.68 pence per share, was paid on 27 August 2021 to shareholders on the register on 13 August 2021 and amounted to £8,594,000. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

3. Investments in subsidiary undertakings

As at 30 June 2021, the Company's directly held subsidiary undertakings were:

Name	Country of incorporation	Class of Capital	% of class held	% of equity held	Book Cost £'000	Fair Value £'000
Target Healthcare REIT Limited	Jersey	Ordinary	100	100	432,841	397,629
THR Number 12 plc	England & Wales	Ordinary	100	100	81,487	85,311
THR Number 36 Limited	England & Wales	Ordinary	100	100	17,446	19,001
THR Number 37 Limited	England & Wales	Ordinary	100	100	2,174	1,506
THR Number 38 Limited	England & Wales	Ordinary	100	100	6,665	5,923
THR Number 39 Limited	England & Wales	Ordinary	100	100	–	(142)
THR Number 40 Limited	England & Wales	Ordinary	100	100	–	–
Total					**540,613**	**509,228**

The registered office of Target Healthcare REIT Limited at 30 June 2021 was: 3rd Floor, 44 Esplanade, St Helier, Jersey JE4 9WG.

The movement in the fair value of the Company's investment in subsidiary undertakings during the year was:

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Opening fair value	**457,731**	–
Additions	**9,363**	531,250
Movement in fair value	**42,134**	(73,519)
Closing fair value	**509,228**	457,731

The Group's investments in subsidiary undertakings are classified within level 3 of the fair value hierarchy. See note 9 to the Consolidated Financial Statements for the definitions of the levels of the fair value hierarchy.

The fair value of the Group's subsidiaries is primarily dependent on the fair value of the properties and bank loans that they hold. See notes 9, 10, 14 and 17 to the Consolidated Financial Statements for an explanation of the Group's valuation processes, the significant inputs, and the sensitivities of the fair value of these assets and liabilities to these significant inputs.

As at 30 June 2021, the Company's indirectly held subsidiary undertakings were:

Name	Country of incorporation	Class of Capital	% of class held	% of equity held
THR Number One plc	England & Wales	Ordinary	100	100
THR Number Two Limited	England & Wales	Ordinary	100	100
THR Number 3 Limited	England & Wales	Ordinary	100	100
THR Number 4 Limited	England & Wales	Ordinary	100	100
THR Number 5 Limited	England & Wales	Ordinary	100	100
THR Number 6 Limited	England & Wales	Ordinary	100	100
THR Number 7 Limited	Gibraltar	Ordinary	100	100
THR Number 8 Limited	Gibraltar	Ordinary	100	100
THR Number 9 Limited	England & Wales	Ordinary	100	100
THR Number 10 Limited	England & Wales	Ordinary	100	100
THR Number 11 Limited	Scotland	Ordinary	100	100
THR Number 13 Limited	England & Wales	Ordinary	100	100
THR Number 14 Limited	England & Wales	Ordinary	100	100
THR Number 15 plc	England & Wales	Ordinary	100	100
THR Number 16 Limited	England & Wales	Ordinary	100	100
THR Number 17 (Holdings) Limited	England & Wales	Ordinary	100	100
THR Number 17 Limited	England & Wales	Ordinary	100	100
THR Number 18 Limited	England & Wales	Ordinary	100	100
THR Number 19 Limited	England & Wales	Ordinary	100	100
THR Number 20 Limited	England & Wales	Ordinary	100	100
THR Number 21 Limited	England & Wales	Ordinary	100	100
THR Number 22 Limited	England & Wales	Ordinary	100	100
THR Number 23 Limited	England & Wales	Ordinary	100	100
THR Number 24 Limited	England & Wales	Ordinary	100	100
THR Number 25 S.à r.l.	Luxembourg	Ordinary	100	100
THR Number 26 S.à r.l.	Luxembourg	Ordinary	100	100
THR Number 27 Limited	England & Wales	Ordinary	100	100
THR Number 28 Limited	England & Wales	Ordinary	100	100
THR Number 29 Limited	England & Wales	Ordinary	100	100
THR Number 30 Limited	England & Wales	Ordinary	100	100
THR Number 31 Limited	England & Wales	Ordinary	100	100
THR Number 32 Limited	England & Wales	Ordinary	100	100
THR Number 33 Limited	England & Wales	Ordinary	100	100
THR Number 34 Limited	England & Wales	Ordinary	100	100
THR Number 35 Limited	England & Wales	Ordinary	100	100

The registered office of the companies incorporated in England & Wales is: Level 13, Broadgate Tower, 20 Primrose Street, London EC2A 2EW.

The registered office of the companies incorporated in Luxembourg is: 1, rue Jean-Pierre Brasseur, L – 1258, Luxembourg.

The registered office of the companies incorporated in Gibraltar is: Suite 23, Portland House, Glacis Road, GX11 1AA, Gibraltar.

The registered office of the company incorporated in Scotland is: Laurel House, Laurelhill Business Park, Stirling FK7 9JQ.

The Group had a further eight indirectly held subsidiary undertakings, which were acquired during the prior year. As these companies have been dormant since acquisition and will be placed into liquidation imminently, these are not listed above.

4. Investment properties

Freehold properties	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Opening market value	**6,919**	–
Opening fixed or guaranteed rent reviews and lease incentives	**(324)**	–
Opening carrying value	**6,595**	–
Purchases	**14,228**	25,083
Disposals – proceeds	**–**	(18,400)
Acquisition costs capitalised	**733**	1,857
Acquisition costs written off	**(733)**	(1,857)
Revaluation movement – gains	**173**	236
Movement in market value	**14,401**	6,919
Fixed or guaranteed rent reviews and lease incentives derecognised on disposal	**–**	29
Movement in fixed or guaranteed rent reviews and lease incentives	**(490)**	(353)
Movement in carrying value	**13,911**	6,595
Closing market value	**21,320**	6,919
Closing fixed or guaranteed rent reviews and lease incentives	**(814)**	(324)
Closing carrying value	**20,506**	6,595

The properties were valued at £21,320,000 (2020: £6,919,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation Global Standards, incorporating the International Valuation Standards (the 'Red Book Global', 31 January 2020) issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Colliers has recent experience in the location and category of the investment properties being valued.

Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The quarterly property valuations are reviewed by the Board at each Board meeting. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £20,506,000 (2020: £6,595,000). The adjustment consisted of £567,000 (2020: £76,000) relating to fixed or guaranteed rent reviews and £247,000 (2020: £248,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the accounts as non-current or current assets within 'trade and other receivables' (see note 5).

Considering the Company's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Group's investment properties within level 3 of the fair value hierarchy. See note 9 to the Consolidated Financial Statements for further details on the valuation process, methodology and classification.

The Company's investment property portfolio, which consisted solely of care homes during the year, is considered to be a single class of assets. The weighted average net initial yield on these assets, as measured by the EPRA topped up NIY, is 5.7 per cent. The yield on the individual assets ranges from 5.4 per cent to 6.4 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

The lease agreement on the properties held within the Company's portfolio allows for an annual increase in the contracted rental level in line with inflation, within a cap and a collar. An increase of 1.0 per cent in the contracted rental level will increase the fair value of the portfolio, and consequently the Company's reported income from unrealised gains on investments, by £213,000 (2020: £69,000); an equal and opposite movement would have decreased net assets and reduced the Company's income by the same amount.

A decrease of 0.25 per cent in the yield applied to the portfolio will increase the fair value of the portfolio by £972,000 (2020: £281,000), and consequently increase the Company's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £891,000 (2020: £260,000) and reduce the Company's income.

5. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Fixed rent reviews	**567**	76
Rental deposits held in escrow for tenants	**240**	79
Lease incentives	**239**	248
Total	**1,046**	403

Current trade and other receivables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Lease incentives	**8**	–
Balances due from group undertakings	**32,204**	31,922
Other debtors and prepayments	**199**	140
Total	**32,411**	32,062

At the year-end, trade and other receivables include a fixed rent review debtor of £567,000 (2020: £76,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £247,000 (2020: £248,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease.

The balances due from group undertakings are unsecured and interest is receivable at a fixed rate of 1.5 per cent per annum or such other interest rate that may be agreed from time to time between the Company and the relevant counterparty. The balances are repayable on demand.

6. Cash and cash equivalents

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Cash at bank and in hand	**3,024**	13
Short-term deposits	**–**	5,543
Total	**3,024**	5,556

All cash balances at the year-end were held in cash, current accounts or deposit accounts.

7. Trade and other payables

Non-current trade and other payables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Rental deposits	**240**	79
Total	**240**	79

Current trade and other payables	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Balances due to group undertakings	**–**	8,199
Income tax payable	**812**	699
Investment Manager's fees payable	**412**	326
Other payables	**955**	442
Total	**2,179**	9,666

The balances due to group undertakings are unsecured and interest is payable at a fixed rate of 1.5 per cent per annum or such other interest rate that may be agreed from time to time between the Company and the relevant counterparty. The balances are repayable on demand.

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

8. Share capital

Allotted, called-up and fully paid ordinary shares of £0.01 each	Number of shares	£'000
Opening Balance	457,487,640	4,575
Issued on 1 March 2021	54,054,054	540
Balance as at 30 June 2021	**511,541,694**	**5,115**

Under the Company's Articles of Association, the Company may issue an unlimited number of ordinary shares. Ordinary shareholders are entitled to all dividends declared by the Company and to all of the Company's assets after repayment of its borrowings and ordinary creditors. Ordinary shareholders have the right to vote at meetings of the Company. All ordinary shares carry equal voting rights.

During the year to 30 June 2021, the Company issued 54,054,054 (2020: 72,398,191) ordinary shares raising gross proceeds of £60,000,000 (2020: £80,000,000). The consideration received in excess of the par value of the ordinary shares issued, net of the expenses of issue of £1,684,000 (2020: £1,824,000), has been credited to the share premium account.

During the year to 30 June 2021, the Company did not repurchase any ordinary shares into treasury (2020: nil) or resell any ordinary shares from treasury (2020: nil). At 30 June 2021, the Company did not hold any shares in treasury (2020: nil).

Capital Management

The Company's capital is represented by the share capital, share premium, merger reserve, distributable reserve, capital reserve and revenue reserve and is managed in line with the policies set out for the Group on page 72.

9. Net Asset Value

The Company's net asset value per ordinary share of 110.2 pence (2020: 107.7 pence) is based on equity shareholders' funds of £563,796,000 (2020: £492,602,000) and on 511,541,694 (2020: 457,487,640) ordinary shares, being the number of shares in issue at the year end.

10. Financial instruments

Consistent with its objective, the Company holds UK care home property investments. In addition, the Company's financial instruments comprise investments in subsidiaries, cash and receivables and payables that arise directly from its operations. The Company has no direct exposure to derivative instruments.

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

The Board reviews and agrees policies for managing the Group's overall risk exposure. These policies are summarised in note 17 to the Consolidated Financial Statements and have remained unchanged for the year under review. The following disclosures include, where appropriate, consideration of the Company's investment properties which, whilst not constituting financial instruments as defined by FRS 101, are considered by the Board to be integral to the Company's overall risk exposure.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. At the reporting date, the Company's financial assets exposed to credit risk amounted to £35,228,000 (2020: £37,478,000) consisting of balances due from Group undertakings of £32,204,000 (2020: £31,922,000) and cash balances of £3,024,000 (2020: £5,556,000).

Liquidity risk

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

Liquidity risk continued

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

Financial assets as at 30 June 2021	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Cash and cash equivalents	**3,024**	**–**	**–**	**–**	**–**	**3,024**
Rental deposits held in escrow for tenants	**–**	**–**	**–**	**–**	**240**	**240**
Balances due from group undertakings	**32,204**	**–**	**–**	**–**	**–**	**32,204**
Total	**35,228**	**–**	**–**	**–**	**240**	**35,468**

Financial assets as at 30 June 2020	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Cash and cash equivalents	5,556	–	–	–	–	5,556
Rental deposits held in escrow for tenants	–	–	–	–	79	79
Balances due from group undertakings	31,922	–	–	–	–	31,922
Total	37,478	–	–	–	79	37,557

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

Financial liabilities as at 30 June 2021	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Rental deposits	**–**	**–**	**–**	**–**	**240**	**240**
Other payables	**2,179**	**–**	**–**	**–**	**–**	**2,179**
Total	**2,179**	**–**	**–**	**–**	**240**	**2,419**

Financial liabilities as at 30 June 2020	Three months or less £'000	More than three months but less than one year £'000	1-2 years £'000	2-5 years £'000	More than five years £'000	Total £'000
Rental deposits	–	–	–	–	79	79
Balances due to group undertakings	8,199	–	–	–	–	8,199
Other payables	1,467	–	–	–	–	1,467
Total	9,666	–	–	–	79	9,745

Interest rate risk

Some of the Company's financial instruments are interest-bearing. Interest-rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates. The Company's policy is to hold cash in variable rate or short-term fixed rate bank accounts. Interest is received on cash at a weighted average variable rate which was nil at 30 June 2021 (2020: 0.01 per cent).

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

	As at 30 June 2021		As at 30 June 2020	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	**–**	**3,024**	–	5,556
Balances due from group undertakings	**32,204**	**–**	31,922	–
Balances due to group undertakings	**–**	**–**	(8,199)	–
Total	**32,204**	**3,024**	23,723	5,556

Based on the Company's exposure to cash flow interest rate risk, an increase of 0.25 per cent in interest rates would have increased the reported profit for the year and the net assets at the year end by £8,000 (2020: £14,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2021 (30 June 2020) and may not be reflective of actual future conditions.

Market price risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The Company's subsidiaries are held at fair value which, in turn, reflects the external valuations of the underlying properties they hold. The Company's overall market price risk is therefore the same as that for the Group as set out in note 17 to the Consolidated Financial Statements.

11. Lease length

The Group leases out its investment properties under operating leases.

The minimum lease payments based on the unexpired lessor lease length at the year-end were as follows (based on annual rentals):

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Less than one year	**1,325**	469
Between one and two years	**1,349**	484
Between two and three years	**1,374**	491
Between three and four years	**1,399**	499
Between four and five years	**1,424**	506
Over five years	**54,391**	18,860
Total	**61,262**	21,309

At 30 June 2021, the largest single tenant accounted for 63.2 per cent (2020: 100 per cent) of the current annual rental income. There were no unoccupied properties at the period end.

The Company has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with lease terms remaining of between 33 and 34 years.

12. Related party transactions

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

The Directors of the Company received fees for their services. Total fees paid by the Company in relation to the year were £181,000 (2020: £117,000) of which £12,000 (2020: £12,000) remained payable at the year-end.

The Investment Manager received management fees of £1,334,000 (inclusive of irrecoverable VAT) from the Company in relation to the year ended 30 June 2021 (2020: £1,232,000). Of this amount £412,000 (2020: £326,000) remained payable at the year-end.

The Investment Manager received a further £146,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2021 (2020: £129,000) in relation to its appointment as Company Secretary and Administrator. Of this amount £36,000 (2020: £35,000) remained payable at the year-end.

13. Post balance sheet events

On 9 September 2021, the Company issued 108,695,652 ordinary shares at a price of 115.0 pence per share, raising gross proceeds of £125 million.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the third Annual General Meeting ('AGM') of Target Healthcare REIT plc (the 'Company') will be held on Tuesday 14 December 2021 at 4.00 p.m. at the offices of Dickson Minto W.S., 16 Charlotte Square, Edinburgh EH2 4DF for the purposes of considering and, if thought fit, passing the following resolutions, of which resolutions 1 to 10 inclusive will be proposed as ordinary resolutions and resolutions 11 to 13 inclusive will be proposed as special resolutions:

Ordinary resolutions

1. That the Annual Report and Accounts for the year ended 30 June 2021 be received.
2. That the Directors' Annual Report on Remuneration for the year ended 30 June 2021 be approved.
3. That the Company's dividend policy be approved.
4. That Ernst & Young LLP be re-appointed as the Company's Auditor until the conclusion of the next Annual General Meeting.
5. That the Directors be authorised to determine the Auditor's remuneration.
6. To elect Vince Niblett as a Director.
7. To re-elect Malcolm Naish as a Director.
8. To re-elect Gordon Coull as a Director.
9. To re-elect Alison Fyfe as a Director.
10. That, in addition to any existing authority, in accordance with section 551 of the Companies Act 2006, the Directors be generally and unconditionally authorised to exercise all powers of the Company to allot ordinary shares of £0.01 each (or of such other nominal value as the Directors may resolve) in the capital of the Company up to an aggregate nominal amount equal to 10% of the Company's issued share capital immediately prior to the passing of this resolution, provided that this authority shall, unless renewed, varied or revoked by the Company, expire at the conclusion of the next Annual General Meeting of the Company or on 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make offers or agreements which would or might require Securities to be allotted and the Directors may allot Securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Special resolutions

11. That, subject to the passing of resolution 10, the Directors be given the general power, pursuant to section 570 of the Companies Act 2006 (the 'Act'), to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority under section 551 of the Act either conferred by resolution 10 or by way of a sale of treasury shares as if section 561 of the Act did not apply to any such allotment, provided that this power:
    (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on expiry of 15 months from the passing of this resolution, whichever is the earlier, unless renewed, varied or revoked by the Company prior to or on such date, and save that the Company may, before such expiry, make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired; and
    (b) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount equal to 10% of the nominal value of the issued share capital of the Company immediately prior to the passing of this resolution.
12. To authorise the Company generally and unconditionally to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of £0.01 each (or of such other nominal value as the Directors of the Company shall resolve) provided that:
    (a) the maximum aggregate number of ordinary shares that may be purchased is 92,973,578 ordinary shares or, if less, 14.99% of the issued ordinary share capital of the Company immediately prior to the passing of this resolution (excluding treasury shares);
    (b) the minimum price (excluding expenses) which may be paid for each ordinary share is the nominal value at the time of purchase;
    (c) the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
        (i) 105% of the average market value of an ordinary share in the Company for the five business days prior to the day the purchase is made; and
        (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or on 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority.
13. That, the Company be and is hereby generally and unconditionally authorised to hold general meetings (other than Annual General Meetings) on 14 clear days' notice, such authority to expire at the conclusion of the next Annual General Meeting of the Company or 15 months from the passing of this resolution, whichever is the earlier.

By order of the Board
Target Fund Managers Limited
Company Secretary

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

19 October 2021

Notes:

1. Only those shareholders registered in the Company's register of members at 10.00 p.m. on 10 December 2021 or, if the meeting is adjourned, 10.00 p.m. on the day two working days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. Information regarding the meeting, including the information required by section 311A of the Companies Act 2006 (the 'Act'), can be found at www.targethealthcarereit.co.uk.
3. As a member you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. A proxy does not need to be a shareholder of the Company but must attend the meeting to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the financial statements and proxy form) to communicate with the Company for any purpose other than those expressly stated.
4. Shareholders can: (a) appoint a proxy and give proxy instructions by returning the enclosed proxy form by post (see Note 5); or (b) if a CREST member, register their proxy appointment by utilising the CREST electronic proxy appointment service (see Note 6); or (c) via the Proxymity platform (see Note 7). Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting and vote in person, your proxy appointment will automatically be terminated.
5. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be: (a) completed and signed; (b) sent or delivered to Computershare Investor Services PLC at The Pavilions, Bridgwater Road, Bristol BS99 6ZY; and (c) received by Computershare Investor Services PLC no later than 4.00 p.m. on 10 December 2021 or, in the event of an adjournment of the meeting, 48 hours before the adjourned meeting. In the case of a shareholder which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form. If you have not received a proxy form and believe that you should have one, or if you require additional proxy forms, please contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY (Telephone: 0370 703 0013).
6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Computershare Investor Services PLC (ID 3RA50) no later than 4.00 p.m. on 10 December 2021 or, in the event of an adjournment of the meeting, 48 hours before the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular message. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member, or has appointed a voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. Proxymity Voting – if you are an institutional investor you may also be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 4.00 p.m. on 10 December 2021 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them and they will govern the electronic appointment of your proxy.
8. A corporation which is a shareholder can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
9. As at 6.00 p.m. on 19 October 2021, the Company's issued share capital comprised 620,237,346 Ordinary Shares of £0.01 each. Each Ordinary Share carries the right to one vote at a General Meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 19 October 2021 is 620,237,346. The website referred to in Note 2 will include information on the number of shares and voting rights.
10. Under section 319A of the Act, any member attending the meeting has a right to ask questions. The Company must answer any question you ask relating to the business being dealt with at the meeting unless: (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

11. Under section 338 of the Act, a member or members meeting the qualification criteria set out in Note 14 below may, subject to certain conditions, require the Company to circulate to members notice of a resolution which may properly be moved and is intended to be moved at that meeting. The conditions are that: (a) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (b) the resolution must not be defamatory of any person, frivolous or vexatious; and (c) the request: (i) may be in hard copy form or in electronic form; (ii) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (iii) must be authenticated by the person or persons making it; and (iv) must be received by the Company not later than six weeks before the meeting to which the request relates.
12. Under section 338A of the Act 2006, a member or members meeting the qualification criteria set out at Note 14 below may require the Company to include in the business to be dealt with at the Annual General Meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The request must have been received by the Company not later than 2 November 2021. The conditions are that the matter of business must not be defamatory of any person, frivolous or vexatious. The request must identify the matter of business by either setting it out in full or, if supporting a statement sent by another member, clearly identify the matter of business which is being supported. The request must be accompanied by a statement setting out the grounds for the request. Members seeking to do this should write to the Company providing their full name and address.
13. Under section 527 of the Act, a member or members meeting the qualification criteria set out at Note 14 below may have the right to request the Company to publish on its website a statement setting out any matter that such members propose to raise at the meeting relating to the audit of the Company's accounts (including the Auditor's Report and the conduct of the audit) that are to be laid before the meeting. Where the Company is required to publish such a statement on its website: (a) it may not require the shareholders making the request to pay any expenses incurred by the Company in complying with the request; (b) it must forward the statement to the Company's auditors no later than the time the statement is made available on the Company's website; and (c) the statement may be dealt with as part of the business of the meeting. The request must: (a) be in writing to Target Fund Managers Limited at Laurel House, Laurelhill Business Park, Stirling FK7 9JQ; (b) either set out the statement in full or, if supporting a statement sent by another shareholder, clearly identify the statement which is being supported; (c) be authenticated by the person or persons making it; and (d) be received by the Company at least one week before the meeting.
14. In order to be able to exercise the members' rights in Notes 11 to 13, the relevant request must be made by: (a) a member or members having a right to vote at the meeting and holding at least 5% of total voting rights of the Company; or (b) at least 100 members having a right to vote at the meeting and holding, on average, at least £100 of paid-up share capital.
15. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (Nominated Person), you may have a right under an agreement between you and the shareholder of the Company who has nominated you to have information rights (Relevant Shareholder) to be appointed or to have someone else appointed as a proxy for the meeting. If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Shareholder to give instructions to the Relevant Shareholder as to the exercise of voting rights. Your main point of contact in terms of your investment in the Company remains the Relevant Shareholder (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you. The statement of the rights of members in relation to the appointment of proxies in Notes 3 and 4 on page 88 does not apply to a Nominated Person.
16. Any person holding 3% or more of the total voting rights of the Company who appoints a person other than the Chairman of the meeting as his proxy will need to ensure that both he and his proxy comply with their respective disclosure obligations under the UK Disclosure Guidance and Transparency Rules.
17. Copies of the Directors' letters of appointment are available for inspection at the Company's registered office during normal business hours and at the place of the meeting from at least 15 minutes prior to the meeting until the end of the meeting.
18. If law or Government guidance so requires at the time of the meeting, the Chairman of the Meeting will limit, in his sole discretion, and in accordance with the provisions of the Articles of Association, the number of individuals in attendance at the meeting.

Shareholder Information

Tax Summary for Real Estate Investment Trusts

Target Healthcare REIT plc is tax resident in the UK and is a Real Estate Investment Trust (REIT) under Part 12 of the Corporation Tax Act 2010, subject to continuing compliance with the REIT rules and regulations. The main REIT rules with which the Group must comply in order to retain its REIT status are as follows:

- at the start of each accounting period, the assets of the tax-exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax-exempt business;
- at least 90% of the tax-exempt rental business profits must be distributed in the form of a Property Income Distribution; and
- the Group must hold a minimum of three properties with no single property exceeding 40% of the portfolio value.

A REIT does not suffer UK corporation tax on the profits (income and capital gains) derived from its qualifying property rental businesses in the UK and elsewhere (the 'Tax-Exempt Business'), provided that certain conditions are satisfied. Instead, distributions in respect of the Tax-Exempt Business will be treated for UK tax purposes as UK property income in the hands of shareholders (see further below for details on the UK tax treatment of shareholders in a REIT). A dividend paid by the Company relating to profits or gains of the Tax-Exempt Business is referred to in this section as a Property Income Distribution ('PID').

UK corporation tax remains payable in the normal way in respect of income and gains from the Company's business (generally including any property trading business) not included in the Tax-Exempt Business (the 'Residual Business'). Dividends relating to the Residual Business are treated for UK tax purposes as normal dividends. Any normal dividend paid by the Company is referred to as a Non-PID Dividend ('Non-PID').

A REIT may become subject to an additional corporation tax charge if it pays a distribution to corporate shareholders that hold 10 per cent or more of share capital or voting rights and/or are entitled to 10 per cent or more of distributions. This tax charge will not be incurred if the REIT has taken reasonable steps to avoid making distributions to such a shareholder in line with HMRC guidance.

UK Taxation of PIDs

A PID is, together with any property income distribution from any other REIT company, treated as taxable income from a single UK property business. The basic rate of income tax (currently 20%) will be withheld by the Company (where required) on the PID unless the shareholder is entitled to receive PIDs without income tax being deducted at source and they have notified the Company's registrar of this entitlement sufficiently in advance of a PID being paid and the Company is satisfied that the shareholder concerned is entitled to that treatment.

Shareholders entitled to elect to receive distributions without deduction for withholding tax may complete the declaration form which is available on request from the Company through the contact details provided on its website, www.targethealthcarereit.co.uk, or from the Company's registrar. Shareholders who qualify for gross payments are, principally, UK resident companies, certain UK public bodies, UK charities, UK pension schemes and the managers of ISAs, PEPs and Child Trust Funds, in each case subject to certain conditions. Individuals and non-UK residents do not qualify for gross payments of distributions and should not complete the declaration form.

Shareholders who are individuals may, depending on their particular circumstances, either be liable to further UK income tax on their PID at their applicable marginal income tax rate, incur no further UK tax liability on their PID, or be entitled to claim repayment of some or all of the UK income tax withheld on their PID. The £1,000 property income allowance does not apply to PIDs.

Corporate shareholders who are within the charge to UK corporation tax will generally be liable to pay corporation tax on their PID and, if income tax is withheld at source, the tax withheld can be set against the company's liability to UK corporation tax or against any income tax which it is required to withhold in the accounting period in which the PID is received.

UK Taxation of Non-PIDs

Under current UK legislation, most individual shareholders who are resident in the UK for taxation purposes receive a tax-free dividend allowance of £2,000 per annum and any dividend income (including Non-PIDs) in excess of this allowance is subject to income tax.

UK resident corporate shareholders (other than dealers and certain insurance companies) are not liable to corporation tax or income tax in respect of dividends provided that the dividends are exempt under Part 9A of the Corporation Tax Act 2009.

UK Taxation of Chargeable Gains in Respect of Ordinary Shares in the Company

Any gain on disposal (by sale, transfer, redemption or otherwise) of the Company's ordinary shares by shareholders resident in the UK for taxation purposes will be subject to capital gains tax in the case of an individual shareholder, or UK corporation tax on chargeable gains in the case of a corporate shareholder.

UK ISAs and SIPPS

It is expected that the Company's shares will be eligible for inclusion in ISAs and Investment-Regulated Pension Schemes.

The statements on taxation on pages 90 and 91 are intended to be a general summary of certain tax consequences that may arise in relation to the Company and shareholders. This is not a comprehensive summary of all technical aspects of the taxation of the Company and its shareholders and is not intended to constitute legal or tax advice to investors.

The statements relate to the UK tax implications of a UK resident individual investing in the Company (unless expressly stated otherwise). The statements relate to investors acquiring the Company's ordinary shares for investment purposes only, and not for the purposes of any trade. The tax consequences for each investor of investing in the Company may depend upon the investor's own tax position and upon the relevant laws of any jurisdiction to which the investor is subject. The statements are based on current tax legislation and HMRC practice, both of which are subject to change at any time, possibly with retrospective effect, and there can be no guarantee that the tax position or proposed tax position prevailing at the time an investment in the Company is made will endure indefinitely.

Prospective investors should familiarise themselves with, and where appropriate should consult their own professional advisers on, the overall tax consequences of investing in the Company.

Historical Distributions

Distributions to shareholders may potentially include both PID and Non-PID Dividends as calculated in accordance with specific attribution rules. The Company provides shareholders with a certificate setting out how much of their dividend is a PID and how much, if any, is a Non-PID. A breakdown of the dividends paid in relation to the previous five financial years is set out below and details of all the dividends paid since the Group's launch are available at www.targethealthcarereit.co.uk

Distribution	Ex-dividend date	Payment date	PID (pence per share)	Non-PID (pence per share)	Total distribution (pence per share)
In relation to the year ended 30 June 2021					
Fourth interim dividend	12/08/21	27/08/21	0.16800	1.51200	1.68000
Third interim dividend	13/05/21	28/05/21	1.68000	–	1.68000
Second interim dividend	11/02/21	26/02/21	1.68000	–	1.68000
First interim dividend	12/11/20	27/11/20	1.68000	–	1.68000
Total			**5.20800**	**1.51200**	**6.72000**
In relation to the year ended 30 June 2020					
Fourth interim dividend	13/08/20	28/08/20	0.08350	1.58650	1.67000
Third interim dividend	07/05/20	29/05/20	1.67000	–	1.67000
Second interim dividend	13/02/20	28/02/20	1.67000	–	1.67000
First interim dividend	14/11/19	29/11/19	1.67000	–	1.67000
Total			**5.09350**	**1.58650**	**6.68000**
In relation to the year ended 30 June 2019*					
Fourth interim dividend	18/07/19	02/08/19	–	1.64475	1.64475
Third interim dividend	02/05/19	31/05/19	1.64475	–	1.64475
Second interim dividend	07/02/19	22/02/19	1.64475	–	1.64475
First interim dividend	25/10/18	30/11/18	1.64475	–	1.64475
Total			**4.93425**	**1.64475**	**6.57900**
In relation to the year ended 30 June 2018*					
Fourth interim dividend	09/08/18	31/08/18	1.12870	0.48380	1.61250
Third interim dividend	03/05/18	25/05/18	1.61250	–	1.61250
Second interim dividend	01/02/18	23/02/18	1.61250	–	1.61250
First interim dividend	16/11/17	30/11/17	1.61250	–	1.61250
Total			**5.96620**	**0.48380**	**6.45000**
In relation to the year ended 30 June 2017*					
Fourth interim dividend	03/08/17	25/08/17	0.70700	0.86300	1.57000
Third interim dividend	04/05/17	26/05/17	1.09900	0.47100	1.57000
Second interim dividend	02/02/17	24/02/17	1.25600	0.31400	1.57000
First interim dividend	03/11/16	25/11/16	1.25600	0.31400	1.57000
Total			**4.31800**	**1.96200**	**6.28000**

* Note: Distributions paid up until the year ended 30 June 2019, inclusive, were paid by the previous parent company of the Group, Target Healthcare REIT Limited, which was a Jersey-registered company and in relation to which the tax consequences set out on pages 90 to 91 may differ.

Historical Record

Assets

At 30 June	2014	2015	2016	2017	2018	2019	2020	2021
Total assets (£'000)	105,071	176,310	282,791	306,246	434,822	538,379	663,772	**718,394**
Market value of property portfolio (£'000)	83,246	143,748	210,666	281,951	385,542	500,884	617,584	**684,845**
Shareholders' funds (£'000)	90,218	139,292	253,282	256,937	358,607	413,089	494,113	**565,185**

Performance

At 30 June	2014	2015	2016	2017	2018	2019	2020	2021
EPRA NTA per share	94.7p	97.9p	100.6p	101.9p	105.7p	107.5p	108.1p	**110.4p**
Share price	104.8p	106.9p	109.0p	117.8p	110.5p	115.6p	110.0p	**115.4p**
Premium	10.6%	9.2%	8.3%	15.6%	4.5%	7.5%	1.8%	**4.5%**
IFRS EPS	1.08p	8.02p	6.81p	7.58p	9.77p	8.10p	7.18p	**9.23p**
Adjusted EPRA EPS	4.41p	6.10p	5.25p	5.23p	5.54p	5.45p	5.27p	**5.46p**
Dividends per share	6.00p	6.12p	6.18p	6.28p	6.45p	6.58p	6.68p	**6.72p**
Ongoing charges	1.95%	1.58%	1.42%	1.48%	1.48%	1.52%	1.51%	**1.55%**

Contact Information

Investor relations

Information on Target Healthcare REIT plc can be found on its website at www.targethealthcarereit.co.uk including details on the Company's share price history, historical dividends and regulatory reports, including the Group's Annual Reports, Interim Reports and Quarterly Investor Reports.

Registrar:
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
T: +44 (0)370 702 0000
E: www.investorcentre.co.uk/contactus

Enquiries about the following administrative matters should be addressed to the Company's registrar:
- Change of address notification.
- Lost share certificates.
- Dividend payment enquiries.
- Dividend mandate instructions. Shareholders may have their dividends paid directly into their bank or building society accounts by completing a dividend mandate form. Dividend confirmations, where applicable, are sent directly to shareholders' registered addresses.
- Amalgamation of shareholdings. Shareholders who receive more than one copy of the Annual Report are invited to amalgamate their accounts on the share register.

Shareholders can view and manage their shareholdings online at www.investorcentre.co.uk, including updating address records, making dividend payment enquiries, updating dividend mandates, viewing any outstanding payments and viewing the latest share price. Shareholders will need their Shareholder Reference Number, which can be found on their share certificate or a recent dividend confirmation, to access this site.

Warning to shareholders – Boiler Room Scams

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment.

If you receive unsolicited investment advice or requests:
- Check the Financial Services Register from www.fca.org.uk to see if the person or firm contacting you is authorised by the Financial Conduct Authority ('FCA')
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date
- Check the list of unauthorised firms to avoid at www.fca.org.uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme
- Think about getting independent financial and professional advice

If you are approached by fraudsters please tell the FCA by using the share fraud reporting form at www.fca.org.uk/scams where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040 or via their website at www.actionfraud.police.uk.

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The definitions of all APMs used by the Company are highlighted in the glossary on pages 97 to 99, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below and within the EPRA Performance Measures.

Discount or Premium – the share price of an Investment Company is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the NAV. If the share price is lower than the NAV per share, the shares are trading at a discount and, if the share price is higher than the NAV per share, are said to be at a premium. The figure is calculated at a point in time and, unless stated otherwise, the Company measures its discount or premium relative to the EPRA NTA per share.

		2021 pence	2020 pence
EPRA Net Tangible Assets per share (see page 67)	(a)	**110.4**	108.1
Share price	(b)	**115.4**	110.0
Premium	**= (b-a)/a**	**4.5%**	1.8%

Dividend Cover – the percentage by which Group specific adjusted EPRA earnings for the year cover the dividend paid.

		2021 £'000	2020 £'000
Group-specific EPRA earnings for the year (see page 66)	(a)	**25,955**	23,224
First interim dividend		**7,686**	7,640
Second interim dividend		**7,686**	7,640
Third interim dividend		**8,594**	7,640
Fourth interim dividend		**8,594**	7,640
Dividends paid in relation to the year	(b)	**32,560**	30,560
Dividend cover	**= (a/b)**	**80%**	76%

Ongoing Charges – a measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs of buying and selling investments, interest costs, taxation, non-recurring costs and the costs of buying back or issuing ordinary shares.

		2021 £'000	2020 £'000
Investment management fee		**5,796**	5,264
Other expenses		**5,334**	4,261
Less movement in impairment for credit losses and bad debts written off		**(2,717)**	(2,171)
Less direct property costs and other non-recurring items		**(263)**	(138)
Adjustment to management fee arrangements and irrecoverable VAT*		**49**	259
Total	(a)	**8,199**	7,475
Average net assets	(b)	**528,035**	493,691
Ongoing charges	**= (a/b)**	**1.55%**	1.51%

* Based on the Group's net asset value at 30 June 2021, the management fee is expected to be paid at a weighted average rate of 1.04% (2020: 1.05%) of the Group's average net asset plus an effective irrecoverable VAT rate of approximately 7%. The management fee has therefore been amended so that the Ongoing Charges figure includes the expected all-in management fee rate of 1.11% (2020: 1.12%).

Total Return – the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.

		2021			2020		
		EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)	EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)
Value at start of year	(a)	**108.1**	**108.0**	**110.0**	107.5	107.3	115.6
Value at end of year	(b)	**110.4**	**110.5**	**115.4**	108.1	108.0	110.0
Change in value during the year **(b-a)**	(c)	**2.3**	**2.5**	**5.4**	0.6	0.7	(5.6)
Dividends paid	(d)	**6.7**	**6.7**	**6.7**	6.7	6.7	6.7
Additional impact of dividend reinvestment	(e)	**0.5**	**0.4**	**0.3**	0.2	0.3	–
Total gain in year (c+d+e)	(f)	**9.5**	**9.6**	**12.4**	7.5	7.7	1.1
Total return for the year	**= (f/a)**	**8.8%**	**8.9%**	**11.3%**	7.0%	7.2%	0.9%

EPRA Performance Measures

The European Public Real Estate Association is the industry body representing listed companies in the real estate sector. EPRA publishes Best Practice Recommendations ('BPR') to establish consistent reporting by European property companies. Further information on the EPRA BPR can be found at www.epra.com.

The figures below are calculated and presented in line with the BPR Guidelines published by EPRA in October 2019, applicable for accounting periods commencing after 1 January 2020.

	2021	2020
EPRA Net Reinstatement Value (£'000)	**609,630**	535,256
EPRA Net Tangible Assets (£'000)	**564,934**	494,340
EPRA Net Disposal Value (£'000)	**563,796**	492,602
EPRA Net Reinstatement Value per share (pence)	**119.2**	117.0
EPRA Net Tangible Assets per share (pence)	**110.4**	108.1
EPRA Net Disposal Value per share (pence)	**110.2**	107.7
EPRA Earnings (£'000)	**34,047**	30,468
Group specific adjusted EPRA earnings (£'000)	**25,955**	23,224
EPRA Earnings per share (pence)	**7.16**	6.92
Group specific adjusted EPRA earnings per share (pence)	**5.46**	5.27
EPRA Net Initial Yield	**5.76%**	5.69%
EPRA Topped-up Net Initial Yield	**5.83%**	6.04%
EPRA Vacancy Rate	**–**	–
EPRA Cost Ratio – including direct vacancy costs	**22.3%**	21.5%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**26.6%**	25.7%
EPRA Cost Ratio – excluding direct vacancy costs	**22.3%**	21.5%
EPRA Group specific adjusted Cost Ratio (excluding direct vacancy costs)	**26.6%**	25.7%
Capital Expenditure (£'000)	**54,859**	118,743
Like-for-like Rental Growth	**0.1%**	1.5%

EPRA NAV metrics and EPRA Earnings

Full details of these calculations, including reconciliations of each to the IFRS measures, are detailed in note 8 to the Consolidated Financial Statements on pages 66 and 67.

EPRA Net Initial Yield and EPRA Topped-up Net Initial Yield

EPRA Net Initial Yield is calculated as 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. The EPRA Topped-up Net Initial Yield incorporates an adjustment in respect of the expiration of rent-free periods (or other unexpired lease incentives).

		2021 £'000	2020 £'000
Annualised passing rental income based on cash rents	(a)	**40,763**	36,749
Notional rent expiration of rent-free periods or other lease incentives		**450**	2,264
Topped-up net annualised rent	(b)	**41,213**	39,013
Standing assets including properties held for sale (see pages 68 and 69)		**662,495**	604,984
Allowance for estimated purchasers' costs		**44,696**	40,916
Grossed-up completed property portfolio valuation	(c)	**707,191**	645,900
EPRA Net Initial Yield	**= (a/c)**	**5.76%**	5.69%
EPRA Topped-up Net Initial Yield	**= (b/c)**	**5.83%**	6.04%

EPRA Vacancy Rate

EPRA Vacancy Rate is the estimated rental value (ERV) of vacant space (excluding forward fund developments and properties held for sale) divided by the contractual rent of the investment property portfolio, expressed as a percentage.

		2021 £'000	2020 £'000
Annualised potential rental value of vacant premises*	(a)	**–**	–
Annualised potential rental value of the property portfolio (including vacant properties)	(b)	**41,213**	39,013
EPRA Vacancy Rate	**= (a/b)**	**–**	–

* As detailed in note 20 to the Consolidated Financial Statements, there were no unoccupied properties at either 30 June 2021 or 30 June 2020.

EPRA Cost Ratio

The EPRA cost ratios are produced using EPRA methodology, which aims to provide a consistent base-line from which companies can provide additional information, and include all property expenses and management fees. Consistent with the Group specific adjusted EPRA earnings detailed in note 8 to the Consolidated Financial Statements, similar adjustments have been made to also present the adjusted Cost Ratio which is thought more appropriate for the Group's business model.

		Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Investment management fee		**5,796**	5,264
Other expenses		**5,334**	4,261
EPRA costs (including direct vacancy costs)	(a)	**11,130**	9,525
Specific cost adjustments, if applicable		**–**	–
Group specific adjusted EPRA costs (including direct vacancy costs)	(b)	**11,130**	9,525
Direct vacancy costs	(c)	**–**	–
Gross rental income per IFRS	(d)	**49,980**	44,267
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives		**(8,739)**	(8,219)
Adjusted for development interest under forward fund arrangements		**647**	975
Group specific adjusted gross rental income	(e)	**41,888**	37,023
EPRA Cost Ratio (including direct vacancy costs)	**= (a/d)**	**22.3%**	21.5%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**= (b/e)**	**26.6%**	25.7%
EPRA Cost Ratio (excluding direct vacancy costs)	**= ((a-c)/d)**	**22.3%**	21.5%
EPRA Group specific adjusted Cost Ratio (excluding direct vacancy costs)	**= ((b-c)/e)**	**26.6%**	25.7%

EPRA Capital Expenditure

	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Acquisitions (including acquisition costs)	**34,808**	108,024
Forward fund developments	**20,032**	9,245
Like-for-like portfolio	**19**	1,474
Total capital expenditure	**54,859**	118,743
Conversion from accrual to cash basis	**(3,458)**	(1,242)
Total capital expenditure on a cash basis	**51,401**	117,501

Like-for-like Rental Growth

		Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Opening contractual rent	(a)	**39,013**	32,193
Rent reviews		**686**	732
Movement in variable rental leases		**(162)**	(56)
Re-tenanting of properties*		**(468)**	(199)
Like-for-like rental growth	(b)	**56**	477
Acquisitions and developments		**2,582**	7,490
Disposals		**(438)**	(1,147)
Total movement	(c)	**2,200**	6,820
Closing contractual rent	**= (a+c)**	**41,213**	39,013
Like-for-like rental growth*	**= (b/a)**	**0.1%**	1.5%

* During the year ended 30 June 2021, as explained in more detail on page 17, the Group resolved its position with a tenant which had been operating two of the Group's homes. The re-tenanting of one of these homes was completed during the year resulting in a small uplift in rental income; however, this asset management activity has resulted in a temporary reduction in contractual rent in relation to the other home, thereby reducing the reported like-for-like rental growth for the year by 1.2%. The re-tenanting of the second home is expected to complete imminently.

Data centre

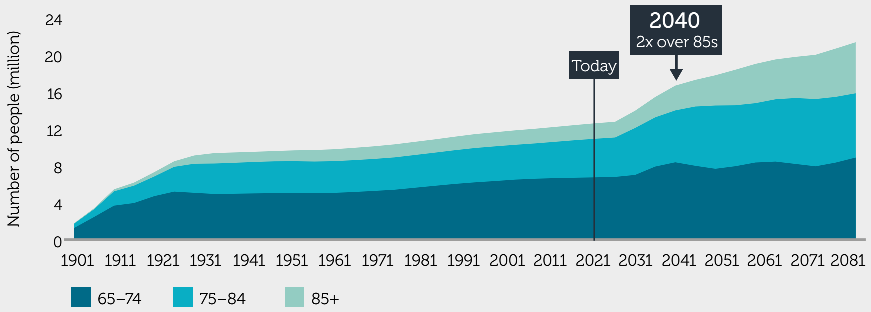
As the age of the UK population increases along with the care needs of older people, there is a clear requirement for investment that will modernise and grow the supply of fit-for-purpose care homes. Much of the UK's existing care home real estate is sub-standard for residents and their care professionals.

Responsible investment, applying specialist knowledge to a complex and sensitive sector, can deliver stable, long-term returns and provide positive social and community impact.

1. Demographics

- Number of >85s forecast to double to 3.3m in next 25 years
- Forecast increase in people living with dementia, to 1.0m in 2024 and 1.6m by 2040
- Societal shift means less elderly care provided within families

PEOPLE AGED 64 AND OVER: TREND AND PROJECTIONS

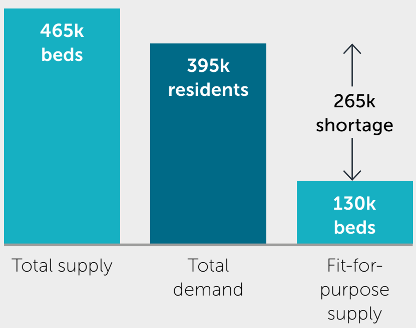


Sources: 1901–2001, Census data; Following 2001, successive principal national projections (the latest being 2018-based) from the Office for National Statistics and (formerly) the Government Actuary's Department.

2. Real estate standards

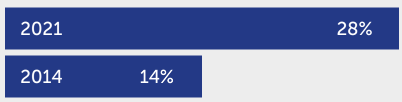
- Resident and family expectations on accommodation quality are increasing
- Only 28% of rooms in UK have the en suite wet rooms which are vital for hygiene, privacy & dignity
- Purpose-built homes offer advantages for residents and care providers, and better social space for communities

SUPPLY AND DEMAND



TOTAL EN SUITE WET ROOM PROVISION

Proportion of the market is increasing as older homes close and new homes are built

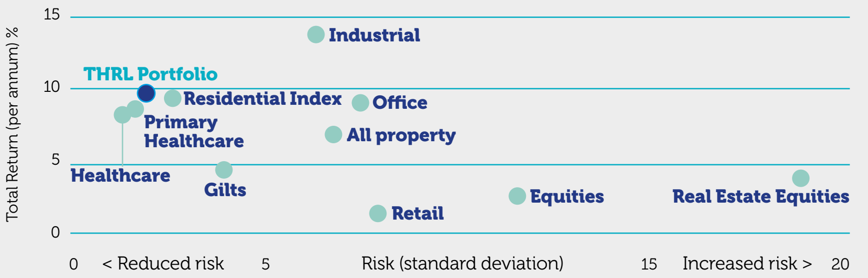


Sources:
Target Fund Managers/Carterwood Research.

3. Long-term investment, stable returns

- Lease structures are long-term (typically 30-35 years) and inflation-linked
- Portfolio track record of strong returns and low volatility (defensive, non-cyclical)
- Long-term capital appropriate for vital UK social care infrastructure

SEVEN YEAR TOTAL RETURN VS STANDARD DEVIATION 2014-2020



Source: MSCI, based on annual index to 31 December 2020.

Glossary of Terms and Definitions

Corporate Terms

AIC	Association of Investment Companies. This is the trade body for Closed-end Investment Companies (www.theaic.co.uk).
AIFMD	Alternative Investment Fund Managers Directive. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles in the European Union, including Closed-end Investment Companies, must have appointed a Depositary and an Alternative Investment Fund Manager. The Board of Directors of a Closed-end Investment Company, nevertheless, remains fully responsible for all aspects of the company's strategy, operations and compliance with regulations.
Closed-end Investment Company	A company with a fixed issued ordinary share capital which is traded on an exchange at a price not necessarily related to the Net Asset Value of the company and where shares can only be issued or bought back by the company in certain circumstances. This contrasts with an open-ended investment company, which has units not traded on an exchange but issued or bought back from investors at a price directly related to the Net Asset Value.
CQC	Care Quality Commission. The independent regulator of all health and social care services in England.
Depositary	Under AIFMD rules, the Company must appoint a Depositary, whose duties in respect of investments, cash and similar assets include: safekeeping; verification of ownership and valuation; and cash monitoring. The Depositary's oversight duties include, but are not limited to, oversight of share buy backs, dividend payments and adherence to investment limits. The Company's Depositary is IQ EQ Depositary Company (UK) Limited.
Discount/Premium*	The amount by which the market price per share of a Closed-end Investment Company is lower or higher than the net asset value per share. The detailed method of calculation is shown on page 93.
Dividend	The income from an investment. The Company currently pays interim dividends to shareholders quarterly.
Dividend Cover*	The absolute value of Group specific adjusted EPRA Earnings divided by the absolute value of dividends relating to the period of calculation. The detailed method of calculation is shown on page 93.
Dividend Yield*	The annual Dividend expressed as a percentage of the share price at the date of calculation.
EPRA Best Practice	European Public Real Estate Association. A not-for-profit organisation which aims to foster trust for, and encourage greater investment in, listed real estate in Europe (www.epra.com). EPRA also issue best practice recommendations to enhance the financial reporting of listed property companies.
EPRA Cost Ratio	Reflects the relevant overhead and operating costs of the business. It is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income. The detailed method of calculation is shown on page 95.
EPRA Earnings per Share*	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. A reconciliation of the earnings per IFRS and the EPRA earnings, including any items specific to the Group, is contained in note 8 to the Consolidated Financial Statements.
EPRA Group specific adjusted Cost Ratio*	The EPRA Cost Ratio adjusted for items thought appropriate for the Group's specific business model. The adjustments made are consistent with those made to the Group specific adjusted EPRA earnings as detailed in note 8 to the Consolidated Financial Statements.
EPRA Net Disposal Value ('NDV')*	A measure of Net Asset Value which represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. A reconciliation of the NAV per IFRS and the EPRA NDV is contained in note 8 to the Consolidated Financial Statements.
EPRA Net Initial Yield*	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. EPRA's purpose is to provide a comparable measure around Europe for portfolio valuations. The detailed method of calculation is shown on page 94.
EPRA Net Reinstatement Value ('NRV')*	A measure of Net Asset Value which assumes that entities never sell assets and aims to represent the value required to rebuild the entity. The objective is to highlight the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value movements on financial derivatives, are excluded and the costs of recreating the Group through investment markets, such as property acquisition costs and taxes, are included. A reconciliation of the NAV per IFRS and the EPRA NRV is contained in note 8 to the Consolidated Financial Statements.
EPRA Net Tangible Assets ('NTA')*	A measure of Net Asset Value which assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. A reconciliation of the NAV per IFRS and the EPRA NTA is contained in note 8 to the Consolidated Financial Statements.
EPRA Topped-up Net Initial Yield*	Incorporates an adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives). The detailed method of calculation is shown on page 94.

* Alternative Performance Measure

Glossary of Terms and Definitions continued

GAAP	Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards). The Group's Consolidated Financial Statements are prepared in accordance with IFRS.
Gearing	Unlike open-ended investment companies, Closed-end Investment Companies have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Company has undertaken. The higher the level of borrowings, the higher the gearing ratio. The gross gearing figure is calculated as debt divided by the market value of the properties held. The net gearing figures is calculated as debt less cash divided by the market value of the properties held.
Investment Manager	The Company's Investment Manager is Target Fund Managers Limited. Further details are set out on page 28 and in note 2 to the Consolidated Financial Statements.
Leverage	As defined under AIFMD rules, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.
Loan-to-Value*	A measure of the Group's Gearing level. Gross LTV is calculated as total gross debt as a proportion of gross property value. Net LTV is calculated as total gross debt less cash as a proportion of gross property value.
Market Capitalisation	The stock market value of the Company as determined by multiplying the number of Ordinary Shares in issue, excluding any shares held in treasury, by the Share Price of the Ordinary Shares.
MSCI	Produces indexes for both privately-held real estate portfolios, as well as publicly-listed organisations which provides a long performance history and which are mostly appraised quarterly.
NAV per Ordinary Share	This is calculated as the Net Asset Value (NAV) divided by the number of shares in issue.
Net Asset Value (or Shareholders' Funds)	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. It represents the underlying value of an Investment Company at a point in time.
Ongoing Charges Ratio*	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs of buying and selling investments, interest costs, taxation, non-recurring costs and the costs of buying back or issuing ordinary shares. The detailed method of calculation is shown on page 93.
Ordinary Shares	The main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Investment Company, and any capital growth. The Company has only Ordinary Shares in issue.
Real Estate Investment Trust (or REIT)	A tax regime which in the UK exempts participants from corporation tax both on UK rental income and gains arising on UK investment property sales, subject to certain requirements. Further details are provided on pages 90 and 91.
Share Price	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are traded on the Main Market of the London Stock Exchange.
SORP	Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' issued by the AIC.
Total Return*	The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets. The detailed method of calculation is shown on page 93.

* Alternative Performance Measure

Property Terms

Break Option	A clause in a lease which provides the landlord or tenant with an ability to terminate the lease before its contractual expiry date.
Contractual Rent	The annual rental income receivable on a property as at the balance sheet date, adjusted for the inclusion of rent currently subject to a rent free period.
Covenant Strength	This refers to the quality of a tenant's financial status and its ability to perform the covenants in the lease.
EBITDA lease	Lease arrangement which constitutes a fixed base rental amount plus variable top up rental payments based on the trading Estimated Rental Value performance of the underlying property.
Estimated Rental Value ('ERV')	The estimated annual market rental value of a property as determined by the Company's External Valuer. This will normally be different from the actual rent being paid.
Fixed and Minimum Guaranteed Rental Uplifts	Rents subject to fixed uplifts at an agreed level on agreed dates stipulated within the lease, or rents subject to contracted minimum uplifts at specified review dates.
Forward Fund/Commitment	A contract pertaining to the future purchase of a property. Forward Funding relates to the acquisition of a property which hasn't yet been built, with the Group providing the developer with the funding for the development, usually in staged payments throughout the contract.
Lease	A legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the lease length.
Lease Incentive	A payment used to encourage a tenant to take on a new lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.
Lease Renewal	The renegotiation of a lease with the existing tenant at its contractual expiry.
Mature Homes	Care homes which have been in operation for more than three years. There were 51 homes in the Group's portfolio which met this definition for the entire duration of the year ended 30 June 2021, closing at 58 homes on 30 June 2021.
Occupancy Rate	The occupancy rate calculates the number of occupied rooms as a percentage of the overall capacity of the care home. This is an important measure in determining the quality of the property held, the strength of the tenant and the sustainability of the rental income received.
Portfolio or Passing Rent*	The annual rental income currently receivable on a property as at the balance sheet date, excluding rental income where a rent-free period is in operation. The gross rent payable by a tenant at a point in time.
Rent Cover*	A measure of the tenant's ability to meet its rental liability from the profit generated by their underlying operations. Generally calculated as the tenant's EBITDARM (earnings before interest, taxes, depreciation, amortisation, rent and management fees) divided by the contracted rent. Unless otherwise stated, rent cover is calculated based on Mature Homes only on a rolling twelve-month basis.
Rent Review	A periodic review of rent during the term of a lease, as provided for within a lease agreement.
Valuer	An independent external valuer of a property. The Group's Valuer is Colliers International Healthcare Property Consultants Limited and detailed information regarding the valuation of the Group's properties is included in note 9 to the Consolidated Financial Statements.
WAULT*	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

* Alternative Performance Measure

Corporate Information

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Valuers	Colliers International Healthcare Property Consultants Limited 50 George Street London W1U 7GA
Auditors	Ernst & Young LLP Atria One 144 Morrison Street Edinburgh EH3 8EX
Tax Adviser	Deloitte LLP Athene Place 66 Shoe Lane London EC4A 3BQ
Depositary	IQ EQ Depositary Company (UK) Limited Two London Bridge London SE1 9RA
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