

A large, abstract graphic element occupies the right side of the page. It consists of several overlapping geometric shapes: a large dark navy blue parallelogram at the bottom left, a light beige parallelogram above it, a teal parallelogram nested within the beige one, and a large dark teal parallelogram at the top right. The shapes create a sense of depth and movement.

Investing in care
delivering returns

Financial highlights

EPRA NAV PER SHARE (PENCE)

108.1 +0.6%

2020	108.1
2019	107.5
2018	105.7

NAV TOTAL RETURN (PER CENT)¹

7.0

2020	7.0
2019	8.1
2018	10.5

DIVIDEND PER SHARE (PENCE)

6.68 +1.5%

2020	6.68
2019	6.58
2018	6.45

IFRS PROFIT (£ MILLION)

31.6 +5.7%

2020	31.6
2019	29.9
2018	27.6

DIVIDEND COVER (PER CENT)²

76

2020	76
2019	82
2018	82

PORTFOLIO VALUE (£ MILLION)

617.6 +23%

2020	617.6
2019	500.9
2018	385.5

1 Based on EPRA NAV movement and dividends paid.

2 Based on adjusted EPRA earnings, see note 8 of the consolidated financial statements and alternative performance measures on page 96.

Strategic Report

01-21

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IBC

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.

We are Target Healthcare REIT

Our purpose

To accelerate 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.

How we invest in care and deliver returns

- UK-listed real estate investment trust (REIT)
- Robust, diversified portfolio of scale, patiently assembled over seven years
- Specialist Investment Manager with over 10 years dedicated experience of investing in the UK care home sector
- Quarterly dividend focus

 SEE BUSINESS MODEL
ON PAGE 10 FOR MORE DETAIL

Modern portfolio

	SCALE
73 homes	
5,073 beds	
£618m valuation	

	WET-ROOMS
95%	

	EPC
100% A-C ratings*	

Diversified income

	CONTRACTUAL RENT
£39.0m p.a.	

	TENANTS
27	

	FEES SOURCES
66% private	
34% public	

Long-term, sustainable

	WAULT
29 years	

	NET LTV
18.7%	
	ANNUALISED NAV TOTAL RETURN**
7.7% since launch	

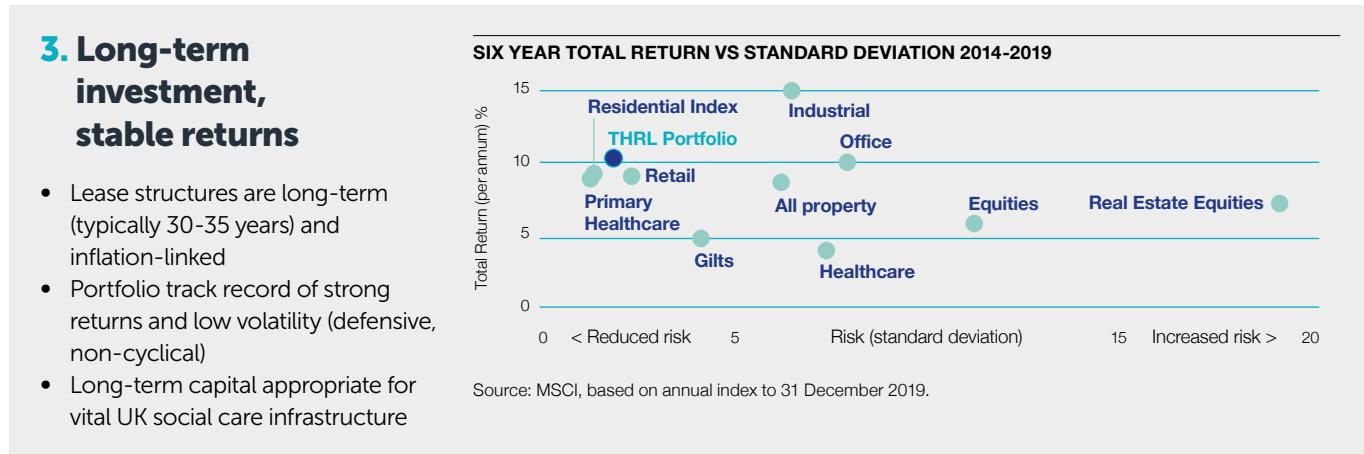
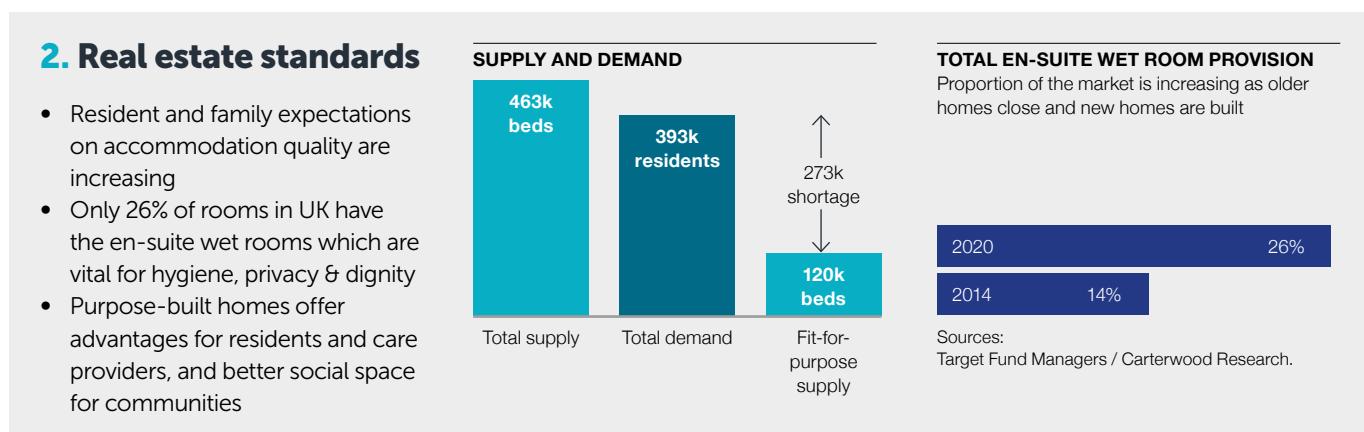
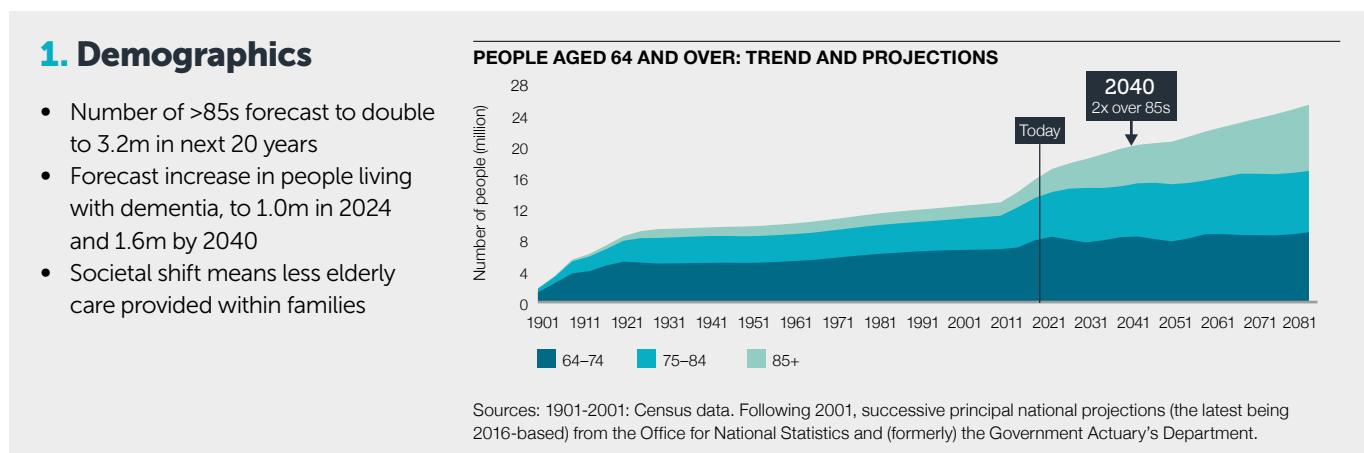
* English homes only.

** Based on EPRA NAV movement and dividends paid.

Our Investment Case

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.



EPRA Summary

Further detail on EPRA methodology is contained in note 8 to the consolidated financial statements on page 64, in the glossary on page 93 and in the Alternative Performance Measures on pages 96 and 97.

	2020	Movement	2019	2018
EPRA NAV per share (pence)	108.1	+0.6%	107.5	105.7
EPRA NNNAV per share (pence)	107.7	+0.4%	107.3	105.7
Adjusted EPRA EPS (pence)	5.27	-18bps	5.45	5.54
EPRA EPS (pence)	6.92	+29bps	6.63	7.50
EPRA Topped-up NIY (per cent)	6.04	-22bps	6.26	6.44
EPRA NIY (per cent)	5.69	-24bps	5.93	5.90
Adjusted EPRA Cost Ratio (per cent)	25.7	+330bps	22.4	20.8
EPRA Cost Ratio (per cent)	21.5	+190bps	19.6	18.3
Ongoing charges figure (OCF)	1.51%	-1bps	1.52%	1.48%

The Group has a straightforward investment strategy to provide stable and sustainable dividend income to investors from a carefully-selected portfolio of modern care homes, diversified by tenant, geography and end-user payment profile.



Environmental, social and governance principles: at the heart of how we invest & manage

We have a strong belief in the positive social impact our care homes generate. We aim to maximise this whilst minimising our environmental footprint.

Environmental

- Environmental sustainability is considered early in our investment process
- Our portfolio is modern, many of our homes contain features such as heat pumps and have good EPC ratings

Social

- A strong care ethos guides our investment management, and is crucial to the long-term returns we expect from our assets
- Strong emphasis on real estate standards which benefit residents, carers and communities

Governance

- We are an engaged landlord, regularly monitoring, visiting and collaborating with our tenants
- Experienced non-executive Board of Directors which is fully independent



Our locations

Scotland	
Number of properties	5
Rent roll	£2.2m
Value	£34.0m

North East	
Number of properties	2
Rent roll	£1.0m
Value	£15.2m

Northern Ireland	
Number of properties	4
Rent roll	£1.7m
Value	£25.0m

Yorkshire & The Humber	
Number of properties	19
Rent roll	£8.6m
Value	£130.2m

North West	
Number of properties	13
Rent roll	£5.4m
Value	£91.2m

East Midlands	
Number of properties	10
Rent roll	£4.9m
Value	£74.3m

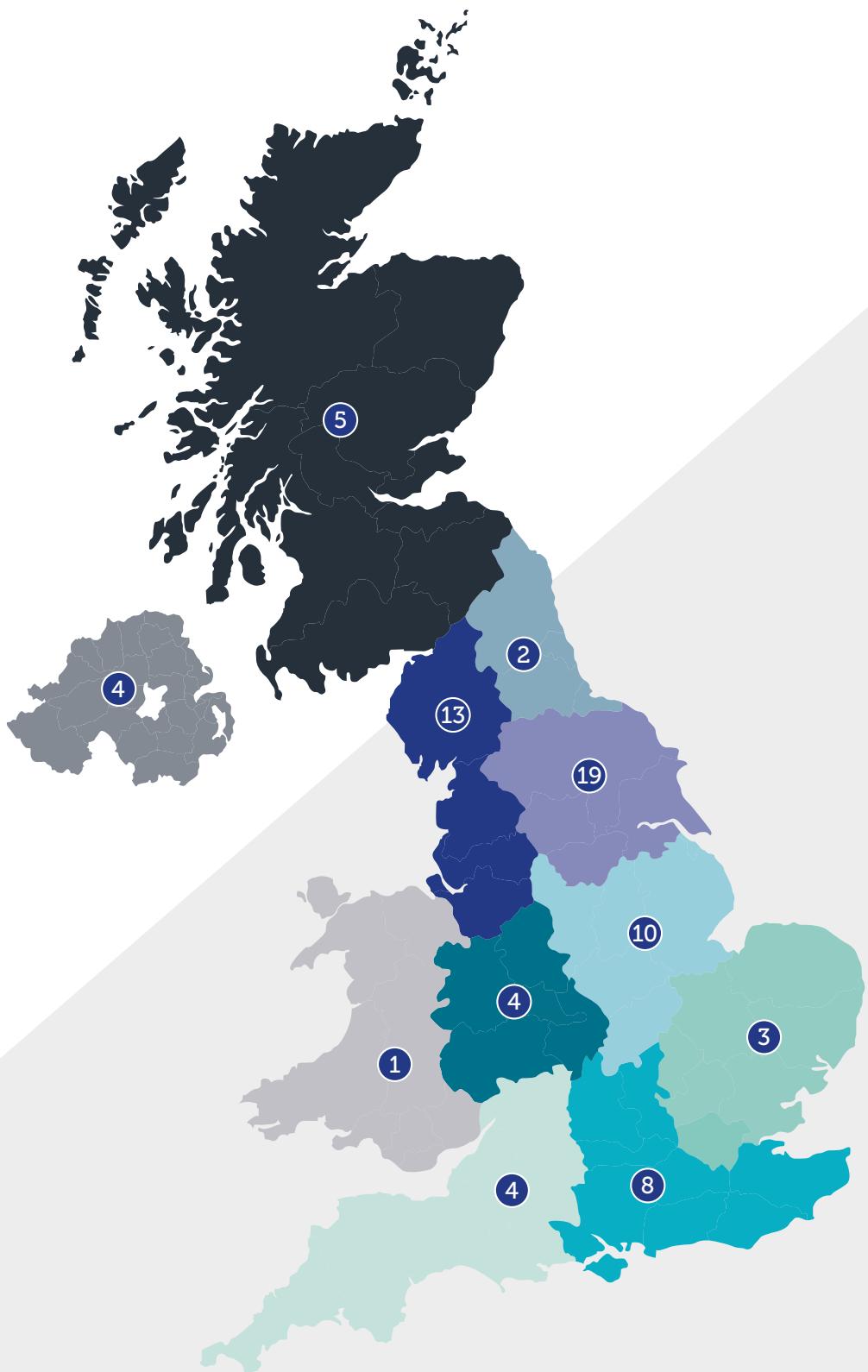
West Midlands	
Number of properties	4
Rent roll	£2.3m
Value	£35.3m

Wales	
Number of properties	1
Rent roll	£0.5m
Value	£6.9m

East of England	
Number of properties	3
Rent roll	£2.0m
Value	£214.0m

South East	
Number of properties	8
Rent roll	£6.9m
Value	£122.6m

South West	
Number of properties	4
Rent roll	£3.5m
Value	£21.3m



Chairman's Statement

I have heard numerous stories of people in our homes delivering care with skill and compassion in extremely challenging conditions. I hope the sector's vitality will continue to be recognised and appropriate long-term investment will be encouraged.



Dear Shareholder,

The extraordinary impact of COVID-19 has demonstrated the importance of the social care infrastructure, alongside the NHS, in care of the nation's health. I continue to be deeply impressed by our tenants' exceptional commitment and I have heard numerous stories of people in our homes delivering care with skill and compassion, often at considerable personal sacrifice, in extremely challenging conditions.

Many of our homes took action to protect residents ahead of the government lockdown. Our tenants and our management team have shown a consistent focus on the wellbeing and safety of all our stakeholders, most particularly residents, care workers, and their friends and families.

For our management team, working from home, and not being able to visit our care homes as often as usual over these months has been a challenge. Avoiding any risk of spreading the virus meant a shift to increased telephone and virtual support.

The strong relationships we have with our tenants means we understand their operational stresses and strains, with updates received via many hundreds of phone calls and virtual meetings. The Manager has given help and support with sourcing of PPE, sharing of best practice and collation of sector news and guidance, as well as acting as a sounding board. Where appropriate, we have relaxed contractual obligations to ease cashflow pressures. All of this is in order to allow our tenants to focus on what they do best – providing care.

I hope the sector's vitality will continue to be recognised and appropriate long-term investment will be encouraged.

Performance/Highlights

Prior to COVID-19 we were focussed on our objectives to grow a more robust portfolio and lengthen our debt duration. We believe a diversified portfolio of scale provides resilience and stability.

During the year, we invested £117 million in the acquisition of 12 care homes/sites, added four new tenants, and the portfolio generated a like-for-like valuation growth of 2.8 per cent. Across the portfolio, seven newly-built homes opened to residents during the year.

Shareholders again showed their faith in our investment strategy, entrusting us with £80 million of new capital in September 2019. Likewise, the lending community was supportive, with a 12-year facility with a new institutional lender substantially lengthening the average maturity profile of the Group's debt to 4.24 years. LTV remains conservative at 18.7 per cent, with the ability to increase to 25 per cent on a fully invested basis.

Our focus on "bottom-up" investing, whereby we only acquire care homes which we believe will prosper in their local market, passed a real test when a significant tenant notified us of their intention to exit their commitments with respect to six of our assets. The quality of these assets and our engagement in the sector allowed us to promptly re-tenant to alternative operators with no net loss in rentals or capital values and no interruption to the residents in those homes.

Prior to the onset of COVID-19, the portfolio was in good shape. Rolling last 12 months rent cover of Mature Homes, a key metric in monitoring the long-term sustainable rent levels we desire, was 1.6 times at the end of 2019 and has remained static at 1.6 times during the two quarters impacted by COVID-19. Rent collection has been largely uninterrupted, with a collection rate of 95% across the March and June quarters. Adjusted EPRA EPS was 5.27 pence per share, providing dividend cover of 76 per cent. Under the more widely-used EPRA EPS metric, the dividend was fully covered. The pause in acquisitions from March to June, and prudent provisioning in relation to rental income recognised from two tenants, have negatively impacted earnings and dividend cover. Since the year-end, we have cautiously resumed new investment activity and, combined with the continued resilient performance of the portfolio overall and active asset management initiatives, we expect earnings and dividend cover to improve in the coming year.

The Manager provides more detail in the Investment Manager's report and strategy in action on pages 12 to 17.

Board & Advisers

We continue to assess the Board composition to ensure we have the requisite skills and experience, now and with succession in mind. We welcomed Ms Alison Fyfe to the Board in May, who is a highly experienced property professional whose skills gained in surveying, banking and property finance will serve the Group well.

We also agreed to extend the duration of the contract with the Manager during the year, with a two year notice period now applying with an initial three year minimum term. The Board believes this arrangement provides a satisfactory balance of flexibility and security with respect to a key service provider, in what is a long-term business of increasing scale and complexity.

Annual General Meeting ('AGM')

The AGM will be held on 2 December 2020. Unfortunately, due to the COVID-19 pandemic and uncertainty over the social distancing guidance and regulations that will be in place at the time of the meeting, physical attendance by shareholders is likely to be restricted. However, shareholders are strongly encouraged to make use of the proxy form provided in order to lodge their votes on the resolutions proposed and to raise any questions or comments they may have in advance of the AGM through the Company Secretary. Further details in relation to the AGM are included on page 31.

Outlook & dividend

I wrote last year that the macroeconomic outlook was bearish given Brexit concerns, political uncertainty and the prospect of trade wars escalating. "Flu pandemic" was an entry on the Group's risk register which was assessed as low risk and low impact. Our core business of receiving rent and passing that onto shareholders as dividend has been largely uninterrupted, perhaps justifying that assessment, however the impact COVID-19 has had on society and the economy has been immediate and shocking in its scale. The uncertainty and disruption look like continuing for quite some time in the absence of effective treatment or a vaccine.

In the same manner in which many anticipate further profound changes to our way of life, particularly with regard to places of work, commuting and travel, government policy may also have to respond radically. The shape of recovery, with the prospects for a quick "V" shape rapidly waning, will impact borrowing, taxation levels and the need for further stimulus initiatives. Brexit concerns and trade wars haven't vanished, and the counter-intuitive recent stock market highs have been "tech-dependent" and feel fragile.

Against this backdrop, two fundamentals stand out for me – both of which give me great confidence about the Group's prospects. Firstly, our business model is designed to allow us to pay a regular, stable and attractive dividend in what may well be an entrenched "lower-for-longer" interest rate environment. Secondly, our portfolio has performed well during the year, and has thus far demonstrated a satisfying resilience during COVID-19. We have seen rental and valuation growth. Falls in occupancy levels as a result of lockdown are being substantially matched by new enquiry levels. Whilst the timeframe for our homes to fully recover occupancy is uncertain, ultimately the care they offer is in the best modern real estate which can meet the needs of residents. We believe the portfolio will continue to perform.

The Board remains committed to its strategy to provide a progressive dividend. In the absence of unforeseen circumstances, the Board intends to reflect an element of the rental growth achieved via an increase in the quarterly dividend in respect of the year ending June 2021 by 0.6 per cent to 1.68 pence per share, providing an annual total of 6.72 pence.

This increase reflects both the Board's confidence in the Group's prospects and caution with regard to the ongoing COVID-19 situation. We are pleased to be able to continue delivering returns to shareholders, the nature of which we can reasonably conclude will be welcomed by investors more generally. We hope this will allow us to continue to grow and invest in a sector where we can generate a positive social impact.

Malcolm Naish

Chairman
5 October 2020

Promoting the success of Target Healthcare REIT plc

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

The table below provides an outline of this approach, and highlights some key decisions alongside consideration for key stakeholder groups, as required by s172 of the Companies Act 2006:

S172 matter	How matter is considered by the Board in decision-making	More detail
a) The likely consequences of any decision in the long term	<p>Our investment approach is long-term with an average lease length of 29 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.</p> <p>During the year the following key decisions were made:</p> <ul style="list-style-type: none"> – To grow the Group via an £80m equity raise based on positive prospects for the Group and the UK care home real estate investment market – To refinance short-term bank debt with a new long-term (12-year) facility – To temporarily pause investment plans to prudently conserve Group capital as a response to the uncertainty brought by the COVID-19 pandemic. <p>Following careful consideration, it was subsequently determined to be appropriate to continue dividend payments to shareholders following continuity of rental collection and the portfolio outlook.</p>	Our sustainable investment process is further explored within the Business Model section on page 10 while the capital activities during the year are outlined in the Investment Manager's Report on pages 12 to 13.
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	<p>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.</p> <p>The Manager reports regularly to the Board on these relationships, and all key suppliers/advisers are able to report directly to the Board.</p> <p>During the year the following key decisions were made:</p> <ul style="list-style-type: none"> – To extend the contractual arrangements with the Manager to an initial three-year term, reverting to a two-year notice period after the first year. – An amicable re-tenancy of six properties to two other Group tenants. 	The activities of the Group (including more details of the portfolio management by the Investment Manager) is explored in the Strategy in Action section on pages 14 to 17.
d) The impact of the Company's operations on the community and the environment	<p>The Board is confident the Group's approach to investing in a sensitive sector is responsible with regard to social and environmental impact. During the year a review of the Group's ESG strategy, with particular focus on measurement and reporting, has been initiated with reporting expected to commence in 2021.</p>	Within the Strategic Report on page 4 the Environmental, Social and Governance characteristics of the Group are described in more detail.
e) The desirability of the Company maintaining a reputation for high standards of business conduct, and	<p>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.</p> <p>During the year the following key decisions were made:</p> <ul style="list-style-type: none"> – To appoint an additional Director, assisting with governance in a growth period and in advance of a planned succession period. 	The strategic objectives of the Group are shown on page 11 and further details (including the succession plans for the Board) are included in the Corporate Governance Statement on pages 33 to 36.
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.	

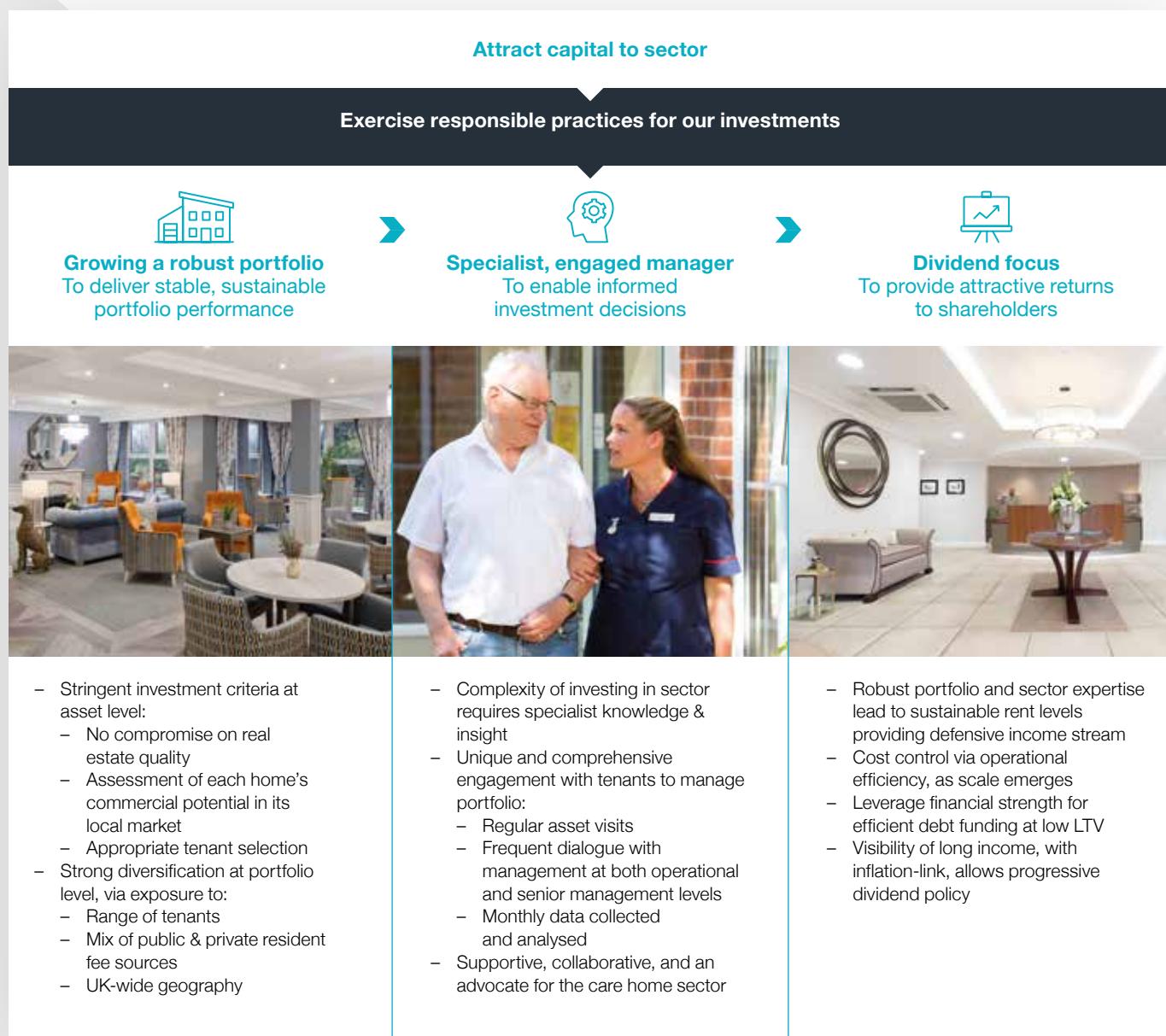


Business Model

In achieving our investment objectives we can make a real difference to people's lives – a tremendous privilege and responsibility. We act with integrity, dedication and a passion for care, supporting the commitment of the operators who use our real estate.

We recognise that social care requires the stability which comes from responsible, long-term investment. Our Manager is a specialist, deeply engaged in the sector, who understands the operational challenges our tenants face on a daily basis when providing quality care.

We provide our tenants with the security of long leases at sustainable rents, allowing them to grow and improve their business. The visibility of this long, inflation-linked income allows us to provide progressive dividends to shareholders.



Strategic Objectives

Objectives	2020 activity & KPIs	2021 priorities	Risks
 <p>Growing a robust portfolio Creating a portfolio of scale with focus on real estate quality, diversification, and sustainability of returns.</p>	<p>2020 activity & KPIs</p> <ul style="list-style-type: none"> Portfolio growth of 12 assets acquired and £117 million by value. Like-for-like valuation growth of 2.8% EPRA Topped-up NIY of 6.04%, EPRA NIY 5.69% 4¹ new tenants introduced to portfolio, representing 12.2% of contractual rent Rental growth of £6.8 million contractual rent. Like-for-like growth of 1.5%. WAULT maintained at 29 years Portfolio last 12 months Mature Homes rent cover three year average of 1.5 times (1.6 times at 30 June 2020) 	<p>2021 priorities</p> <ul style="list-style-type: none"> Continue to source opportunities to grow and improve portfolio Support modernisation of UK care home real estate through selective investment in well-designed assets 	<ul style="list-style-type: none"> Lack of suitable properties and/or inability to invest on suitable commercial terms Underperformance of assets due to poor asset selection or external factors such as ongoing COVID-19 pandemic, may adversely affect portfolio returns
 <p>Specialist, engaged manager Utilise the Manager's skills, experience and insight to navigate a complex sector: protecting returns; promoting the contribution of our tenants; and advocating improvements in real estate standards.</p>	<ul style="list-style-type: none"> Portfolio total returns ahead of the relevant MSCI index. 9.2% vs. 7.4% for 2019 calendar year, annualised since launch 11.6% vs. 9.0% Real estate standards: <ul style="list-style-type: none"> 95% beds have full en suite wet-room facilities 86% homes are ≤10 years old Relationships: Currently undertaking a tenant questionnaire exercise to further understand and develop tenant relationships Complexity of sector & end-user focus: Successful re-tenancy of homes representing 8.1% of rent roll – preserving shareholder value and continuity of resident care 	<ul style="list-style-type: none"> Monitoring portfolio/sector response to and emergence from COVID-19 Careful prioritisation of asset management initiatives as progress from lockdown allows: (i) safely resume on-site asset monitoring and (ii) progress portfolio changes where required 	<ul style="list-style-type: none"> Underperformance of assets due to the impact of external factors, such as ongoing COVID-19 impact, may adversely affect portfolio returns Government policies/funding of care may change
 <p>Dividend focus Leverage financial strength and disciplined cost control to provide covered dividend when fully invested at prudent gearing levels.</p>	<ul style="list-style-type: none"> Earnings: Adjusted EPRA EPS 5.27 pence per share Cost control: Adjusted EPRA cost ratio 25.7 per cent Financial strength: Average cost of drawn debt 2.87%, average term to maturity 4.24 years, net LTV 18.7% Dividend of 6.68 pence per share, 6.1% yield based on 30 June 2020 closing share price Dividend cover² 76 per cent, fully covered based on EPRA EPS Total returns on EPRA NAV for year of 7.0%, 7.7% annualised since launch 	<ul style="list-style-type: none"> Increase earnings through prudent capital deployment and active portfolio management initiatives for lower ranking assets Pursue options to improve debt certainty and longevity given overall capital markets uncertainty 	<ul style="list-style-type: none"> Reduction in earnings from poor portfolio performance Refinance and interest rate risk – short-term borrowing facilities may not be renewed by lenders, and the Group's cost of borrowing may increase
 <p>Our purpose and responsible investment In addition to reporting on financial returns to shareholders, we want to be able to measure and report our wider environmental, social and governance (ESG) impact.</p>	<p>2020 activity and metrics</p> <ul style="list-style-type: none"> Seven homes/520 beds in the portfolio opened during the year (c.9% of new beds registered in the UK in the period) Portfolio EPC ratings compare favourably to peers A number of electronic tablets donated to each home to improve opportunities for residents and carers to communicate with friends and families during lockdown Responsible investment during the re-tenancy of six homes, with continuity of resident care at the forefront of all discussions 	<p>2021 priorities</p> <p>We are currently reviewing our ESG strategy, ensuring this is aligned with our core objectives, and how we measure and report our progress. We intend to introduce a full suite of KPIs during the current year and report on these for 2021 and beyond, covering additional areas such as:</p> <ul style="list-style-type: none"> Our carbon footprint Our success in promoting and being an advocate for the care home sector Our charitable activities and sector support 	

¹ Net three new tenants as Orchard care homes ceased to be a tenant during the year
² Using Adjusted EPRA Earnings which management uses as a key metric to measure operational performance

Investment Manager's Report

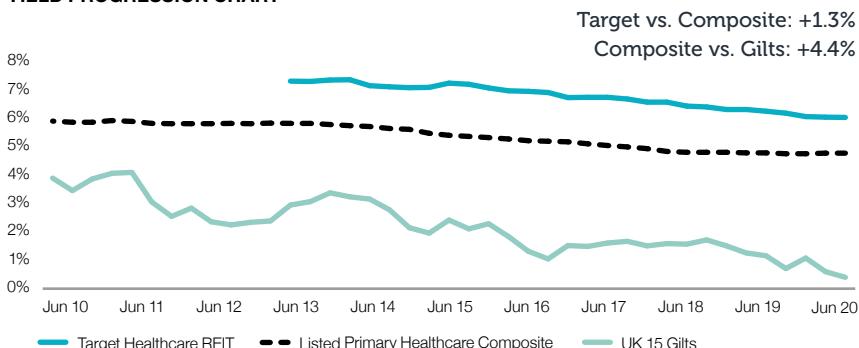
Portfolio review

We are pleased to note that the portfolio has once again outperformed the MSCI UK Annual Healthcare Property Index for the calendar year to December 2019. Portfolio annualised total return since launch has been 11.6 per cent, relative to the index's 9.0 per cent.

Performance since then, for the quarters ending March and June 2020, has been stable despite the significant operational challenges faced by our tenants through the COVID-19 pandemic. This is testament to our core investment thesis of setting sustainable rents in the sector.

We report in more detail on page 14.

YIELD PROGRESSION CHART



Target vs. Composite: +1.3%

Composite vs. Gilts: +4.4%

UK care home investment market

Following a subdued period through the peak of the COVID-19 crisis so far, investment activity in the part of the sector in which we invest has regained the momentum shown for the majority of the year. Deals marketed and agreed pre-COVID have generally completed without movement in pricing. More generally, valuation yields have continued their gradual tightening, as the reliable return and defensive characteristics of the asset class continue to be proven.

There continues to be a number of buyers active in the investment market, though perhaps less generalist activity currently, given other distractions. We would anticipate competition from this cohort to quickly return given the low yields on government and corporate bonds at present, and their forecast curves. Whilst this provides challenges to us in identifying and securing new assets, it can only be positive for the sector and for returns on our existing portfolio.

That said, we continue to identify pipeline assets, through our deep engagement in the sector, and believe we can grow and enhance the portfolio. We will not compromise on our strict investment criteria, with a particular focus on setting sustainable rent levels – we will lose out on assets if others are willing to pay higher capital values based on higher rents, thereby accepting more risk from lower rent cover. We don't believe this to be a prudent long-term strategy for us, nor for tenants.

Health & social care

The global COVID-19 pandemic was unforeseen and has caused unprecedented disruption across society as a whole.

As other countries in Europe started to report significant numbers of COVID-19 cases in late January, there was a dawning recognition that containment of the reported cases in China had failed. The World Health Organization (WHO) subsequently classified COVID-19 a pandemic on March 11, 2020. The UK government response was summed up in the slogan – ‘Stay Home, Protect the NHS, Save Lives’.

To save the UK from the disastrous scenes seen in such places as Lombardy in Italy, hospitals rapidly discharged patients who had been delayed discharges, stopped elective procedures and built extra capacity in the form of the Nightingale units. The whole of the UK went into “lockdown” and was urged to “Save the NHS”.

Care homes sprung to help; there was an encouraging surge of renewed partnerships and collaborative thinking. Relationships between Social Care and the NHS have been historically difficult at times, but COVID-19 was seen as a catalyst for changed working.

However, all was not well, as some homes felt pressurised to admit patients from the NHS, testing of those residents at hospital discharge

was deemed unnecessary by Government guidance, and PPE became increasingly scarce, with reports even of consignments being impounded and redirected to the NHS. Homes reported staff shortages in the early weeks of up to 20% or 30% of their workforce as shielding took priority, at the same time as the NHS was supported by conscripting medical and nursing students, recall of recently retired staff and government calls for general public volunteers including furloughed workers.

Most care home operators were cautious about admitting residents, quickly implementing 14-day isolation policies. Homes ‘locked down’ some time before the Government advised it, restricting families and non-essential visitors; agency use was limited to ‘single home only’ where possible.

Inconsistent and inoperable guidance was a significant concern for care home operators. For example, PPE policy changed over 25 times in several months, with government agencies often giving conflicting advice. Some local regulators were too ‘hands-off’, while operators in other areas received supportive calls from their local inspector.

Testing was sporadic, absent or results returned too slowly over spring and early summer. Once a positive case was identified in a home, no further residents were tested, so the true extent of those who were infected will never be known.

Fortunately, the recovery rate for many residents was much better than feared, with the majority of the Group’s homes experiencing fewer than ten deaths from COVID-19. However, every death was very sad for all involved especially when family visiting was restricted by government advice. Care home teams gave of themselves selflessly, and many managed to bring relatives together at the end of life. We acknowledge and are grateful for their supreme effort and dedication.

Going forward, homes are preparing for the winter while being much better prepared for a second wave. Testing is improving but frustration continues due to its lack of reliability and the sometimes unnecessary isolation for residents which results. Improved occupancy will come when families see sensible and sensitive visiting policies from public health authorities and government.

Those who hope for COVID-19 to be a catalyst for change may yet be proven to be right; the pandemic has highlighted the need for modern facilities such as those favoured by this REIT, which prioritises wet rooms for infection control, and access to outdoor spaces for visiting and exercise, and good air quality. The need for change of the kind we advocate and better funding has been laid bare for all to see.

COVID-19 response

The onset of the pandemic required an immediate and significant shift in our operations, with our response prioritising the safety and wellbeing of all stakeholders. As well as assessing and managing the direct impact on the portfolio, we have also taken specific actions with respect to the potential impact on the long-term prospects for the Group.

Portfolio

- Understood operational stresses of tenants, and responded to that with empathy, flexibility and support. Objective to minimise distractions to allow focus on navigating the pandemic safely:
 - More than 700 phone calls and virtual meetings at tenants’ convenience to replace physical visits and data collection
 - Helped with sourcing of PPE
 - Collated and shared latest government guidance, sector news and best practice
 - Provided support and equipment to facilitate safe visiting and resident and carer “virtual visits” with family and friends
 - Relaxed contractual obligations, where appropriate, to ease tenants’ cashflow pressures and/or lease covenants

Secure future

- Care home visits and other business travel cancelled prior to government-imposed lockdown. Business interruption plan enacted with IT, equipment and other practical support provided to team members as required. No staff furloughed, with three new team members recruited
- Frequent MS Teams/Zoom meetings scheduled within the management team and with the Board to ensure data shared and assessed on a timely basis and appropriate actions taken
- Business processes updated to recognise increased risks from working from home
- Changed parameters of financial stress testing to consider the potential severe COVID-19 impact, aiding informed risk assessment and decision-making
- Paused investment to preserve uncommitted capital, prioritising long-term viability through peak of uncertainty
- Proactive actions to update lenders and market on strong portfolio performance

Strategy in Action



Robust portfolio

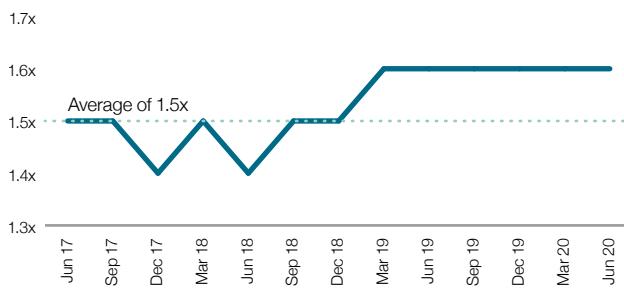
Resilient portfolio performance. Rent and valuation increases on a like-for-like basis. Growth and diversification enhancements from acquisitions and portfolio management.

Performance

The Group's portfolio of 71 completed assets is 100 per cent let to 27 tenants. Like-for-like rental and valuation growth have been 1.5 per cent and 2.8 per cent respectively – the former being driven by the upwards-only rent reviews which are a characteristic of all the Group's leases. Rental collection has been positive through the period affected by the COVID pandemic, at 95 per cent¹ in respect of the March and June 2020 rental quarter dates combined.

This rent collection has been underpinned by solid trading performance across the portfolio – last 12 months rent cover across the Mature Homes in the portfolio has averaged 1.5 times over the last three years and on a rolling last 12 months basis has been 1.6 times over the most recent two quarters (matching pre-COVID-19 levels), further demonstrating the portfolio's resilience and sustainable rent levels.

ROLLING LAST 12 MONTHS RENT COVER OF MATURE HOMES IN THE PORTFOLIO



Acquisitions

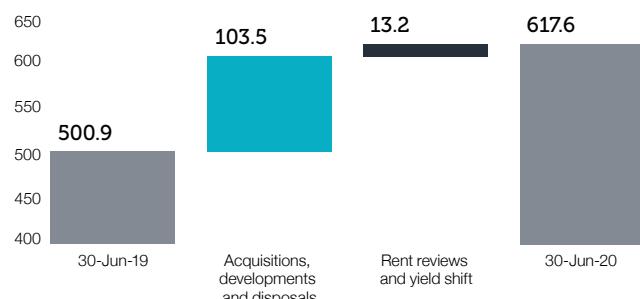
£117 million of investment, inclusive of costs, has been made on the following assets during the year:

- £100 million on trading care homes
- £17 million on new developments/forward commitments

These new investments have complemented the substantial progress made in the year at the Group's sites with development agreements, with seven new homes comprising 520 new beds opening to residents during the year, underlining our commitment to the modernisation of the sector's real estate.

¹ After allowing for temporary agreements in respect of a limited proportion of care homes in the portfolio to pay monthly in advance. Excluded from this collection analysis are two of the portfolio's immature care homes on which agreements were in place prior to the pandemic to defer rental payments.

VALUATION GROWTH ANALYSIS (£MILLIONS)

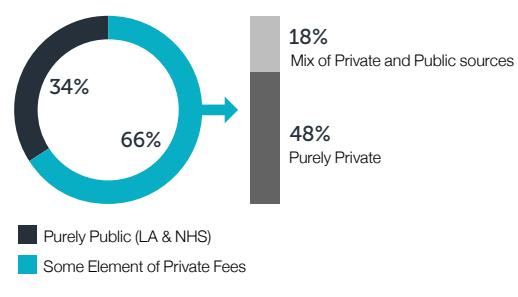


Diversification metrics

Acquisitions and portfolio management have added three (net) new tenants. No individual tenant accounts for more than 12 per cent of contractual rent.

Sources of resident fees, the underlying income received by our tenants, continues to originate from both public and private sources. Census data collected during the period notes that 48 per cent of 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 34 per cent are funded from public sources.

UNDERLYING FEE INCOME DIVERSIFICATION



Geographically, the largest region by asset value has changed from the South-East to Yorkshire & the Humber, with 21 per cent.



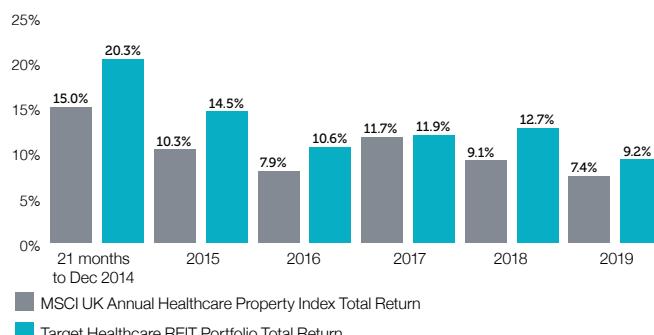
Specialist, engaged landlord

We strongly believe that a deep understanding of the sector is vital to deliver returns from socially responsible investment.

The care sector is a vital one, and therefore requires insight, knowledge and sensitivity. The Manager has to invest in the right homes with the right tenants and provide a highly engaged stewardship of the portfolio. Our approach to asset management comprises numerous touch-points with tenants, via home visits and contact at Executive level, as well as intelligent and analytical review of the regular and detailed reporting our leases provide for.

The portfolio has once again delivered returns ahead of the MSCI UK Annual Healthcare Property Index, with a total return for the calendar year to December 2019 of 9.2 per cent relative to the Index's 7.4 per cent. The portfolio has consistently outperformed the Index since launch, as shown in the chart below:

PORTFOLIO TOTAL RETURNS RELATIVE TO MSCI INDEX



Supportive & collaborative portfolio management

During the year Orchard Care Homes, as part of a strategic review of their business, notified the Group of its intention to exit six leasehold homes, comprising 8.1 per cent of the Group's contractual rent at the time. We efficiently managed a process which resulted in two of the Group's tenants taking on the leases of the six homes, delivering no loss in income or capital value to the Group.

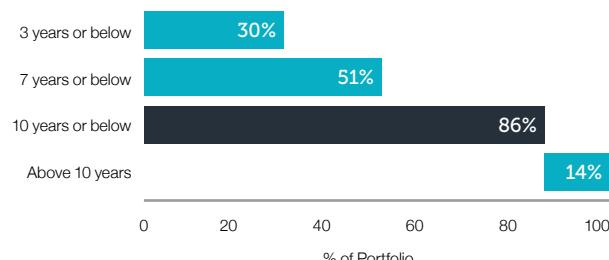
As well as being a clear endorsement of the Group's investment strategy whereby the asset and lease fundamentals are attractive to a range of operators, by acting as a responsible landlord we have facilitated an outcome which has minimised disruption to the residents and staff who live and work in our homes.

Two assets were sold during the year for proceeds ahead of book value, following a review of the long-term prospects for those assets when compared to the initial investment case.

Modernity & standard of real estate

We believe responsible investment in care homes should focus on intelligently designed, purpose-built care homes. These provide spacious private rooms and generous social space, including outdoor access for residents, with high standard amenities such as public and private dining, lifts and wide corridors which help our tenants provide care with operational efficiency.

AGE OF PROPERTIES – MODERN, PURPOSE-BUILT



Using en suite wet-rooms, which provide accessible and private facilities essential for personal hygiene and dignity, as a proxy for real estate standards across the portfolio, our beds are 95 per cent compliant. We have firm commitments to upgrade the balance, being legacy and identified as part of the acquisition process. The comparator for all care homes across the UK is 26 per cent.

Engaged

Care home real estate investment is not a practice which should be passive. The complexities require a detailed understanding of the real estate, trading/commercial performance, evolving market conditions, and the regulatory environment/scrutiny, amongst others.

During the year, we were continuing to visit each asset twice at a minimum, to complement our review and analysis of monthly data received from operators for each home. Following lockdown protocols being introduced across our portfolio in early March, we switched to entirely remote portfolio monitoring as we worked from home. During the period from 10 March to 31 August 2020 we engaged with our homes and tenants via c.700 phone/video calls, whilst continuing to collect and analyse detailed management information.

Strategy in Action (continued)



Dividend focus

Total dividends of 6.68 pence per share were paid in respect of the year, an increase of 1.5 per cent on 2019, and reflecting a yield of 6.1 per cent based on the 30 June 2020 closing share price of 110.0 pence.

Earnings & dividend

Adjusted EPRA earnings per share, which management uses as a key metric to measure operational performance, decreased to 5.27 pence during the year. As a result, dividend cover also decreased to 76 per cent. With the more widely-used comparative of EPRA EPS of 6.92 pence per share, the dividend was fully covered.

Whilst the Group has been successful in completing investments during the year, £113 million of capital has been deployed since September's £80 million equity issuance, the temporary pause in activity due to COVID-19 and the full year effect of the higher dividend have both contributed to a decrease in dividend cover for the year. The increase in admin expenses to £9.5 million from £6.7 million includes £2.1 million of provisions for doubtful rental income, also adversely impacting reported dividend cover. This amount is primarily in relation to two tenants across four homes: two of the homes were mature homes acquired at acquisition yields which reflected an increased level of risk and which are at present subject to asset management initiatives with good visibility of value recovery. The other two homes are immature and, whilst being behind budget, the operational performance was showing an improved trajectory prior to the impact of COVID-19. The Group remains confident that the real estate and commercial fundamentals of the homes are consistent with the initial investment case and expect to see positive returns in the medium-term.

Earnings summary

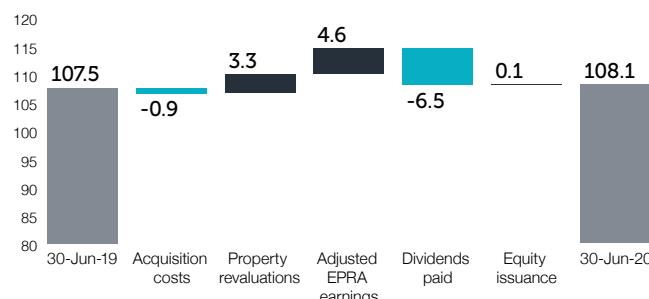
The Group's cost base is benefiting from the Group's increasing scale. OCF has reduced to 1.51% and whilst the EPRA cost ratios have increased, this is due to the calculation methodologies of these ratios classifying rental provisions as expense items. Excluding this effect, each ratio would have reduced from the prior year levels.

	2020 (£m)	Movement	2019 (£m)
Rental income (excluding guaranteed uplifts)	36.0	+29%	27.9
Admin expenses (including management fee)	(9.5)	+42%	(6.7)
Net financing costs	(4.3)	+39%	(3.1)
Interest from development funding	1.0	-50%	2.0
Adjusted EPRA earnings	23.2	+15%	20.1
Adjusted EPRA EPS (pence)	5.27	-3.3%	5.45
EPRA EPS (pence)	6.92	+4.4%	6.63
Adjusted EPRA cost ratio (per cent)	25.7%	+330bps	22.4%
EPRA cost ratio (per cent)	21.5%	+190bps	19.6%
OCF (per cent)	1.51%	-1bps	1.52%

Total returns

The Group recognises total returns are important to shareholders, with much of the portfolio and Manager activity contributing to preserving capital values with potential for growth. Annualised NAV total return over the period since the Group's launch in March 2013 has been 7.7 per cent, reflecting moderate levels of capital growth achieved on the portfolio from rental increases, asset management and market yield shift.

EPRA NAV PER SHARE (PENCE)



Balance sheet/debt

In the medium term, the Group targets a capital structure with gearing of approximately 25 per cent to achieve financial performance objectives at a suitable risk level for its portfolio and the asset class overall. Following the Group entering into its first long-term borrowing arrangement with an institutional lender, available facilities have increased to £180 million and additional funding certainty has been achieved with weighted average term more than doubling to 4.24 years.

The proportion of drawn debt incurring a fixed interest cost has increased to 53 per cent, and the overall cost of drawn debt has reduced to 2.87 per cent. The Group retains considerable flexibility through its debt portfolio, with £100 million of fully revolving facilities.

The Group will continue to focus on achieving competitively-priced debt at an appropriate duration.

	2020	2019
Total drawn	£152m	£108m
Undrawn & available	£28m	£62m
Weighted average cost of drawn debt (inclusive of amortisation of arrangement costs)	2.87%	2.98%
LTV (net of cash)	18.7%	16.2%
Weighted average term to maturity	4.24 years	2.13 years

Portfolio

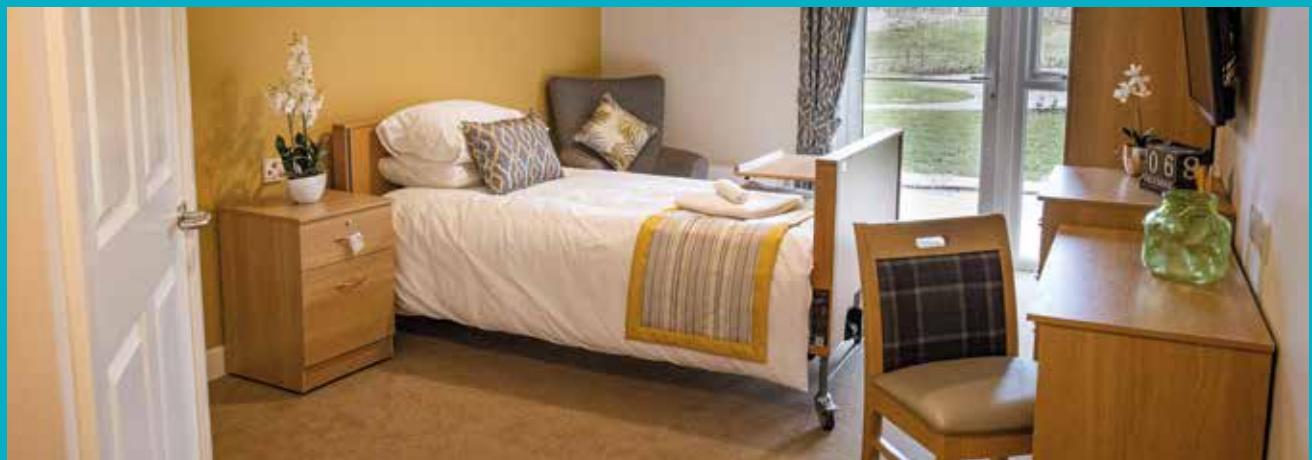
We have clear criteria for home design, quality and facilities to provide great environments for residents and care providers. We invest in homes the length and breadth of the UK, with portfolio diversification being key.

During the financial year, the Group added thirteen new leases to the portfolio through the completion of new home developments that the team has been working on in recent years as well as the acquisition of standing assets. These homes covered five regions of the UK, including the Group's first care home in Wales, and added four new operators to the portfolio, to further enhance and diversify the Group's income.

➤ The Oaks

In accordance with the Group's strategy to diversify its income by operator, fee payor source and geography, we had been actively seeking the right opportunity to secure our first investment in Wales for several years. This opportunity finally arose in 2018 when the Group simultaneously agreed to acquire a turnkey home at practical completion in Newtown, Powys and agreed a lease with Sandstone Care to operate the home. This provided an opportunity to significantly improve the quality of the care home provision in an area of strong demographic demand given that the nearest care home with a comparable offering was over 15 miles away.

Over the following 18 months, a new 73 bed care home was developed which offers all the facilities that would be expected of a modern care facility including 100% en-suite wet rooms, large landscaped gardens, balconies for the upper floors, luxurious dining rooms and lounges, an activity room and a large hair salon. The development completed at the end of 2019 and the home welcomed its first residents in January 2020.



➤ Castle Grange & Hutton Manor

Castle Grange and Hutton Manor are two care homes of exceptional quality acquired by the Group in January 2020. Both locations have an undersupply of high quality, purpose built care homes and these acquisitions demonstrate the Group's ongoing commitment to seek opportunities to improve the elderly care offering in geographic locations across the UK.

Both homes have 86 bedrooms with 100% en-suite wetroom shower facilities and resident facilities include luxurious lounges, private terraces, courtyards, balconies and hair & beauty salons. Castle Grange has been designed around an internal courtyard which includes a beautiful wintergarden that residents can enjoy all year round and Hutton Manor has been constructed using natural stone to complement the architecture of the surrounding residential neighbourhood. The internal fit out and furnishings at both homes are exceptional and are comparable to the very best care homes in the country.

These two homes demonstrate that high quality care homes can be delivered across the country. Both homes are leased to Burlington Care on new long leases.



Principal and emerging risks and uncertainties

Risks	Description of risk and factors affecting risk rating	Mitigation	Risk rating & change
Poor performance of assets 	<p>There is a risk that a tenant's trading business could become unsustainable if it fails to meet projections 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, however, some homes have agreed contracts with local authorities which have been ahead of their forecasts.</p>	<p>Tenant diversification across the Group's portfolio is a hugely important consideration before any investment decision is made. The investment decision is always made with reference to the Investment Manager's analysis and projections and is based on the local market dynamics for the home. Rent deposits are sought, where appropriate, to provide an additional buffer for the Group and the strategy of having a highly diversified portfolio (27 tenants at 30 June 2020) allows for significant mitigation of this risk. The Investment Manager also has ongoing engagement with the Group's tenants to proactively assist and monitor performance.</p>	High 
Pandemic reduces demand for care home beds 	<p>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, due to the disproportionate effect on the elderly and those with underlying health conditions. While demographic shifts and the realities of needs-based demand remain intact, there was a large decrease in the number of admissions for residents across the sector during lockdown as well as reputational damage done to some care homes and operators.</p>	<p>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.</p>	High 
Availability of capital 	<p>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.</p>	<p>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.</p>	Medium 
Breach of REIT regulations 	<p>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, whilst the Group has always been UK-tax resident, its parent company is now fully domiciled in the UK.</p>	<p>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.</p>	Medium 
Changes in government policies 	<p>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, no viable proposals have yet been brought forward.</p>	<p>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.</p>	Medium 

Strategic objectives

Growing a robust portfolio



Dividend focus



Specialist, engaged manager



Our purpose and responsible investment

Risk trend

Risks	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 with net LTV of 18.7% at 30 June 2020. Loan covenants are closely monitored for compliance and headroom projected. Liquidity is kept under constant review to ensure any potential covenant breaches can be prevented. The Group has fixed interest costs on its £80 million of fixed term borrowings as at 30 June 2020.	Medium
Reliance on third party service providers 	The Group is externally managed and as such the Group relies on a number of service providers to fulfil all of the activities required by the Group with the performance of each being assessed by the non-executive Board. 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 while also having its remuneration aligned with Group performance. The Manager has retained key personnel since the Group's IPO and has successfully hired further skilled individuals as required to bolster its resource. The recent IMA extension and the sustained number of years of service from key providers further mitigates this risk.	Medium
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. In recent months this has emerged as a growing risk for the Group with the Investment Manager taking steps to address this.	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 Investment Manager is currently putting significant effort into providing further quantifiable metrics and ESG KPIs that will be reported on in the future. The regular production of investor relations materials (annual report, investor presentations and quarterly factsheets) along with direct engagement with investors has helped to mitigate this risk.	Medium NEW
Disruption to business activities with continued WFH 	One of the effects of the COVID-19 pandemic has been an increase in the levels of working from home ('WFH') as mandated by government lockdowns. The performance of service providers to the Group could be negatively impacted if WFH proves disruptive for those service providers. The business processes and controls have also had to be altered in short order to allow business activities to continue uninterrupted.	There is some uncertainty around whether WFH is the 'new normal' for office-based businesses, however the Group has been in close contact with all of the various service providers to ensure that continuity across business activities is maintained. This emerging risk is being continually assessed and monitored by the Group.	Medium NEW
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 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

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 role as chairman of Ground Rents Income Fund plc and as a non-executive director of GCP Student Living plc.

Mr Naish has over 40 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 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 a former director of Anchor Trust.

Date of appointment

30 January 2013

Date of appointment

30 January 2013

Country of residence

UK

Country of residence

UK

Independent

Yes

Independent

Yes

Other public company directorships

GCP Student Living Plc
Ground Rents Income Fund Plc

Other public company directorships

None

Committee Membership

Investment Committee (Chair)
Management Engagement Committee (Chair)
Nomination Committee (Chair)
Audit Committee
Remuneration Committee

Committee Membership

Audit Committee
Investment Committee
Nomination Committee
Management Engagement Committee
Remuneration Committee

**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.

ALISON FYFE

Independent Non-Executive Director and Chair of Remuneration Committee

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.

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.

THOMAS HUTCHISON III

Independent Non-Executive Director and Senior Independent Director

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.

Date of appointment

30 January 2013

Country of residence

UK

Independent

Yes

Other public company directorships

None

Committee Membership

Audit Committee (Chair)
Investment Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Date of appointment

01 May 2020

Country of residence

UK

Independent

Yes

Other public company directorships

None

Committee Membership

Remuneration Committee (Chair)
Audit Committee
Investment Committee
Management Engagement Committee
Nomination Committee

Date of appointment

30 January 2013

Country of residence

United States of America

Independent

Yes

Other public company directorships

None

Committee Membership

Audit Committee
Investment Committee
Management Engagement Committee
Nomination Committee
Remuneration Committee

Investment Manager

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.

Subsequent to the completion of the Group reorganisation during the year, Target has also been appointed to provide Company Secretarial and Administration services to the Group.

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 90 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. As part of this role he visits around 100 care homes a year. 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.

In addition to the healthcare investment 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 52 to 87, for the year ended 30 June 2020.

The Directors consider that, following advice from the Audit Committee, the Annual Report and Consolidated Financial Statements 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 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 6 to 7 and the Investment Manager's Report on pages 12 to 13. Principal and emerging risks and uncertainties can be found on pages 20 and 21 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 1.67 pence per share, to shareholders in relation to the year ended 30 June 2020. 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 Company was incorporated on 10 May 2019 and, following a scheme of arrangement as set out in the Company's prospectus dated 21 June 2019, became the parent company of the Target Healthcare REIT group with effect from 7 August 2019. As part of this Group reorganisation, shareholders received one share in the Company in exchange for every one share they previously held in the former parent company, Target Healthcare REIT Limited. Further details on the Group reorganisation are contained in note 23 to the Consolidated Financial Statements.

The Company's shares were admitted to the premium segment of the Official List of the UK Listing Authority and admitted to trading on the Main Market of the London Stock Exchange with effect from 7 August 2019. The listing of the shares of the previous parent company, Target Healthcare REIT Limited, was cancelled with effect from the same date. Target Healthcare REIT Limited has also ceased to be regulated by the Jersey Financial Services Commission. As a result of these changes, the Group was no longer required to have two Jersey-based Directors and therefore neither Hilary Jones nor Craig Stewart were appointed to the Board of the Company and each resigned from the Board of the predecessor parent company with effect from 4 September 2019.

The Company is effectively a mirror of Target Healthcare REIT Limited (subject to any relevant jurisdictional differences between England & Wales and Jersey) and has the same management, depositary and corporate governance arrangements alongside having the same investment, gearing and dividend policies. Although the Company has only been operating since 7 August 2019, the Target Healthcare REIT group was originally established in March 2013.

The Company is a member of the Association of Investment Companies (the 'AIC').

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.

Directors' Report (continued)

Investment Policy continued

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 22 and 23. As explained in more detail in the Corporate Governance Statement on page 34, any new appointment by the Board is subject to election by shareholders at the AGM following the appointment. Thereafter the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

Other than the two Jersey-based Directors, for the reason set out on page 25, the Directors of the Group's former parent company were appointed as Directors of the Company with effect from its incorporation on 10 May 2019 and were elected by shareholders at the AGM held on 28 November 2019. Each of these Directors will seek annual re-election at the AGM to be held on 2 December 2020. In line with the Board's planned approach to succession planning, Ms Fyfe was appointed to the Board with effect from 1 May 2020 and will be subject to election by shareholders at the forthcoming AGM.

In relation to the appointment of Ms Fyfe, the Group appointed Fletcher Jones Limited to provide external search consultancy services during the year for which they were paid a fee of £17,000 (plus VAT). Neither the Company nor any of the individual Directors has any other connection with Fletcher Jones.

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, that its membership should be regularly refreshed and that four of the Company's Directors have each been a Director of the Group since 2013, the Board is continuing to consider its succession planning.

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 of the retiring Directors can be passed on to the new appointees, subject to the overall level of Directors' fees remaining within the limit determined by the Company's Articles. It is currently anticipated that the original four Directors will each retire from the Board, and new appointments made, on a staggered basis, with a targeted completion date of the AGM to be held in 2022. However, due to the uncertainties arising from COVID-19 which, were the pandemic to continue for an extended period, may increase the importance of stability and continuity of experience on the Board, it is possible that the 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 34.

The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 35 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 2020, 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*
Premier Miton Group plc	33,371,945	7.3
Investec Wealth & Investment Limited	23,385,150	5.1
Bank of Montreal	22,568,305	4.9
CCLA Investment Management Limited	17,918,605	3.9
Rathbone Investment Management Limited	17,462,203	3.8

*Based on 457,487,640 ordinary shares in issue as at 30 June 2020.

As at 5 October 2020, the Company has been notified that Alder Investment Management Limited has increased their holding of voting rights to 23,681,156 (5.2%). 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

During the year, the Company issued 385,089,448 ordinary shares in relation to the reconstruction of the Group. See note 23 to the Consolidated Financial Statements for details.

At the General Meeting held on 13 June 2019, shareholders granted authority for the Company to issue up to 125 million ordinary shares in connection with a placing programme as described in the prospectus subsequently published on 21 June 2019, without first offering them to existing shareholders in proportion to their existing holdings. The Company issued a total of 72,398,191 ordinary shares under this authority and the remaining authority expired on 30 June 2020.

At the Annual General Meeting held on 28 November 2019, shareholders granted authority for the Company to issue up to a further 45,748,764 ordinary shares on a non pre-emptive basis for cash. As at 5 October 2020, the Company has not issued any shares under this authority. This authority expires on the earlier of the conclusion of the AGM, which is expected to be held on 2 December 2020, or 27 February 2021. It is expected that the Company will seek these authorities on an annual basis.

At the Annual General Meeting held on 28 November 2019, 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 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. This is set out in more detail in the Strategic Report. 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 or refinance these facilities on, or before, their expected maturity date. Based on all the information considered, the Directors believe that the Group has the ability to meet its financial obligations as they fall due for 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.

Directors' Report (continued)

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 2020 which has long leases and a weighted average unexpired lease term of 29.0 years. The Group has borrowings of £152.0 million, on which the interest rate has been fixed, either directly or through the use of interest rate swaps, on £80.0 million at 2.89 per cent per annum (excluding the amortisation of arrangement costs), and the remaining £72.0 million carries interest at three-month LIBOR plus a weighted margin of 1.64 per cent per annum (excluding the amortisation of arrangement costs). The Group has access to a further £28.0 million of available debt under committed loan facilities. The Group's committed loan facilities have staggered expiry dates with £50.0 million being committed to 1 September 2021, £80.0 million to 29 January 2022 and £50.0 million to 12 January 2032. Discussions with existing and/or new potential lenders do not indicate any issues with re-financing these loans on acceptable terms.

The Directors' assessment of the Group's principal risks are highlighted on pages 20 and 21. 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; 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 potential financial impact on each tenant arising 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.

Resolutions to be proposed at the AGM

Directors' remuneration report

The Directors' remuneration policy and annual report, which can be found on pages 42 to 44, 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 2020 (resolution 2).

Dividend policy

The Company's dividend policy is set out on page 26. 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 45 to 51. 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 2021 (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 34, 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 10 therefore propose each of the 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 22 and 23. 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.

Share Issuance Authority

The Directors are seeking authority to allot additional new shares which would not require the publication of a prospectus. Resolution 11 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 11. Based on the shares in issue at 5 October 2020, this resolution would therefore authorise the Directors to allot up to 45,748,764 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 12, 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 12.

The authorities granted under resolutions 11 and 12 will expire at the conclusion of the next AGM of the Company after the passing of the resolutions expected to be held in November 2021, 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 11 and 12 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 13 will be proposed as a special resolution and seeks to provide the Directors with the authority to purchase up to 68,577,397 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 13. 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 14 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 14 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.

Directors' Report (continued)

Amendments to the Company's Articles

Resolution 15, which will be proposed as a special resolution, seeks shareholder approval to adopt new Articles of Association (the 'New Articles') in order to update the Company's current Articles of Association (the 'Existing Articles'). The proposed amendments being introduced in the New Articles primarily relate to changes in law and regulation and developments in market practice since the Existing Articles were adopted, and principally include provisions enabling the Company to hold shareholder meetings using electronic means (as well as physical shareholder meetings or hybrid meetings).

A summary of the principal amendments being introduced in the New Articles which the Board considers will be of most interest to shareholders is set out in the appendix to the AGM Notice (on page 92 of this document). Other amendments, which are of a more minor, technical or clarifying nature, have not been summarised in the appendix.

While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the Directors have no present intention of holding a virtual-only meeting. These provisions will only be used where the Directors consider it is in the best of interests of shareholders for a hybrid or virtual-only meeting to be held. Nothing in the New Articles will prevent the Company from holding physical shareholder meetings.

A copy of the New Articles, together with a copy of the Existing Articles marked to show the changes being proposed, will be available for inspection on the Company's website, www.targethealthcarereit.co.uk, from the date of the Notice of the Annual General Meeting until the close of the meeting. In the event that the current Coronavirus related restrictions are lifted before the Annual General Meeting, a hard copy of these documents will be available for inspection at Level 13, Broadgate Tower, 20 Primrose Street, London EC2A 2EW until the close of the meeting.

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 0.03 per cent of the current issued share capital of the Company.

Directors' Deeds of Indemnity

The Company has entered into deeds of indemnity in favour of each of the Directors. 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.

Depository

IQ EQ Depository (UK) Limited (the 'Depository') acts as the Group's depositary in accordance with the AIFM Directive. The Depository'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 Depository receives for its services a fee calculated based on the value and activity of the property portfolio, payable quarterly. For the year ended 30 June 2020, the fees paid totalled £138,000.

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 retirement 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 26, 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 6 to 7 and the Investment Manager's Report on pages 12 to 13.

Environmental, Social and Governance

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 page 4 and in the Corporate Governance Statement on page 36.

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. Therefore 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.

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 2 December 2020 at 4.00 p.m. The Notice of Annual General Meeting is set out on pages 88 to 92.

Given the current restrictions due to the COVID-19 pandemic and uncertainty over the guidance regarding social distancing by the time of the AGM, the agenda will be restricted to the formal business of the meeting, as set out in the Notice of the Annual General Meeting, and will follow the minimum legal requirements for an AGM. On this occasion the Investment Manager and the majority of the Directors will not attend the meeting. Shareholders are strongly discouraged from attending the meeting in person and entry will be restricted and/or refused in accordance with the Articles, the law and/ or Government guidance. Arrangements will be made by the Company to ensure that the minimum number of shareholders required to form a quorum will attend the meeting in order that the meeting may proceed and the formal business concluded.

In order to ensure that all shareholders continue to have the opportunity to express their views in relation to the operation of the Company and the resolutions proposed, we would strongly encourage all shareholders to make use of the proxy form provided in order to lodge your votes. Voting on all resolutions will be held on a poll, including all proxy votes lodged in advance, with the results being announced and posted on the Company's website as usual following the meeting. 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.

The Board will keep the situation under review and any changes to the meeting or the location will be notified through the Company's website and by announcement through the London Stock Exchange.

On behalf of the Board

Malcolm Naish

Chairman

5 October 2020

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') as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law). 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 as adopted by 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

5 October 2020

Corporate Governance Statement

Chairman's Introduction



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

As set out on page 25, a new parent company, Target Healthcare REIT plc, was introduced to the Group with effect from 7 August 2019. Unless otherwise stated below, the Board, Committees, policies and procedures set out in the following statement regarding the Company are the same as those that applied to the previous parent company for the period to 7 August 2019.

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 both the meetings held by the previous parent company of the Group, Target Healthcare REIT Limited, to 7 August 2019 and the meetings held by the Company thereafter. The Board held a two-day strategy meeting during October 2019 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 weekly updates with the Investment Manager and other appropriate advisers during the peak of the COVID-19 pandemic to consider any significant matters arising and to take action as appropriate.

	Board		Audit Committee		Management Engagement Committee		Investment Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Malcolm Naish	5	5	3	3	4	4	4	4	4	4
June Andrews OBE	5	5	3	3	4	4	4	4	4	4
Gordon Coull	5	5	3	3	4	4	4	4	4	4
Tom Hutchison	5	5	3	3	4	4	4	4	4	3
Alison Fyfe*	1	1	1	1	1	1	1	1	—	—
Hilary Jones**	—	—	—	—	—	—	—	—	—	—
Craig Stewart**	—	—	—	—	—	—	—	—	—	—

* Alison Fyfe was appointed with effect from 1 May 2020.

** Hilary Jones and Craig Stewart resigned from the previous parent company with effect from 4 September 2019.

Corporate Governance Statement (continued)

The Board continued

Each of the current 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, in particular, the length of the notice period detailed in the IMA. The Board noted that 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 meant that investment decisions tended to be long-term in nature.

The Management Engagement Committee considered that the relatively short-term nature of the existing IMA notice period may be viewed as being inconsistent with the long-term investment horizon of the properties held. Therefore, after due and careful consideration, including balancing the interests of the Company in supporting the performance of its existing Investment Manager against retaining the Company's ultimate sanction of being able to replace the incumbent Investment Manager, the Board concluded it was appropriate to extend the notice period to two years, with such notice not to be served prior to 30 April 2021. The terms of the IMA were so amended with effect from 11 May 2020.

The Management Engagement Committee also considered the standard of other services provided and the level of fees payable, noting that these had previously been amended with effect from 1 January 2018 resulting in an overall reduction in the total management fees which would otherwise have been paid, and concluded that no changes were necessary in this regard.

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 three male and two female Directors. 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 26, 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 25 and 26. 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 37 and 38.

Remuneration Committee

Subsequent to the period end, the Board has established a Remuneration Committee, the role and responsibilities of which are set out in the report on page 42.

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 34.

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 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 and which is generally chaired by Mr Naish, although 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 the size, structure and skills of the Board and considering whether any changes are required or new appointments are necessary to meet the requirements of the Group's business or to maintain a balanced Board. All of the Nomination Committee's responsibilities have been carried out over the period of review.

The Nomination Committee met on four occasions throughout the year to ensure that plans were in place for an orderly succession to the Board. As indicated in last year's Annual Report, the Board had temporarily suspended its succession plan and recruitment process until the completion of the Group reorganisation. The recruitment process was recommenced towards the end of 2019, with the Nomination Committee working with an external recruitment consultant to determine the appropriate skills and experience required of the next appointee and to agree the appropriate method of recruitment, selection and appointment. After considering applications and conducting interviews with the short-listed candidates, the Committee recommended that Ms Fyfe be appointed as a Director with effect from 1 May 2020.

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 the Chairman. This process involved the completion of questionnaires tailored to suit the nature of the Company, discussions with individual Directors and individual feedback from the Chairman to each of the Directors. The evaluation of the Chairman was led by the Senior Independent Director in consultation with all the other Directors. An assessment process led by an external facilitator was last conducted during the year ended 30 June 2018 and the Board anticipates having an externally facilitated Board evaluation conducted at least every three years.

The conclusion from the appraisal process conducted in relation to the year ended 30 June 2020 was that the Board and each committee was operating effectively, with an appropriate and sufficient balance of experience and skills.

Corporate Governance Statement (continued)

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. Given current restrictions on travel and guidance on social distancing, it is expected that such meetings will continue to be made available through the use of video conferencing facilities for the near future. The Notice regarding the Annual General Meeting is included on pages 88 to 92. Unfortunately, due to the current restrictions resulting from the COVID-19 pandemic and uncertainty over the position at the time of the AGM, it is expected that the ability of shareholders to physically meet to discuss the Group's business with the Directors and the Investment Manager will be curtailed in the current year. However, as set out on page 31, 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 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.

- 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.
- 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, make available senior employees to tenants who are problem solving, as well as engaging with tenants who wish to improve their homes and 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.
- 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.

On behalf of the Board

Malcolm Naish

Chairman

5 October 2020

Report of the Audit Committee



Welcome to the Report of the Audit Committee. In what recently has been a period of uncertainty, this report sets out the role, responsibilities and actions taken by the Audit Committee to ensure the appropriate controls continue to operate and that financial information continues to be issued accurately and 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 is currently comprised of 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.

It is highlighted that the references to Administrator or Company Secretary in the following report refers to Maitland Administration Services (Scotland) Limited for the period to 7 August 2019 and Target Fund Managers Limited thereafter.

Responsibilities of the Audit Committee	How they have been discharged
Monitoring the integrity of the half-year and annual financial statements, 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 and has reviewed the contents of the half-yearly and annual reports. The Investment Manager, Administrator and Auditor attended the meetings at which the contents of the half-yearly and annual reports were reviewed. The significant matters considered by the Group are listed on pages 40 and 41. In addition, during the year, the Committee particularly considered significant financial matters arising from the corporate reconstruction such as the statutory reporting requirements of both the Consolidated Financial Statements and the individual Financial Statements of the Company, including the adoption of continuation accounting and the identification of the reserves arising on the reconstruction.
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 is based, to ensure that the work undertaken, the conclusions reached and the disclosures included within the Annual Report are appropriate.

Report of the Audit Committee

(continued)

Role of the Audit Committee continued

Responsibilities of the Audit Committee	How they have been discharged
Evaluation of the effectiveness of the risk management and internal control procedures.	The Investment Manager maintains a risk matrix which summarises the Group's key risks and an internal control matrix which shows the Group's key controls over its principal financial systems (including, where relevant, the procedures operated by the Company Secretary and Administrator during the year). 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 to focus on areas that the Committee believe 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 appropriateness of the business continuity plan and working-from-home measures invoked by the Investment Manager, and the processes and controls over the key Company Secretarial and Administration functions which had been transferred from the previous third party provider. From a review of the matrices, a review of the outcome of the procedures undertaken by the reporting accountant, a review of regular management information and 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.
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 discussed how well 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.	The Auditor's planning report, timetable and fee structure were discussed with the Auditor in advance of work commencing, together with the areas of audit focus. At the conclusion of the audit the Committee discussed the audit results report with the Auditor, Company Secretary and Investment Manager.
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 published in February 2019 which became applicable for the Group for the first time for the year ended 30 June 2020. The Committee also ensured, through summaries provided at weekly update meetings held by the Board during the peak of the COVID-19 pandemic, that the Group continued to be compliant with rapidly changing regulatory guidance.
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 meeting of the Committee at which the Company's year end accounts were reviewed and also met separately with the chairman of the Committee on three occasions, to discuss the findings of their interim review, the audit plan for the year and 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' on page 40.

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 20 and 21.

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 which it has subsequently presented in the form of a controls matrix and which it has discussed with the Committee. As referred to on page 38 in relation to the year ended 30 June 2020, 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, including those arising from the invoking of working-from-home practices by the Investment Manager following the COVID-19 pandemic and those arising from the appointment of Target Fund Managers Limited as the Group's Company Secretary and Administrator. 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.

Report of the Audit Committee (continued)

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. The Audit Committee noted that EY had notified the Company of a technical breach of the FRC Ethical Standard, section 1.74D as EY had not completed the independence procedures required of them in relation to their appointment as auditor of a public interest entity prior to the listing of the Company on 7 August 2019. EY subsequently confirmed that no independence issues were found and that they would have been able to confirm their independence on 7 August 2019 had they completed their procedures prior to this date. The Audit Committee concluded that, as EY had already been auditor to the Group, including the previously listed parent company, the delay in the re-completion of their independence assessment following the Group reconstruction was not a matter of significant concern and did not result in the independence of EY being impaired.

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. 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, 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 2020 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 2020 constitutes the third 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. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice. After careful consideration, the Audit Committee does not intend to conduct a tender of audit services to the Group during the forthcoming year but currently intends that such tender will be conducted concurrent with the end of the fifth year of the current audit principal's term.

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 services shown in the table below do 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 during the year. 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	71
Statutory audit of the Company's subsidiaries	209
Review of interim financial information	15
Total	295

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 on the next page.

Matter

Audit Committee action

Valuation and ownership of the investment property portfolio

The Group's property portfolio accounted for 87.0 per cent of its total assets as at 30 June 2020. 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.

Members of the Committee discussed the valuation as at 30 June 2020 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. This included consideration of the significance and implications of the material uncertainty clause that applied to the external valuation at 30 June 2020. The full details of this clause are detailed on page 66.

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.

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 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 38, an external Reporting Accountant was appointed to complete a review 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 is operating, the Audit Committee have kept under review the requirement to make any additional market announcements since the start of the pandemic and have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 30 June 2020.

The Directors met regularly following the outbreak of the pandemic to consider the economic and market conditions within which the Company was operating and, under the guidance of the Chairman of the 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 57 and the viability statement on page 28. 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 2020, 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
5 October 2020

Directors' Remuneration Report



Welcome to the first Remuneration Report that has been published since the establishment of a formal Remuneration Committee and my appointment as Committee Chair. The aim of this report is to set out the policy used by the Company in setting Directors' Remuneration as well as the actual fees paid during the year and expectations for the following twelve months.

Alison Fyfe
Chair of the Remuneration Committee

Composition and Role of the Remuneration Committee

Subsequent to the year end, a Remuneration Committee chaired by Ms Fyfe has been established with written terms of reference which are reviewed at each meeting and which 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 2020 and the intended fees to be paid in relation to the forthcoming year are shown below. The fees detailed below combine both those paid by the Company and, for the period prior to the reconstruction of the Group, by the prior parent company of the Group.

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 2021.

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. At the Company's last AGM, held on 28 November 2019, shareholders approved the Directors' Remuneration Policy. 100 per cent of the votes cast were in favour of the resolution and votes withheld represented less than 0.002% of the shares in issue. It is currently intended that the above policy will continue for a three year period and will next be considered at the AGM to be held in 2022.

Directors' Fees

The Board considers the level of Directors' fees at least annually. An external consultant was appointed to facilitate the review of the performance of the Board and to provide advice on the level of Directors' Remuneration in 2018 and it is expected that external advice will continue to be sought every three years 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.

After further review at the end of the year ended 30 June 2020, which included 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 current market practice, the Board concluded that the level of Directors' fees paid by the Company was currently below that paid by other similar companies. However, mindful of the current circumstances being faced by the healthcare sector and uncertainty over the general economic environment, it was considered appropriate to maintain fees at existing levels for the year ending 30 June 2021. As above, it is expected that an external review of the level of remuneration will be conducted over the course of the following year and this will be used as the basis of determining the level of fees applicable from 1 July 2021 onwards.

	Year ending 30 June 2021 £'s	Year ended 30 June 2020 £'s
Chairman	44,000	44,000
Audit Committee Chair	39,000	39,000
Director	32,750	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 changes to the members of the Board during the forthcoming year, are expected to receive the following in respect of the year ending 30 June 2021. No other forms of remuneration were paid during the year.

	Year ending 30 June 2021 £'s	Year ended 30 June 2020 £'s	Year ended 30 June 2019 £'s
Malcolm Naish (Chairman)	44,000	44,000	43,000
Gordon Coull (Audit Committee Chair)	39,000	39,000	37,000
June Andrews	32,750	32,750	32,000
Tom Hutchison	32,750	32,750	32,000
Alison Fyfe (appointed 1 May 2020)	32,750	5,459	–
Hilary Jones (retired 4 September 2019)	–	2,959	16,500
Craig Stewart (retired 4 September 2019)	–	2,959	16,500
Total	181,250	159,877	177,000

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 2020 £'000	Year ended 30 June 2019 £'000	Change %
Aggregate Directors' remuneration	160	177	-9.6
Management fee and other revenue expenses*	9,525	6,715	+41.8
Distributions paid to shareholders in respect of the year	30,560	24,581	+24.3

*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 2020 were as follows:

	Ordinary shares 30 June 2020	Ordinary shares 30 June 2019
Malcolm Naish	45,001	45,000
June Andrews	–	–
Gordon Coull	35,454	35,454
Tom Hutchison	70,000	70,000
Alison Fyfe	–	n/a
Total	150,455	150,454

There have not been any changes in the Directors' interests between 30 June 2020 and 5 October 2020.

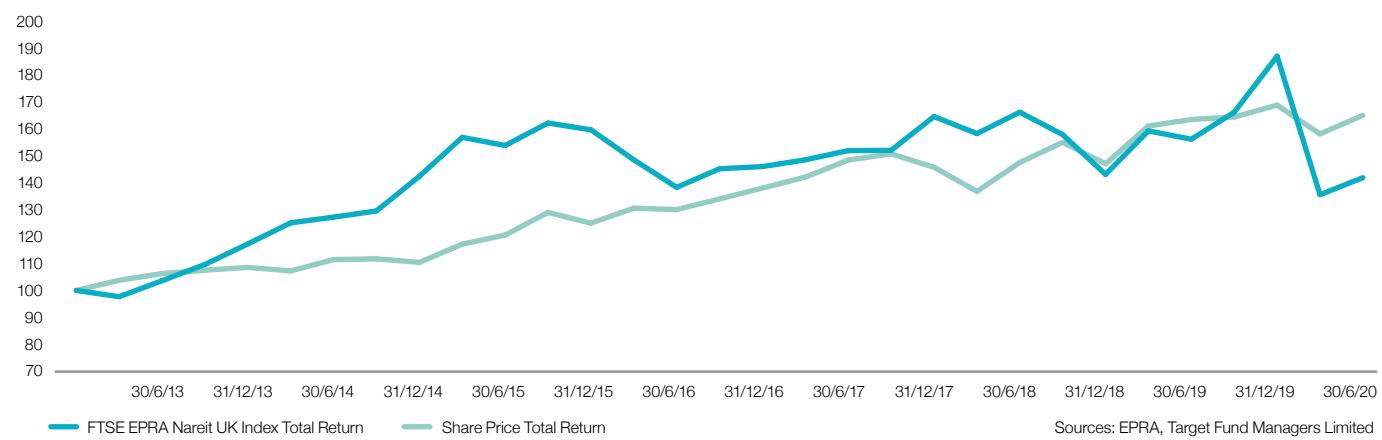
Directors' Remuneration Report (continued)

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 24.

The graph below compares, from launch to 30 June 2020, 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)



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 last AGM, held on 28 November 2019, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2019, as presented by the previous parent company of the Group. 100 per cent of the votes cast were in favour of the resolution and votes withheld represented less than 0.002% 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 2 December 2020.

On behalf of the Board

Alison Fyfe

Director

5 October 2020

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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Target Healthcare REIT plc which comprise:

Group	Parent company
Consolidated Statement of Financial Position as at 30 June 2020	Statement of Financial Position as at 30 June 2020
Consolidated Statement of Comprehensive Income for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 to 13 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Cash Flows for the year then ended	
Related notes 1 to 25 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. Taking into consideration the breach of Ethical Standard 1.74D as explained in the 'Other matters we are required to address' section below, we are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the annual report set out on pages 20 and 21 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 28 in the annual report that they have carried out a robust assessment of the emerging and principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 27 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 28 in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Independent Auditor's Report

to the Members of Target Healthcare REIT plc (continued)

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> Incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives Incorrect valuation, calculation of gains/(losses) and/or defective title of investment properties and properties held for sale Impact of COVID-19
Materiality	<ul style="list-style-type: none"> Overall Group materiality of £4.94 million which represents 1% of Group net assets.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 fixed rental uplifts and lease incentives (£44.24m, 2019: £34.28m). (Refer to Report of the Audit Committee (page 41) and Accounting Policies (pages 57 and 58).)	<p>We performed the following procedures:</p> <p>We obtained an understanding of the Manager's and Administrator's processes and controls surrounding rental income recognition including accounting for fixed rental uplifts and lease incentives by performing walkthrough procedures to evaluate the design and implementation of controls.</p> <p>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.</p> <p>We have verified 100% of the rental rates to tenancy agreements and recalculated the rental income recognised in the Group's Consolidated Financial Statements.</p> <p>We re-performed the calculations of the rental adjustments required for fixed rental uplifts and lease incentives under IFRS 16 for all tenants and considered the allocation between revenue and capital.</p> <p>We agreed a sample of rental income recorded as received to bank statements.</p> <p>For all rental receipts accrued at the year end, we reviewed the lease to assess whether the obligation arose prior to 30 June 2020. We agreed the income to the post year end bank statements, where received.</p> <p>We tested that a sample of expected rent receipts had been recorded with reference to executed lease agreements to ensure completeness.</p> <p>To address the increased risk posed by COVID-19, we have reviewed the Group's Expected Credit Loss memo which assessed the recoverability of accrued rental income recognised at year end. Our review included:</p> <p>An assessment of the decision to apply historic credit loss assumptions to receivables with a low credit risk.</p> <p>An assessment of the decision to apply probabilities and outcomes to receivables with a higher credit risk.</p> <p>We reviewed and challenged the range of outcomes and probabilities assigned and assessed that specific weighted credit loss outcomes appeared reasonable. The methods used in calculating the expected losses are in line with IFRS guidance.</p> <p>We have verified that contingent rent has been recognised in the period in which the payment is received.</p>	<p>The results of our procedures are:</p> <p>Based on the procedures performed, we are satisfied that rental income is complete and accurate including accounting for fixed rental uplifts and lease incentives.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation, calculation of unrealised gains/(losses) and/or defective title of investment properties and properties held for sale (£617.58m; 2019: £500.88m).	We performed the following procedures:	The results of our procedures are:
<p>(Refer to Report of the Audit Committee (page 41); Accounting policies (page 59); and Notes 9 and 10 to the Consolidated Financial Statements (pages 65 to 67)).</p> <p>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, or a failure to maintain proper legal title of the property held by the Group could have a significant impact on the portfolio valuation and the return generated for shareholders.</p> <p>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 judgments and estimates (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Statement of Financial Position and in the Statement of Comprehensive Income.</p> <p>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.</p> <p>In the current year, as referred to in note 9, regarding the impact of COVID-19, Colliers have highlighted in their assessment of the fair value of the property portfolio that there is limited transactional evidence and less certainty with regard to valuations and that market values can change rapidly in the current market conditions. Accordingly, they have stated that it has been necessary to make more judgements than is usually required and have included a material uncertainty caveat in their valuation report.</p> <p>At 30 June 2020, the Group's investment portfolio consists of UK healthcare properties, with a market value of £610.08m (2019: £500.88m) and carrying value of £570.09m (2019: £469.60m), which is net of a deduction of £40.0m (2019: £31.29m) to account for lease incentives and fixed rental uplifts. The Group's investment portfolio also includes properties held for sale at a value of £7.50m (2019: £nil).</p>	<p>We obtained an understanding of the Administrator's, Investment Manager's and Independent Valuer's processes and controls surrounding investment pricing and unrealised gains and losses by performing walkthrough procedures to evaluate the design and implementation of controls. We performed a walkthrough of the legal title process.</p> <p>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.</p> <p>We agreed a sample of inputs used by Colliers in the valuation to source data.</p> <p>We used our property valuation specialists to perform a review of the property valuations, which included:</p> <ul style="list-style-type: none"> - 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 occupancy and historic rent cover for a sample of properties; - Assessment and challenge of the judgements made by Colliers in light of the valuation uncertainties they highlight in their report in respect of limited transactional evidence that can be used to inform their opinion of fair value; - A detailed review of a sample of the individual property valuations as at 30 June 2020 examining key valuation inputs and assumptions applied; and - A review of the reasonableness of the income yields for the properties. <p>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.</p> <p>We ensured the consolidated financial statements contain adequate disclosures regarding valuation uncertainty and assumptions made in the valuation, including the required sensitivity analysis under IFRS 13 'Fair value measurement';</p> <p>We obtained direct confirmation from an independent third party of the investment properties and development sites held as at 30 June 2020;</p> <p>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; and</p> <p>We recalculated the unrealised gains/(losses) on investment properties as at the year-end using the book cost reconciliation.</p>	<p>We have reviewed the disclosure in the financial statements relating to the material valuation uncertainty paragraph included by Colliers in their valuation report, and consider the disclosure appropriate.</p> <p>The disclosure set out in the notes to the financial statements are fundamental to users' understanding of this matter. We conclude that the balances and disclosures in the financial statements and notes appropriately reflect the risk factors identified.</p> <p>We have concluded that the assessment of fair values performed by Colliers and the Directors are within an acceptable range at 30 June 2020.</p> <p>We have no issues to communicate with respect to our procedures performed over the risk of Incorrect valuation, calculation of unrealised gains/(losses) and/or defective title of investment properties and properties held for sale.</p>

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
Impact of COVID-19	We performed the following procedures:	The results of our procedures are:
<p>(Refer to the Strategic Report (pages 20 and 21), the Report of the Audit Committee (page 41); and Accounting Policies (page 57)).</p> <p>The COVID-19 pandemic has adversely impacted global commercial activity and contributed to significant volatility in global equity and debt markets, but as of the date of our audit report, the longer-term impact remains uncertain. This uncertainty had an impact on our risk assessment and, as a result, on our audit of the financial statements.</p>	<p>Going concern: We obtained and reviewed the Director's assessment of going concern which includes consideration of the impact of COVID-19 and challenged the assumptions made in the preparation of the revenue and expenses forecast.</p> <p>We reviewed the Board's assessment of the risk of breaching the debt covenants including in stressed scenarios. We recalculated the debt covenants which are set out in the loan agreement and which do not involve any subjectivity, to confirm there were no covenant breaches as at the year end.</p>	<p>Based on the procedures performed, we are satisfied that the Directors have appropriately considered the impact of COVID-19 on the going concern assessment and that adequate disclosures have been presented in the financial statements.</p>
<p>The COVID-19 pandemic and resultant uncertainties had the most significant impact on our audit of the financial statements in the following areas:</p> <p>Going concern There is increased risk due to the degree of uncertainty in the assumptions underlying management's assessment of future prospects, including the impact of COVID-19, the ability to meet debt covenants and the ability to fund ongoing costs.</p>	<p>We confirmed through discussion with the Company Secretary and the Directors that they are in close contact with key service providers and that Business Continuity Plans are in place with no significant deterioration of service being experienced.</p> <p>Financial statements disclosures We reviewed the disclosures contained within the Financial Statements.</p>	
<p>Financial statement disclosures There is a risk that the impact of COVID-19 is not adequately disclosed in the financial statements.</p> <p>Additional COVID-19 procedures have been reflected above in the response to the key audit matters of 'Incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives' and 'Incorrect valuation, calculation of unrealised gains/(losses) and/or defective title of investment properties and properties held for sale'.</p>		

In the prior year, our auditor's report included a key audit matter in relation to incorrect valuation and/or defective title of the investment portfolio. In the current year, we expanded the prior year key audit matter to include unrealised gains/(losses) given the relationship of these movements to the valuation of investments. We also performed additional procedures in relation to the matters raised in Colliers' valuation report, as described above.

We also re-assessed the risks determined at the planning stage of the audit and, due to the uncertainty in global markets caused by the COVID-19 pandemic, we revised our risk assessment to include the Key Audit Matter 'Impact of COVID-19'.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, and changes in the business environment when assessing the level of work to be performed at each entity.

Changes from the prior year

The scope of the audit has increased in comparison to the previous year as a result of the group reconstruction and acquisitions of subsidiaries made by Target Healthcare REIT plc during the year. As a result of COVID-19, the year-end audit fieldwork was executed remotely. All audit evidence was received electronically and there were no on-site visits. All meetings with the Manager and the Directors were conducted virtually and all audit queries were discussed over video conferencing. The audit team encountered no difficulties in connecting virtually with the Manager or the Directors and were able to execute the year-end audit fieldwork.

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 £4.94 million (2019: £4.13 million), which is 1% (2019: 1%) of Group 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 £4.94 million which is 1% of parent company 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% (2019: 75%) of our planning materiality, namely £3.71 million (2019: £3.10 million). 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 £0.25 million (2019: £0.21 million), 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.

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

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

We have nothing to report in this regard.

Independent Auditor's Report to the Members of Target Healthcare REIT plc (continued)

Other information continued

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

- **Fair, balanced and understandable set out on page 32** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 37 to 41** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 33** – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and 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.

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

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

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 32, 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

The objectives of our audit in respect to fraud are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and parent company and determined that the most significant are IFRS, FRS 101, the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, and Part 12 of the Corporation Tax Act 2010.
- We understood how the Group and parent company are complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of the Group's documented policies and procedures.
- We assessed the susceptibility of the Group and parent company'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 of investment properties and properties held for sale and the resulting impact on unrealised gains and losses. 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 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 including previous renewals and reappointments is one year, covering the period ending 30 June 2020.
- 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.
- In February 2020, we identified that a breach of the FRC's Ethical Standard Section 1.74D had occurred. This breach relates to the requirement to complete the independence procedures applicable to an EU Listed Public Interest entity prior to the commencement of the professional engagement period. We notified the Audit Committee of this breach in February 2020. We had previously completed independence procedures in relation to Target Healthcare REIT plc prior to it becoming a listed company and upon completion of the applicable independence procedures applicable to an EU Listed Public Interest entity in February 2020 it was confirmed that the firm was independent of the Group and parent company for the year ended 30 June 2020 and up to and including the date of this report. We do not consider our independence to be impaired. The Audit Committee agreed with our conclusion and their consideration of this breach is set out on page 40.
- 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
5 October 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020			Year ended 30 June 2019		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		36,025	8,219	44,244	27,923	6,354	34,277
Other income		23	—	23	—	—	—
Total revenue		36,048	8,219	44,267	27,923	6,354	34,277
Gains on revaluation of investment properties	9	—	198	198	—	6,155	6,155
Gains on investment properties realised	9	—	642	642	—	—	—
Gains on revaluation of properties held for sale	10	—	1,505	1,505	—	—	—
Total income		36,048	10,564	46,612	27,923	12,509	40,432
Expenditure							
Investment management fee	2	(5,264)	—	(5,264)	(4,702)	—	(4,702)
Other expenses	3	(4,261)	(47)	(4,308)	(2,013)	(729)	(2,742)
Total expenditure		(9,525)	(47)	(9,572)	(6,715)	(729)	(7,444)
Profit before finance costs and taxation		26,523	10,517	37,040	21,208	11,780	32,988
Net finance costs							
Interest receivable	4	111	—	111	61	—	61
Interest payable and similar charges	5	(4,388)	(1,144)	(5,532)	(3,165)	—	(3,165)
Profit before taxation		22,246	9,373	31,619	18,104	11,780	29,884
Taxation	6	3	—	3	—	—	—
Profit for the year		22,249	9,373	31,622	18,104	11,780	29,884
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate swaps	14	—	480	480	—	(592)	(592)
Total comprehensive income for the year		22,249	9,853	32,102	18,104	11,188	29,292
Earnings per share (pence)	8	5.05	2.13	7.18	4.91	3.19	8.10

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 2020

	Notes	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Non-current assets			
Investment properties	9	570,086	469,596
Trade and other receivables	11	46,044	37,573
		616,130	507,169
Current assets			
Trade and other receivables	11	3,702	4,264
Cash and cash equivalents	13	36,440	26,946
		40,142	31,210
Properties held for sale	10	7,500	–
		47,642	31,210
Total assets		663,772	538,379
Non-current liabilities			
Bank loans	14	(150,135)	(106,420)
Interest rate swaps	14	(227)	(707)
Trade and other payables	15	(6,183)	(6,361)
		(156,545)	(113,488)
Current liabilities			
Trade and other payables	15	(13,114)	(11,802)
Total liabilities		(169,659)	(125,290)
Net assets		494,113	413,089
Share capital and reserves			
Stated capital account	16	–	372,685
Share capital	16	4,575	–
Share premium		77,452	–
Merger reserve		47,751	–
Distributable reserve		296,770	–
Hedging reserve		(227)	(707)
Capital reserve		45,536	36,163
Revenue reserve		22,256	4,948
Equity shareholders' funds		494,113	413,089
Net asset value per ordinary share (pence)	8	108.0	107.3

Company number: 11990238.

The financial statements on pages 52 to 76 were approved by the Board of Directors and authorised for issue on 5 October 2020 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 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									
Transactions with owners recognised in equity:									
Group reconstruction	²³ (371,292)	385,090	–	47,751	(61,549)	–	–	–	–
Reduction of share capital	¹⁶ –	(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

For the year ended 30 June 2019

Notes	Stated capital account £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2018	330,436	(115)	24,383	3,903	358,607
Total comprehensive income for the year					
Transactions with owners recognised in equity:					
Dividends paid	⁷ (6,658)	–	–	(17,059)	(23,717)
Issue of ordinary shares	¹⁶ 50,000	–	–	–	50,000
Expenses of issue	(1,093)	–	–	–	(1,093)
At 30 June 2019	372,685	(707)	36,163	4,948	413,089

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Cash flows from operating activities			
Profit before tax		31,619	29,884
Adjustments for:			
Interest receivable		(111)	(61)
Interest payable		5,532	3,165
Revaluation gains on investment properties and movements in lease incentives, net of acquisition costs written off	9	(9,059)	(12,509)
Revaluation gains on properties held for sale	10	(1,505)	–
Increase in trade and other receivables		(1,238)	(2,060)
Increase in trade and other payables		370	2,057
		25,608	20,476
Interest paid		(4,177)	(2,374)
Interest received		111	61
Tax (paid)/recovered		(73)	1
		(4,139)	(2,312)
Net cash inflow from operating activities		21,469	18,164
Cash flows from investing activities			
Purchase of investment properties and properties held for sale, including acquisition costs		(117,501)	(99,615)
Disposal of investment properties, net of lease incentives		14,086	–
Net cash outflow from investing activities		(103,415)	(99,615)
Cash flows from financing activities			
Issue of ordinary share capital	16	80,000	50,000
Expenses of issue of ordinary share capital	16	(1,824)	(1,075)
Drawdown of bank loan facilities	14	162,000	75,500
Repayment of bank loan facilities	14	(118,000)	(33,500)
Expenses of arrangement of bank loan facilities	14	(1,585)	(300)
Dividends paid		(29,151)	(23,628)
Net cash inflow from financing activities		91,440	66,997
Net increase/(decrease) in cash and cash equivalents		9,494	(14,454)
Opening cash and cash equivalents		26,946	41,400
Closing cash and cash equivalents	13	36,440	26,946
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		10,014	8,664
Fixed or guaranteed rent reviews derecognised on disposal		(988)	–
Total		9,026	8,664

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') as adopted by the EU, 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 October 2019 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.

Group reconstruction

The Group undertook a reconstruction in the period, as a result of which the Company became the parent company of the Group (see note 23). Given the resultant shareholders in the Company are the same as the shareholders were in the previous parent prior to the reconstruction, continuation accounting has been applied in these Consolidated Financial Statements. The comparative information presented in this report represents the results of the Group for the year ended 30 June 2019, as reported by the previous parent company, Target Healthcare REIT Limited.

Applicable standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except that the following new standard has become effective in the current year:

- IFRS 16 'Leases'

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

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. This standard has not had any material impact on the Group's financial statements given the approach to lessor accounting is substantially unchanged. The additional disclosures required by IFRS 16 are included in note 19.

Several other amendments and interpretations apply for the first time in 2020, but 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, 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. Where historic 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 and estimating a probability of each of these outcomes. 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 placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 30 June 2020. 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 remained materially unchanged 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 level of rental income received has not been significantly impacted by COVID-19; with 95% of the rent payable in relation to the two quarter dates falling after the outbreak of the pandemic having been received, after allowing for agreements in respect of a limited proportion of the portfolio's operational care homes to pay monthly in advance. Excluded from this collection analysis is the deferred rent relating to two of the portfolio's immature care homes where agreements were in place prior to the pandemic to defer such payments; and
- The Group remains within its loan covenants, with appropriate headroom and, based on discussions to date, the Directors conclude that there is no reason to expect that the loan facilities will not be capable of renewal on appropriate terms on, or before, their contractual maturity date.

The forecast cash flows considered as part of the going concern assessment are based on the first twelve months of the Group's five-year viability model (as set out on page 28), which 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 2020.

(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 2020. 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:

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

Notes to the Consolidated Financial Statements

(continued)

1. Accounting policies continued

(c) Revenue recognition continued

Rental Income continued

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.

(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 Company has entered into the Group REIT regime. 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 it is probable that it will be paid and a reliable estimate can be made of the amount. Any payment made will result in an increase in rental income receivable from the tenant, to maintain the investment yield from the property, and therefore an asset of approximately equal value is recognised to reflect the fair value of this increase in rental income.

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

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

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.

Notes to the Consolidated Financial Statements (continued)

1. Accounting policies continued

(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 effectiveness of the hedges must be capable of reliable measurement and must be assessed as highly effective on an ongoing basis throughout the financial reporting periods for which the hedges were designated; and
- At the inception of the hedge there must be 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 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. Further details are included in note 23. 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 has been 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 transaction. Further details are included in note 23.

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.

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 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 2020 £'000	Year ended 30 June 2019 £'000
Management fee	5,264	4,702
Total	5,264	4,702

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

Subsequent to its appointment as Company Secretary and Administrator to the Group with effect from 7 August 2019, the Investment Manager is entitled to an additional fee of £120,000 per annum plus VAT, increasing annually in line with inflation.

The Investment Management Agreement can be terminated by either party on 24 months' written notice, provided that the earliest that notice could be served is 30 April 2021. 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 2020 £'000	Year ended 30 June 2019 £'000
Credit loss allowance and bad debts written off	2,171	337
Valuation and other professional fees	707	537
Auditor's remuneration for:		
– statutory audit of the Company	71	55
– statutory audit of the Company's subsidiaries	209	120
– review of interim financial information	15	12
Other taxation compliance and advisory*	242	158
Secretarial and administration fees	186	217
Public relations and marketing	185	81
Directors' fees	160	177
Listing & Registrar fees	89	75
Printing, postage and website	57	29
Direct property costs	30	67
Other	139	148
Total	4,261	2,013

* 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.

Notes to the Consolidated Financial Statements

(continued)

3. Other expenses continued

As explained further in note 23, a reconstruction of the Group was completed during the year. The majority of the costs of this reconstruction were recognised in the prior year, following the publication of a shareholder circular and prospectus on 21 June 2019. However, there were additional costs of £47,000 incurred during the year ended 30 June 2020 which related to this capital reorganisation and the subsequent reduction of the Company's share premium account and these have been charged to capital.

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 2020 £'000	Year ended 30 June 2019 £'000
Deposit interest	111	61
Total	111	61

5. Interest payable and similar charges

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Interest paid on bank loans	3,616	2,531
Amortisation of loan costs	772	634
Cost of early redemption	1,144	–
Total	5,532	3,165

During the year ended 30 June 2020, the Group repaid its existing £40 million term loan with FCB and closed out the interest rate swap used to hedge this facility. The costs of early redemption, including the release of the unamortised loan costs remaining at the time of repayment, totalled £1,144,000 and have been charged to capital.

6. Taxation

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Current tax	–	–
Adjustment to tax charge for prior years	(3)	–
Total tax credit	(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 2020 £'000	Year ended 30 June 2019 £'000
Profit before tax	31,619	29,884
Tax at 19.0% (2019: 19.0%)	6,008	5,678
Effects of:		
REIT exempt profits	(4,713)	(4,405)
REIT exempt gains	(260)	(787)
Capital allowances	(1,188)	(594)
Utilisation of excess expenses brought forward	(73)	(30)
Expenses not deductible for tax purposes	226	138
Adjustment to tax charge for prior years	(3)	–
Total tax credit	(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 £5.6 million at 30 June 2020 (2019: £6.0 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 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

Amounts paid as distributions to equity holders during the year to 30 June 2019.

	Dividend rate (pence per share)	Year ended 30 June 2019 £'000
Fourth interim dividend for the year ended 30 June 2018*	1.61250	5,470
First interim dividend for the year ended 30 June 2019*	1.64475	5,579
Second interim dividend for the year ended 30 June 2019*	1.64475	6,334
Third interim dividend for the year ended 30 June 2019*	1.64475	6,334
Total	6.54675	23,717

* Paid by the previous parent company of the Group, Target Healthcare REIT Limited. See note 23 for details on the Group reconstruction.

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 2020, of 1.67 pence per share, was paid on 28 August 2020 to shareholders on the register on 14 August 2020 amounting to £7,640,000. 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 2020		Year ended 30 June 2019	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	22,249	5.05	18,104	4.91
Capital earnings	9,373	2.13	11,780	3.19
Total earnings	31,622	7.18	29,884	8.10
Average number of shares in issue	440,278,234		368,751,632	

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 on the following page. Other EPRA measures are included in the Alternative Performance Measures on pages 96 and 97.

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.

Notes to the Consolidated Financial Statements

(continued)

8. Earnings per share and Net Asset Value per share continued

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 2020 £'000	Year ended 30 June 2019 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	31,622	29,884
Adjusted for gains on investment properties realised	(642)	–
Adjusted for revaluations of investment properties	(198)	(6,155)
Adjusted for revaluations of properties held for sale	(1,505)	–
Adjusted for cost of corporate acquisitions and other capital items	1,191	729
EPRA earnings	30,468	24,458
Adjusted for rental income arising from recognising guaranteed rent review uplifts	(8,219)	(6,354)
Adjusted for development interest under forward fund agreements	975	2,011
Group specific adjusted EPRA earnings	23,224	20,115
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	7.18	8.10
EPRA EPS	6.92	6.63
Group specific adjusted EPRA EPS	5.27	5.45

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 108.0 pence (2019: 107.3 pence) is based on equity shareholders' funds of £494,113,000 (2019: £413,089,000) and on 457,487,640 (2019: 385,089,448) ordinary shares, being the number of shares in issue at the year-end.

The EPRA Net Asset Value ('EPRA NAV') per share is arrived at by adjusting the net asset value ('NAV') calculated under International Financial Reporting Standards ('IFRS'). The EPRA NAV provides a measure of the fair value of a company on a long-term basis. The only adjustment required to the NAV is that the EPRA NAV excludes the fair value of the Group's interest rate swaps, which were recognised as a liability of £227,000 under IFRS as at 30 June 2020 (2019: liability of £707,000). EPRA believes that, under normal circumstances, the financial derivatives which property investment companies use to provide an economic hedge are held until maturity and so the theoretical gain or loss at the balance sheet date will not crystallise.

EPRA guidance also recognises an EPRA NNNAV, the objective of which is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV. At 30 June 2020, 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 of the liability is estimated to be £1,511,000 higher than the nominal value at 30 June 2020 (2019: £nil). See note 14 for further details on the Group's loan facilities.

	As at 30 June 2020	As at 30 June 2019
IFRS NAV per financial statements (pence per share)	108.0	107.3
Valuation of interest rate swaps	0.1	0.2
EPRA NAV (pence per share)	108.1	107.5
Fair value adjustment for fixed-rate loan facilities and interest rate swaps	(0.4)	(0.2)
EPRA NNNAV (pence per share)	107.7	107.3

9. Investment properties

Freehold and leasehold properties

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Opening market value	500,884	385,542
Opening fixed or guaranteed rent reviews and lease incentives	(31,288)	(22,624)
Opening carrying value	469,596	362,918
Disposals – proceeds	(14,402)	–
– loss on sale	(438)	–
Purchases	108,852	97,956
Acquisition costs capitalised	3,896	2,567
Acquisition costs written off	(3,896)	(2,567)
Unrealised loss realised during the period	1,080	–
Revaluation movement – gains	18,905	22,202
Revaluation movement – losses	(4,797)	(4,816)
Movement in market value	109,200	115,342
Fixed or guaranteed rent reviews and lease incentives derecognised on disposal	1,304	–
Movement in fixed or guaranteed rent reviews and lease incentives	(10,014)	(8,664)
Movement in carrying value	100,490	106,678
Closing market value	610,084	500,884
Closing fixed or guaranteed rent reviews and lease incentives	(39,998)	(31,288)
Closing carrying value	570,086	469,596

Changes in the valuation of investment properties

	Year ended 30 June 2020 £'000	Year ended 30 June 2019 £'000
Loss on sale of investment properties	(438)	–
Unrealised loss realised during the period	1,080	–
Gains on sale of investment properties realised	642	–
Revaluation movement	14,108	17,386
Acquisition costs written off	(3,896)	(2,567)
Movement in lease incentives	(1,795)	(2,310)
Movement in fixed or guaranteed rent reviews	(8,219)	(6,354)
Gains on revaluation of investment properties	840	6,155

The investment properties can be analysed as follows:

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Standing assets	597,484	482,084
Developments under forward fund agreements	12,600	18,800
Closing market value	610,084	500,884

The properties were valued at £610,084,000 (2019: £500,884,000) 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.

Notes to the Consolidated Financial Statements (continued)

9. Investment properties continued

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 £570,086,000 (2019: £469,596,000). The adjustment consisted of £34,766,000 (2019: £27,535,000) relating to fixed or guaranteed rent reviews and £5,232,000 (2019: £3,753,000) 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 Colliers' property valuation at 30 June 2020, in accordance with industry practice, was subject to a material uncertainty clause as follows: *"The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.*

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is/are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this portfolio under frequent review."

The RICS Material Valuation Uncertainty Leaders Forum (UK) reached consensus in early August 2020 that reporting material valuation uncertainty may no longer be appropriate for healthcare assets and therefore it is anticipated that the material uncertainty clause will be removed from the next valuation of the property portfolio which will be conducted as at 30 September 2020.

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 6.0 per cent. The yield on the majority of the individual assets ranges from 5.0 per cent to 7.3 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 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 £6.1 million (2019: £5.0m); 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 £26.3 million (2019: £20.8 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 £24.3 million (2019: £19.2 million) and reduce the Group's income.

10. Properties held for sale

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Purchases	5,695	–
Acquisition costs capitalised	300	–
Acquisition costs written off	(300)	–
Revaluation movement – gains	1,805	–
Closing fair value	7,500	–

The properties held for sale were valued at £7,500,000 (30 June 2019: £nil) by Colliers International Healthcare Property Consultants Limited ('Colliers'). The properties held for sale consist of a block of apartments adjacent to an existing property holding which was 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

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Non-current trade and other receivables		
Fixed rent reviews	34,766	27,535
Rental deposits held in escrow for tenants	6,183	6,361
Lease incentives	5,095	3,677
Total	46,044	37,573
Current trade and other receivables		
Cash held in escrow for property purchases	–	663
Lease incentives	137	76
VAT recoverable	184	1,204
Accrued income – rent receivable	1,520	602
Accrued development interest under forward fund agreements	996	1,378
Other debtors and prepayments	865	341
Total	3,702	4,264

At the year-end, trade and other receivables include a fixed rent review debtor of £34,766,000 (2019: £27,535,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £5,232,000 (2019: £3,753,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease.

Notes to the Consolidated Financial Statements

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12. Investment in subsidiary undertakings

The Group included 46 subsidiary companies as at 30 June 2020 (30 June 2019: 29). 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, as well as establishing the new parent company (see note 23), the Group acquired eight new active property holding companies; THR Number 29 Limited, THR Number 30 Limited, THR Number 31 Limited, THR Number 32 Limited, THR Number 33 Limited, THR Number 34 Limited, THR Number 35 Limited and THR Number 36 Limited. These acquisitions were accounted for as Investment Property acquisitions. As part of these acquisitions, the Group acquired eight further companies which are currently dormant and which are expected to be liquidated shortly.

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 2020 £'000	As at 30 June 2019 £'000
Cash at bank and in hand	16,545	7,965
Short-term deposits	19,895	18,981
Total	36,440	26,946

14. Bank loans

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Principal amount outstanding	152,000	108,000
Set-up costs	(3,732)	(3,040)
Amortisation of set-up costs	1,867	1,460
Total	150,135	106,420

The Group has a £50.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable on 1 September 2021. Interest accrues on the bank loan at a variable rate, based on three-month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.5 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 30 June 2020, the Group had drawn £50.0 million under this facility (30 June 2019: £50.0 million).

The Group has an £80.0 million revolving credit facility with HSBC Bank plc ('HSBC') which is repayable on 29 January 2022, with the option of a further one-year extension thereafter subject to the consent of HSBC. Interest accrues on the bank loan at a variable rate, based on three-month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.70 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 30 June 2020, the Group had drawn £52.0 million under this facility (2019: £22.0 million).

In January 2020, the Group entered into a new £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 2020, the Group had drawn £50.0 million under this facility (30 June 2019: £nil).

During the year, the Group had a £40.0 million committed term loan facility with First Commercial Bank, Limited ('FCB'). Interest accrued on the bank loan at a variable rate, based on three-month LIBOR plus margin and mandatory lending costs, and was payable quarterly. The margin was 1.65 per cent per annum for the duration of the loan. The Group repaid the facility in January 2020 and the interest rate swap which had been entered into in order to hedge this facility was also closed out.

The following interest rate swaps were in place during the year ended 30 June 2020:

No. of contracts	Notional Value	Starting Date	Ending Date	Interest paid	Interest received	Counterparty
1	21,000,000	24 June 2019	1 September 2021	0.70%	3-month LIBOR	RBS
1	9,000,000	7 April 2017	1 September 2021	0.86%	3-month LIBOR	RBS
1	36,000,000	9 July 2018	30 August 2022*	1.43%	3-month LIBOR	FCB

* The interest rate swap with FCB was closed out in January 2020 at the time of repayment 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 3.13 per cent per annum until at least 1 September 2021. The remaining £100.0 million of debt, of which £72.0 million was drawn at 30 June 2020, would, if fully drawn, carry interest at a variable rate equal to three-month LIBOR plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.21 per cent per annum.

The fair value of the interest rate swaps at 30 June 2020 was an aggregate liability of £227,000 (30 June 2019: liability of £707,000) 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 2020, the nominal value of the Group's loans equated to £152,000,000 (2019: £108,000,000). 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 2020, totalled, in aggregate, £153,511,000 (2019: £108,000,000). 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 £165,974,000 (2019: £108,000,000). 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 £496 million as at 30 June 2020.

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 2020 £'000	Borrowing 2020 £'000	Net debt 2020 £'000	Cash and cash equivalents 2019 £'000	Borrowing 2019 £'000	Net debt 2019 £'000
Opening balance	26,946	(106,420)	(79,474)	41,400	(64,182)	(22,782)
Cash flows	9,494	(42,511)	(33,017)	(14,454)	(41,604)	(56,058)
Non-cash flows	–	(1,204)	(1,204)	–	(634)	(634)
Closing balance as at 30 June	36,440	(150,135)	(113,695)	26,946	(106,420)	(79,474)

Notes to the Consolidated Financial Statements (continued)

15. Trade and other payables

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Non-current trade and other payables		
Rental deposits	6,183	6,361
Total	6,183	6,361
Current trade and other payables		
Rental income received in advance	5,835	5,200
Property acquisition and development costs accrued	3,430	2,570
Investment Manager's fees payable	1,364	1,162
Interest payable	779	629
Tax payable	13	89
Corporate reconstruction costs accrued	–	722
Other payables	1,693	1,430
Total	13,114	11,802

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

16. Share capital

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares		
<i>Target Healthcare REIT Limited</i>		
Opening balance	385,089,448	372,685
Dividends allocated to capital	(1,393)	
Shares in issue at date of Group reconstruction	385,089,448	371,292
<i>Target Healthcare REIT plc</i>		
Ordinary shares of £1 each in issue	1	–
Ordinary shares of £1 each issued as part of Group reconstruction	385,089,448	385,090
Reduction of nominal value of ordinary shares to £0.01 each	–	(381,239)
Ordinary shares of £0.01 each issued on 25 September 2019	72,398,191	724
Balance as at 30 June 2020	457,487,640	4,575

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.

Under a scheme of arrangement, the parent company of the Group changed from Target Healthcare REIT Limited to Target Healthcare REIT plc on 7 August 2019. Under this scheme of arrangement, each shareholder received one share in Target Healthcare REIT plc for every one share previously held in Target Healthcare REIT Limited. After completion of the scheme of arrangement, the Company undertook a capital reduction. On 24 September 2019, the High Court confirmed the reduction of the nominal value of each of the 385,089,449 shares in issue from £1.00 to £0.01. The reduction in the share capital of £381,239,000 created the Group's distributable reserve. See note 23 for further details.

During the year to 30 June 2020, the Company issued a further 72,398,191 ordinary shares of £0.01 raising gross proceeds of £80,000,000 (2019: Target Healthcare REIT Limited, the previous parent company, issued 45,871,559 ordinary shares raising £50,000,000). The consideration received in excess of the par value of the ordinary shares issued, net of the expenses of issue of £1,824,000, has been credited to the share premium account.

During the year to 30 June 2020, the Company did not repurchase any ordinary shares into treasury (2019: nil) or resell any ordinary shares from treasury (2019: nil). At 30 June 2020, the Company did not hold any shares in treasury (2019: nil).

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 £39,854,000 (2019: £31,057,000), consisting of cash of £36,440,000 (2019: £26,946,000), net rent receivable of £1,520,000 (2019: £602,000), accrued development interest of £996,000 (2019: £1,378,000) and other debtors of £898,000 (2019: £2,131,000).

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 2020, the Company had recognised a credit loss allowance totalling £2,402,000 against a gross rent receivable balance of £3,922,000 and, whilst this balance has increased during the year ended 30 June 2020, it remains low relative to the Group's overall balance sheet. The provision relates primarily to two tenants where active asset management activities are being taken as described in the Chairman's Statement on page 7. As at 30 June 2019, the provision was £261,000, of which £261,000 is still outstanding. There were no other financial assets which were either past due or considered impaired at 30 June 2020 (2019: nil).

Notes to the Consolidated Financial Statements

(continued)

17. Financial instruments continued

Credit risk continued

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.

Over the course of the year, due to the quantum of cash balances held, counterparty risk was spread by placing cash across different financial institutions. At 30 June 2020 the Group held £36.4 million (2019: £26.5 million) with The Royal Bank of Scotland plc and £nil million with First Commercial Bank, Limited (2019: £0.5 million). During the year, monies were also held 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 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

Financial assets as at 30 June 2019	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	26,946	—	—	—	—	26,946
Rental deposits held in escrow for tenants	—	—	—	—	6,361	6,361
Other debtors	4,111	—	—	—	—	4,111
Total	31,057	—	—	—	6,361	37,418

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

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

Financial liabilities as at 30 June 2019	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	811	2,417	24,812	87,490	—	115,530
Rental deposits	—	—	—	—	6,361	6,361
Other payables	6,602	—	—	—	—	6,602
Total	7,413	2,417	24,812	87,490	6,361	128,493

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 2020 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 three-month LIBOR at 30 June 2020 (30 June 2019) 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. Interest is received on cash at a weighted average variable rate of 0.01 per cent (2019: 0.20 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.

The Group has £130.0 million (2019: £170.0 million) of committed term loans and revolving credit facilities which were charged interest at a rate of three-month LIBOR plus the relevant margin. At the year-end £102.0 million of the variable rate facilities had been drawn down (2019: £108.0 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 2020 and 30 June 2019.

The Group has not hedged its exposure on £72.0 million of the variable rate borrowings at 30 June 2020 (2019: £42.0 million). On these loans the interest was payable at a variable rate equal to three-month LIBOR plus the weighted average lending margin, including the amortisation of costs, of 2.17 per cent per annum. 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 (2019: £nil) and has hedged its exposure on £30.0 million (2019: £66.0 million) of the variable rate loans, as referred to above, through entering into fixed rate interest rate swaps. 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 swaps is recognised directly on the Group's balance sheet. At 30 June 2020, an increase of 0.25 per cent in interest rates would have decreased the fair value of the interest rate swap liability and increased the reported total comprehensive income for the year by £0.1 million (2019: £0.4 million). The same movement in interest rates would have decreased the fair value of the fixed rate term loan by £1.2 million (2019: n/a); 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 2020		As at 30 June 2019	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	–	36,440	–	26,946
Bank loan	(80,000)	(72,000)	(66,000)	(42,000)
	(80,000)	(35,560)	(66,000)	(15,054)

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 £89,000 (2019: £38,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2020 (30 June 2019) 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.

Notes to the Consolidated Financial Statements

(continued)

17. Financial instruments continued

Market price risk continued

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 2020 (30 June 2019) would have increased net assets available to shareholders and increased the net income for the year by £57.8 million (2019: £47.0 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 2020 £'000	30 June 2019 £'000
Amounts due to complete forward fund developments and acquisition commitments	5,394	12,263
Other capital expenditure commitments	530	2,233
Total	5,924	14,496

19. 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 2020 £'000	As at 30 June 2019 £'000
Less than one year	38,437	32,017
Between one and two years	39,925	33,650
Between two and three years	40,557	34,331
Between three and four years	41,158	35,014
Between four and five years	41,805	35,727
Over five years	1,220,165	1,085,304
Total	1,422,047	1,256,043

The largest single tenant at the year-end accounted for 11.5 per cent (2019: 13.6 per cent) of the current annual rental income. There were no unoccupied properties at the period end.

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 of between 14 and 35 years.

20. 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 £160,000 (2019: £177,000) of which £12,000 (2019: £19,000) remained payable at the year-end.

The Investment Manager received £5,264,000 (inclusive of irrecoverable VAT) in management fees in relation to the year ended 30 June 2020 (2019: £4,702,000). Of this amount £1,364,000 (2019: £1,162,000) remained payable at the year-end. The Investment Manager received a further £129,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2020 (2019: £nil) in relation to its appointment as Company Secretary and Administrator, of which £35,000 (2019: £nil) 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.

21. 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 NAV. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NAV 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.

22. Contingent assets and liabilities

As at 30 June 2020, ten (2019: nine) properties within the Group's investment property portfolio contained deferred consideration clauses meaning that, subject to contracted performance conditions being met, deferred payments totalling £18.03 million (2019: £18.75 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.

Having assessed each clause on an individual basis, the Group has determined that none of these deferred consideration clauses are more likely than not to become payable in the future and therefore an amount of £nil (2019: £nil) has been recognised as a liability at 30 June 2020. It is highlighted that the potential deferred consideration would, if paid, 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.

As part of the sale agreements in relation to the two properties sold in July 2019, the Group may receive further proceeds from these sales should either property be re-sold prior to 18 July 2021 for a price above a pre-determined level.

23. Significant events: corporate reconstruction

On 21 June 2019, Target Healthcare REIT Limited ('Original THRL') announced proposals to change the Group's corporate structure by establishing Target Healthcare REIT plc ('New THRL' or 'the Company') a new English-incorporated parent company (registration number: 11990238), at the head of the Group. The Board believed that moving the Group's ultimate parent company to a UK domicile would align the Group with its UK tax jurisdiction, maintain and enhance its important relationships with UK local authorities and health services and help to reduce some of the Group's administration costs and regulatory complexities which arose due to the requirement to operate in both Jersey and the UK.

The proposal, which required the approval of Original THRL's existing shareholders and the Royal Court of Jersey, was effected by way of a scheme of arrangement under article 125 of the Companies (Jersey) Law 1991 pursuant to which the Company acquired Original THRL and became its ultimate parent company. The Company replicates all of the existing arrangements and structure of Original THRL. It has, for example, the same management, depositary and corporate governance arrangements alongside having the same investment, gearing and dividend policies. The Company is also a REIT for the purposes of UK taxation.

The scheme of arrangement was approved by shareholders at meetings held on 18 July 2019 and, following the agreement of the Royal Court of Jersey, became effective on 7 August 2019. Original THRL's existing shareholders received one new share in the Company for every share they held in Original THRL at close on 6 August 2019. The Ordinary Shares of the Company were admitted to the premium segment of the Official List and to trading on the main market of the London Stock Exchange on 7 August 2019.

The scheme of arrangement gave rise to the issuance of 385,089,448 Ordinary Shares in the Company with a nominal value of £1 each. The shares were issued at a deemed fair value of 112.4 pence per share, which was the market price of the shares of Original THRL as quoted on the London Stock Exchange immediately prior to the completion of the scheme of arrangement. The difference between the aggregate fair value and the aggregate nominal value, which constitutes the amount eligible for merger relief under section 612 of the Companies Act 2006, has been credited to the merger reserve. The difference between the fair value of the shares issued and the stated capital account of Original THRL immediately prior to the completion of the scheme of arrangement has been offset against the distributable reserve.

After completion of the scheme of arrangement, the Company undertook a capital reduction. On 24 September 2019, the High Court confirmed the reduction of the nominal value of each of the 385,089,449 shares in issue from £1.00 to £0.01, creating a distributable reserve of £381,239,000.

Notes to the Consolidated Financial Statements

(continued)

23. Significant events: corporate reconstruction continued

A breakdown of the merger and distributable reserves at 30 June 2020 is shown below:

	£'000
Fair value of shares issued under the scheme of arrangement	432,841
Nominal value of shares of £1.00 each issued under the scheme of arrangement	(385,090)
Merger reserve at 30 June 2020	47,751
Stated capital account of Original THRL immediately prior to scheme of arrangement	371,292
Fair value of shares issued	(432,841)
Reduction of nominal value from £1.00 per share to £0.01 per share	(61,549)
Dividends subsequently charged to the distributable reserve*	381,239
Distributable reserve at 30 June 2020	(22,920)
	296,770

* Being the interim dividends for the year ended 30 June 2020 paid by the Company before it has had sufficient time to build up its own revenue reserve.

24. Post balance sheet events

Property transactions

Subsequent to the year end, the Group has acquired a new-build care home in Bicester, Oxfordshire for a consideration of £15 million inclusive of costs. The high quality, 66 bed, purpose-built asset is let to Ideal Carehomes, the Group's largest tenant, on a 35-year, fully repairing and insuring, occupational lease which includes annual, upwards-only RPI-linked increases, subject to a cap and collar.

In addition, practical completion on the development of an 80-bed care home in Burscough, Lancashire was achieved in July 2020. The home was completed under a forward-fund arrangement pre-let to Athena Healthcare, an existing tenant of the Group, at a cost of £10 million, on a 35-year lease with RPI-linked increases, subject to a cap and collar.

25. 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.targetadvisers.co.uk, incorporating the requirements of the AIFMD regulations regarding remuneration.

The Group's maximum and average actual leverage levels at 30 June 2020 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	1.62	1.69

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 2020

	Notes	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Non-current assets			
Investment in subsidiary undertakings	3	457,731	—
Investment properties	4	6,595	—
Trade and other receivables	5	403	—
		464,729	—
Current assets			
Trade and other receivables	5	32,062	50
Cash and cash equivalents	6	5,556	—
		37,618	50
Total assets		502,347	50
Non-current liabilities			
Trade and other payables	7	(79)	(50)
Current liabilities			
Trade and other payables	7	(9,666)	—
Total liabilities		(9,745)	(50)
Net assets		492,602	—
Share capital and reserves			
Share capital	8	4,575	—
Share premium	8	77,452	—
Merger reserve	8	47,751	—
Distributable reserve	8	358,319	—
Capital reserve		6,077	—
Revenue reserve		(1,572)	—
Equity shareholders' funds		492,602	—
Net asset value per ordinary share (pence)	9	107.7	100.0

Company number: 11990238

The Company made a profit for the year ended 30 June 2020 of £4,505,000 (period to 30 June 2019: £nil).

The financial statements on pages 77 to 87 were approved by the Board of Directors and authorised for issue on 5 October 2020 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 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	8	385,090	–	47,751	–	–	–	432,841
Reduction of share capital	8	(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

For the period ended 30 June 2019

	Notes	Share capital £'000	Total £'000
At 10 May 2019		–	–
Total comprehensive income for the period		–	–
Transactions with owners recognised in equity:			
Issue of ordinary share	8	–	–
At 30 June 2019		–	–

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. In the prior year the Company was a standalone entity and prepared its accounts under IFRS. Following the Group reconstruction, the Directors have chosen to prepare the parent company accounts under FRS 101 as this is believed to provide the most concise and relevant information to a user of the Company Financial Statements. There were no adjustments necessary to the figures at 30 June 2019, or for the period then ended, as previously presented under IFRS compared to those presented in these financial statements.

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 October 2019 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 52 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 57.

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 £4,505,000 (period to 30 June 2019: £nil).

The Company does not have any employees (2019: 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 for the period subsequent to the Group reconstruction (see note 23 to the Consolidated Financial Statements) which equated to £117,000 during the year ended 30 June 2020 (2019: £nil).

Notes to the Company Financial Statements (continued)

1. Accounting policies continued

Audit fees in relation to the parent company were £74,000 (2019: £nil), including irrecoverable VAT. This included £3,000 payable by the Company on behalf of certain subsidiaries. The fee for assurance related services, being the review of the Company's Interim Report, was £15,000 (2019: £nil). There were no other non-audit fees paid to E&Y LLP by the Company during the year (2019: £nil).

2. Dividends

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
First interim dividend for the year ended 30 June 2020	1.67	7,640
Second interim dividend for the year ended 30 June 2020	1.67	7,640
Third interim dividend for the year ended 30 June 2020	1.67	7,640
Total	5.01	22,920

The Company did not pay any dividends during the period ended 30 June 2019.

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 2020, of 1.67 pence per share, was paid on 28 August 2020 to shareholders on the register on 14 August 2020 amounting to £7,640,000. 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 2020, 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	357,842
THR Number 12 plc	England & Wales	Ordinary	100	100	81,487	82,471
THR Number 36 Limited	England & Wales	Ordinary	100	100	16,922	17,418

The registered office of Target Healthcare REIT Limited at 30 June 2020 was: 3rd Floor, 44 Esplanade, St Helier, Jersey JE4 9WG.

	Year ended 30 June 2020 £'000	Period ended 30 June 2019 £'000
Opening fair value	—	—
Additions	531,250	—
Movement in fair value	(73,519)	—
Closing fair value	457,731	—

During the year, the Group was restructured such that the Company became the parent Company of the Group (see note 23 to the Consolidated Financial Statements). Subsequent to this transaction, direct ownership of two companies which were previously subsidiaries of Target Healthcare REIT Limited, being THR Number 12 plc and THR Number 3 Limited, was transferred to the Company by way of in-specie dividends. This resulted in a reduction of £81,487,000 in the fair value of Target Healthcare REIT Limited and the recognition of dividends received of an equivalent amount. Both the movement in the fair value of the subsidiary and the in-specie dividends received were recognised through the capital reserve. THR Number 3 Limited was subsequently sold to THR Number 12 plc at the same fair value at which the in-specie dividend has been recognised.

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 2020, 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.a.r.l.	Luxembourg	Ordinary	100	100
THR Number 26 S.a.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 year as set out in note 12 to the Consolidated Financial Statements. As these have been dormant since acquisition and are expected to be liquidated shortly, these are not listed above.

Notes to the Company Financial Statements (continued)

4. Investment properties

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Freehold properties		
Opening market value	-	-
Opening fixed or guaranteed rent reviews and lease incentives	-	-
Opening carrying value	-	-
Purchases	25,083	-
Disposals – proceeds	(18,400)	-
Acquisition costs capitalised	1,857	-
Acquisition costs written off	(1,857)	-
Revaluation movement – gains	236	-
Movement in market value	6,919	-
Fixed or guaranteed rent reviews and lease incentives derecognised on disposal	29	-
Movement in fixed or guaranteed rent reviews and lease incentives	(353)	-
Movement in carrying value	6,595	-
Closing market value	6,919	-
Closing fixed or guaranteed rent reviews and lease incentives	(324)	-
Closing carrying value	6,595	-

The properties were valued at £6,919,000 (2019: £nil) 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. The valuation at 30 June 2020, in line with standard market practice, was subject to a material uncertainty clause. See note 9 to the Consolidated Financial Statements for further details.

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 £6,595,000 (2019: £nil). The adjustment consisted of £76,000 (2019: £nil) relating to fixed or guaranteed rent reviews and £248,000 (2019: £nil) 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 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 and at 30 June 2020 consisted of a single property. The weighted average net initial yield on this asset, as measured by the EPRA topped up NIY, is 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 property 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 asset, and consequently the Company's reported income from unrealised gains on investments, by £69,000 (2019: £nil); 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 £281,000 (2019: £nil), 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 £260,000 (2019: £nil) and reduce the Company's income.

5. Trade and other receivables

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Non-current trade and other receivables		
Lease incentives	248	—
Rental deposits held in escrow for tenants	79	—
Fixed rent reviews	76	—
Total	403	—
Current trade and other receivables		
Balances due from group undertakings	31,922	—
Other debtors and prepayments	140	50
Total	32,062	50

At the year-end, trade and other receivables include a fixed rent review debtor of £76,000 (2019: £nil) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £248,000 (2019: £nil) 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 2020 £'000	As at 30 June 2019 £'000
Cash at bank and in hand	13	—
Short-term deposits	5,543	—
Total	5,556	—

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

7. Trade and other payables

	As at 30 June 2020 £'000	As at 30 June 2019 £'000
Non-current trade and other payables		
Rental deposits	79	—
Redeemable preference shares of £1 each	—	50
Total	79	50
Current trade and other payables		
Balances due to group undertakings	8,199	—
Income tax payable	699	—
Investment Manager's fees payable	326	—
Other payables	442	—
Total	9,666	—

On 13 June 2019, the Company allotted 50,000 redeemable preference shares of £1 each for gross proceeds of £50,000. For the period over which they were in issue, the redeemable preference shares were classified as equity for the purposes of the authorised minimum share capital required under section 761 of the Companies Act 2006. The redeemable preference shares were redeemed in full at their nominal value of £50,000 on 6 November 2019.

Notes to the Company Financial Statements (continued)

7. Trade and other payables continued

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 and reserves

Allotted, called-up and fully paid ordinary shares	Number of shares	£'000
Ordinary shares of £1 each in issue as at 30 June 2019	1	—
Ordinary shares of £1 each issued as part of Group reconstruction	385,089,448	385,090
Reduction of nominal value of ordinary shares to £0.01 each	—	(381,239)
Ordinary shares of £0.01 issued on 25 September 2019	72,398,191	724
Balance as at 30 June 2020	457,487,640	4,575

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.

Under a scheme of arrangement which completed on 7 August 2019, the Company became the parent company, and sole shareholder, of Target Healthcare REIT Limited. Under this scheme of arrangement, each shareholder received one share in the Company for every one share previously held in Target Healthcare REIT Limited. The shares were deemed to have been issued at a fair value of £432,841,000, based on the listed share price of Target Healthcare REIT Limited of 112.4 pence per share immediately prior to the share issue. The difference of £47,751,000 between the fair value and the nominal value of the shares issued as part of the Group reorganisation was credited to the Company's merger reserve.

After completion of the scheme of arrangement, the Company undertook a capital reduction. On 24 September 2019, the High Court confirmed the reduction of the nominal value of each of the 385,089,449 shares in issue from £1.00 to £0.01. The resulting reduction in the share capital of £381,239,000 was credited to the Company's distributable reserve.

See note 23 to the Consolidated Financial Statements for further details in relation to the Group reconstruction.

During the year to 30 June 2020, the Company issued a further 72,398,191 ordinary shares of £0.01 (2019: one ordinary share was issued on incorporation) raising gross proceeds of £80,000,000 (2019: £1). The consideration received in excess of the par value of the ordinary shares issued, net of the expenses of issue of £1,824,000, has been credited to the Company's share premium account.

During the year to 30 June 2020, the Company did not repurchase any ordinary shares into treasury (2019: nil) or resell any ordinary shares from treasury (2019: nil). At 30 June 2020, the Company did not hold any shares in treasury (2019: 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 71.

9. Net Asset Value

The Company's net asset value per ordinary share of 107.7 pence (2019: 100.0) is based on equity shareholders' funds of £492,602,000 (2019: £1) and on 457,487,640 (2019: one) 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 £37,478,000 (2019: £nil) consisting of balances due from Group undertakings of £31,922,000 and cash balances of £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.

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

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 30 June 2019, the Company's sole financial asset was a balance of £50,000 due from the Investment Manager in relation to the redeemable preference shares in issue.

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

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

At 30 June 2019, the Company's sole financial liability was a balance of £50,000 redeemable preference shares in issue.

Notes to the Company Financial Statements (continued)

10. Financial instruments continued

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 of 0.01 per cent (2019: n/a). The redeemable preference shares carried a fixed interest rate of 0.0001 per cent per annum.

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 2020		As at 30 June 2019	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	—	5,556	—	—
Balances due from group undertakings	31,922	—	—	—
Balances due to group undertakings	(8,199)	—	—	—
Redeemable preference shares	—	—	(50)	—
	23,723	5,556	(50)	—

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 £14,000 (2019: £nil), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2020 (30 June 2019) 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 2020 £'000	As at 30 June 2019 £'000
Less than one year	469	—
Between one and two years	484	—
Between two and three years	491	—
Between three and four years	499	—
Between four and five years	506	—
Over five years	18,860	—
Total	21,309	—

The Company enters into commercial property leases on its investment property portfolio, which are measured under the fair value model as the properties are held to earn rentals. At 30 June 2020, the Company held a single property asset let to a single tenant. The lease is non-cancellable with a remaining term of 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 £117,000 (2019: £nil) of which £12,000 (2019: £nil) remained payable at the year-end. Prior to the reconstruction of the Group in August 2019 (see note 8), the Directors' fees were paid by Target Healthcare REIT Limited.

The Investment Manager received management fees of £1,232,000 (inclusive of irrecoverable VAT) from the Company in relation to the year ended 30 June 2020 (2019: £nil). Of this amount £326,000 (2019: £nil) remained payable at the year-end.

The Investment Manager received a further £129,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2020 (2019: £nil) in relation to its appointment as Company Secretary and Administrator. Of this amount £35,000 (2019: £nil) remained payable at the year-end.

13. Post balance sheet events

Property transactions

Subsequent to the year end, the Company has acquired a new-build care home in Bicester, Oxfordshire for a consideration of £15 million inclusive of costs. The high quality, 66 bed, purpose-built asset is let to Ideal Carehomes, the Group's largest tenant, on a 35-year, fully repairing and insuring, occupational lease which includes annual, upwards-only RPI-linked increases, subject to a cap and collar.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the second Annual General Meeting ('AGM') of Target Healthcare REIT plc (the 'Company') will be held on Wednesday 2 December 2020 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 11 inclusive will be proposed as ordinary resolutions and resolutions 12 to 15 inclusive will be proposed as special resolutions:

Ordinary resolutions

1. That the Annual Report and Accounts for the year ended 30 June 2020 be received.
2. That the Directors' Annual Report on Remuneration for the year ended 30 June 2020 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 Alison Fyfe as a Director.
7. To re-elect Malcolm Naish as a Director.
8. To re-elect June Andrews as a Director.
9. To re-elect Gordon Coull as a Director.
10. To re-elect Tom Hutchison III as a Director.
11. 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

12. That, subject to the passing of resolution 11, 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 11 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.
13. 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 68,577,397 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.

14. 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.
15. That, the Articles of Association produced to the meeting and signed by the chairman of the meeting for the purposes of identification be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association with effect from the conclusion of the meeting.

By order of the Board

Target Fund Managers Limited
Company Secretary

Registered office:

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

5 October 2020

Notice of Annual General Meeting (continued)

Notes:

1. Only those shareholders registered in the Company's register of members at 10.00 p.m. on 30 November 2020 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 30 November 2020 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 & Ireland 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 30 November 2020 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 30 November 2020 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 5 October 2020, the Company's issued share capital comprised 457,487,640 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 5 October 2020 is 457,487,640. 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 21 October 2020. 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 90 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. The full terms of the proposed amendments to the Company's articles of association would have been made available for inspection as required under LR 13.8.10R (2) but for the Government restrictions, including the Stay at Home measures, implemented in response to the COVID-19 outbreak. As an alternative, a copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will instead be available for inspection on the Company's website, www.targethealthcarereit.co.uk, from the date of the Notice of the Annual General Meeting until the close of the meeting. These documents will also be available for inspection at the meeting venue from at least 15 minutes prior to the meeting until the end of the meeting. In the event that the current COVID-19 related restrictions are lifted before the Annual General Meeting, a hard copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will be available for inspection at Level 13, Broadgate Tower, 20 Primrose Street, London EC2A 2EW until the end of the meeting.
19. Given the risks posed by the spread of COVID-19 and in accordance with the provisions of the Articles of Association and Government guidance, including the rules on physical distancing and limitations on public gatherings in place as at the date of this Notice, attendance at the general meeting is unlikely to be possible. If law or Government guidance so requires at the time of the meeting, the Chairman of the Meeting will limit, in his sole discretion, the number of individuals in attendance at the meeting. If the current Government guidance is in place at the time of the meeting, such attendance will be limited to two persons. Should the Government guidance change and the restrictions on public gatherings be relaxed by the time of the meeting, the Company may still impose entry restrictions on certain persons wishing to attend the meeting in order to ensure the safety of those attending the meeting.

Notice of Annual General Meeting (continued)

Appendix: New Articles

Summary of the principal amendments to the Company's articles of association

Set out below is a summary of the principal amendments which will be made to the Company's Existing Articles through the adoption of the New Articles if Resolution 15 to be proposed at the AGM is approved by shareholders.

This summary is intended only to highlight the principal amendments which are likely to be of interest to shareholders. It is not intended to be comprehensive and cannot be relied upon to identify amendments or issues which may be of interest to all shareholders. This summary is not a substitute for reviewing the full terms of the New Articles which will be available for inspection on the Company's website, www.targethealthcarereit.co.uk, from the date of the AGM Notice until the close of the AGM, and will also be available for inspection at the venue of the AGM from fifteen minutes before and during the AGM. In the event that the current COVID-19 related restrictions are lifted before the Annual General Meeting, a hard copy of the proposed new articles of association of the Company, together with a copy of the existing articles of association of the Company marked to show the changes being proposed, will be available for inspection at Level 13, Broadgate Tower, 20 Primrose Street, London EC2A 2EW until the end of the meeting.

Hybrid/Virtual-only shareholder meetings

The New Articles 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. A shareholder meeting may be virtual-only if attendees participate only by way of electronic means, or may be held on a hybrid basis whereby some attendees attend in person at a physical location and others attend remotely using electronic means. This should make it easier for the Company's shareholders to attend shareholder meetings if the Board elects to conduct meetings using electronic means. Amendments have been made throughout the New Articles to facilitate the holding of hybrid or virtual-only shareholder meetings.

While the New Articles (if adopted) would permit shareholder meetings to be conducted using electronic means, the Directors have no present intention of holding a virtual-only meeting. These provisions will only be used where the Directors consider it is in the best interests of shareholders for a hybrid or virtual-only meeting to be held. Nothing in the New Articles will prevent the Company from holding physical shareholder meetings.

Minor amendments

The Board is also taking the opportunity to make some additional minor or technical amendments to the Existing Articles, including: (i) dispensing with the need for the Company to use newspaper adverts to trace members and alert investors to a postponement of a general meeting; (ii) the inclusion of a procedure in the event an insufficient number of Directors are re-elected at an annual general meeting of the Company; and (iii) allowing the Company to pay dividends through bank transfers instead of by way of cheques with the further ability to retain cash payments where bank details are not provided by a shareholder. These changes reflect modern best practice and are intended to relieve certain administrative burdens on the Company.

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 96.
Dividend	The income from an investment. The Company currently pays 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 96.
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 96.
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 NAV*	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. Makes adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. A reconciliation of the NAV per IFRS and the EPRA NAV 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 97.
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 97.
GAAP	Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards applicable in the European Union). The Group's Consolidated Financial Statements are prepared in accordance with IFRS.

Glossary of Terms and Definitions (continued)

Corporate Terms continued

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 gearing figure is calculated as debt divided by the market value of the properties held.
Investment Manager	The Company's Investment Manager at 30 June 2020 was Target Fund Managers Limited. Further details are set out on page 24 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.
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	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities.
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 97.
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. As at 30 June 2020 the Company had only Ordinary Shares in issue.
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 97.

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 Uplift Rents	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 continual operation for more than three years. For the year ended 30 June 2020, there were 43 homes in the Group's portfolio which met this definition.
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.
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

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 93 to 95, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below.

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.

		2020 pence	2019 pence
EPRA Net Asset Value per share (see page 64)	(a)	108.1	107.5
Share price	(b)	110.0	115.6
Premium	= (b-a)/a	1.8%	7.5%

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

		2020 £'000	2019 £'000
Group-specific EPRA earnings for the year (see page 64)	(a)	23,224	20,115
First interim dividend		7,640	5,579
Second interim dividend		7,640	6,334
Third interim dividend		7,640	6,334
Fourth interim dividend		7,640	6,334
Dividends paid in relation to the year	(b)	30,560	24,581
Dividend cover	= (a/b)	76%	82%

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. The Group did not have any vacant properties during the periods and therefore separate measures excluding direct vacancy costs are not presented. 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 2020 £'000	Year ended 30 June 2019 £'000
Investment management fee		5,264	4,702
Other expenses		4,261	2,013
EPRA costs	(a)	9,525	6,715
Specific cost adjustments, if applicable		–	–
Group specific adjusted EPRA costs	(b)	9,525	6,715
Gross rental income per IFRS	(c)	44,267	34,277
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives		(8,219)	(6,354)
Adjusted for development interest under forward fund arrangements		975	2,011
Group specific adjusted gross rental income	(d)	37,023	29,934
EPRA Cost Ratio (including direct vacancy costs)	= (a/c)	21.5%	19.6%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	= (b/d)	25.7%	22.4%

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.

	2020 £'000	2019 £'000
Investment management fee	5,264	4,702
Other expenses	4,261	2,013
Less movement in impairment for credit losses and bad debts written off	(2,171)	(337)
Less direct property costs and other non-recurring items	(138)	(56)
Adjustment to management fee arrangements and irrecoverable VAT*	259	(264)
Total	(a) 7,475	6,058
Average net assets	(b) 493,691	399,308
Ongoing charges	= (a/b) 1.51%	1.52%

* The management fee is expected to be paid at a rate of 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 1.12%.

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).

	2020 £'000	2019 £'000
Annualised passing rental income based on cash rents	(a) 36,749	30,542
Notional rent expiration of rent-free periods or other lease incentives	2,264	1,651
Topped-up net annualised rent	(b) 39,013	32,193
Standing assets including properties held for sale (see pages 65 and 67)	604,984	482,084
Allowance for estimated purchasers' costs	40,916	32,573
Grossed-up completed property portfolio valuation	(c) 645,900	514,657
EPRA Net Initial Yield	= (a/c) 5.69%	5.93%
EPRA Topped-up Net Initial Yield	= (b/c) 6.04%	6.26%

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.

	2020	2019		
	EPRA NAV (pence)	Share price (pence)	EPRA NAV (pence)	Share price (pence)
Value at start of year	(a) 107.5	115.6	105.7	110.5
Value at end of year	(b) 108.1	110.0	107.5	115.6
Change in value during the year (b-a)	(c) 0.6	(5.6)	1.8	5.1
Dividends paid	(d) 6.7	6.7	6.5	6.5
Additional impact of dividend reinvestment	(e) 0.2	–	0.3	0.3
Total gain/(loss) in year (c+d+e)	(f) 7.5	1.1	8.6	11.9
Total return for the year	= (f/a) 7.0%	0.9%	8.1%	10.8%

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 98 to 99 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.

Historic 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 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
In relation to the year ended 30 June 2016*					
Fourth interim dividend	11/08/16	26/08/16	0.15500	1.39000	1.54500
Third interim dividend	28/04/16	27/05/16	0.54100	1.00400	1.54500
Second interim dividend	11/02/16	26/02/16	1.23600	0.30900	1.54500
First interim dividend	12/11/15	27/11/15	1.23600	0.30900	1.54500
Total			3.16800	3.01200	6.18000

* 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 98 to 99 may differ.

Shareholder Information (continued)

Historic Record

Assets

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

Performance

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

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 FCA warning list, list of unauthorised firms and individuals that the FCA has received complaints about 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.

Corporate Information

Directors

Malcolm Naish (Chairman)
June Andrews OBE
Gordon C Coull*
Alison Fyfe
Thomas J Hutchison III**

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AIFM and Investment Manager, Company Secretary and Administrator

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Website

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* Chairman of Audit Committee

** Senior Independent Director



The outer cover of this report has been laminated with a biodegradable film. Around 20 months after composting, an additive within the film will initiate the process of oxidation.



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