Investing in care.
Delivering returns.

Target Healthcare REIT plc
Annual Report and
Financial Statements 2023

Responsible investment with a clear purpose – delivering returns and improving UK care home real estate.

Key financial metrics for the year to, or as at, 30 June 2023

EPRA NTA per share (pence)

104.5 -6.9%

2023	104.5
2022	112.3
2021	110.4

Accounting total return (per cent)[1]

-1.2%

2023	-1.2
2022	8.1
2021	8.8

Dividend per share (pence)

6.18 -8.6%

2023	6.18
2022	6.76
2021	6.72

IFRS profit (£ million)

-£6.6m

2023	-6.6
2022	49.1
2021	43.9

Dividend cover (per cent)[2]

97%

2023	97
2022	72
2021	80

Portfolio value (£ million)

868.7 -4.7%

2023	868.7
2022	911.6
2021	684.8

1 Based on EPRA NTA movement and dividends paid, see alternative performance measures on page 97.
2 Based on adjusted EPRA earnings, see note 8 of the consolidated financial statements and alternative performance measures on page 97.

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.

Committed long-term investment.

Our purpose is to accelerate the improvement in the physical standards of UK care homes through long term, responsible investment in modern real estate that 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.

Modern real estate.
Demographic tailwinds.
Sustainable rents with inflation-linked growth.

Now

Near-future trends

Portfolio protected from the sector's modernisation challenge

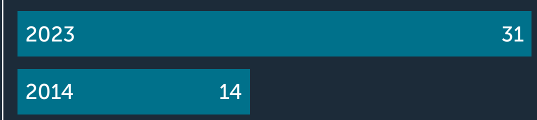
Standard-setting care home real estate.

100% purpose-built

98% wet-rooms

Clear movement to these standards reflecting resident demand and expectations.

% UK care home market with wet-rooms



Care home sector-leading environmental credentials

94% A or B EPC ratings

100% C or better

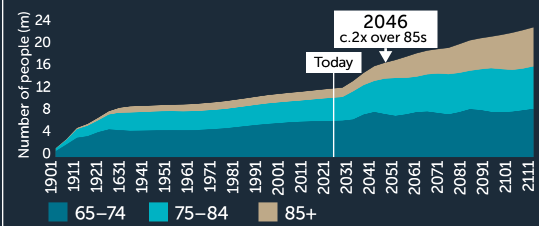
Minimum Energy Efficiency Standards (MEES) legislation has applied to commercial rented buildings since 2018. COP 26 commitments made by the UK Government anticipates the current "E" rating requirement will be raised to "B" for 2030, although recent Government announcements suggest this may be voluntary.

Many commercial real estate owners with older/converted properties face a significant burden to meet the forthcoming changes.

Long-term outlook and commitment, aligned with care sector needs and supported by demographic trends

- Long leases at sustainable rents.
- Lowly geared balance sheet with long duration fixed-rate debt.
- Growing demand for care home places:
  - Number of people aged over 85 forecast to almost double from 1.7m to 3.3m by 2046.
  - 1 in 7 people aged over 85 will require residential care.

Ageing population underpins demand



Source: LaingBuisson December 2022

Social impact: Why purpose-built matters

It's crucial. A building designed and then built with its end-users in mind will be a more dignified, agreeable and functional environment, particularly in a care home which has multiple user groups: Residents, their families and friends; their direct care-providers; and other essential care home staff.

It's simple. Consider a typical home, or a vital medical facility like a hospital. These aren't converted from another use. More often than not it would limit suitability, usefulness and ambience. The correct environment can have a positive impact on the emotional wellbeing of the resident, particularly those with dementia.

The descriptors 'purpose-built' and 'modern' are often used broadly with the bulk of homes described in this fashion being very different from those of the standard we invest in.

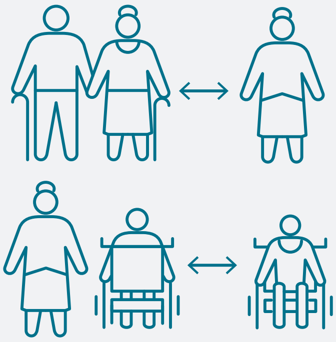
Below are some additional characteristics of our real estate which may be assumed as pre-requisites for care homes but are absent in the majority of homes across the UK:

Wide corridors

Allows free and easy movement around the building for:
- Residents whilst socialising.
- Infirm or low-confidence residents to be accompanied.
- Residents requiring wheelchair use.
- Staff to move other equipment and residents' belongings such as laundry, and to distribute meals.

Assists the resident in being social and active, and boosts a home's efficiency and ambience.

Wide corridors are not present in many older, converted, care homes which often have narrow corridors with variations in levels, requiring steps.



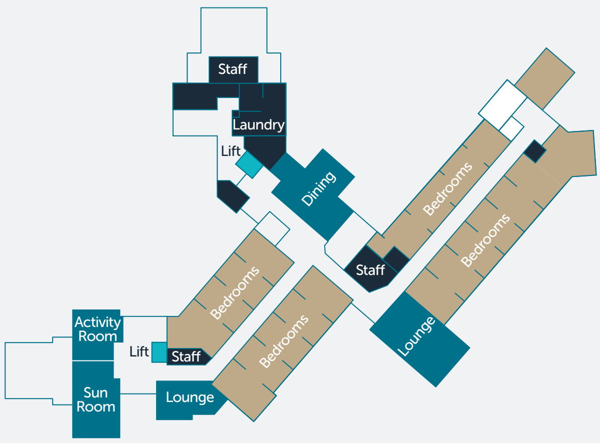
Convenient outdoor access

Instinct and science both suggest convenient outdoor access to be beneficial for users, though it is often overlooked, particularly for residents not on ground level. We have long advocated for balconies and unrestricted access to outdoor space for all residents, whilst prioritising health and safety considerations.

Building services appropriately located

Thoughtful location of core building services provides a practical and efficient layout for care providers to manage the main "non-care" aspects of their service, such as:
- Kitchen
- Laundry
- Lifts
- Staff rest and administrative areas

This creates a more efficient home with happier staff providing better care and service to residents.



Investing in care. Delivering returns.

Dear Shareholder,

I am delighted to provide you with this update, which clearly shows a strong real estate business providing unique social impact in the sector. Our portfolio's key performance metrics show the significant progress we have made. Our vacancy rate remains at nil with rent collection, rent cover and underlying resident occupancy all improving. Asset valuations remain stable, and our financing costs are well-protected from higher interest rates.

EPRA NTA per share movement
-6.9%

Dividend cover
97%

1. Reflections

At this time last year, we reaffirmed that our business model and strategy would provide stable long-term income and total returns despite the challenging macro headwinds. Our share price has declined alongside the UK REIT sector, reflecting the expected impact of higher interest rates and concerns for the UK economy on earnings and valuation outlooks. We believe our own outlook is more positive, given the high levels of investment demand for our assets, the underlying demographics of an ageing population, and the dearth of quality care home real estate across the UK. Our portfolio is performing strongly, benefitting from our initiatives to dispose of non-core assets, from further capex to refresh or enhance our real estate, from our active engagement with tenants, and from the more favourable trading environment.

The downward pressure on real estate valuations was muted in our portfolio, underpinned by the strength of investment demand for our type of modern, purpose-built assets and from the improved trading conditions our tenants are encountering. The net result has been a valuation move of c.40 basis points on yield, significantly lower than UK real estate has experienced more widely. The targeted disposals of some older properties, which the Investment Manager assessed as having a less favourable outlook, were achieved at or above book values recorded prior to the market valuation decline in late 2022, with the sale of the four-property portfolio delivering an annualised IRR in excess of 10% over the period of ownership.

Our earnings outlook remains robust, with rent collection having improved to 99% in the most recent quarter (97% for the year). Improved tenant profitability across the portfolio (rent cover of 1.75x for the most recent quarter) supports our sustainable rental levels and embedded annual rental growth. We have minimised the impact of the higher interest rate environment on the Group's earnings through our existing long-term fixed rate facilities and our hedging programme applied to our flexible debt.

We have also maintained our social and environmental impact commitments, prioritising investment capital towards developing new-build homes which offer the best modern amenities for residents and minimise energy usage. Likewise, we have continued to collect energy usage data from our portfolio, analysis of which shapes our ongoing investment to reduce carbon emissions.

The change in market interest rates experienced earlier in the year did, of course, have a significant impact on our ability to grow earnings through acquisitions. We substantially reduced our new investment programme as the relative outward movement in income yields did not correlate with the more significant increase in the Group's cost of capital. We reduced the dividend level in response to ensure earnings were immediately covering our payouts to shareholders, providing a stable platform for future growth and total returns.

2. Outlook

Despite the more challenging macroeconomic environment, strong sector tailwinds continue to support investment in modern care home real estate. Underlying demand for residential care places is supported by demographic change, evidenced by projected growth in the number of those aged over 85, and investment demand for modern, ESG-compliant care home real estate remains strong.

On inflation and recessionary concerns, our portfolio bias towards private pay provides comfort that our tenants are more likely to be able to pass on their cost increases through higher resident fees, supporting sustainable tenant trading. We have seen evidence over the year that the quality of our real estate allows tenants to secure commercially appropriate fee levels.

We feel that portfolio valuations are robust and our rental income is high quality. On the former, we note transactional evidence of healthy competition for assets which are being marketed for sale. A number of buyers are participating in processes for prime assets such as ours, though we note this is not the case for sub-prime, poorer quality real estate.

3. Performance

Our total return performance of -1.2% for the year, driven by an EPRA NTA reduction of 6.9% (104.5 pence from 112.3 pence) and dividends of 6.18 pence per share, reflects our resilient portfolio and the muted impact of the wider correction in commercial real estate valuations.

The Investment Manager comments, on pages 14 – 15, in more detail on rent cover and occupancy in the Investment Manager's Report, with these key metrics trending positively as trading conditions and performance in prime care homes improves.

The portfolio valuation movement has been driven by market movements, our disposals programme and the impact of rental uplifts, providing an overall valuation reduction of 4.7% and a like-for-like decrease of 4.1%. Contracted rent has increased by 2.0% to £56.6 million, and 3.8% on a like-for-like basis.

Adjusted EPRA earnings increased by 23% to £37.2 million, equating to an adjusted EPRA earnings per share of 6.00 pence. This translates to 97% dividend cover for the year with full cover for dividends paid in respect of the periods from January 2023 onwards. Under the widely-used EPRA earnings metric the dividend was 124% covered.

4. Investment market and care home trading

We saw a pause and a re-pricing of deals in progress as an immediate reaction to September 2022's mini-budget and the uncertainty which followed. During early 2023 a number of these transactions slowly started to complete again, at prices generally higher than those considered during re-pricing discussions at the trough. The strength of demand and the number of buyers active in the market were influential supporters of values, as was the continued improvement in trading profitability at operational homes. This market activity continues today, with a weight of capital investing in the ESG-compliant, modern homes which are our staple.

In care home trading we have seen a reversal of pandemic fortunes between homes focussed on private residents versus those with a local authority bias. Profitability is now increasing in the former, which is reflected in our portfolio performance. Tellingly, we have seen a focus from tenants on admitting new residents at an appropriate fee level, as opposed to a "fill at any cost" approach. This has seen operator profitability improve to levels ahead of where they were prior to the COVID-19 pandemic and at resident occupancies around 5% lower (85% vs. 90%). This data is very encouraging and is consistent with the positivity on trading we hear from our tenants.

5. Governance

Board succession

Our succession plan has been completed with the appointments of Richard Cotton in November 2022 and Michael Brodtman in January 2023. Richard Cotton assumed the role of SID, and I assumed the Chair, on the retirements of Gordon Coull and Malcolm Naish on 6 December 2022.

Annual General Meeting ('AGM')

The AGM will be held in London on 29 November 2023. Shareholders are encouraged to make use of the proxy form provided in order to lodge their votes and to raise any questions or comments they may have in advance of the AGM through the Company Secretary.

6. Looking ahead

We see the following as our priorities:

- Manage our portfolio to ensure its performance is consistent with its inherent quality and trading advantages.
- Set ambitious but realistic environmental targets, and start to deliver tangible and observable progress towards these.
- Increase earnings from our embedded rental growth and efficient management of operating expenses and financing costs.

In the absence of unforeseen circumstances, the Board intends to increase the quarterly dividend in respect of the year ending June 2024 by 2.0% to 1.428 pence per share, representing an annual total dividend of 5.712 pence. In the six months since 1 January 2023 our portfolio has achieved rental growth of 2%, rental collection has increased to 99% and portfolio rent cover has increased to 1.75 times. This improvement in portfolio performance, when combined with our effective management of interest rate exposure, gives us confidence in the Group's earnings outlook, allowing us to increase our dividend in line with rental growth.

The Board remains confident in the Group's prospects. Our portfolio consists of premium quality assets in a critical real estate investment class with compelling sector tailwinds.

Alison Fyfe
Chair
9 October 2023

Simple approach: Best-in-class real estate managed by a dedicated team.

We are a responsible investor in ESG-compliant, purpose-built care home real estate, which is commensurate with modern living and care standards.

Why we do it

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

Our Investment Manager is a specialist who understands the operational challenges our tenants face on a daily basis when providing quality care.

Strategic pillars

Build a high-quality real estate portfolio which supports long-term investor demand.

Manage portfolio as a trusted landlord in a fair and commercial manner.
Recognise the value of relationships and our influence within a complex sector.

Deliver regular investment returns for shareholders.
Disciplined and conservative financial and risk management to deliver earnings supporting quarterly dividends.

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

Our key strengths

The key strengths of our approach are:

1. Asset-class benefits from strong demand from investors and operators, being:
   (a) future-proofed against legislative change and trends influencing demand; and
   (b) generation of high quality earnings from sustainable rents.
2. Specialist manager, highly engaged within the sector and with our tenants.
3. Prudent approach to financial risks with diversified income sources, low gearing and long-term, predominantly fixed rate debt.

How we do it	2023 highlights	
• Clearly defined house view on investible real estate standards and sustainable rental levels. • Stable and experienced team of sector experts with strong reputation and track record. • Conviction to build a portfolio highly diversified by tenant, geography, and end-user payment profile.	**5** new build homes supported **£27m** disposals at carrying value	**32** tenants, as at 30 June 2023 **9/10** tenants agreed that Target provides homes that help deliver dignified care
• Informed decisions/assessment from specialist knowledge of care home profitability drivers and operational service delivery, combined with comprehensive monthly data collection. • Collaborative sharing of knowledge, insight, and best practice with tenants which drives their competitive advantage. • Intelligent and sensitive asset monitoring through regular visits and dialogue with tenants at operational and senior management levels. • Prominent and respected sector presence – available and approachable to those who seek to operate from our in-demand real estate.	**100%** properties let **97%** rent collection	**9/10** tenants agreed that Target's values are clearly evident **1** re-tenanting during year
• Long income visibility with inflation-linked annual rental growth. • Capital structuring focus on conservative approach to debt: low LTV; long duration; fixed interest costs. • Advantages from critical sector, with asset quality and diversification further reducing volatility and risk profile.	**6.18** pence dividend **6.00** pence adjusted EPRA EPS	**-1.2%** NAV total return **3.8%** like-for-like rental growth
• Commit to our approach and understand our influence. • Learn, reflect, respond to feedback. • Hold ourselves to high standards expected of social care responsibility.	**100%** EPC of C or above	**79%** homes providing energy usage data

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

Portfolio at 30 June 2023

High quality real estate

Homes
97

Portfolio
£869m market value
£57m contracted rent

Diversified

Tenants
32

Fee sources[1]
73% private
27% public

Long-term focus

WAULT
26.5 years

Upwards only rent reviews[2]
99% inflation-linked leases
1% fixed/other leases

Business

Scale

Beds[3]
6,442

Track record

Accounting total return (annualised)
6.9% since launch

Prudent

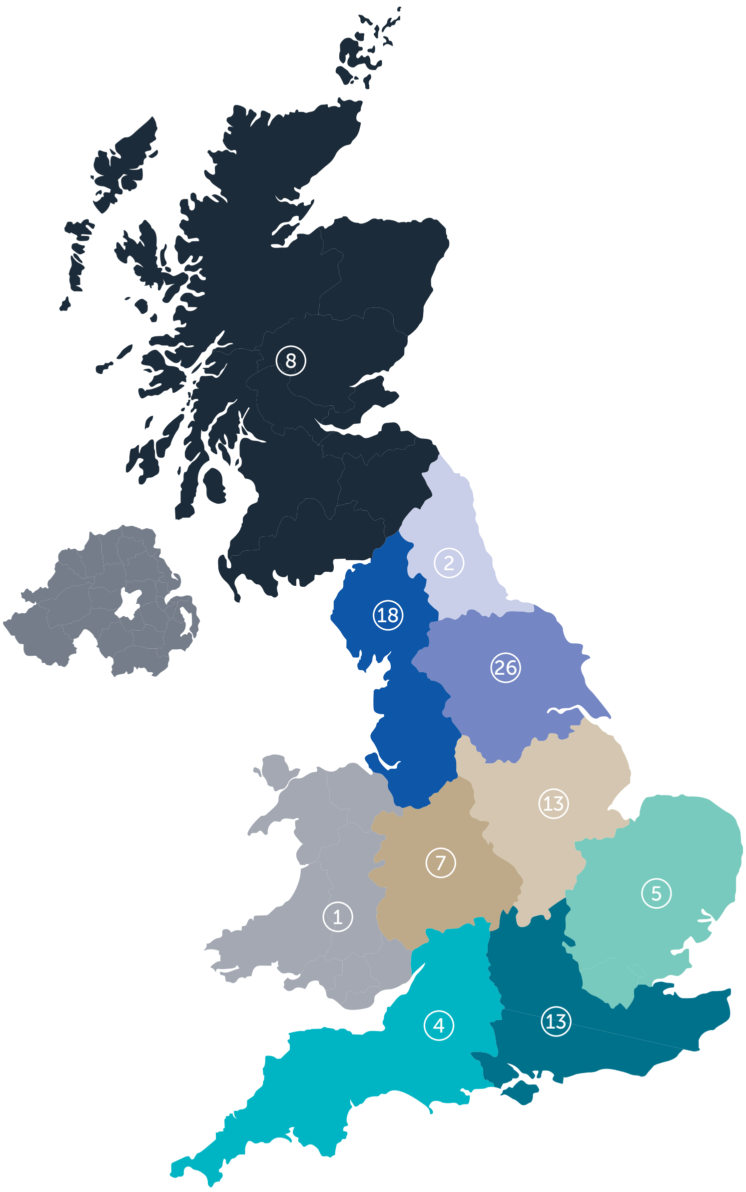
Net loan-to-value
24.7%

1 50% privately paid, 23% topped up privately paid and 27% publicly funded.
2 99% of assets in the portfolio are subject to annual uplifts linked to inflation. The remaining home has a fixed annual uplift.
3 A further 263 beds will be added to the portfolio on completion of the four development sites held at 30 June 2023. A further 66-bed site was acquired post year end.

Our portfolio

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

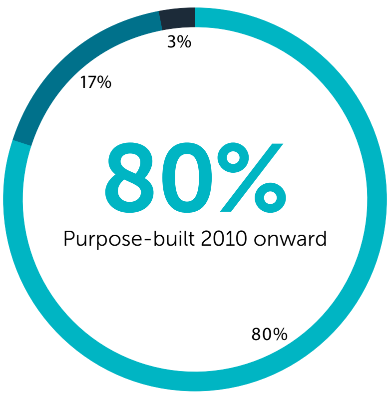
1 = Number of properties in region



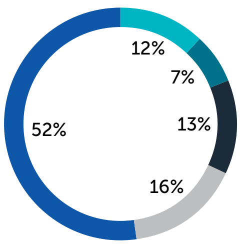
MSCI Region	Number of Properties	Contracted Rent (£m)	Market Value (£m)
Yorkshire & The Humber	26	13.7	213.3
South East	13	9.7	157.5
North West	18	9.9	141.9
East Midlands	13	7.0	99.9
Scotland	8	4.3	65.1
West Midlands	7	3.9	63.3
South West	4	3.8	55.5
Eastern	5	2.7	46.4
North East	2	1.1	17.7
Wales	1	0.5	8.1
Total	**97**	**56.6**	**868.7**

Properties by date of construction

Group

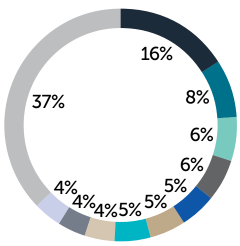


England and Scotland[1]



- Purpose-built 2010 onward
- Purpose-built 2000–2009
- Purpose-built 1990–1999
- Purpose-built pre-1990's
- Converted property + extensions

Operator diversification by contracted rent



The first ten blocks represent our ten largest operators, with the eleventh representing the remaining 22 operators, each below 3.3%.

Vacancy Levels

Year	Vacancy Rate
2021	nil
2022	nil
2023	nil

1 Build type as a percentage of all care homes in England and Scotland as at 30 June 2023.

Targeting tomorrow.

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

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

We will report on our ESG activities and progress towards meeting our commitments on a regular and timely basis.

Core ESG terms explained

Building research establishment environmental assessment method (BREEAM):
The world's leading science-based suite of validation and certification systems for the sustainable built environment. The BREEAM in-use standards provide a framework to enable property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their assets, leading to benchmarking, assurance and validation of operational asset data. BREEAM in-use certification is valid for three years.

Energy performance certificate (EPC):
Rates how energy-efficient a building is using grades from A to G. (with 'A' the most efficient grade). All commercial properties leased to a tenant must have an EPC.

All EPCs are valid for 10 years.

Wet-room:
A private, en-suite shower and toilet room, fully tiled and drained, providing the practical living space for personal hygiene to be applied in a dignified manner and with assistance as required.

Green lease:
Contractual provision for a care home operator to provide energy consumption data to the Group for analysis and reporting requirements.

Global standards on real estate benchmarking (GRESB):
A real estate industry ESG benchmark, collated from participant data and policy submissions, used to aid transparency and comparability, and allows assessment of performance and trends.

ESG principles

Responsible investment

As an investor we understand that our actions have influence. We use our platform to lead by example through embedding appropriate ESG considerations into our decision-making.

Responsible partnerships

We engage with all our stakeholders to drive the creation of economic, social and environmental value around our buildings and in wider society.

Responsible business

We will treat all stakeholders with respect and deal fairly in a manner consistent with how we would expect to be treated ourselves.

ESG activities: 2023 Snapshot

Environmental

EPC ratings[1]

94% A-B ratings
100% A-C ratings

BREEAM in-use certificates

Excellent	1
Very good	5
Good	1
Below good	0

Energy consumption data

Electricity and gas usage data obtained for 76% and 79% of homes, respectively. Green lease provisions in 22% of leases.

Social

Wet-rooms

98%

Defining proxy for real estate quality and social impact.

National Comparative: 31%*
* Source: Carterwood

Space per resident

47m²

We assess this against peers and compare favourably (see page 17).

New homes/beds built with our direct support[2]

16/1,078

A further measure of our social impact in supporting the sector's transition to modern real estate.

Governance & Transparency

ESG committee

- Met 4 times.
- Approved £1 million budget for ESG capex.

GRESB

- Score of 60 achieved in inaugural published assessment

Board diversity

40% of the Board are women, including the Chair.

1 Non-English homes follow a different rating system and have been converted to English equivalent ratings.
2 Since launch of Target Healthcare REIT in March 2013. Direct support refers to contractual financial commitment to forward fund or forward commit to a development.

Our ESG commitments.

We continue to make tangible progress towards both setting realistic and meaningful targets, and to meeting those commitments we have defined.

Social impact remains fundamental to us, and our modern real estate has sector-leading environmental ratings. However, the bulk of emissions are 'scope 3' downstream as they relate to energy used by our tenants and their residents. We are working closely to understand this energy usage and to positively influence using our insight as part of our contribution to net zero.

Our main areas of progress are highlighted in the table which follows:

Commitment	Status	Progress and insight
Responsible investment		
Continue to provide better care home real estate which provides positive social impact to residents, their carers and local communities.		No compromise on quality. – 100% of our homes are purpose-built. – 98% wet-room coverage (2022: 97%). – Sector leading space. – Staff, social and outdoor spaces.
Support the sector's transition from poor real estate standards via long-term financial/investment support for new developments.		16 new care homes 1,078 beds, £190 million committed to fund new build care homes since launch.
Obtain useful benchmarking information on the energy efficiency of our real estate.		BREEAM in use certificate coverage increased to seven homes (2022: six).
Obtain more data on energy consumption by tenants from our real estate. This will support our efforts as an engaged and influential landlord, as well as providing data for future disclosure, consistent with our transparency objectives.		Energy usage data collection substantially improved to 75% for electricity and 79% for gas (2022: 40%). "Green lease" provision included within standard lease terms, coverage of 22% of portfolio (2022: 10%).
Ensure ESG factors are embedded into the acquisition process and portfolio management.		Manager "house standard" process produces a balanced scorecard of ESG factors for each potential investment asset and has been considered for all acquisitions in the year and for subsequent acquisitions.
Net zero commitment.		Increased collection coverage of "scope 3" portfolio emissions has provided an adequate data-set. Third party consultant engaged and work continues to set meaningful and realistic carbon reduction targets, aligned with the 2050 net-zero objective.

Early stage — Partially met — Met

Commitment	Status	Progress and insight
Responsible partnerships		
Engage with tenants to ensure real estate is meeting their operational/social impact needs.	Met	We visit every home at least twice a year, to review the building condition and meet with those working in our homes. In our annual survey 10/10 agreed that working with Target was a positive experience and 9/10 agreed that Target is working towards mitigating climate change and is active in helping further its tenants' understanding.
Use energy data obtained from tenants to positively impact/influence change where possible.	Partially met	Data analysis performed by the Investment Manager identified energy usage trends and patterns used to direct capex investment on efficiency and renewables infrastructure. An initial, targeted investment in solar photovoltaic panels of £1 million has been authorised. Photovoltaic panels can decrease reliance on grid electricity by 20% per home.
Be a responsible landlord to our tenants and their communities, with the Investment Manager's healthcare team sharing best practice.	Met	Target continues to engage regularly with our tenants, and following the end of the pandemic restrictions, reprised hosting of tenant event with focus on sharing best practice and knowledge
Responsible business		
To establish an ESG committee to provide appropriate focus and impetus to ESG matters.	Met	Committee met four times in the year, overseeing publication of the Group's inaugural Sustainability Report in March 2023, and approving portfolio investment in a number of ESG initiatives.
Ensure the benefits of Board diversity are achieved.	Partially met	Board recognises the benefits of diversity, and has consistently met the Hampton-Alexander guidance on gender diversity over recent years. Diversity, including ethnicity, was particularly considered in the Board's recruitment processes during the year.
Participate in benchmarking and sector appropriate programmes to provide comparable information.	Partially met	GRESB score of 60 in inaugural published assessment. Green star awarded and score consistent with peer group average of 61.
Other reporting: Align financial and non-financial reporting with widely used frameworks.	Partially met	• EPRA BPR (Best Practice Recommendations) Gold Award. • EPRA Sustainability BPR Silver Award.

Portfolio performance and UK care home investment market.

Overall portfolio performance

The year has seen conflicting pressures impacting portfolio returns. Our homes remain fully let with no vacancies and our rent collection has increased, to 99% for the most recent quarter and 97% for the year, in response to operator profitability growth across the portfolio from sustained higher occupancy and more stable trading conditions. Underlying resident occupancy was 85% for the portfolio at June 2023 and is 86% at the time of writing, with rent cover for the June 2023 quarter of 1.75x (June 2022: 1.3x). This improvement to the financial performance has supported property valuations for our type of modern, purpose-built assets, as has continued strong investment demand. Nevertheless, valuations have decreased overall, driven by the downwards pressure on commercial real estate mainly from higher interest rates and persistent inflation.

In relative terms, the portfolio has performed well. The portfolio once again outperformed the MSCI UK Annual Healthcare Property Index in respect of the calendar year to 31 December 2022 (THRL portfolio total return of 2.5% relative to the Index's 1.7%), and the like-for-like valuation decrease of 4.1% for the year to 30 June 2023 compares well to the 19% capital decline in the CBRE UK monthly index (all property) over the same period. The valuation of the portfolio partially recovered in the second half of the financial year, with the like-for-like value increasing by 1.5%. The portfolio's annualised total return since launch now stands at 10.2% while the portfolio's last five-year period has an annualised total return of 8.6% relative to 8.1% and 6.9% respectively for the MSCI Index.

Rental quality and home trading

We have observed many operators sensibly focussing on admitting new residents at fee levels appropriate to the care package required, as opposed to prioritising occupancy. With management of costs, this approach is driving tenant profitability recovery to levels ahead of those seen prior to the pandemic.

1 A mature home is a care home which has been in operation for more than three years.

With resident occupancy levels around 5% lower now than pre-pandemic, further occupancy growth will translate to profitability increases and improved rent covers.

Average weekly resident fees across the portfolio have increased by 13%, reflecting the inflationary environment and the cost of care focus noted above. Operators' staff costs have increased by 6% due to wage increases, though expensive agency costs have decreased significantly. Energy costs and other operational expenses of 16% of revenues have remained stable. The following aspects of our investment strategy and asset management in the year have enhanced the quality of our rental streams:

- **Mature homes[1]:** 90% of our operational portfolio has passed the "fill-up" stage and is now mature, relative to 71% at start of the pandemic. This supports tenant profitability and resilience.
- **Private pay bias:** High-quality real estate supports tenants in setting resident fee rates, with further evidence that profitability at such homes is outperforming Local Authority biased-homes.
- **Disposals** of £27 million, moving on some of our older, non-core assets in less preferred geographies to refresh the portfolio.
- **Re-tenantings:** Full recovery of rent arrears from one tenant (6.4% of contracted rent roll) and completion of re-tenanting programme with another tenant, to 3.3% of rent roll from 5.3%.

UK care home investment market and valuation drivers

Modern and ESG-compliant UK care homes with inflation-linked, long-term rents have continued to attract investment interest, with several buyers having remained active in the market through the year. Whilst a number of live transactions were paused and subject to re-pricing (by c.50bps) immediately following the mini-budget, there was little deal volume. Instead, sellers remained patient and net initial yields recovered by 10-20bps as deals re-emerged for completion early into 2023. This net movement of 30-40bps remains consistent with where we see pricing today. It should be noted that institutional buyers remain scarce/limited for non-prime, older care home real estate with these depressed demand levels likely to impact valuations thereon.

The established, specialist investors have been active in the market through the year, with a focus on the development of new-builds, and a limited volume of mature trading assets. The more generalist UK pension funds have become active again after a period of quiet due to tight yields for the strong tenant covenants they prefer and are making their way back in, alongside the US REITs who appear to be targeting the higher end of the yield curve at this point. In contrast to recent years, the larger European healthcare investors have been quiet, perhaps focussed on their existing portfolios following operator challenges on the continent.

On the operator side, we see M&A activity and some consolidation: partly as some well-run, smaller groups feel market conditions now suit following the tough pandemic years. Additionally, we see some of the larger operator groups looking to shift the overall quality and modernity of their estates through the acquisition of businesses operating exclusively from modern, purpose-built homes.

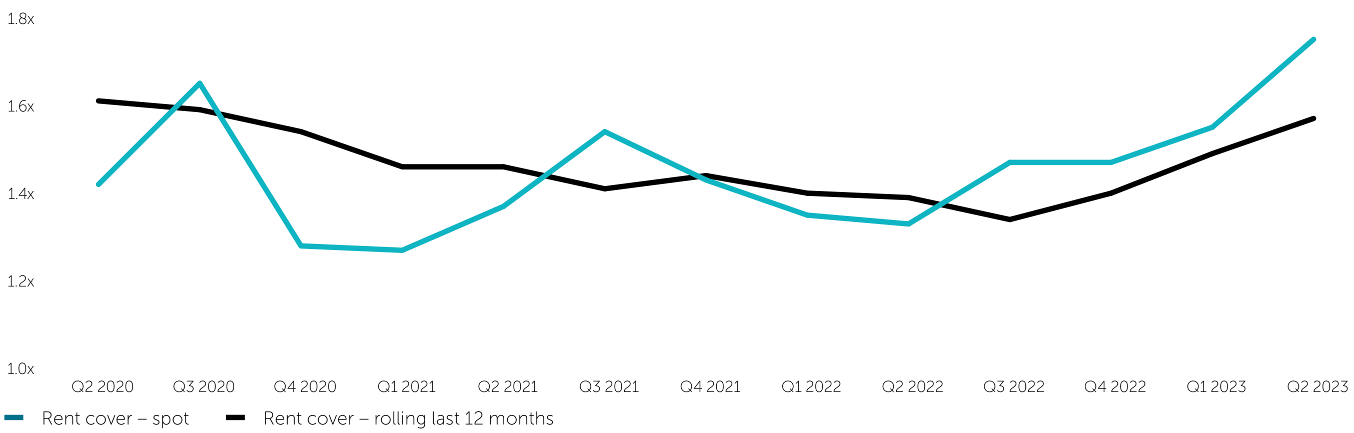
Health and social care update

We note below a number of areas which are prominent in our minds and those of our tenants:

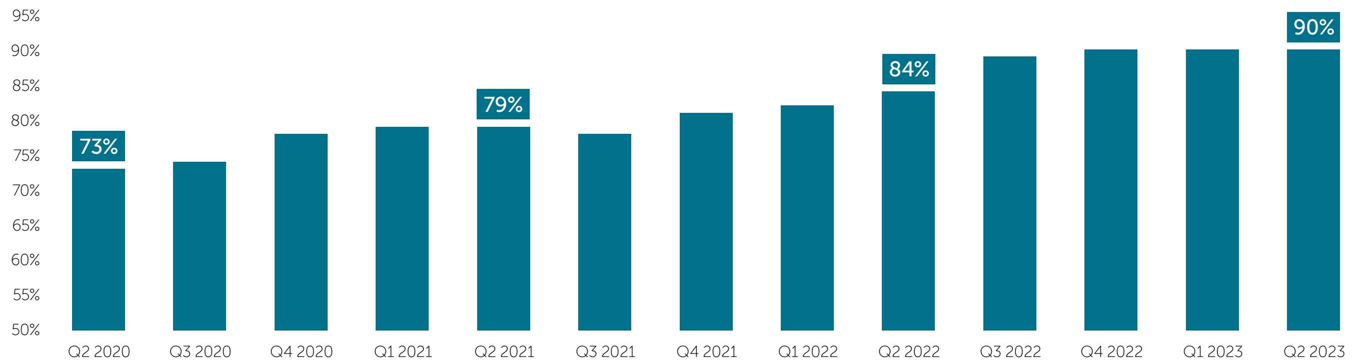
Resident occupancy

Occupancy has continued on a slow but consistent upward trajectory towards pre-COVID levels. Progress in this respect has, at times, been stalled by workforce recruitment challenges, but, as mentioned elsewhere, we also note a new trend toward operators being more fee focused than in the pre-pandemic era, resisting the natural push to fill beds even where staff are available but where fees do not reflect the cost of care. Concerns that future residents have been put off by negative press around care homes

Mature Homes: Rent Cover



Mature Homes as a Proportion of Total Portfolio



during the pandemic seem to be fading, with good interest reported at lower ends of the acuity scale, where loneliness, isolation, and security play on people's minds. At the high end of the scale, acuity has become even more pronounced, as care homes seek to support the NHS with timely discharges from hospital, and many operators are focused on this task, but as noted, require sensible fee rates to provide this level of care.

Public funding of care

Following a trend of more than two decades, reform of (English) Social Care policy has stalled yet again. New funding in the main has been diverted primarily to the NHS and wider reform pushed into the long grass. On a more positive note, the sector (across the whole UK) has at least enjoyed some silver linings, not least being recognised as an essential contributor to the health of the NHS. Ring-fenced Government funding for hospital discharge has been useful, with continued funds this coming winter expected to benefit all parties.

The "fair cost of care" exercise, implemented to establish core data for any reform, has proven useful in educating many stakeholders on the true costs of providing a care home placement. However, the funding of Local Authority care obligations and the cross-subsidisation of publicly-funded residents by private-fee paying residents remains unaddressed.

Staffing pressures

Staffing (recruitment) has settled down to more normalised everyday pressures compared to the crisis levels felt by many care homes over the last 18 months. Many operators continue to make use of the sponsorship licences, albeit there are concerns over calls for restrictions on the legislation. Few homes now are obliged to restrict occupancy due to staffing pressure, and most have reduced their agency dependency to occasional routine cover, or in many cases zero use, which is a welcome position to be in.

There has been much pressure on Government to introduce wider workforce policies, alongside a campaign to address the stigmas that exist around working in social care as opposed to the NHS. A funding pot of £600 million over the next two years was announced, part of which will be available to promote workforce issues, albeit operators are likely to have little control over the direction of such funds.

Inflationary pressures

Operators continue to focus on inflation. For two years those who have a healthy exposure to private residents (which we feel is essential), have been able to recover escalating costs with corresponding fee rises. Those in the sector who are not as fortunate to have this flexibility have taken some comfort in useful public pay awards, albeit not all Local Authorities have been well positioned (or willing) to match inflation, and pockets of poor public fee award/ pressure remain, not least north of the border. Progressive operators are also becoming more adept at adopting an 'open book' policy with public funders (Local Authorities, NHS etc), and many of the latter have engaged positively in the setting of fees in light of the current climate. Families of private residents are also well aware of inflationary pressures and have therefore generally been acceptive of corresponding fee rises, albeit operators are concerned that this patience may eventually be exhausted. Care homes of course, like other businesses, enjoyed some Government protection from energy price rises previously, but while that protection has come to an end, we have found that most progressive (and larger) operators have been reasonably protected from extreme pricing by prudent locking in to fixed price tariffs.

Pandemic as accelerant to change

While COVID-19 is still with us, and care homes remain on alert but confident in now well versed infection control protocols, we note that the pandemic has focussed the minds of many operators on building layout and suitability, and we believe that the now historic COVID-19 lockdowns may ultimately be seen as a catalyst for change, where modern homes with self-contained living units and en suite wet-rooms are regarded as de rigueur, which in time will further increase demand for quality beds.

Target Fund Managers Limited
9 October 2023

We create better homes to achieve a better standard of care.

Our purpose, to improve the standard of living for older people in the UK, is achieved through our four strategic pillars as detailed in our business model on pages 6 and 7. You can read more about these over the next eight pages.

Strategic Pillar #1

Build a high-quality real estate portfolio

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

Better homes, modernising the sector

The Group's portfolio has historically grown through acquisitions of individual assets which meet our investment quality criteria.

Today, with the higher cost of capital and our marginal rate of debt financing currently exceeding initial rental returns, we are choosing to recycle our capital to ensure our portfolio remains modern and high quality and underpins the best possible care. This has seen us dispose of five properties in the current year:

- One property which was below the average standard of the 18-home portfolio acquired in December 2021.
- Four properties in Northern Ireland, being an exit from that local market where the fee and funding dynamics outlook is unfavourable.

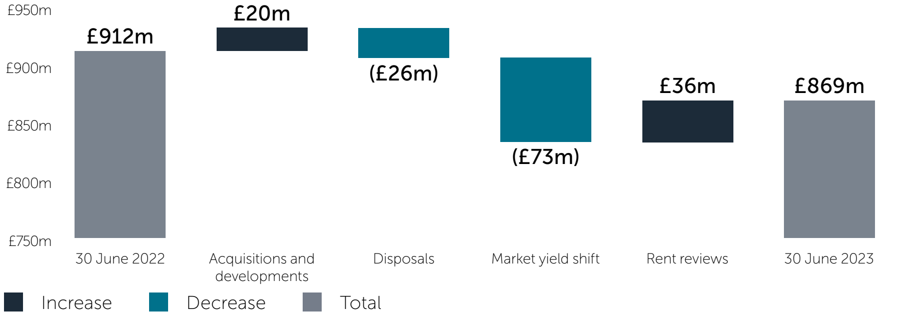
All disposals were made at or above book value.

Proceeds of the sales have initially been used to repay flexible debt, and beyond that allocated to the development of new homes.

Of the four homes in development at the start of the year, one reached practical completion in November, with the 66-bed home leased to a new tenant to the group on a 35-year lease. One new 60-bed care home development site was acquired in January 2023. Following the year end, on 4 July, the Group acquired a pre-let development site for the construction of a 66-bed home, which will be built to exceptional ESG standards, with the highest certification standards anticipated which offer carbon net zero operational ability.

Funds have also been invested in the continual improvement of the portfolio, with the conversion of 128 beds into full wet-rooms at four of the Group's care-homes and work commenced at one care home to add an additional 18 rooms. A portion of capital has also been allocated to direct carbon reduction initiatives, most notably the installation of photovoltaic panels.

Valuation analysis (£ millions)



Portfolio Differentiators

We know the standard of UK care home real estate. The metrics below compare our portfolio with other listed care home portfolios.

	Peer Comparison	Group	Listed Peer Group[1]
En suite wet-rooms with shower		98%	28%
En suite WC rooms		100%	86%
Purpose-built 2010 onwards		80%	13%
Purpose-built 2000 – 2009		17%	27%
Purpose-built 1990 – 1999		3%	21%
Purpose-built pre-1990s		–	20%
Converted property		–	19%
Average sqm per bedroom		47	40
EPC B or better		94%	58%
EPC C		6%	35%
EPC D or lower		–	7%
Average value per bed		£131k	£101k
Value per built sqm		£2.8k	£2.5k
Average rent per bed per annum		£8.8k	£6.8k
Rent per built sqm		£180	£172

- Group
- Listed Peer Composite

1 The Investment Manager monitors the key statistics for its listed peer group, and the analysis in the table is the weighted average scores for this peer group.

Valuation movement

The portfolio value reduced by 4.7% during the year, driven by the c.40 basis points of market yield shift applied as real estate valuations were impacted by the changed economic conditions. The like-for-like decrease was 4.1%, largely reflecting the positive impact of the Group's rental growth on valuations. The Group's disposals and development programmes resulted in a small net decrease to year-end portfolio value.

Best-in-class real estate

Our investment thesis remains that modern, purpose-built care homes will out-perform poorer real estate assets and provide compelling returns.

Wet-rooms (98%): These are essential for private and dignified hygiene, with trends continuing to show residents expect and demand this.

Carbon reduction (94% EPC A or B; 100% C or better): Energy efficiency of real estate is critical, with legislative change and public opinion demanding higher standards. Our portfolio is substantially better than peers.

Purpose-built and modern (100%): All our properties are designed and built to be used as care homes and to best meet the needs of residents and staff.

Financials: Our metrics reflecting capital values and rental levels compare favourably with peers, demonstrating sustainability and longevity.

Diversification

We continue to ensure the portfolio remains diversified, by leasing our homes to a range of high-quality regional operators. The Group has 32 tenants, down from 34 in the previous year due to the disposals in the year. The largest tenant is unchanged from 2022, being Ideal Carehomes who operate 18 of the Group's homes and account for 16% of contracted rent as at 30 June 2023. Overall, our top five tenants account for 41% and top ten, 63% of our contracted rents.

Underlying resident fees are balanced between private and public sources, with a deliberate bias towards private. There is long-term evidence and strong current anecdotal evidence that this group is accepting of higher fees, particularly for the quality real estate and care services our properties and their operators provide.

Census data from our tenants show that 73% of residents are privately-funded, with 50% being fully private and 23% from "top up" payments where residents pay over and above that which the Local Authority funds for them. 27% of residents are wholly publicly funded.

Geographically, Yorkshire and the Humber remains the largest region by asset value at 25%.

Strategic Pillar #2

Manage portfolio as a trusted landlord in a fair and commercial manner.

The Investment Manager has deep experience within the sector and uses its unique knowledge to manage the portfolio. Starting with informed assessment of home performance using profitability and operational metrics, through empathetic and sensitive engagement with our tenants and sector participants as a whole – we are trusted and respected and people want to partner with us. This enables fair treatment and commerciality to be balanced, essential in a complex sector.

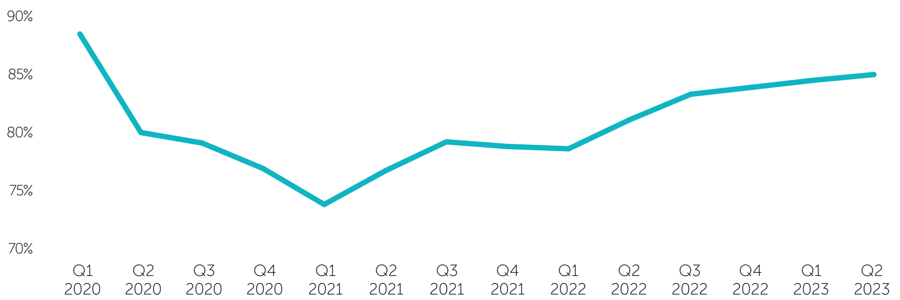
Portfolio profitability

Rent collection measured 97% (2022: 95%) for the year, with improvement throughout the year leading to 99% collection for the final quarter of the financial year.

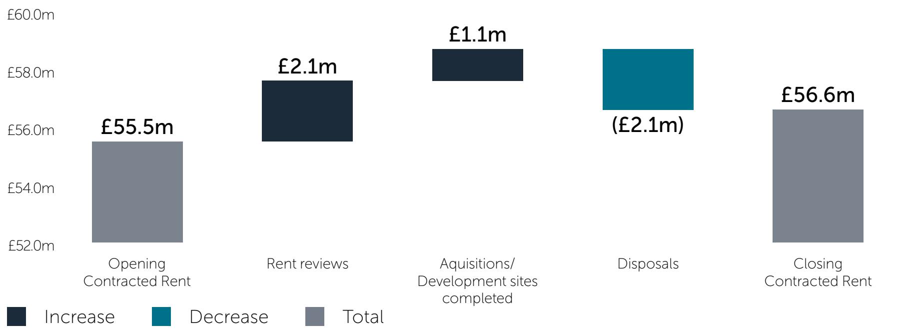
Our portfolio is fully let therefore continues to have a vacancy rate of nil. Underlying resident occupancies have grown to 85% at the year end and 86% at the date of this report. Whilst this remains lower than the pre-pandemic norm of 90%, many operators are focussed on accepting new residents at fee levels commensurate with the services provided, rather than filling to capacity at uneconomic fees. This approach efficiently manages demand, minimises the need for expensive agency staff, and facilitates a care-led approach when welcoming new residents to a home. Staffing shortages have eased, having been an operational challenge limiting occupancy growth early in the year.

Rent covers have grown in response, supporting rental payments and the rebuilding of tenant financial reserves. Portfolio rent cover for mature homes for the quarter to 30 June 2023 was 1.75x and for the year was 1.6x. These profitability and headroom levels are higher than those delivered prior to the pandemic when occupancy levels were higher, at around 90%. Clearly, there is potential for enhancement to tenant profitability and rent covers with higher occupancies, should homes choose to do so (enquiry levels are generally reported to be high). Whilst the focus of attention has been on resident fee levels, homes have generally managed their cost bases effectively, with the reduction in agency cost being the most material improvement.

Mature Homes: Spot Resident Occupancy Rates



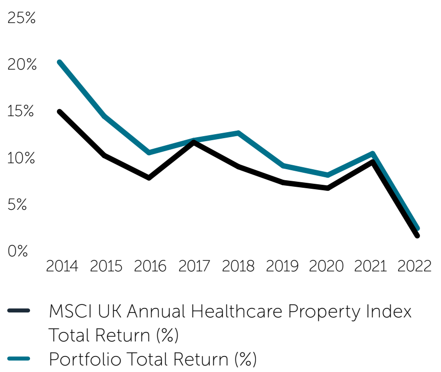
Movement in Contracted Rent (£ millions)



Total returns and rental growth

The **portfolio total return** has again outperformed the MSCI UK Annual Healthcare Property Index, with a total return for the calendar year to 31 December 2022 of 2.5 per cent relative to the Index's 1.7 per cent. This outperformance has occurred consistently since launch in 2013 as shown in the chart opposite.

Total Return vs Index



What	Why	Achieved
£27m of disposals • Five properties. • 3% of opening portfolio value.	• One property of a standard of physical real estate that met our strict acquisition criteria when acquired as part of a portfolio, but which was below the overall standard of the portfolio. • Four properties with total return outlook lower than that of the overall portfolio given resident funding and fee pressures specific to their geographic area.	• Network and relationships identified potential purchasers. • Sales proceeds obtained ahead of carrying values and crystallising satisfactory IRRs. • Proceeds applied to reduce drawn variable rate debt in time of rising interest rates. • Capital allocated long-term to a next generation energy-efficient development.
Engagement with tenants and wider operator network Constructive dialogue with two tenants and alternative operators allowed us to: • Recover rent arrears from one. • Re-tenant a further home from one, moving to our preferred three-home position.	• Assisted the tenants with operational and cash flow pressures following persistence of pandemic affected trading. • Protected rental quality and asset values. • Maintained uninterrupted care for residents.	Demand from care providers for our best-in-class assets allowed us to: • Maintain prevailing rent levels on re-tenanting. • Fully recovered £1.1 million of rental arrears from one tenant group with fair commercial pressure applied from having agreed terms with alternative operators.
Further investment to maintain and enhance property standards	• To further increase proportion of wet-rooms towards 100%. • To enhance homes with specific asset management initiatives.	• £3.7 million of capex committed to, and rentalised at market NIYs. • Maintain our commitment to social impact through fit-for-purpose facilities for all residents.

Accounting total return was -1.2% for the year ended June 2023 and an annualised 6.9% since launch. The decline in property values seen in the second half of 2022 was the main driver of the decrease in NAV, with our quarterly dividends paid to shareholders now fully covered by earnings (97% covered for the full year). Property values now appear to have stabilised, as noted elsewhere, with continued investment demand for prime care homes.

Contractual rent has increased to £56.6 million, with **like-for-like rental growth** of 3.8% having been achieved for our annual, upward-only rent reviews with typical collars and caps at 2% and 4% respectively.

Demand for assets from investors and operators

During the year, the Investment Manager's specialist knowledge, data-led assessment, and wide sector relationships, have allowed successful portfolio management initiatives noted in the table above to complete.

Tenant engagement and satisfaction

We remain committed to our role as an effective, supportive and engaged landlord. We once again invited our tenants to provide formal feedback via a survey, which, alongside learnings from the many points of contact we have, is used to inform our approach. The survey returned positive quantitative results, and more usefully some qualitative feedback on how we may consider altering our interactions with tenants to recognise that no two tenants are the same.

In summary:

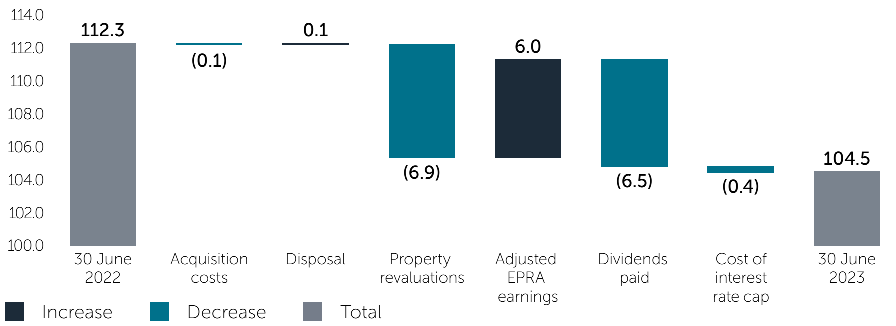
- 10/10 of responders agreed that working with Target was a positive experience (2022: 9/10).
- 9/10 of responders agreed that Target provides real estate that is a great working environment and helps deliver dignified care to residents (2022: 9/10).
- 10/10 of responders agreed that Target participates in sector events and appropriately shares knowledge (2022: 10/10).

Resident satisfaction

Regulator (CQC in England) ratings are informative but limited. The Investment Manager also monitors reviews on "Carehome.co.uk", a "Tripadvisor" style website for care homes, as a useful source of real-time feedback which is more focussed on the resident experience, and that of their loved ones.

The portfolio's current average rating is 9.4/10 (2022: 9.3/10) with sufficient review volume and frequency to be considered a valuable data point for the quality of service experienced by residents.

EPRA NTA per share (pence)



Strategic Pillar #3

Regular dividends for shareholders.

Total dividends of 6.18 pence per share were declared and paid in respect of the year to 30 June 2023, a decrease of 0.58 pence on 2022 reflecting the decision to reduce the dividend from 1 January 2023. This represents a yield of 8.6% based on the 30 June 2023 closing share price of 71.8 pence.

Earnings

Earnings increased by 19%, as measured by adjusted EPRA EPS; the Group's primary performance measure. Rental income has increased, with operating expenses and financing costs being managed effectively.

Despite the disposal of five assets, rental income increased by 13% (£6.6 million) over the prior year, driven by the full-year effect of a significant portfolio of assets acquired part-way through the previous year, inflation-linked rental growth and the practical completion of development assets and new leases entered into.

The Group's operating expenses reduced by £3.0 million from the effects of the portfolio's trading performance improvements. In line with the increase to near full rent collection, credit loss allowances and bad debts improved to a charge of £0.3 million, £2.9 million lower than the prior year. Other administrative expenses remained consistent with 2022.

Net finance costs increased from £6.6 million to £10.1 million, predominantly driven by the annualisation effect of the increase in drawn debt in the previous year relating to the acquisition of the portfolio of assets. The significant increase in market interest rates in the second half of the financial year have been managed through existing fixed or hedged debt arrangements, supplemented by the acquisition of a £50 million 3% SONIA cap in November 2022, which has protected the Group's interest costs from further increases in interest rates as SONIA has risen to 4.93% at 30 June 2023.

Expense ratio

The Group's expense ratios reflect these movements.

The EPRA cost ratio decreased to 15.8% in 2023 from 21.5% in 2022 as a result of the significant reduction in the credit loss allowance and bad debts in the year. Both the Investment Manager fee and other expenses were broadly in line with the prior year in absolute terms resulting in a decrease in the cost ratio expressed as a percentage of the Group's increased rental income. The Ongoing Charges Figure was fairly stable at 1.53% (2022: 1.51%), the marginal increase driven by the decrease in the value of the portfolio.

Earnings summary

	2023 (£m)	Movement	2022 (£m)
Rental income (excluding guaranteed uplift)	**56.4**	+13%	49.8
Administrative expenses (including management fee)	**(10.7)**	-22%	(13.7)
Net financing costs	**(9.4)**	+42%	(6.6)
Interest from development funding	**0.9**	+13%	0.8
Adjusted EPRA earnings	**37.2**	+23%	30.2
Adjusted EPRA EPS (pence)	**6.00**	+19%	5.05
EPRA EPS (pence)	**7.67**	+16%	6.62
Adjusted EPRA cost ratio	**18.7%**	-840bps	27.1%
EPRA cost ratio	**15.8%**	-570bps	21.5%
Ongoing Charges Figure ('OCF')	**1.53%**	+2bps	1.51%

Debt analysis

Debt Provider	Facility Size	Debt Type	Drawn at 30 June 2023	Maturity
Phoenix Group	£150m	Term debt	£150m (fixed rate)	Jan 2032 – £87m Jan 2037 – £63m
RBS	£70m	£30m Term debt, £40m revolving credit facility	£30m (hedged)	Nov 2025
HSBC	£100m	Revolving credit facility	£50m (hedged)	Nov 2025
Total	**£320m**		**£230m**	

Uninvested Capital

At 30 June 2023 the Group had cash and undrawn debt of £105 million. £41.5 million of this is committed to developments or portfolio improvements, with £16.0m allocated to the acquisition of a further development site post year end and which was awaiting drawdown. £47.5 million remains available. The Group continues to assess pipeline assets carefully on a case-by-case basis, with respect to market conditions and financing costs.

Debt

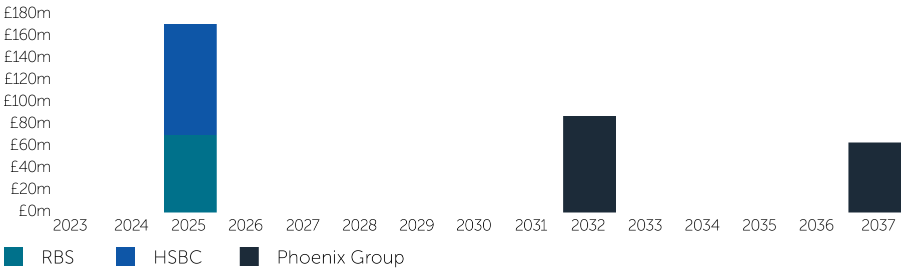
Debt facilities were unchanged in the year at £320m. The Group's £100 million revolving credit facility with HSBC was extended by one year to November 2025 and at 30 June 2023 the weighted average term to expiry on the Group's total committed loan facilities was 6.2 years (30 June 2022: 6.9 years)

In November 2022, the Group acquired a 3% SONIA interest rate cap, covering £50 million of the Group's revolving credit facilities. £230 million of the £320 million available debt was drawn at 30 June 2023, at a weighted average cost, inclusive of amortisation of loan arrangement costs, of 3.70%. £180 million of the drawn debt was fixed prior to the significant rise in interest rates seen in the second half of 2022.

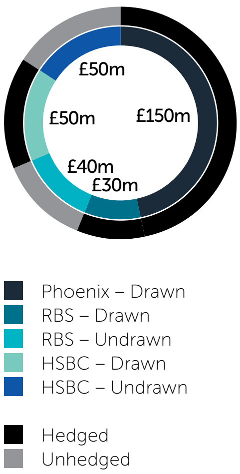
The Group retains flexibility on debt levels, with £90 million of the Group's revolving credit facilities available to be drawn/repaid in line with capital requirements. If drawn, appropriate hedging protection will be considered.

Debt facilities are considered prudent with LTV of 24.7%, weighted average term of 6.2 years and all debt drawn at 30 June 2023 being hedged against further interest rate increases.

Maturity of debt facilities



Debt facilities at 30 June 2023



Adjusted EPRA earnings

+23%

Adjusted EPRA EPS

+19%

Strategic Pillar #4

To achieve our social purpose.

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

SDGs | **What we did in 2023** | **What we'll do in 2024 and beyond**

What we did in 2023

Social
- Development commitments for 262 new beds as at year-end.
- 66 new beds construction completed in year.
- 98% wet-rooms.
- Homes provide space of 47m^2 per resident.
- All real estate has generous social and useable outdoor space.

What we'll do in 2024 and beyond

Social
- Continue to advocate for quality real estate.
- Continue to fund new homes, modernising the sector's real estate.

What we did in 2023

Energy
- 100% A-C EPC ratings.
- Increased data collection to obtain portfolio coverage of 75% electricity and 79% gas usage.
- Used this data to benchmark energy usage and identify outlier homes – providing insightful feedback to tenants.
- Further used the data to target green building enhancements with £1 million of funding allocated to solar PV panels, delivering 20% CO_2 reduction per home.
- External specialist engaged with carbon technical skills to guide in setting tangible and measurable targets by way of a steps plan to Net Zero.

What we'll do in 2024 and beyond

Energy
- Continue data analysis to best target portfolio enhancements.
- Assess ongoing asset reviews and certifications (i.e. EPCs, BREEAMs) to initiate improvement programmes where aligned with long-term value.
- Increase proportion of leases with "green" reporting provisions to gather more data on energy consumption patterns from our tenants for use in decision-making.

What we did in 2023

Tenants
- 10/10 "positive experience" satisfaction score.
- Reprised hosting of tenant event with focus on knowledge sharing and best practice.

What we'll do in 2024 and beyond

Tenants
- Invest in fully understanding and responding to feedback from tenant survey.

What we did in 2023

Communities
- Re-tenanted homes with new tenants committed to continuing care provision where required.
- Worked constructively with tenants in rental arrears to deliver positive solutions to maintain continuity of care.

What we'll do in 2024 and beyond

Communities
- Continue to prioritise the provision of modern real estate and continuity of services across our portfolio.

What we did in 2023

Governance and transparency
- Undertook director recruitment process resulting in Michael Brodtman and Richard Cotton being appointed during the year.
- Investment Manager successfully retained position as a signatory to the FRC Stewardship Code.
- £1.3 million taxation directly paid to the UK government by way of VAT and stamp duty land taxes. Dividends paid of £40.1 million are assessed for tax upon reaching shareholders.
- Inaugural ESG report issued with enhanced disclosures.

What we'll do in 2024 and beyond

Governance and transparency
- ESG committee will continue to provide momentum to the Group's carbon reduction investment and sustainability reporting.

Principal and emerging risks and risk management.

Risk	Description of risk and factors affecting risk rating	Mitigation	Risk rating & change
Poor performance of assets	There is a risk that a tenant's business could become unsustainable if it fails to trade successfully. 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.	The Investment Manager focuses on tenant diversification across the portfolio and, considering the local market dynamics for each home, focuses on ensuring that rents are set at sustainable levels. Rent deposits or other guarantees are sought, where appropriate, to provide additional security for the Group. The Investment Manager has ongoing engagement with the Group's tenants to proactively assist and monitor performance.	High
High inflationary environment	An increase in the UK inflation rate to a level above the rent review caps in place across the portfolio's long-term leases may result in a real term decrease in the Group's income and be detrimental to its performance. In addition, cost increases for tenants, particularly in relation to staffing and utilities, may erode their profitability and rent cover unless their revenue increases accordingly.	The Group's portfolio includes inflation-linked leases, with primarily annual upwards-only rent reviews within a cap and collar. The Manager is monitoring tenant performance, including whether average weekly fees paid by the underlying diversified mix of publicly funded and private-fee paying residents are growing in line with inflation.	High
Adverse interest rate fluctuations/ debt covenant compliance	Adverse interest rate fluctuations will increase the cost of the Group's variable rate debt facilities; limit borrowing capacity; adversely impact property valuations; and be detrimental to the Group's overall returns.	The Group has a conservative gearing strategy, although net gearing is anticipated to increase as the Group nears full investment. Loan covenants and liquidity levels are closely monitored for compliance and headroom. The Group has fixed interest costs on £230 million of borrowings as at 30 June 2023.	Medium
Development costs	The high inflationary environment, particularly for building materials and staff, combined with supply chain difficulties, may result in an increased risk that the developers of contracted developments do not fulfil their obligations and/or may increase the cost of new development opportunities.	The Group is not significantly exposed to development risk, with forward funded acquisitions being developed under fixed price contracts, with the Investment Manager having considered both the financial strength of the developer and the ability of the developer's profit to absorb any cost overruns.	Medium
Negative perception of the care home sector	A negative perception of the care home sector, due to matters such as societal trends, pandemic or safeguarding failures, or difficulties in accessing social care, may result in a reduction in demand for care home beds, causing asset performance to fall below expectations despite the demographic shifts and the realities of needs-based demand in the sector. The resultant reputational damage could impact occupancy levels and rent covers across the portfolio.	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. A trend of improving occupancy rates across the portfolio has been noted in recent times.	Medium
ESG and climate change	A change in climate, such as an increased risk of local or coastal flooding, or a change in tenant/ investor demands or regulatory requirements for properties which meet certain environmental criteria, such as integral heat pumps, may result in a fall in demand for the Group's properties, reducing rental income and/or property valuations.	The Group is committed to investing in high quality real estate with high quality operators. The portfolio's EPC and BREEAM in-use ratings suggest the portfolio is well positioned to meet future requirements/expectations. The Investment Manager has introduced a house standard to ensure ESG factors are fully considered during the acquisition process.	Medium

Strategic objectives

To grow a robust portfolio

Dividend focus

Specialist, engaged manager

Responsible investment

Risk trend

Risk increased

Risk unchanged

Risk decreased

Risk	Description of risk and factors affecting risk rating	Mitigation	Risk rating & change
Reduced availability of carers, nurses and other care home staff	The combined impacts of the pandemic and increased employment and wage inflation in competing sectors has reduced the availability of key staff in the care sector which may result in a reduction in the quality of care for underlying residents, restrict tenants from being able to admit residents or result in wage inflation.	The Group is committed to investing in high quality real estate with high quality operators and these should be better placed to attract staff. The Investment Manager continues to engage with tenants in the portfolio and to share examples of best practice in recruitment and retention of staff.	**Medium**
Breach of REIT regulations	A breach of REIT regulations, primarily in relation to making the necessary level of distributions, may result in loss of tax advantages derived from the Group's REIT status. The Group remains fully compliant with the REIT regulations and is fully domiciled in the UK.	The Group's activities, including the level of distributions, are monitored to ensure all conditions are adhered to. The REIT rules are considered during investment appraisal and transactions structured to ensure conditions are met.	**Medium**
Changes in government policies	Changes in government policies, including those affecting local authority funding of care, may render the Group's strategy inappropriate. Secure income and property valuations will be at risk if tenant finances suffer from policy changes.	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 not wholly dependent on government funding.	**Medium**
Availability of capital	Without access to equity or debt capital, the Group may be unable to grow through acquisition of attractive investment opportunities. This is likely to be driven by both investor demand and lender appetite which will reflect Group performance, competitor performance, general market conditions and the relative attractiveness of investment in UK healthcare property.	The Group maintains regular communication with investors and existing debt providers, and, with the assistance of its broker and sponsor, regularly monitors the Group's capital requirements and investment pipeline alongside opportunities to raise both equity and debt. During the year, the Group has extended its £100m RCF facility with HSBC by one year.	**Medium**
Reliance on third party service providers	The Group is externally managed and, as such, relies on a number of service providers. Poor quality service from providers such as the Investment Manager, company secretary, broker, legal advisers or depositary could have potentially negative impacts on the Group's investment performance, legal obligations, compliance or shareholder relations.	The Investment Manager, along with all other service providers, is subject to regular performance appraisal by the Board. The Manager has retained key personnel since the Group's IPO and has successfully hired further skilled individuals and invested in its systems.	**Medium**
Failure to differentiate qualities from competitors or poor investment performance	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 these effectively to stakeholders could have a negative impact on the Company's share price, future demand for equity raises and/or debt finance and wider reputational damage.	The stakeholder communications strategy of the Group has always been to highlight the quality of the real estate in which the Group invests. The regular production of investor relations materials (annual and interim reports, investor presentations and quarterly factsheets) along with direct engagement with investors helps to mitigate this risk.	**Medium**

The Company's risk matrix is reviewed regularly by the Board as detailed on page 46. Emerging risks are identified though regular discussion at Board meetings of matters relevant to the Company and the sectors in which it operates; including matters that may impact on the underlying tenant operators. In addition, the Board holds an annual two-day strategy meeting which includes presentations from relevant external parties to ensure that the Board are fully briefed on relevant matters. At the strategy meeting, principal and emerging risks are discussed and reviewed to ensure that they have all been appropriately identified and, where necessary, addressed.

The detailed consideration of the Company's viability and its continuation as a going concern, including sensitivity analysis to address the appropriate risks, is set out on pages 34 and 35.

Promoting the success of Target Healthcare REIT plc.

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

This section, which serves as the Company's section 172 statement, explains how the Directors have had regard to the matters set out in section 172 (1) (a)-(f) of the Companies Act 2006 for the financial year to 30 June 2023, taking into account the likely long-term consequences of decisions and the need to foster relationships with all stakeholders in accordance with the AIC Code.

(a) The likely consequences of any decision in the long term	Our investment approach is long-term with an average lease length of 26.5 years. We believe this is the most responsible approach to provide stability and sustainability to tenants and key stakeholders. Therefore, most decisions require consideration of long-term consequences, from determining a sustainable rent level and the right tenant partner for each investment, to considering the impact of debt and key contracts with service providers on the recurring earnings which support dividends to shareholders.
(b) The interests of the Company's employees	The Company is externally managed and therefore has no employees.
(c) The need to foster the Company's business relationships with suppliers, customers and others	As a REIT with no employees, the Board works in close partnership with the Manager, which runs the Group's operations and portfolio within parameters set by the Board and subject to appropriate oversight. The Manager has deep relationships with tenants, the wider care home sector, and many of the Group's other suppliers. These are set out in more detail in the following table.
(d) The impact of the Company's operations on the community and the environment	The Board is confident the Group's approach to investing in a sensitive sector is responsible with regard to social and environmental impact. This is set out in more detail in the community and the environment section of the table on the following page.
(e) The desirability of the Company maintaining a reputation for high standards of business conduct	The Board requires high standards of itself, service providers and stakeholders. The Group's purpose and investment objectives dictate that these standards are met in order to retain credibility. The ethos and tone is set by the Board and the Manager.
(f) The need to act fairly as between members of the Company	The Board encourages an active dialogue with shareholders to ensure effective communication, either directly or via its broker and/or Manager. The interests of all shareholders are considered when issuing new shares.

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

Dividends paid

The Board recognised the importance of dividends to its shareholders and, after careful analysis of the Group's forecast net revenue concluded that it was in the interests of all stakeholders to reduce the Company's dividend to a level at which it is expected to be fully covered with the potential for growth.

Ongoing investment and asset management activity

The Group acquired two new development sites, including one in July 2023. The new, high-quality beds which will be added to the market when these developments complete, combined with the Group's asset management activities to increase the percentage of wet rooms in the property portfolio to 98% and add further beds at another of the Group's properties, illustrate the Group's intent of improving the overall level of care home real estate in the UK. This approach targets attractive long-term returns to shareholders by focusing on a sustainable and 'future proofed' sector of the care home market. The latest development site acquired is for a care home to be built to exceptional ESG standards, with the highest certifications anticipated, which will offer carbon net-zero operational ability.

The sale of four homes in Northern Ireland was completed in the year. This followed the successful re-tenanting of the properties in the prior year and crystallised an annualised ungeared IRR in excess of 10% over the period of ownership. The disposal represented a full exit from the Northern Irish market and formed part of the Group's wider capital recycling and asset management strategy. The Group also sold a non-core asset that had been acquired as part of the 18-home portfolio in the prior year.

Capital financing

The Group extended its loan facility with HSBC plc by a further year, to November 2025 and entered into an interest rate cap on the £50 million of this facility currently drawn in order to reduce the Group's exposure to rising interest rates on its borrowings.

Director appointments

During the year, as part of the Board succession plan, Mr Cotton and Mr Brodtman were appointed as Directors. Mr Cotton's experience of real estate corporate finance and Mr Brodtman's extensive knowledge of the property sector is expected to benefit all stakeholders over the period of their respective appointments. These appointments complete the Board's succession plan for the medium term.

Stakeholders

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

Shareholders	Shareholders are key stakeholders and the Board proactively seeks the views of its shareholders and places great importance on communication with them. The Board reviews the detail of significant shareholders and recent movements at each Board Meeting and receives regular reports from the Investment Manager and Broker on the views of shareholders, and prospective shareholders, as well as updates on general market trends and expectations. The Chair and other Directors make themselves available to meet shareholders when required to discuss the Group's business and address shareholder queries. The Directors make themselves available at the AGM in person, with the Company also providing the ability for any questions to be raised with the Board by email in advance of the meeting. The Company and Investment Manager also provide regular updates to shareholders and the market through the Annual Report, Interim Report, regular RNS announcements (including the quarterly NAV), quarterly investor reports and the Company's website. The Investment Manager intends to hold a results presentation on the day of publication of the Annual Report, as undertaken for the first time in October 2022, and will also meet with analysts and members of the financial press.
Tenants and underlying residents	As set out in more detail on pages 18 and 19, the Investment Manager liaises closely with tenants to understand their needs, and those of their underlying residents, through visits to properties and regular communication with both care home personnel and senior management of the tenant operators. The effectiveness of this engagement is assessed through an annual survey. The Investment Manager also receives, and analyses, management information provided by each tenant at least quarterly and regularly monitors the CQC, or equivalent, rating for each home and any online reviews, such as carehome.co.uk. Any significant matters are discussed with the tenant and included within the Board reporting.
Debt providers	The Group has term loan and revolving credit facilities with the Royal Bank of Scotland plc, HSBC Bank plc and Phoenix Group (see Note 13 to the Consolidated Financial Statements for more information). The Company maintains a positive working relationship with each of its lenders and provides regular updates, at least quarterly, on portfolio activity and compliance with its loan covenants in relation to each loan facility.
Investment Manager	The Investment Manager has responsibility for the day-to-day management of the Group pursuant to the Investment Management Agreement. The Board, and its committees, are in regular communication with the Investment Manager and receive formal presentations at every Board Meeting to aid its oversight of the Group's activities and the formulation of its ongoing strategy. The Board, through the Management Engagement Committee, formally reviews the performance of the Investment Manager, the terms of its appointment and the quality of the other services provided at least annually. Further details on this process and the conclusions reached in relation to the year ended 30 June 2023 are contained on page 41.
Other service providers	The Board, through the Management Engagement Committee, formally reviews the performance of each of its significant service providers at least annually. The reviews will include the Company's legal advisers, brokers, tax advisers, auditors, depositary, valuers, company secretary, insurance broker, surveyors and registrar. The purpose of the review is to ensure that the quality of the service provided remains of the standard expected by the Board and that overall costs and other contractual arrangements remain in the interests of the Group and other significant stakeholders. The Investment Manager also reports regularly to the Board on these relationships. The significant other service providers, particularly the Group's legal advisers and brokers, are invited to attend Board Meetings and report directly to the Directors where appropriate.
Community and the environment	The Group's principal non-financial objective is to generate a positive social impact for the end-users of its real estate. Investment decisions are made based on the fundamental premise that the real estate is suitable for its residents, the staff who care for them, and their friends, families and local communities, both on original acquisition and for the long-term. Environmental considerations are an integral part of the acquisition and portfolio management process, given the strategy of only acquiring modern buildings which benchmark well from an energy efficiency aspect. The Group's ESG strategy is currently prioritising the gathering of useful energy/consumption data on its portfolio which will be used to align the portfolio appropriately with benchmarks over the medium and longer term. During the year, the Group has improved its ESG reporting through the introduction of its annual Sustainability Report, first published in March 2023, and through collating, submitting and publishing data under the GRESB benchmark standards. Under the remit of the newly established ESG Committee, the Board has encouraged the further development of the Investment Manager's property-by-property asset management plan to identify areas where the energy efficiency and carbon emissions of the Group's property portfolio can be further improved and approved an initial budget to action initiatives identified.

On behalf of the Board

Alison Fyfe
Chair
9 October 2023

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

ALISON FYFE

Independent Non-Executive Chair

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. In August 2021, she was elected as a Governing Board Member of Hillcrest Homes (Scotland).

Ms Fyfe is a member of the Royal Institution of Chartered Surveyors, a member of the Investment Property Forum and a former Policy Board member of the Scottish Property Federation.

Date of appointment

1 May 2020

Country of residence

UK

Independent

Yes

Other public company directorships

None

Committee membership

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

MICHAEL BRODTMAN

Independent Non-Executive Director

Mr Brodtman has extensive knowledge of the property sector. He worked for global property advisers CBRE for over 40 years, retiring as chairman of the UK Advisory division in June 2022. He led the firm's Valuation department for over 20 years, and served on its Executive Board and Operating Committee, respectively responsible for strategic direction and day-to-day management.

He is a Fellow of the Royal Institution of Chartered Surveyors, and has been extensively involved with the RICS throughout his professional career. He was formerly a member of the Policy Committee of the British Property Federation, the RICS Global Valuation Professional Board and the Bank of England Commercial Property Forum.

Mr Brodtman is currently a non-executive director of Grainger plc, a listed residential property company, and has further Board experience as a former non-executive director of Investment Property Databank and housing association Places for People. He is keenly interested in the healthcare sector, with relevant experience from his role as a Trustee of Jewish Care, which provides health and social care services for London's Jewish Community, including ten care homes with some 500 residents.

Date of appointment

1 January 2023

Country of residence

UK

Independent

Yes

Other public company directorships

Grainger plc

Committee membership

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

RICHARD COTTON

Independent Non-Executive Director and Senior Independent Director

Mr Cotton has over 40 years of experience in the property sector and headed the real estate corporate finance team at JP Morgan Cazenove until April 2009. Subsequently he was a managing director of Forum Partners and chairman of Centurion Properties.

He has wide corporate experience as a former non-executive director of Hansteen plc and including advisory roles with Lloyds Bank and Transport for London.

Mr Cotton is currently the chairman of Helical plc and a consultant to Big Yellow Group plc, where he served as a non-executive director from 2012 until 2022.

VINCE NIBLETT

Independent Non-Executive Director and Chair of Audit Committee

Mr Niblett has many years of financial and commercial experience having been the Global Managing Partner Audit for Deloitte. He held a number of senior leadership roles within Deloitte including as a member of the UK Board of Partners and of the Global Executive Group and the UK Executive Group before his retirement from Deloitte in May 2015. During his career at Deloitte, Mr Niblett served some of the firm's most significant public company clients, working with them on commercial and strategic issues as well as providing audit services.

Mr Niblett is an independent non-executive director and chairman of the audit committee of Forterra plc and an independent non-executive director and senior independent director of Big Yellow Group plc.

Mr Niblett also serves as a trustee of the Ruth Strauss Foundation.

DR AMANDA THOMPSELL

Independent Non-Executive Director

Dr Thompsell trained and originally practised as a GP before switching to working in old age hospital medicine, and then retraining in old age psychiatry. She has significant clinical experience of all aspects of caring for older people and has held a number of clinical and national leadership roles allowing her to develop a comprehensive knowledge of the care home sector. This included 17 years at the South London and Maudsley NHS Foundation Trust, where she led a multidisciplinary team supporting care homes for seven years and was the clinical lead for long-stay older people's mental health unit for a further five years.

Dr Thompsell is the National Specialist Advisor: Older People's Mental Health at NHS England, a member of the advisory board to the Journal of Dementia Care and a Medical Member of the First Tier Tribunal at the UK Ministry of Justice. She is also the previous chair of the Faculty of Old Age Psychiatry of the Royal College of Psychiatrists.

Richard Cotton	Vince Niblett	Dr Amanda Thompsell
1 November 2022	25 August 2021	1 February 2022
UK	UK	UK
Yes	Yes	Yes
Helical plc	Big Yellow Group plc Forterra plc	None
Audit Committee ESG Committee Investment Committee Management Engagement Committee Nomination Committee Remuneration Committee	Audit Committee (Chair) ESG Committee Investment Committee Management Engagement Committee Nomination Committee Remuneration Committee	Remuneration Committee (Chair) Audit Committee ESG Committee Investment Committee Management Engagement Committee Nomination Committee

Experts in strategic, responsible investment.

The Investment Manager

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

Alternative Investment Fund Managers Directive ('AIFMD')

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

Key personnel of the Investment Manager

The key personnel who are responsible for managing the Group's activities are:

Kenneth MacKenzie MA CA

Kenneth MacKenzie is the founder and Chief Executive of Target. He is a Chartered Accountant with over 40 years of business leadership experience with the last 17 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 seventeen 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 more than 100 properties for those client funds. Prior to joining Target, during his time as investment director for an institutional investor, John held board positions at a UK top-10 care home operator and a care home development business. John started his career at Arthur Andersen where he worked on audits, financial due diligence and corporate finance projects before moving to the Bank of Scotland initially to structure finance packages for management buy-outs and latterly to a role in real estate investment management.

Andrew Brown

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

Scott Steven MA

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

Gordon Bland BAcc CA

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

Donald Cameron BCom CA

Donald Cameron is Company Secretary and Director of Financial Reporting at Target. He is a Chartered Accountant with more than eighteen years of 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, 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.

The Directors present their report, along with the financial statements of the Group and Company on pages 60 to 90, for the year ended 30 June 2023.

The Directors consider that, following advice from the Audit Committee, the Annual Report and Consolidated Financial Statements taken as a whole are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. The Audit Committee has reviewed the Annual Report and Consolidated Financial Statements for the purpose of this assessment. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Consolidated Financial Statements would have a reasonable level of knowledge of the investment industry in general and Real Estate Investment Trusts in particular. The outlook for the Group can be found in the Chair's Statement on pages 4 and 5 and the Investment Manager's Report on pages 14 and 15. Principal and emerging risks and uncertainties can be found on pages 24 and 25 with further information in Note 16 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, totalling 6.18 pence per share, to shareholders in relation to the year ended 30 June 2023. Details of the dividends paid are set out in Note 7 to the Consolidated Financial Statements, and a breakdown of the distributions paid analysed between Property Income Distributions ('PID's') and Ordinary Dividends are provided on page 95.

The Company

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

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

The Target Healthcare REIT group was originally established in March 2013 and, following a scheme of arrangement to introduce a parent company to the Group that was incorporated in the United Kingdom, the Company became the parent company of the Group in August 2019. The Company's shares have been admitted to the premium segment of the Official List of the Financial Conduct Authority and to trading on the Main Market of the London Stock Exchange. The Company is a constituent of the FTSE-250 Index.

The Company holds a number of wholly-owned subsidiaries, both directly and indirectly, details of which are set out in Note 11 to the Consolidated Financial Statements and Note 3 to the Company Financial Statements. These subsidiary companies hold the majority of the Group's investment properties and loan facilities.

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

Investment Objective

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

Investment Policy

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

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

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

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

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

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

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

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

Dividend Policy

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

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on pages 28 and 29. As explained in more detail in the Corporate Governance Statement on page 41, any new appointment by the Board is subject to election by shareholders at the Annual General Meeting ('AGM') following the appointment. Thereafter the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

In line with the Company's stated Board succession plan, Mr Cotton was appointed to the Board with effect from 1 November 2022, with Mr Naish and Mr Coull retiring from the Board at the conclusion of the AGM held on 6 December 2022. Ms Fyfe, Mr Niblett, Dr Thompsell and Mr Cotton were each elected/re-elected at that AGM and, in line with the Company's stated policy, each of these Directors will seek annual re-election at the AGM to be held on 29 November 2023. Mr Brodtman was appointed to the Board with effect from 1 January 2023 and will be subject to election by shareholders at the forthcoming AGM.

Following the retirement of Mr Naish and Mr Coull, Ms Fyfe was appointed as Chair of the Company and Mr Cotton was appointed as the Company's Senior Independent Director, each with effect from 6 December 2022.

In relation to the appointments of Mr Cotton and Mr Brodtman, the Company appointed Fletcher Jones to provide external search consultancy services for which they received an aggregate fee of £30,000 (plus VAT). In previous years, the Company has appointed Fletcher Jones to provide external search consultancy services, to facilitate the Board appraisal process and to advise on the level of the Directors' remuneration. Neither the Company nor any of the individual Directors has any other connection with Fletcher Jones. Further details on the recruitment process followed, including the Board's policy in relation to diversity and tenure, are set out on pages 41 to 43.

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. Whilst remaining cognisant of the need for regular refreshment of the Board membership, the appointment of Mr Cotton and Mr Brodtman and the retirement of Mr Naish and Mr Coull has completed the Board's intended succession plan for the medium term. The Board would like to take the opportunity to thank Mr Naish and Mr Coull for their committed service and expert guidance over the period since the Group's launch in 2013, during which time the Company grew from a modest £40 million of net assets to c.£700 million and became a constituent of the FTSE-250 Index.

The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on page 43, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. It is also considered that each of the Directors has sufficient time to meet their Board responsibilities. 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 15 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 13 to the Consolidated Financial Statements.

Substantial Interests in Share Capital

As at 30 June 2023, 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*
Blackrock, Inc	61,874,747	10.0**
Baillie Gifford & Co	25,358,041	4.1
Premier Miton Group plc	24,348,972	3.9
Alder Investment Management Limited	23,681,156	3.8
Investec Wealth & Investment Limited	23,385,150	3.8
CCLA Investment Management Limited	17,918,605	2.9
Rathbone Investment Management Limited	17,462,203	2.8

* Based on 620,237,346 ordinary shares in issue as at 30 June 2023.

** The Company is not aware, nor has it been notified, of any individual corporate shareholder(s), as germane to the Group's compliance with the REIT regulations, which were beneficially entitled to 10% or more of the Company's share capital or which controlled 10% or more of the voting power in the Company.

As at 9 October 2023, the Company has not received notification of any 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 Buy Backs

At the Annual General Meeting held on 6 December 2022, shareholders granted authority for the Company to issue up to 62,023,700 ordinary shares on a non-pre-emptive basis for cash. This equated to 10% of the shares in issue at the time of passing of the resolution. As at 9 October 2023, the Company has not issued any shares under this authority. The authority will expire on the earlier of the conclusion of the forthcoming Annual General Meeting, which is expected to be held on 29 November 2023, or 6 March 2024. It is expected that the Company will continue to seek this authority on an annual basis.

At the Annual General Meeting held on 6 December 2022, shareholders granted authority for the Company to buy back up to 92,973,578 ordinary shares for cancellation or for holding in treasury. The Company did not buy back any shares under this authority, which will expire at the conclusion of the forthcoming Annual General Meeting.

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 2027 and at every fifth annual general meeting thereafter to seek their approval to the continuation of the Company. If the continuance vote is not passed, the Directors are required to convene a general meeting of the Company within six months thereafter at which a special resolution will be proposed to either wind up voluntarily or reconstruct the Company. A resolution in relation to the continuation of the Company was last proposed at the AGM held on 6 December 2022, in relation to which 100% of the votes cast were in favour of the resolution.

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 current economic conditions on both the Group and any increase in the likelihood that the tenants of its investment properties will not be able to meet their contractual rental obligations on a timely basis. The Group has agreements relating to its borrowing facilities with which it has complied during the year and the Board has considered the ability of the Group to fully draw, repay, refinance or increase these facilities on, or before, their expected maturity date. The Directors also considered the Group's exposure to rising interest rates, with the interest rate on 100% of the Group's drawn debt at 30 June 2023, and 95% of its drawn debt at 9 October 2023, being fixed until the expiry of the relevant loan facility. The Directors have also considered the Group's level of uninvested capital, the current status of the property investment market and the Group's pipeline of capital commitments and other investment opportunities. Based on all the information considered, the Directors believe that the Group has the ability to meet its financial obligations as they fall due to 31 December 2024, which is a period of at least twelve months from the date of approval of the financial statements. For this reason, the Board continue to adopt the going concern basis in preparing the financial statements.

Viability Statement

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

The Board has conducted this review over a five-year time horizon, which is a period thought to be appropriate for a company investing in UK care homes with a long-term investment outlook. At each Board Meeting, the Directors consider the key outputs from a detailed financial model covering a similar five year rolling period, as this is considered the maximum timescale over which the performance of the Group can be forecast with a reasonable degree of accuracy. At 30 June 2023, the Group had a property portfolio which has long leases and a weighted average unexpired lease term of 26.5 years. The Group had drawn borrowings of £230.0 million, on which the interest rate had been fixed, either directly or through the use of interest rate derivatives, at a maximum weighted interest rate of 3.52 per cent per annum (excluding the amortisation of arrangement costs). The Group had access to a further £90.0 million of available debt under committed loan facilities which, if drawn, would carry interest at a variable rate equal to SONIA plus 2.21%. The Group's committed loan facilities have staggered expiry dates with £170.0 million being committed to 5 November 2025, £87.3 million to 12 January 2032 and £62.7 million to 12 January 2037. Discussions with existing and/or new potential lenders do not indicate any issues with re-financing these loans on acceptable terms in due course.

The Directors' assessment of the Group's principal risks are highlighted on pages 24 and 25. 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;
- High inflationary environment: The risk that the level of the UK inflation rate results in a real term decrease in the Group's income or erodes the profitability of tenants;
- Adverse interest rate fluctuations: The risk that an increase in interest rates may impact property valuations, increase the cost of the Group's variable rate debt facilities, and/or limit the Group's borrowing capacity;
- Negative perception of the care home sector 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
- Reduced availability of care home staff: The risk that unavailability of staff restricts the ability of tenants to admit residents or results in significant wage cost inflation, impacting on the tenants' rental cover and leading to a loss of rental income for the Group.

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 cumulative impact on each tenant's financial reserves from recent economic conditions, including increasing staff and utilities costs and the reduced level of resident occupancy experienced following the 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.

Audit Tender

The Company last undertook an audit tender in relation to the period from 1 July 2022, which resulted in a recommendation that the incumbent auditors, Ernst & Young LLP be re-appointed as auditors. The Company will next be required to conduct a tender of audit services, and a mandatory rotation of audit firm, by 30 June 2032. The Company does not anticipate undertaking a further tender of audit services to the Group during the forthcoming year.

Significant Votes Against Previous Resolutions

There were no significant votes against the resolutions proposed at the Annual General Meeting held on 6 December 2022.

Resolutions to be Proposed at the AGM

Directors' annual report on Directors' remuneration

The Directors' remuneration policy and annual report on Directors' remuneration, which can be found on pages 51 to 53, 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 December 2022, and which is expected to next be put to shareholders at the AGM in 2025 or, if earlier, when any amendments to the policy are proposed. Shareholders are requested to approve the Directors' Annual Report on Directors' Remuneration for the year ended 30 June 2023 (resolution 2).

Dividend policy

The Company's dividend policy is set out on page 33. 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 54 to 59. 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 2024 (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 33, each Director is subject under the Articles of Association to election by shareholders at the AGM following their appointment and, by policy of the Board, by annual re-election thereafter. Resolutions 6 to 10 therefore propose each of the relevant Directors for election/re-election. The biographies of each of the Directors, which include the skills and experience each Director brings to the Board for the long-term sustainable success of the Company, are detailed on pages 28 and 29. Having considered the knowledge, experience and contribution of each Director putting themselves forward, the Board has no hesitation in recommending their election/re-election to shareholders.

Resolutions to be Proposed at the AGM continued

Share Issuance Authority

The Directors are seeking authority to allot additional new shares which would not require the publication of a prospectus. Resolution 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 9 October 2023, this resolution would therefore authorise the Directors to allot up to 62,023,700 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 December 2024, 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 Buy Back Ordinary Shares

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 92,973,578 ordinary shares or, if less, the number representing approximately 14.99% of the Company's ordinary shares in issue at the date of the passing of resolution 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.

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 64,210 ordinary shares representing approximately 0.01 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.

The Investment Manager has in place a conflicts of interest and allocation policy which aims to ensure a fair allocation of investment opportunities and to mitigate potential conflicts of interest that may arise where the Investment Manager provides investment management, investment advice or other services to other funds that may have similar investment policies to that of the Company. The Company has reviewed, and accepted, the policy which remained unchanged during the course of the year.

Depositary

IQ EQ Depositary (UK) Limited (the 'Depositary') acts as the Group's depositary in accordance with the AIFM Directive. The Depositary's responsibilities, which are set out in an Investor Disclosure Document available on the Company's website, include cash monitoring, record keeping and verification of non-custodial assets and general oversight of the Group's portfolio. The Depositary receives for its services a fee based on the value and activity of the property portfolio, payable quarterly. For the year ended 30 June 2023, the fees paid totalled £195,000 (2022: £163,000).

Other Companies Act 2006 Disclosures

The rules for appointment and replacement of Directors are contained in the Articles of Association of the Company. In respect of retiral by rotation, the Articles of Association provide that each Director is required to retire at the third annual general meeting after the annual general meeting at which last elected. As mentioned on page 41, 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 Chair's Statement on pages 4 and 5 and the Investment Manager's Report on pages 14 and 15.

Environmental, Social and Governance Principles

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration in relation to investment decisions taken on behalf of the Group, with all investment acquisitions being assessed by the Investment Manager in line with their recently updated "house standard" approach which more explicitly evaluates ESG matters in relation to each proposed acquisition. Further details are contained on pages 10 to 13 and in the Corporate Governance Statement on page 44.

The Company published its inaugural Sustainability Report in March 2023, covering ESG matters in more detail, and intends to publish such report annually to 31 December each year to align with the Group's data collection and reporting under the GRESB framework (as considered in more detail below).

Greenhouse Gas Emissions/Streamlined Energy and Carbon Reporting

All of the Company's activities are outsourced to third parties. As such it does not have any physical assets, property, employees or operations of its own and does not generate any greenhouse gas or other emissions. As the Group has entered into operational leases on its property portfolio, the Company does not have operational control over these properties and therefore assesses that the tenant should report on any carbon emissions associated with the operation of the care homes. Following this assessment, the Group is categorised as a lower energy user under the HM Government Environmental Reporting Guidelines March 2019 ('the Guidelines') and is not required to make the detailed disclosures of energy and carbon information set out within the Guidelines within this Annual Report. Disclosures on the property portfolio's environmental sustainability performance measures, prepared in accordance with the latest European Public Real Estate Association's ('EPRA') sustainability Best Practices Recommendations (sBPR), which in turn are aligned principally with the Global Reporting Initiative ('GRI') Standards, are included in the Company's separate Sustainability Report, as referred to above. The Company achieved an sBPR Silver Award following the publication of its inaugural report.

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

The Company acknowledges the recommendations of the Financial Stability Board TCFD to improve and increase reporting of climate-related financial information and will work towards mitigating, where appropriate, the physical climate risks and opportunities arising in the property portfolio. Further detail on the climate risks in the portfolio are detailed in the 'principal and emerging risks and risk management' on page 24 and consideration of the impact of climate risks on the market value of the property portfolio is included in Notes 9 and 16 to the Consolidated Financial Statements. More information is included in the Company's separate Sustainability Report.

GRESB Framework

GRESB is a mission-driven and investor-led organisation that provides actionable and transparent ESG data to financial markets. GRESB collects, validates, scores, and independently benchmarks ESG data to provide business intelligence, engagement tools, and regulatory reporting solutions. This helps to aid transparency and comparability, and allows assessment of performance and trends. The Company submitted data to GRESB under this framework and, despite this being the inaugural year of publication, achieved a score of 60 in relation to the year ended 31 December 2022 resulting in the award of a green star. This helps to demonstrate the Group's tangible progress in ESG reporting and the underlying quality of the property portfolio by comparing well to the peer group average score of 61, many of whom have been reporting under GRESB for a number of years.

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. However, as a matter of good corporate governance and to reflect the Group's commitment to high business standards throughout its supply chains, the Company has chosen to publish a Modern Slavery and Human Trafficking Statement, the full detail of which is available on request. 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 but this is regularly considered by the Management Engagement Committee as part of their review of significant service providers. The Group takes a zero-tolerance approach to modern slavery and human trafficking and expects all those it deals with to demonstrate the same attitude.

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/or 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. The policy establishes a culture across the Company and in relation to its 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, external loans 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 16 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., Dashwood House, 69 Old Broad Street, London EC2M 1QS on 29 November 2023 at 4.00 p.m. The Notice of Annual General Meeting is set out on pages 91 to 93.

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

On behalf of the Board

Alison Fyfe
Chair
9 October 2023

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Consolidated Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the Companies Act 2006 and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with UK-adopted IFRSs.

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. 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 UK-adopted IFRSs, 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

Alison Fyfe
Chair
9 October 2023

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.

Alison Fyfe
Chair

Introduction

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

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

The Board

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

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

The table below sets out the number of scheduled Board and Committee meetings held during the year and the number of meetings attended by each Director. This includes a two-day strategy meeting held at an external venue by the Board during October 2022 in order to consider strategic issues and, due to a change in the annual schedule, a second strategy meeting held by the Board during June 2023. It is anticipated that a strategy meeting will be held annually in June each year going forward. In addition to these scheduled meetings, there were a further 11 Board and Board Committee meetings held during the year. These additional meetings included regular updates with the Investment Manager and other appropriate advisers on significant matters arising to ensure that appropriate actions were taken on a timely basis.

	Board		Audit Committee		Investment Committee		Management Engagement Committee		ESG Committee		Nomination Committee		Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Alison Fyfe	6	6	5	5	4	4	4	4	4	4	3	3	1	1
Vince Niblett	6	6	5	5	4	4	4	4	4	4	3	3	1	1
Amanda Thompsell	6	6	5	4	4	4	4	3	4	4	3	3	1	1
Richard Cotton*	4	4	2	2	3	3	3	3	3	3	–	–	–	–
Michael Brodtman**	3	3	2	2	2	2	2	2	3	3	–	–	–	–
Malcolm Naish***	3	3	3	3	2	2	2	2	1	1	3	3	1	1
Gordon Coull***	3	3	3	3	2	2	2	2	1	1	3	2	1	1

* Appointed 1 November 2022.
** Appointed 1 January 2023.
*** Retired 6 December 2022.

Although Dr Thompsell was unavailable to physically attend one meeting of the Audit Committee and of the Management Engagement Committee, which were convened to formally conclude on matters which had been discussed at previous meetings at which all Directors had been present, Dr Thompsell provided comments in advance on the matters to be discussed and these were taken into consideration in the decisions reached.

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

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

Investment management

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

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

- the Investment Manager's investment performance remained satisfactory, considering, amongst other matters, the continued outperformance of the Group's property portfolio compared to the MSCI UK Annual Healthcare Property Index;
- the level of fees payable to the Investment Manager, which were considered both in isolation and against a schedule of the fees payable across the Company's peer group prepared by the Company Secretary, remained appropriate. This assessment reviewed the appropriateness and effectiveness of the tiered management fee structure;
- the specialist nature of the properties in which the Company invests requires a detailed knowledge of the sector, and that the nature of the asset class means that investment decisions tend to be long-term in nature, and that therefore the two-year notice period remains appropriate; balancing the interests of the Company in supporting the performance of its incumbent Investment Manager against retaining the Company's ultimate sanction of being able to replace the Investment Manager; and
- the standard of other services provided remained appropriate.

The Directors considered the Investment Manager's provision of Company Secretarial services and concluded that the provision of such services did not create a conflict of interest, compromise the ability of the Board to hold the Investment Manager to account, or result in any diminution in the quality of governance or reporting that would warrant a change in this arrangement. This assessment took into consideration the fiduciary duties of a Company Secretary, the Directors' access to independent professional advice where necessary and the Group's appointment of, and regular liaison with, external legal advisers and brokers.

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, tenure 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 diversity, including skills and experience, gender, social and ethnic backgrounds, cognitive and personal strengths and length of service. The aim of the Company is to have an appropriate level of diversity in the boardroom in order to bring constructive challenge and fresh perspectives to discussions. These matters were all expressly considered as part of the externally-facilitated recruitment processes completed during the course of the year, which were designed to identify a diverse range of potential candidates, with a number of female candidates and at least one candidate from a minority ethnic background being interviewed. The subsequent appointments were based on merit and objective criteria in order to ensure the Board collectively had the necessary combinations of skills, experience and knowledge.

The Board supports the overall recommendations of the FTSE Women Leaders Review and Parker Review for appropriate gender and ethnic diversity and notes that the during the year to 30 June 2023, the FCA has introduced 'comply or explain' targets that at least 40% of the Board should be women, that at least one of the senior board positions should be held by a woman, and that at least one member of the Board should be from a minority ethnic background. At the year end, 40% of the Board were women and Ms Fyfe was Chair and therefore the Company meets the first two of these targets. The Company's non-compliance with the third is explained in more detail on the following page. In accordance with Listing Rule 9.8.6R (9), (10) and (11) the Board has provided the following information in relation to its diversity. This information has been collected by self-disclosure directly from the individuals concerned who were asked to confirm their gender and ethnicity. There have been no changes to the composition of the Board since 30 June 2023.

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (Chair and the SID)
Men	3	60%	1
Women	2	40%	1
Not specified/prefer not to say	–	–	–

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (Chair and the SID)
White British or other White (including minority-white groups)	5	100%	2
Mixed/Multiple Ethnic Groups	–	–	–
Asian/Asian British	–	–	–
Black/African/Caribbean/Black British	–	–	–
Other ethnic group, including Arab	–	–	–
Not specified/prefer not to say	–	–	–

No other categories of ethnicity are relevant for the Company and the Company only has two of the senior positions on its Board specified by the Listing Rules, being the positions of chair and senior independent director. As an externally managed investment company with no executive directors, the Company does not have the remaining senior positions on its board, specifically it does not have either a chief executive or a chief financial officer.

As the Company is an investment company with no executive directors and a small board relative to that which would be expected for a trading company of equivalent size, it has not managed to comply with the newly introduced diversity targets as none of the current Directors come from an ethnic minority background, although as set out on the previous page this was expressly considered during the appointment processes conducted during the year. The Board will continue to take all matters of diversity into account as part of its succession planning and the benefits of diversity will continue to be considered as an important factor in all future appointments. All appointments will continue to be based on merit and objective criteria and will not discriminate on the grounds of gender, ethnicity, socio-economic background, religion, sexual orientation, age or physical ability.

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 Chair, has been imposed. However, the Board does not currently envisage that any Director will serve for 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.

Independence of Directors

The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. Following the retirement of Mr Coull at the conclusion of the AGM on 6 December 2022, Mr Cotton has performed 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 32 and 33. 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.

Senior Independent Director

The Company has appointed a Senior Independent Director. This role was fulfilled by Mr Coull until his retirement on 6 December 2022, at which date Mr Cotton was appointed to the position. The role of the senior independent director is to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. The senior independent director, will also lead the appraisal of the chair's performance, as set out on page 43 and will lead any other discussion of the non-executive directors without the chair being present on other occasions as necessary.

Removal of Directors

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

Audit Committee

The Board has established an Audit Committee, the role and responsibilities of which are set out in the report on pages 45 to 50.

Remuneration Committee

The Board has established a Remuneration Committee, the role and responsibilities of which are set out in the report on page 51.

ESG Committee

The Board has established an ESG Committee which comprises all the Directors. The Committee was initially chaired by Ms Fyfe, with Mr Brodtman being appointed as chair of the Committee with effect from 1 June 2023. The Committee oversees the formulation and implementation of the Group's ESG policy and strategy, including scrutinising those matters delegated to the Investment Manager. It is responsible for proposing targets to achieve the Board's policy objectives and monitors progress against those targets, taking into consideration developments in relation to legal and regulatory requirements and industry practice which may have an impact on the Group's activities. The Committee reviews and approves any material public reporting and market disclosures, including within the Annual Report, in respect of ESG matters.

The ESG Committee met on four occasions throughout the year to consider the progress and status of relevant ESG matters, as reported by the Investment Manager, and to continue the process of developing challenging, but achievable and realistic, targets for the Group. This included consideration of the appropriate means of measuring results and monitoring progress against those targets. The Committee improved the Company's governance by approving enhanced policies for the Group in relation to areas such as fraud, modern slavery and human trafficking, and shareholder rights. The Committee also monitored progress in relation to the annual GRESB submission for the year ended 31 December 2022 and reviewed and approved the Group's inaugural Sustainability Report which was published in March 2023. The Committee has encouraged the further development of the Investment Manager's property-by-property asset management plan to identify areas where the energy efficiency and carbon emissions of the Group's property portfolio can be further improved, and has approved an initial budget of £1 million to action any initiatives identified. More recently, the Committee has reviewed and engaged additional external advisers to ensure that the Group continues to have access to sufficient and appropriate specialist expertise and resources to continue to progress its ESG activities and reporting.

In addition to the formal meetings of the Committee, monthly meetings were established between the Chair of the Committee and appropriate representatives of the Investment Manager.

Management Engagement Committee

The Board has established a Management Engagement Committee which comprises all the Directors. The Committee has been chaired by Ms Fyfe since the retirement of Mr Naish on 6 December 2022. 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 41. The Management Engagement Committee has also reviewed the proposed timetable for the tender of the provision of external valuation services, which is anticipated to be completed during the forthcoming year in advance of the expected introduction of new rules prescribing the mandatory rotation of external valuers.

Investment Committee

The Board has established an Investment Committee which comprises all the Directors. The Committee has been chaired by Ms Fyfe since the retirement of Mr Naish on 6 December 2022. The Committee reviews each investment paper prepared by the Investment Manager and is responsible for authorising all purchases and sales, and significant capital expenditure or asset management activities, within the Company's portfolio. The Investment Committee considered each investment paper as and when circulated by the Investment Manager, providing independent challenge where appropriate, and met quarterly to formally ratify the Committee's decision to approve or decline each of the investment recommendations proposed.

Nomination Committee

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

The Nomination Committee is responsible for:

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

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

The Nomination Committee met formally on three occasions throughout the year to ensure that the plans in place for an orderly succession to the Board remained appropriate and to complete the recruitment processes which resulted in the appointments of Mr Cotton and Mr Brodtman. Similar to the process in place in the prior year regarding the appointment of Dr Thompsell, the Nomination Committee worked with external recruitment consultants to determine the appropriate skills and experience required of the appointee(s) and to agree the appropriate method of recruitment, selection and appointment. This included the creation and review of an attributes matrix to ensure that the Board as a whole, comprising both the continuing Directors and the proposed appointee(s), would have the collective skills and experience necessary to enable effective oversight of the Group. After considering applications, reviewing a long-list of candidates and conducting interviews with the short-listed candidates, the Committee recommended that Mr Cotton be appointed as a Director with effect from 1 November 2022 and that Mr Brodtman be appointed as a Director with effect from 1 January 2023.

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 Chair. This process involved the completion of questionnaires tailored to suit the nature of the Company and, as required, discussions with individual Directors and individual feedback from the Chair to each of the Directors. The evaluation of the Chair was led by the Senior Independent Director in consultation with the other Directors.

The main findings of the assessment were:

- that the Board was operating well, with skill and focus on all the areas of importance; including proactive consideration of the key issues in the Group's Strategy and the performance of its property portfolio. It was noted, however, that further consideration may be given to the allocation of time at meetings held throughout the financial year between strategic, investment and corporate governance matters;
- that the meetings of the Board and Committees were effectively conducted and chaired, aided by appropriate agendas and supporting papers, and were of sufficient duration, regularity and timeliness to support effective decision making;
- that the establishment of a dedicated ESG Committee had provided additional focus on the Group's, and Investment Manager's, progress and quality of reporting in this area;
- that the change in the Chair during the course of the year had been conducted effectively, with no transitional issues or concerns noted;
- that the succession planning in relation to the Board had been appropriately addressed and actioned, resulting in a balanced Board with the necessary range of skills and experience to enable effective oversight over the Company and the performance of the Investment Manager.

The conclusion from the appraisal process conducted in relation to the year ended 30 June 2023 was that the Board and each committee was operating effectively, with an appropriate and sufficient balance of experience and skills. An assessment process led by an external facilitator was last conducted during the year ended 30 June 2021 and the Board anticipates having an externally facilitated Board evaluation conducted at least every three years.

Relations with shareholders

The Group proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports from the Investment Manager and Broker on the views of shareholders, and the Chair and other Directors make themselves available to meet shareholders when required to discuss the Group's business and address shareholder queries. The Chair has held a number of discussions directly with shareholders over the course of the year on specific areas of interest, and the Board has considered the views of other shareholders that preferred to meet with the Investment Manager in relation to matters such as the level of dividend paid by the Company. It is expected that direct meetings with the Chair, or the chair(s) of the relevant Committee(s), will continue to be made available to shareholders, although this may be through the use of video conferencing facilities.

The Notice regarding the Annual General Meeting is included on pages 91 to 93. It is intended that the AGM will be held physically at the offices of Dickson Minto, Dashwood House, 69 Old Broad Street, London EC2M 1QS. However, as set out on page 38, shareholders are encouraged to lodge their votes with the Registrar either by use of the proxy form provided, or by electronic means, and to submit any questions they may have for the Directors or Investment Manager in advance through the Company Secretary (info@targetfundmanagers.com). The Annual Report and Notice of Annual General Meeting are posted to shareholders at least 21 clear days before the Annual General Meeting.

Environmental, Social and Human Rights Issues

Responsible Investment and Environmental, Social and Governance ('ESG') considerations are core values of the Group and its Investment Manager. In collaboration with its tenants, the Group provides demonstrable social impact within best-in-class care homes. These are considered in more detail on pages 10 to 13 and 22 to 23. The Group has also published a separate Sustainability Report for the year to 31 December 2022.

- 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. The Investment Manager has implemented a "house standard" investment approach which formally guides how ESG factors are considered for each new investment opportunity.
- Before acquiring any home, the Investment Manager reviews on a granular level, inter alia: the position of the home in the community and how the home engages with its community, the building lay-out and facilities, the natural environment of the home, the management team and general governance shown by the tenant as well as any relevant ratings by regulatory bodies such as the Care Quality Commission.
- Once the Group has acquired a care home, the Investment Manager undertakes regular reviews of the environmental, social, governance and ethical policies that the home has in place and (to the extent possible) their adherence to these policies in the delivery of their services.
- The Investment Manager's role as an engaged landlord includes careful monitoring of the home and ongoing dialogue with management. In usual circumstances, the Investment Manager will visit every home at least every six months, occasionally visit the properties unannounced to gauge the culture and engaging with tenants who wish to improve their homes, potentially providing support and funding for this. The Group is currently undertaking a home-by-home review of its portfolio to pro-actively assess opportunities to further improve the portfolio's environmental or social credentials.
- The Group's vision of care includes promoting the conservation, protection and improvement of the physical and natural environments surrounding care homes not least because this makes the care home more attractive for both tenants and residents.

Stewardship Code

The Investment Manager is a signatory to the Stewardship Code published by the Financial Reporting Council on 6 September 2021. Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Stewardship Code sets high stewardship standards for asset owners and asset managers, and for service providers that support them. The Investment Manager's Stewardship Code Statement of Compliance is available on its website at www.targetfundmanagers.com.

On behalf of the Board

Alison Fyfe
Chair
9 October 2023

Report of the Audit Committee

I am pleased to present my report as the Chair of the Audit Committee. This report sets out the role, responsibilities and actions taken by the Audit Committee to ensure that the suitable controls continue to operate and that appropriate financial information continues to be issued on a timely basis to the Company's stakeholders.

Vince Niblett
Chair of the Audit Committee

Composition of the Audit Committee

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

The Board consider that the Chair's experience of the property and finance sectors is invaluable to the Audit Committee, particularly in regard to providing guidance in relation to the appropriateness and risks regarding the Group's loan facilities and related hedging derivatives and in 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 Chair remains a member of the Committee.

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

Role of the Audit Committee

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

Responsibilities of the Audit Committee	How they have been discharged
Monitoring the integrity of the half-year and annual financial statements, and any formal announcements relative to the Group's financial performance, including the appropriateness of the accounting policies applied and any significant financial reporting judgements and key assumptions.	The Committee met five times during the year to: – review the contents of the half-yearly report, and to consider the audit plan and the proposed audit fee; – consider, in advance of the Company's year end, any significant changes to accounting standards or other disclosure requirements and any significant financial reporting judgements and key assumptions expected to apply at the Group's year end; and – review the contents of the Annual Report. The Investment Manager and Company Secretary attended each of these meetings, with the Auditor also attending the meetings at which the audit plan and the contents of the half-yearly and annual reports were reviewed. The significant matters considered by the Group are listed on page 49. In addition, during the year the Committee kept under review the Investment Manager's implementation of a new financial accounting and reporting system, the statutory financial reporting of each of the Group's subsidiaries for the year ended 30 June 2022 and the internal financing structure of the Group, including the settlement of intercompany loans and the payment of intragroup dividends. The Committee met a further time during the year to conclude on the audit tender process, as reported in detail in this report last year and summarised later in this report.
Assessment of the prospects of the Company, taking account of the Company's position and principal risks, and consideration of the period of time over which such evaluation can be made.	The Committee has reviewed the assessment described in more detail under the section 'Viability Statement' within the Directors' Report, and the underlying data on which such assessment was based, to ensure that the work undertaken, the conclusions reached and the disclosures included within the Annual Report were appropriate.

Responsibilities of the Audit Committee	How they have been discharged
Evaluation of the effectiveness of the internal controls and risk management systems and procedures.	The Investment Manager maintains a risk matrix which summarises the Group's key risks. The risk matrix is considered by the Directors at least semi-annually, with key principal and emerging risks also being discussed at the Group's annual two-day strategy meeting. During the year ended 30 June 2023, the Committee appointed a reporting accountant to review and report on the Investment Manager's implementation of a new accounting system. The Committee also reviewed the Investment Manager's internal controls report over its own processes, prepared under ISAE 3402 "Assurance Reports on Controls at a Service Organization". The Committee noted that this report was a Type I report, documenting a snapshot of the Investment Manager's controls, with the Investment Manager intending to commission the production of a Type II report, which would document the operation of the controls over a period of time, in future years. Following consideration and review, taking into account the work completed by reporting accountants commissioned by the Company in both the current and prior years, the Committee concluded that this provided sufficient information to adequately assess the Investment Manager's control environment, as far as it was relevant to the Group, and it was not necessary to appoint a reporting accountant to conduct additional agreed upon procedures. The Committee also considered the internal control report's for other significant service providers, where available, including the Company's registrar. From a review of the risk matrix, the outcome of the procedures undertaken by the reporting accountant, a discussion in relation to the ISAE 3402 report on the Investment Manager, and ongoing review of the regular management information received by the Board and Committees, combined with discussion with the Investment Manager and Company Secretary, the Committee has satisfied itself on the effectiveness of the risk and control procedures.
Consideration of dividend calculations both in relation to PID/non-PID payments made by the Company and other dividends paid internally within the Group.	The Committee has reviewed the calculation of the split of distributions between PID and non-PID, including consideration of the suitability of the allocation of the costs of the Group between its property rental business and its residual business. The Committee has reviewed the methodology followed by the Investment Manager, and directors of the subsidiaries, in determining and recommending the level of other dividends paid internally within the Group.
Consideration of the narrative elements of the annual financial report, including whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.	The Committee has reviewed the content and presentation of the Annual Report and ensured that it achieves the three criteria opposite. As part of this review, the Committee considered the nine characteristics of good corporate reporting set out in the FRC's Annual Review of Corporate Reporting.
Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.	The Committee ensures, through its Legal Adviser, Investment Manager, Company Secretary and Auditor, that any developments impacting on the Company's responsibilities are tabled for discussion at Committee or Board meetings. The Committee ensured that the Company was fully compliant with the AIC Code. The Committee also considered the FRC Standard "Audit Committees and the External Audit: Minimum Standard" which was published on 22 May 2023. The Committee concluded that no significant changes were required from its current practices to ensure compliance with the FRC Standard, but noted that best practice in relation to the production and publication of relevant audit quality indicators was likely to continue to develop.
Management of the relationship with the external Auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their audit.	The Auditor attended the meetings of the Committee at which the Company's audit plan, half-yearly report and year end accounts were reviewed and also met separately with the Chairman of the Committee on two occasions, firstly, to discuss the findings of their interim review and the audit plan for the year ahead and, secondly, to consider the findings of their annual audit. The scope of the audit was discussed at the planning stage along with the staffing and timing of audit procedures to ensure that an effective audit could be undertaken. The Committee has also reviewed the independence and objectivity of the Auditor and has considered the effectiveness of the audit, as set out in more detail in the section entitled 'The Auditor' on page 48.

Responsibilities of the Audit Committee	How they have been discharged
Evaluation of reports received from the Auditor with respect to the annual financial statements and assessment of quality of the audit.	The Auditor's planning report, timetable and fee proposal were discussed with the Auditor in advance of work commencing, together with the areas of audit focus, the level of materiality and the audit work proposed to be undertaken. These matters had also been considered as part of the audit tender process concluded prior to the re-appointment of the Auditor for the current year and it was noted that the circumstances of the Group had remained largely unchanged and therefore the audit plan, timetable and fee proposal did not subsequently require to be significantly amended from those proposed by the Auditor, and considered by the Committee, during the audit tender. The Committee paid particular attention to any changes in accounting standards or in the nature of activities undertaken by the Group and ensured that the audit plan appropriately addressed these areas. The Committee specifically challenged the Auditors, at both the planning and reporting stage, in relation to the audit work undertaken on any particular areas of judgement or estimation; including the valuation of the property portfolio and the methodology followed in the determination of the credit loss allowance. In addition, the Committee sought evidence of the Auditor's challenge of the Investment Manager and Administrator, particularly in relation to areas containing significant estimates or assumptions and the accounting treatment of any one-off accounting matters arising in the year; such as the accounting for the Group's acquisition of an interest rate cap. The Committee specifically considered the external valuation of the Group's property portfolio, with the external valuers attending the meeting at which the annual results were discussed in order to present directly to the Committee a summary of their valuation process and any significant matters they wished to highlight either in relation to the valuation methodology generally or to specific properties or tenants. At the conclusion of the audit, the Committee discussed the audit results report with the Auditor, Company Secretary and Investment Manager. This review considered the quality of the audit through ensuring that the audit risks identified and the audit work undertaken did, in the opinion of the Audit Committee, capture and appropriately consider those matters which gave rise to the risk of material misstatement to the financial statements and disclosures. Further detail on the assessment of the quality of the audit is included in the section entitled 'The Auditor' on page 48.
To conduct the tender process and make recommendations to the Board for it to put to the shareholders for their approval in general meeting, about the appointment, reappointment and removal of the external auditor.	At the start of the year under review, the Audit Committee completed the tender of the Group's external audit. The details of this process were reported in the prior year, and resulted in the recommendation that the incumbent auditors, Ernst & Young LLP, be re-appointed as external auditor to the Group for the year ended 30 June 2023. This proposal was subsequently approved by shareholders at the AGM held on 6 December 2022. The Audit Committee does not anticipate undertaking a further tender of the Group's external audit during the forthcoming year.

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 24 and 25.

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

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

As the Group has evolved, the Investment Manager has developed a system of internal controls covering the processes listed above. As referred to on page 46, the Investment Manager has engaged an independent service auditor to undertake a review of its control environment in accordance with International Standard on Assurance Engagements ('ISAE') 3402 "Assurance Reports on Controls at a Service Organization". During the year ended 30 June 2023, the Board also commissioned a separate report by a reporting accountant on the Investment Manager's implementation of a new accounting system. The Audit Committee's review of each report did not identify any significant issues or concerns.

Internal controls continued

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, taking into consideration the internal financial controls systems set out on the previous page and, in particular, any matters arising in relation to the Investment Manager's ISAE 3402 report and the work of the reporting accountant. 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 and the Investment Manager's Independent Service Auditor, provide sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary.

The Auditor

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

In evaluating EY's performance, the Audit Committee has taken into consideration the standing, skills and experience of the firm and of the audit team, along with their robustness and perceptiveness in their identification, consideration and reporting of the key accounting and audit judgements. The Committee assessed the effectiveness of the audit process through the quality of the formal reports, both verbal and written, it received from EY at the planning and conclusion of the audit, including the reasons for any variation from the original audit plan, together with the contribution which EY made to the discussion and challenge 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 2023 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 Matthew Price and the audit for the year ended 30 June 2023 constitutes the first year of his term. Having considered the effectiveness of the audit, the Audit Committee has recommended the continuing appointment of EY as the Group's auditor to the Board. The performance of the Auditor will continue to be reviewed annually taking into account all relevant guidance and best practice. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014. This order relates to the frequency and governance of tenders for the appointment of the external auditor and the setting of the policy on the provision of non-audit services. The Group will require to undertake an audit tender, with mandatory rotation of the audit firm, before 30 June 2032.

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

Other than the review of the interim financial information, the auditors were not engaged to undertake any non-audit services either during the year or over the prior three-year rolling period. Different accountancy firms were engaged to provide tax advice and compliance and to undertake the review of the internal controls within the Investment Manager. The Audit Committee has also ensured that the provision of non-audit services did not endanger the independence of any party that the Company intended to invite to participate in the audit tender which concluded during the year.

Service provided (inclusive of irrecoverable VAT)	Fee (£'000)
Statutory audit of the Company for the year ended 30 June 2023	124
Statutory audit of the Company's subsidiaries for the year ended 30 June 2023	221
Review of interim financial information for the six months ended 31 December 2022	16
Total (inclusive of irrecoverable VAT)	**361**

In addition to the fees stated above, the Company agreed to pay an additional fee relating to the statutory audit for the year ended 30 June 2022 of £7,000 (inclusive of irrecoverable VAT). This arose from additional audit work undertaken on the significant portfolio acquisition which completed during that year.

Annual Report and Financial Statements

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

Matter	Audit Committee action
Valuation and ownership of the investment property portfolio The Group's property portfolio accounted for 88.1 per cent of its total assets as at 30 June 2023. 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 Note 9 to the Consolidated Financial Statements.	The Investment Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation process throughout the year and the Directors had the opportunity to discuss the detail of each of the quarterly valuations with the Investment Manager. The Committee discussed the valuation as at 30 June 2023 directly with Colliers to ensure that they understood the assumptions underlying the valuation and the sensitivities inherent in the valuation and any significant area of judgement. The Committee also discussed the property market, and valuations, directly with Colliers following the significant movements noted in the second half of the calendar year to 31 December 2022 to ensure that the valuation of the Group's portfolio had appropriately reflected these movements on a timely basis. The Committee also discussed with the Auditor the work performed to confirm the valuation and ownership of the properties in the portfolio and noted the report of the Depositary, particularly the sections regarding the Depositary's responsibilities and work in relation to asset verification. The Committee considered the significant estimates and judgements inherent in the valuation process and considered how the auditors had challenged these by discussing the outcome of the review of the property valuations directly with the Auditor's valuation specialists; focussing particularly on any areas of difference between the judgement of the external valuers and the auditors.
Income recognition Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share, its level of dividend cover and compliance with REIT regulations.	The Audit Committee reviewed the Investment Manager's processes and controls around the recording of investment income, particularly noting the process enhancements arising from the Investment Manager's adoption of a new accounting system. It also compared the final level of income received for the year to forecasts. The Audit Committee considered the basis of calculation of the Group's estimated credit losses by reviewing the scenario analysis prepared by the Investment Manager and ensuring that this allowance, and any bad debts written off, was prepared on a basis consistent with the Directors' understanding of the financial position of each relevant tenant. The Committee also particularly considered the accounting treatment relating to deferred income following a lease amendment for a tenant which occupied a number of the Group's homes. 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. This included a review of the Investment Manager's implementation of a new accounting system, based on a scope of work agreed directly between the Reporting Accountant and the Audit Committee. The Audit Committee also reviewed the Investment Manager's ISAE 3402 Report. There were no material control deficiencies or weaknesses identified through this work.

The Audit Committee noted that the Auditors had not reported any significant indications of systemic weaknesses in the Group's internal controls or financial reporting processes and that no material adjustments had been 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 2023, 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.

Vince Niblett
Chair of the Audit Committee
9 October 2023

Directors' Remuneration Report

Welcome to the Directors' Remuneration Report. The aim of this report is to set out the policy used by the Company in setting the Directors' remuneration, as well as declaring the actual fees paid during the year and expectations for the following twelve months. Shareholders will be provided with an opportunity at the forthcoming AGM to vote in relation to this Report.

Amanda Thompsell
Chair of the Remuneration Committee

Composition and Role of the Remuneration Committee

The Company has established a Remuneration Committee chaired by Dr Thompsell. The Committee has 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 Dr Thompsell 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 2023 and the intended fees to be paid in relation to the forthcoming year are shown on the following page.

Remuneration policy

The Group's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Group properly and to reflect its specific circumstances. The policy also provides for the Company's reimbursement of all out of pocket approved expenses incurred wholly and exclusively in fulfilling their duties in relation to the Group, such as reasonable travel and associated expenses incurred by the Directors in attending Board and Committee meetings.

The fees for the Directors are determined within the limit set out in the Company's Articles of Association and this limit 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. The Company may periodically choose to benchmark Directors' fees with an independent review, to ensure they remain fair and reasonable.

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.

The Remuneration Policy must be approved by shareholders at least every three years or, if earlier, when any changes to the policy are proposed by the Company.

Voting at Annual General Meeting on the Directors' Remuneration Policy

The Company has not received any direct communications from its shareholders in respect of the levels of Directors' remuneration. Shareholders last approved the Directors' Remuneration Policy at the Company's AGM held on 6 December 2022. 100 per cent of the votes cast were in favour of the resolution and votes withheld represented less than 2.7 per cent of the shares in issue. It is currently intended that the above policy will continue for a three-year period and will therefore next be considered at the AGM to be held in 2025.

Directors' Fees

The Board considers the level of Directors' fees at least annually, and intends to appoint an external consultant at least every three years to provide advice on the level of Directors' Remuneration in order to ensure that the level of remuneration remains in line with the market level necessary to attract, retain and motivate non-executive Directors of the quality required to govern the Company successfully. The most recent such review was conducted in August 2021, following which the level of fees subsequently recommended by the Remuneration Committee and approved by the Board for the year ended 30 June 2022 was, in aggregate, 6% lower than the external consultant's recommendation. It is intended that the next external review will be conducted by 30 June 2024.

The Remuneration Committee conducted a review of the level of Directors' fees at the end of the year ended 30 June 2023, which included:
– consideration of the most recently available external consultant's recommendation;
– consideration of the level of wage and price inflation since the date of the most recently available external consultant's recommendation and for the year ended 30 June 2023;
– an assessment of the ongoing workload and responsibilities, taking into account increasingly complex and onerous legal and regulatory requirements;
– consideration of the Group's performance, including the like-for-like growth in the Group's rental income;
– consultation with various of the Group's advisers in relation to their experiences of current market practice; and
– consideration of the level of fees paid by the Group's peer group;

The Committee concluded that the level of Directors' fees paid by the Company remained below that paid by other similar companies. However, it remained mindful of the Group's performance and the current circumstances being faced by the healthcare sector, the overall economic environment and recent falls in property valuations generally. Therefore, it was considered appropriate that the overall increase in fees was restricted to a level below the current level of inflation, with a proportionately higher increase for the Chair to bring the fee for this role in line with the external consultant's previous recommendation. The increase in aggregate Directors' fees to £227,250 will represent an annual percentage increase consistent with the level of rental growth in the Group's property portfolio for the year ended 30 June 2023.

	Year ending 30 June 2024 £'s	Year ended 30 June 2023 £'s	Year ended 30 June 2022 £'s	Change in year ended 30 June 2023 %
Chair	**58,500**	54,000	50,000	+8.0
Audit Committee Chair	**47,250**	45,500	44,000	+3.4
Director	**40,500**	39,000	37,500	+4.0

The present limit on Directors' fees is an aggregate of £250,000 per annum. This limit may be amended by changing the Company's Articles of Association, or by the passing of an ordinary resolution at a general meeting. No such resolution has been proposed.

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. No other forms of remuneration or taxable benefits were paid during the year.

	Year ended 30 June 2023 £'s	Change in year ended 30 June 2023[1] %	Year ended 30 June 2022 £'s	Change in year ended 30 June 2022[1] %	Year ended 30 June 2021 £'s	Change in year ended 30 June 2021[1] %
Alison Fyfe	**47,602**	**+26.9[2]**	37,500	+14.5	32,750	+600.0[2]
Vince Niblett	**45,500**	**+27.3[3]**	35,738	n/a	–	n/a
Amanda Thompsell	**39,000**	**+149.6[4]**	15,625	n/a	–	n/a
Richard Cotton (appointed 1 November 2022)	**26,000**	**n/a**	–	n/a	–	n/a
Michael Brodtman (appointed 1 January 2023)	**19,500**	**n/a**	–	n/a	–	n/a
Malcolm Naish (retired 6 December 2022)	**23,390**	**-53.2**	50,000	+13.6	44,000	+0.0
Gordon Coull (retired 6 December 2022)	**16,893**	**-58.4**	40,651	+4.2	39,000	+0.0
June Andrews (retired 14 December 2021)	–	**n/a**	17,067	-47.9	32,750	+0.0
Tom Hutchison (retired 14 December 2021)	–	**n/a**	17,067	-47.9	32,750	+0.0
Total	**217,885**	**+2.0**	213,648	+17.9	181,250	+13.4

1 In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, these columns show the annual percentage change over the preceding financial year by comparison to the current financial year in respect of each Director that has served in their relevant role for a minimum of two financial years. This annual percentage change will continue to be published cumulatively until a history of the previous five financial years is presented. The percentage increases shown reflect both: (i) increases in rates of remuneration (as per the table above showing the remuneration per role for recent years); and (ii) any changes in remuneration arising if a director served for less than a year, or changed roles, during one of the years being compared.
2 Ms Fyfe was appointed as a Director on 1 May 2020 and as Chair, succeeding Mr Naish, on 6 December 2022.
3 Mr Niblett was appointed as a Director on 25 August 2021 and as Chair of the Audit Committee, succeeding Mr Coull, on 14 December 2021.
4 Dr Thompsell was appointed as a Director on 1 February 2022.

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 2023 £'000	Year ended 30 June 2022 £'000	Change in year ended 30 June 2023 %
Aggregate Directors' remuneration	**218**	214	+2.0
Management fee and other revenue expenses*	**10,738**	13,702	-21.6
Distributions paid to shareholders in respect of the year	**38,330**	41,928	-8.6

* 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 2023 were as follows:

	Ordinary shares 30 June 2023	Ordinary shares 30 June 2022
Alison Fyfe	**10,000**	10,000
Vince Niblett	**–**	–
Amanda Thompsell	**–**	–
Richard Cotton (appointed 1 November 2022)	**30,000**	–
Michael Brodtman (appointed 1 January 2023)	**24,210**	–
Malcolm Naish (retired 6 December 2022)	**n/a**	45,001
Gordon Coull (retired 6 December 2022)	**n/a**	35,454
Total	**64,210**	90,455

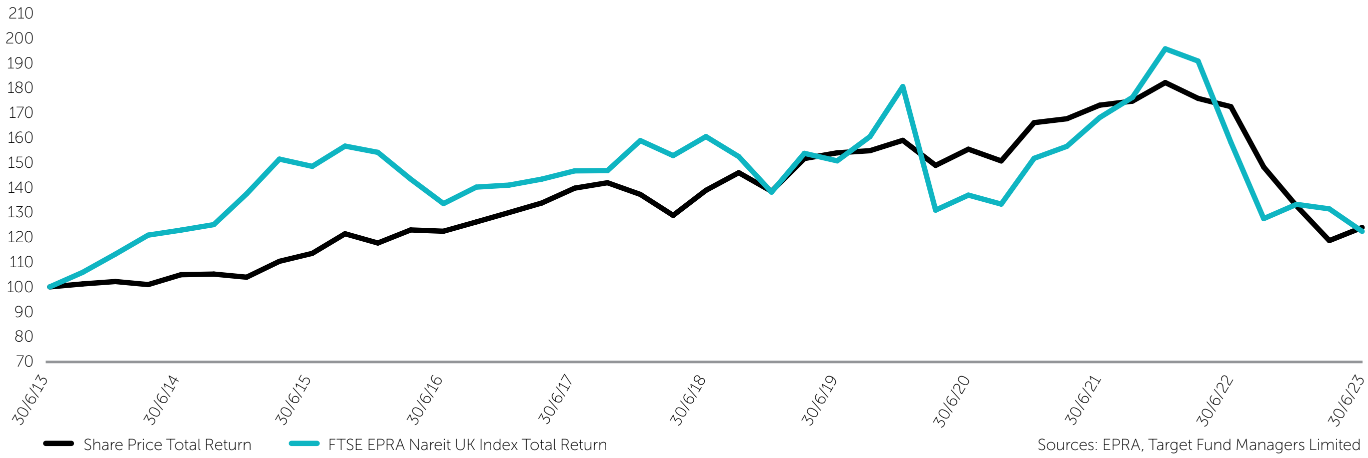
There have not been any changes in the Directors' interests between 30 June 2023 and 9 October 2023. No Director had an interest in any contracts with the Company during the year or subsequently.

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 30.

The graph below compares, for the ten years to 30 June 2023, 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 30 June 2013)



Sources: EPRA, Target Fund Managers Limited

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

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

At the Company's previous AGM, held on 6 December 2022, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2022. 99.2 per cent of the votes cast were in favour of the resolution and votes withheld represented less than 2.7 per cent of the shares in issue.

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting to be held on 29 November 2023.

On behalf of the Board

Amanda Thompsell
Director
9 October 2023

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 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Target Healthcare REIT plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2023 which comprise:

Group	Parent Company
Consolidated Statement of Comprehensive Income for the year ended 30 June 2023	Statement of Financial Position for the year ended 30 June 2023
Consolidated Statement of Financial Position for the year ended 30 June 2023	Statement of Changes in Equity for the year ended 30 June 2023
Consolidated Statement of Changes in Equity for the year ended 30 June 2023	Related notes 1 to 12 to the financial statements including a summary of significant accounting policies
Consolidated Statement of Cash Flows for the year ended 30 June 2023	
Related notes 1 to 23 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 UK adopted international accounting standards. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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.

Conclusions relating to going concern

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

- Confirming our understanding of the Group and Parent Company's going concern assessment process and engaging with the directors and the Company Secretary to determine if all key factors have been included in their assessment.
- Inspecting the directors' assessment of going concern, including the revenue and expenses forecast for the period to 31 December 2024, which is 12 months from the date the financial statements have been authorised for issue. In preparing the revenue and expenses forecast, the Group and Parent Company have concluded that it is able to continue to meet its costs as they fall due.
- Reviewing the factors and assumptions, including the impact of external market factors, as applied to the revenue and expenses forecast. We considered the appropriateness of the methods used to calculate the revenue and expenses forecast, and determined, through testing of the methodology and calculations, that the methods, inputs and assumptions utilised were appropriate to be able to make an assessment for the Group and Parent Company.
- In relation to the Group's borrowing arrangements, inspecting the directors' assessment of the risk of breaching the debt covenants as a result of a reduction in the value of the Group's portfolio. We recalculated the Group's compliance with debt covenants in the scenarios assessed by the directors and performed reverse stress testing in order to identify what factors would lead to the Group breaching the financial covenants.
- Considering the mitigating factors included in the revenue forecasts and covenant calculations that are within the control of the Group.
- Reviewing the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with UK adopted international accounting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period to 31 December 2024, which is 12 months from the date the financial statements have been authorised for issue.

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

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

Overview of our audit approach

Key audit matters	– Incomplete or inaccurate recognition of rental income, including accounting for rental uplifts and lease incentives – Failure to recognise an appropriate expected credit loss – Incorrect valuation or ownership of investment properties
Materiality	– Overall Group materiality of £6.55m which represents 1% of Group net assets.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each Company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the risk profile, account size, the organisation of the group and changes in the business environment when assessing the level of work to be performed at each Company. All audit work performed for the purposes of the audit was undertaken by the Group audit team which includes our real estate valuation specialists.

Climate change

Stakeholders are increasingly interested in how climate change will impact Target Healthcare REIT plc. The Group and Parent Company has determined that the most significant future impacts from climate change on their operations will be on the valuation of investment properties, and potentially shareholder returns. These are explained on pages 24 to 25 in the principal risks and uncertainties. These disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

Our audit effort in considering climate change was focused on the adequacy of the Group and Parent Company's disclosures in the financial statements as set out in note 1(a) which concludes that there was no further material impact of climate change to be taken into account other than the potential impact on investment properties. Investment properties are valued at fair value based on open market valuations as described in Note 1(h). The open market valuation assessment includes consideration of environmental matters and the condition of each property with detail on the fair value of properties provided within the notes to the financial statements.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incomplete or inaccurate recognition of rental income including accounting for rental uplifts and lease incentives (Refer to Report of the Audit Committee (page 49) and Accounting Policies (page 65)) During the year ended 30 June 2023, £67.66m (2022: £59.02m) has been recognised by the Group as rental income. Of this £56.35m (2022: £48.81m) has been recorded as revenue in the Consolidated Statement of Comprehensive Income and £11.31m (2022: £10.22m) as capital relating to rent review uplifts which are being spread over the applicable lease term. The rental income receivable by the Group during the period is a significant factor in the Group's decision to make a dividend payment to shareholders. Rental income from the investment properties is recognised on an accrual basis with the exception of contingent rents which are recognised on a receipt basis. The lease agreements tend to have durations of multiple years and minimum and maximum annual rental increase clauses. Leases may also include lease incentives such as rent-free periods. IFRS 16 'Leases' requires that lessors recognise lease payments as income on either a straight-line basis or another systematic basis if that basis is more representative of the pattern in which benefit derived from the use of the underlying asset is diminished. There is a risk of incomplete or inaccurate recognition of rental income including rental uplifts and lease incentives through the failure to recognise the proper entitlements or applying the appropriate accounting treatment.	**We performed the following procedures:** We obtained an understanding of the processes and controls surrounding rental income recognition including accounting for rental uplifts and lease incentives by performing walkthrough procedures. We have reviewed the Group's accounting policies in respect of rental income recognition, including events relating to re-tenanting, and ensured they have been consistently applied throughout the year and are in accordance with applicable accounting standards. We have verified 100% of the rental rates to lease agreements and recalculated 100% of the rental income recognised. We reperformed the calculations of the rental adjustments required for rental uplifts and lease incentives under IFRS 16 for all tenants and tested the allocation of returns between revenue and capital. We agreed a sample of rental income recorded as received to bank statements. We tested that a sample of expected rent receipts had been recorded with reference to executed lease agreements to ensure completeness. We have confirmed there was no contingent rent received in the period through review of the lease agreements and rental calculations in the year.	The results of our procedures identified no material misstatement in relation to the risk of incomplete or inaccurate recognition of rental income including accounting for rental uplifts and lease incentives.
Failure to recognise an appropriate expected credit loss (Refer to Accounting Policies (pages 64 and 67); and Note 3 of the Consolidated Financial Statements (page 69)). As at 30 June 2023, a £1.97m (2022: £6.96m) credit loss allowance has been recognised by the Group against a gross receivable of £3.49m (2022: £8.50m). The expected credit loss provision is a significant balance within the Group's net asset value. Incorrect estimation of this provision could have a significant impact on the current trade and other receivables. The expected credit loss provision requires significant judgement and estimates by the Manager. Any input inaccuracies or unreasonable bases used in these judgements and estimates (such as in respect to the weighted probabilities of repayment within the provision matrix in accordance with IFRS 9) could result in a misstatement of the Statement of Financial Position. There is a risk that the expected credit loss recognised is inappropriate due to the significant judgements and estimates made by management.	**We performed the following procedures:** We obtained an understanding of the processes and controls surrounding the estimation of the expected credit loss provision by performing walkthrough procedures. We reviewed, challenged and corroborated with evidence, the range of outcomes and probabilities assigned and assessed the specific weighted credit loss outcomes to ensure they appear reasonable. We reviewed the methods used in calculating the expected credit loss provision to ensure they are in line with UK-adopted international accounting standards guidance. We agreed key known inputs for the expected credit loss provision calculation to our audited working papers, including obtaining evidence for write-offs agreed during the year. We reviewed any indicators post year end that the credit loss model was not appropriate based on subsequent information and consider whether any such information would have been available at year end.	The results of our procedures identified no material misstatement in relation to the risk of failure to recognise an appropriate expected credit loss.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Incorrect valuation or ownership of investment properties (Refer to Report of the Audit Committee (page 49); Accounting policies (pages 66 and 67); and Note 9 to the Consolidated Financial Statements (pages 72 and 73). At 30 June 2023, the Group's investment portfolio consisted of UK healthcare properties, with a market value of £868.71m (2022: £911.60m) and carrying value of £800.16m (2022: £857.69m), which is net of a deduction of £68.55m (2022: £56.71m) to account for lease incentives and rent reviews. The Parent Company investment portfolio consisted of UK healthcare properties, with a market value of £7.52m (2022: £7.63m) and a carrying value of £7.43m (2022: £7.63m) which is a net deduction of £0.09m (2022: nil) to account for lease incentives and rent reviews. The valuation of the properties held in the investment portfolio, and unrealised gain/(losses) on the investment portfolio are the key drivers of the Group's net asset value and total return. Incorrect pricing, including the judgement involved in the valuation of property investments could have a significant impact on the portfolio valuation and the return generated for shareholders. The valuation of investment property requires significant judgement and estimates by the Manager and the external valuers. Any input inaccuracies or unreasonable bases used in these judgements and estimates (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Statement of Financial Position and in the Statement of Comprehensive Income. The properties are valued externally on behalf of the Group by Colliers International Healthcare Property Consultants Limited ('Colliers') and recorded in the Consolidated Financial Statements at their carrying value, being the Colliers open market valuation adjusted for the impact of lease incentives and rental uplifts. Failure to maintain proper legal title of the Group's investment properties could result in assets being incorrectly recognised within the Statement of Financial Position. The valuation of investment properties and the resultant impact on unrealised gains/(losses) is the area requiring the most significant judgement and estimation in the preparation of the financial statements and has been classified as an area of fraud risk as highlighted below on page 59.	**We performed the following procedures:** We obtained an understanding of the processes and controls surrounding investment valuation and unrealised gains and losses by performing walkthrough procedures. We agreed the value of all the properties held at the year end to the open market valuations included in the valuation report provided by Colliers. We agreed a sample of inputs used by Colliers in the valuation to source data. We used our property valuation specialists to perform a review of the property valuations, which included: – Evaluating the competency, capability, objectivity and work performed by Colliers; – Reviewing the assumptions used by Colliers in undertaking their valuation and an assessment of the valuation methodology adopted; – Holding discussions with Colliers which included a high-level overview of the portfolio, covenant strength of the tenants within the portfolio and historic rent cover for a sample of properties; – Reviewing a sample of the individual property valuations as at 30 June 2023 and examining key valuation inputs; – Analysing key changes in the property valuation as a whole including a review of the reasonableness of the income yields for the properties; and – Reviewing the impact of the expected credit loss calculations and memo on a sample of property valuations. We reviewed the accounting policy and recalculated the adjustments made to the Colliers' fair value in respect of lease incentives and guaranteed rent reviews, to validate the carrying value of investment property. We ensured the consolidated financial statements contain adequate disclosures regarding the methods and assumption used in the valuation, including the required sensitivity analysis under IFRS 13 'Fair value measurement'. We obtained direct confirmation from independent third parties of the legal title to investment properties and forward funding development sites held as at 30 June 2023. We agreed a sample of key transaction details (e.g. property and trade date) of purchases and sales recorded by the Administrator to legal agreements, completion statements and bank statements. We recalculated the unrealised gains/losses on investment properties as at the year-end using the book cost reconciliation.	The results of our procedures identified no material misstatement in relation to the risk of incorrect valuation, calculation of unrealised gains/(losses) or ownership of investment properties and properties held for sale.

In the current year, we have included the failure to recognise an appropriate expected credit loss as a key audit matter to align our audit approach across the Group and subsidiary audits.

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 £6.55m (2022: £6.99m), which is 1% (2022: 1%) of 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 £6.55 million (2022: £6.99 million), which is 1% (2022: 1%) of 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% (2022: 75%) of our planning materiality, namely £4.91m (2022: £5.24m). 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 £0.33m (2022: £0.35m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- 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.

Corporate Governance Statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 34;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 34 and 35;

- Directors' statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 35;
- Directors' statement on fair, balanced and understandable set out on page 32;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 25;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 47 and 48; and;
- The section describing the work of the audit committee set out on page 45 to 50.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are the Companies Act 2006, the Listing Rules, the UK Corporate Governance Code, the Association of Investment Companies' Code and Statement of Recommended Practice, Part 12 of the Corporation Tax Act 2010, the Companies (Miscellaneous Reporting) Regulations 2018 and, for the Group, UK adopted international accounting standards, and for the Parent Company, FRS 101 "Reduced Disclosure Framework".
- We understood how the Group is complying with those frameworks through discussions with the Audit Committee and Company Secretary and review of documented policies and procedures.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified fraud risks with respect to the incomplete or inaccurate recognition of rental income including accounting for rental uplifts and lease incentives; and incorrect valuation and the calculation of unrealised gains/(losses) of investment properties. Further discussion of our approach is set out in the section on key audit matters above.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved substantive audit procedures including a review of legal expenses incurred, review of the reporting to the directors with respect to the application of the documented policies and procedures and review of the financial statements to ensure compliance with the reporting requirements of the Group and Parent Company.

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

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed as auditors of the Group, whose Parent Company at that time was Target Healthcare REIT Limited, on 10 September 2013. Following a Group reconstruction in August 2019, Target Healthcare REIT plc became the Parent Company of the Group and re-appointed us as auditor of the Group on 4 September 2019.

  The period of total uninterrupted engagement following reconstruction and including previous renewals and reappointments is four years, covering the years ending 30 June 2020 to 30 June 2023.
- 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.

Matthew Price (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London
9 October 2023

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2023

	Notes	Year ended 30 June 2023 Revenue £'000	Year ended 30 June 2023 Capital £'000	Year ended 30 June 2023 Total £'000	Year ended 30 June 2022 Revenue £'000	Year ended 30 June 2022 Capital £'000	Year ended 30 June 2022 Total £'000
Revenue							
Rental income		**56,354**	**11,308**	**67,662**	48,807	10,215	59,022
Other rental income		**–**	**–**	**–**	796	3,877	4,673
Other income		**86**	**–**	**86**	164	–	164
Total revenue		**56,440**	**11,308**	**67,748**	49,767	14,092	63,859
(Losses)/gains on revaluation of investment properties	9	**–**	**(54,021)**	**(54,021)**	–	5,553	5,553
Gains on investment properties realised	9	**–**	**575**	**575**	–	–	–
Losses on revaluation of properties held for sale		**–**	**–**	**–**	–	(7)	(7)
Total income		**56,440**	**(42,138)**	**14,302**	49,767	19,638	69,405
Expenditure							
Investment management fee	2	**(7,428)**	**–**	**(7,428)**	(7,307)	–	(7,307)
Credit loss allowance and bad debts	3	**(264)**	**–**	**(264)**	(3,232)	–	(3,232)
Other expenses	3	**(3,046)**	**–**	**(3,046)**	(3,163)	–	(3,163)
Total expenditure		**(10,738)**	**–**	**(10,738)**	(13,702)	–	(13,702)
Profit/(loss) before finance costs and taxation		**45,702**	**(42,138)**	**3,564**	36,065	19,638	55,703
Net finance costs							
Interest income	4	**134**	**–**	**134**	71	–	71
Finance costs	5	**(9,572)**	**(698)**	**(10,270)**	(6,671)	–	(6,671)
Net finance costs		**(9,438)**	**(698)**	**(10,136)**	(6,600)	–	(6,600)
Profit/(loss) before taxation		**36,264**	**(42,836)**	**(6,572)**	29,465	19,638	49,103
Taxation	6	**–**	**–**	**–**	(6)	–	(6)
Profit/(loss) for the year		**36,264**	**(42,836)**	**(6,572)**	29,459	19,638	49,097
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate derivatives designated as cash flow hedges	13	**–**	**2,742**	**2,742**	–	2,033	2,033
Total comprehensive income for the year		**36,264**	**(40,094)**	**(3,830)**	29,459	21,671	51,130
Earnings per share (pence)	8	**5.85**	**(6.91)**	**(1.06)**	4.92	3.28	8.20

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 2023

	Notes	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Non-current assets			
Investment properties	9	**800,155**	857,691
Trade and other receivables	10	**76,373**	63,651
Interest rate derivatives	13	**6,905**	2,284
		883,433	923,626
Current assets			
Trade and other receivables	10	**9,459**	5,549
Cash and cash equivalents	12	**15,366**	34,483
		24,825	40,032
Total assets		**908,258**	963,658
Non-current liabilities			
Loans	13	**(227,051)**	(231,383)
Trade and other payables	14	**(8,093)**	(7,145)
		(235,144)	(238,528)
Current liabilities			
Trade and other payables	14	**(18,306)**	(26,363)
Total liabilities		**(253,450)**	(264,891)
Net assets		**654,808**	698,767
Share capital and reserves			
Share capital	15	**6,202**	6,202
Share premium		**256,633**	256,633
Merger reserve		**47,751**	47,751
Distributable reserve		**187,887**	226,461
Hedging reserve		**5,026**	2,284
Capital reserve		**40,914**	83,750
Revenue reserve		**110,395**	75,686
Equity shareholders' funds		**654,808**	698,767
Net asset value per ordinary share (pence)	8	**105.6**	112.7

Company number: 11990238.

The financial statements on pages 60 to 80 were approved by the Board of Directors and authorised for issue on 9 October 2023 and were signed on its behalf by:

Alison Fyfe
Chair

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2022		**6,202**	**256,633**	**47,751**	**226,461**	**2,284**	**83,750**	**75,686**	**698,767**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**2,742**	**(42,836)**	**36,264**	**(3,830)**
Transactions with owners recognised in equity:									
Dividends paid	7	**–**	**–**	**–**	**(38,574)**	**–**	**–**	**(1,555)**	**(40,129)**
At 30 June 2023		**6,202**	**256,633**	**47,751**	**187,887**	**5,026**	**40,914**	**110,395**	**654,808**

For the year ended 30 June 2022

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2021		5,115	135,228	47,751	265,164	251	64,112	47,564	565,185
Total comprehensive income for the year		–	–	–	–	2,033	19,638	29,459	51,130
Transactions with owners recognised in equity:									
Dividends paid	7	–	–	–	(38,703)	–	–	(1,337)	(40,040)
Issue of ordinary shares	15	1,087	123,913	–	–	–	–	–	125,000
Expenses of issue	15	–	(2,508)	–	–	–	–	–	(2,508)
At 30 June 2022		6,202	256,633	47,751	226,461	2,284	83,750	75,686	698,767

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Notes	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Cash flows from operating activities			
(Loss)/profit before tax		**(6,572)**	49,103
Adjustments for:			
Interest income		**(134)**	(71)
Finance costs		**10,270**	6,671
Revaluation gains on investment properties and movements in lease incentives, net of acquisition costs written off	9	**42,138**	(19,645)
Revaluation losses on properties held for sale		**–**	7
Increase in trade and other receivables		**(4,550)**	(3,768)
(Decrease)/increase in trade and other payables		**(325)**	3,340
		40,827	35,637
Interest paid		**(8,719)**	(5,310)
Premium paid on interest rate cap		**(2,577)**	–
Interest received		**134**	71
Tax paid		**–**	(6)
		(11,162)	(5,245)
Net cash inflow from operating activities		**29,665**	30,392
Cash flows from investing activities			
Purchase of investment properties and properties held for sale, including acquisition costs		**(29,342)**	(206,993)
Disposal of investment properties and properties held for sale, net of lease incentives		**25,789**	4,360
Net cash outflow from investing activities		**(3,553)**	(202,633)
Cash flows from financing activities			
Issue of ordinary share capital	15	**–**	125,000
Expenses of issue of ordinary share capital	15	**–**	(2,508)
Drawdown of bank loan facilities	13	**62,000**	222,000
Repayment of bank loan facilities	13	**(66,750)**	(117,250)
Expenses of arrangement of bank loan facilities	13	**(205)**	(1,839)
Dividends paid		**(40,274)**	(39,785)
Net cash (outflow)/inflow from financing activities		**(45,229)**	185,618
Net (decrease)/increase in cash and cash equivalents		**(19,117)**	13,377
Opening cash and cash equivalents		**34,483**	21,106
Closing cash and cash equivalents	12	**15,366**	34,483
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		**13,516**	12,148
Fixed or guaranteed rent reviews derecognised on disposal or re-tenanting		**(732)**	(3,362)
Total		**12,784**	8,786

The accompanying notes are an integral part of these 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 UK-adopted International Financial Reporting Standards ('IFRS'), 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 July 2022 is consistent with the requirements of IFRS, the Directors have sought to prepare the Consolidated Financial Statements on a basis compliant with the recommendations of the SORP.

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

Applicable standards and interpretations

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

– **Annual Improvements to IFRS Standards 2018-2020:** The improvements include an amendment to IFRS 9: Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities which clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

These amendments do not have an impact on the Consolidated Financial Statements of the Group.

Standards issued but not yet effective

On 12 February 2021, the IASB issued amendments to IAS 1: Presentation of Financial Statements. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendment is effective for annual periods beginning on or after 1 January 2023.

On 12 February 2021, the IASB published 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies, which must be applied retrospectively, and accounting estimates, which are accounted for prospectively. The amendments are effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period.

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 (estimate)

Significant estimates and assumptions are made in the valuation of the investment properties. The Group engaged an independent valuation specialist to assess fair values for the investment properties. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Notes 9 and 16.

Other estimates and judgements

Provision for expected credit losses of accrued rent and trade receivables (estimate)

The Group uses a provision matrix to calculate expected credit losses for accrued rent 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 historical portfolio losses are not thought an appropriate measure of expected credit losses based on the circumstances of particular tenants, the expected credit losses are calculated by identifying scenarios that specify the amount and timing of cash flows for particular outcomes based on the Group's detailed knowledge, analysis and understanding of the financial standing of each individual rental income debtor (including, where appropriate, consideration of rental guarantees, rental deposits and other forms of surety). The expected credit loss is calculated by weighting the predicted loss under each scenario by an estimate of the probability of each of these outcomes.

The assessment of the correlation between historical observed default rates, forward looking information and estimated credit losses is an estimate, as is the assessment of the correlation between the identification of the potential scenarios that may arise and the estimated probability of each such scenario occurring. The amount of estimated credit losses is sensitive to changes in the financial circumstances of individual tenants and in forward-looking information. Further details are provided in Notes 3 and 16.

Going concern

Given the potentially significant impact relating to economic conditions in which the Group is operating, including market uncertainty and rising costs, the Directors have continued to place a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the year ended 30 June 2023. 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;
- The Group is contractually entitled to receive rental income which significantly exceeds its forecast expenses and loan interest;
- The Group remains within its loan covenants, with the term of its finance facilities having been extended during the period and the quantum of its interest rate hedging increased, resulting in a weighted average term to maturity of 6.2 years at 30 June 2023, an earliest repayment date of November 2025 and a fixed interest rate on £230 million of the Group's borrowings; and
- That the continuation vote that was required to be proposed under the Company's Articles at the AGM held during the year was passed with 100 per cent of the votes cast being in favour of the Company's continuation. The next continuation vote under the Company's Articles is required to be proposed at the AGM expected to be held in 2027.

The forecast cash flows considered as part of the going concern assessment are based on the twelve months from the date of approval of the financial statements as contained in the Group's five-year viability model (as set out on pages 34 and 35). The viability model is based on a severe but plausible downside scenario. Throughout this severe but plausible downside scenario the Group has sufficient cash reserves and is forecast to be able 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 to 31 December 2024, which is at least 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 2023.

In preparing the Consolidated Financial Statements, the Directors have considered the impact of climate change risk as set out on page 24. In line with IFRS, investment properties are valued at fair value based on open market valuations as described in Notes 1(h) and 9. The assessment of the open market valuation includes consideration of environmental matters and the condition of each property. The investment properties continue to be monitored by the Investment Manager and key considerations include EPC ratings as summarised at a portfolio level on page 2 and their impact on the properties' forecast compliance with forthcoming minimum energy efficiency standards. Having assessed the impact of climate change on the Group, the Directors concluded that it is not expected to have a significant impact on the Group's going concern or viability assessment as described on pages 34 and 35.

(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 2023. Subsidiaries are those entities, including special purpose entities, controlled by the Company and further information is provided in Note 11. Control exists when the Company is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

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

(c) Revenue recognition

Rental Income

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

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

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

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

1. Accounting policies continued

(c) Revenue recognition continued

Other Rental Income

Surrender premiums receivable are recognised on the completion of a deed of surrender and are recognised in revenue where the receipt is in compensation for a reduction in rent or the granting of a rent free period to an incoming tenant, and in capital when the premium received is in compensation for a reduction in the capital value of the relevant property as a result of the tenant's surrender of the lease.

Interest Income

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

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

(g) Property acquisitions

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

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

(h) Investment properties

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

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

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

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

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

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

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

(i) Properties held for sale

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

(j) Cash and cash equivalents

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

(k) Rent and other receivables

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

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

(l) Interest-bearing bank loans and borrowings

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

(m) Derivative financial instruments

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

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

The effective portion of the gains or losses arising on the fair value of cash flow hedges in the form of derivative instruments is reported through Other Comprehensive Income and are recognised through the Hedging Reserve. The ineffective portion is recognised through profit or loss in the Statement of Comprehensive Income. On maturity, or early redemption, of the derivative instrument 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 when the hedged forecast transaction is ultimately recognised in the profit or loss, or when the forecast transaction is no longer expected to occur.

The Group considers that its interest rate derivatives qualify for hedge accounting when the following criteria are satisfied:

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

1. Accounting policies continued

(n) Reserves

Share Premium

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

Merger Reserve

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

Distributable Reserve

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

This reserve is distributable. Any dividends paid in excess of the balance of the revenue reserve in the Company Financial Statements 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 derivatives 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 which are held at the period end;
– Rent adjustments which represent the effect of spreading uplifts and incentives;
– Other expenses or finance costs charged to the capital column of the Statement of Comprehensive Income;
– Taxation arising on the acquisition or disposal of investment properties or properties held for sale;
– Recovery of any cost/tax where the original expense/tax has also been charged to capital; and
– The buyback of shares into, and resale of shares from, treasury.

Revenue Reserve

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

2. Fee paid to the Investment Manager

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Investment management fee	**7,428**	7,307
Total	**7,428**	7,307

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

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

The Investment Manager is entitled to an additional fee of £141,000 per annum (plus VAT), increasing annually in line with inflation, in relation to their appointment as Company Secretary and Administrator to the Group.

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

3. Other expenses

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Total movement in credit loss allowance	**(4,991)**	2,865
Bad debts written off	**5,255**	367
Credit loss allowance charge	**264**	3,232
Valuation and other professional fees	**1,131**	1,143
Auditor's remuneration for:		
– statutory audit of the Company	**131**	118
– statutory audit of the Company's subsidiaries	**221**	230
– review of interim financial information	**16**	16
Other taxation compliance and advisory*	**258**	361
Public relations and marketing	**229**	327
Directors' fees	**218**	214
Secretarial and administration fees	**208**	177
Direct property costs	**182**	160
Printing, postage and website	**95**	111
Listing and Registrar fees	**114**	102
Other	**243**	204
Total other expenses	**3,046**	3,163

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

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

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

4. Interest income

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Deposit interest	**134**	71
Total	**134**	71

5. Finance costs

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Interest paid on bank loans	**8,949**	6,103
Amortisation of loan costs	**623**	568
Finance and transaction costs relating to the interest rate cap	**698**	–
Total	**10,270**	6,671

6. Taxation

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Current tax	**–**	6
Adjustment to tax charge for prior years	**–**	–
Total tax charge	**–**	6

6. Taxation continued

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 2023 £'000	Year ended 30 June 2022 £'000
(Loss)/profit before tax	**(6,572)**	49,103
Tax at 20.5% (2022: 19.0%)	**(1,347)**	9,330
Effects of:		
REIT exempt profits	**(8,665)**	(6,671)
REIT exempt losses/(gains)	**11,152**	(1,642)
Capital allowances	**(1,577)**	(1,642)
Excess management expenses carried forward	**286**	624
Expenses not deductible for tax purposes	**151**	7
Total tax charge	**–**	6

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 £12.5 million at 30 June 2023 (2022: £10.6 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 2023.

	Dividend rate (pence per share)	Year ended 30 June 2023 £'000
Fourth interim dividend for the year ended 30 June 2022	**1.69**	**10,482**
First interim dividend for the year ended 30 June 2023	**1.69**	**10,482**
Second interim dividend for the year ended 30 June 2023	**1.69**	**10,482**
Third interim dividend for the year ended 30 June 2023	**1.40**	**8,683**
Total	**6.47**	**40,129**

Amounts paid as distributions to equity holders during the year to 30 June 2022.

	Dividend rate (pence per share)	Year ended 30 June 2022 £'000
Fourth interim dividend for the year ended 30 June 2021	1.68	8,594
First interim dividend for the year ended 30 June 2022	1.69	10,482
Second interim dividend for the year ended 30 June 2022	1.69	10,482
Third interim dividend for the year ended 30 June 2022	1.69	10,482
Total	6.75	40,040

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 2023, of 1.40 pence per share, was paid on 25 August 2023 to shareholders on the register on 11 August 2023 and amounted to £8,683,000. 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 2023		Year ended 30 June 2022	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	**36,264**	**5.85**	29,459	4.92
Capital earnings	**(42,836)**	**(6.91)**	19,638	3.28
Total earnings	**(6,572)**	**(1.06)**	49,097	8.20
Average number of shares in issue		**620,237,346**		599,093,808

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

EPRA is an industry body which issues best practice reporting guidelines for financial disclosures by public real estate companies and the Group reports an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below. Other EPRA measures are included in the EPRA Performance Measures on pages 98 and 99.

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

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

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**(6,572)**	49,097
Adjusted for gains on investment properties realised	**(575)**	–
Adjusted for revaluations of investment properties	**54,021**	(5,553)
Adjusted for revaluations of properties held for sale	**–**	7
Adjusted for finance and transaction costs on the interest rate cap and other capital items	**698**	(3,877)
EPRA earnings	**47,572**	39,674
Adjusted for rental income arising from recognising guaranteed rent review uplifts	**(11,308)**	(10,215)
Adjusted for development interest under forward fund agreements	**952**	783
Group specific adjusted EPRA earnings	**37,216**	30,242
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**(1.06)**	8.20
EPRA EPS	**7.67**	6.62
Group specific adjusted EPRA EPS	**6.00**	5.05

Net Asset Value per share

The Group's Net Asset Value per ordinary share of 105.6 pence (2022: 112.7 pence) is based on equity shareholders' funds of £654,808,000 (2022: £698,767,000) and on 620,237,346 (2022: 620,237,346) ordinary shares, being the number of shares in issue at the year-end.

The EPRA best practice recommendations include a set of EPRA NAV metrics that are arrived at by adjusting the net asset value calculated under International Financial Reporting Standards ('IFRS') to provide stakeholders with what EPRA believe to be the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios. The three EPRA NAV metrics are:

- **EPRA Net Reinstatement Value ('NRV'):** Assumes that entities never sell assets and aims to represent the value required to rebuild the entity. The objective is to highlight the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value movements on financial derivatives, are excluded and the costs of recreating the Group through investment markets, such as property acquisition costs and taxes, are included.
- **EPRA Net Tangible Assets ('NTA'):** Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. Given the Group's REIT status, it is not expected that significant deferred tax will be applicable to the Group.
- **EPRA Net Disposal Value ('NDV'):** Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. At 30 June 2023, 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 facilities where the fair value is estimated to be lower than the nominal value. See Note 13 for further details on the Group's loan facilities.

	2023 EPRA NRV £'000	2023 EPRA NTA £'000	2023 EPRA NDV £'000	2022 EPRA NRV £'000	2022 EPRA NTA £'000	2022 EPRA NDV £'000
IFRS NAV per financial statements	**654,808**	**654,808**	**654,808**	698,767	698,767	698,767
Fair value of interest rate derivatives	**(6,905)**	**(6,905)**	**–**	(2,284)	(2,284)	–
Fair value of loans	**–**	**–**	**39,672**	–	–	22,257
Estimated purchasers' costs	**57,461**	**–**	**–**	60,225	–	–
EPRA net assets	**705,364**	**647,903**	**694,480**	756,708	696,483	721,024
EPRA net assets (pence per share)	**113.7**	**104.5**	**112.0**	122.0	112.3	116.2

9. Investment properties

Freehold and leasehold properties

	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Opening market value	**911,596**	677,525
Opening fixed or guaranteed rent reviews and lease incentives	**(56,705)**	(47,919)
Opening performance payments	**2,800**	1,550
Opening carrying value	**857,691**	631,156
Disposals – proceeds	**(26,728)**	–
– gain on sale	**6,088**	–
Purchases and performance payments	**23,494**	199,869
Transfer from properties held for sale	**–**	6,830
Acquisition costs capitalised	**273**	9,671
Acquisition costs written off	**(273)**	(9,671)
Unrealised gain realised during the year	**(5,513)**	–
Revaluation movement – gains	**3,645**	43,234
Revaluation movement – losses	**(43,877)**	(15,862)
Movement in market value	**(42,891)**	234,071
Fixed or guaranteed rent reviews and lease incentives derecognised on disposal or re-tenanting	**1,671**	3,362
Movement in fixed or guaranteed rent reviews and lease incentives	**(13,516)**	(12,148)
Movement in performance payments	**(2,800)**	1,250
Movement in carrying value	**(57,536)**	226,535
Closing market value	**868,705**	911,596
Closing fixed or guaranteed rent reviews and lease incentives	**(68,550)**	(56,705)
Closing performance payments (see Note 18)	**–**	2,800
Closing carrying value	**800,155**	857,691

Changes in the valuation of investment properties

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Gain on sale of investment properties	**6,088**	–
Unrealised gain realised during the year	**(5,513)**	–
Gain on sale of investment properties realised	**575**	–
Revaluation movement	**(40,232)**	27,372
Acquisition costs written off	**(273)**	(9,671)
Movement in lease incentives	**(2,208)**	(1,933)
Movement in fixed or guaranteed rent reviews	**(11,308)**	(10,215)
(Losses)/gains on revaluation of investment properties	**(53,446)**	5,553

The investment properties can be analysed as follows:

	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Standing assets	**851,305**	892,336
Developments under forward fund agreements	**17,400**	19,260
Closing market value	**868,705**	911,596

The properties were valued at £868,705,000 (2022: £911,596,000) 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 2022) issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Colliers has recent experience in the location and category of the investment properties being valued.

Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The quarterly property valuations are reviewed by the Board at each Board meeting. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £800,155,000 (2022: £857,691,000). The adjustment consisted of £59,378,000 (2022: £48,802,000) relating to fixed or guaranteed rent reviews and £9,172,000 (2022: £7,903,000) 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 10). An adjustment is also made to reflect the amount by which the portfolio value is expected to increase if the performance payments recognised in 'trade and other payables' are paid and the passing rent at the relevant property increased accordingly (see Notes 14 and 18). The total purchases in the year to 30 June 2023, excluding the performance payments recognised in the prior year, were £20,694,000 (2022: £201,119,000).

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'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.

The real estate investment and occupier markets are currently in a state of transition as they begin to align themselves with the sustainable development goals of government and the new generation of real estate users. Colliers are mindful of the potential impacts ESG may have on capital and rental valuations and have considered the guidance provided by the RICS and VPGA 8 of the Red Book. Specific climate-related risks, such as a reasonably foreseeable increase in the risk of site or coastal flooding, are reflected in the property valuations. However, Colliers have not undertaken sustainability audits and are not qualified to do so as valuers. Therefore the external valuations only explicitly reflect immediate sustainability/resilience capital costs where technical information relating to the same has been made available, namely in respect of upgrading the properties to meet Minimum Energy Efficiency Standard regulations and flood prevention.

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.

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

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

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield ('NIY') on these assets, as measured by the EPRA topped up NIY, is 6.2 per cent. The yield on the majority of the individual assets ranges from 5.5 per cent to 8.7 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

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

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

The lease agreements on the properties held within the Group's property portfolio generally allow for annual increases in the contracted rental level in line with inflation, within a cap and a collar. An increase of 1.0 per cent in the contracted rental level will increase the fair value of the portfolio, and consequently the Group's reported income from unrealised gains on investments, by £8,687,000 (2022: £9,116,000); 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 £37,940,000 (2022: £40,729,000), 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 £35,025,000 (2022: £37,388,000) and reduce the Group's income.

10. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Fixed rent reviews	**59,378**	48,802
Rental deposits held in escrow for tenants	**8,093**	7,145
Lease incentives	**8,902**	7,704
Total	**76,373**	63,651

10. Trade and other receivables continued

Current trade and other receivables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Cash held in escrow for property purchases	**4,295**	–
Lease incentives	**270**	199
VAT recoverable	**667**	1,387
Accrued income – rent receivable	**1,088**	906
Accrued development interest under forward fund agreements	**1,010**	452
Other debtors and prepayments	**2,129**	2,605
Total	**9,459**	5,549

At the year-end, trade and other receivables include a fixed rent review debtor of £59,378,000 (2022: £48,802,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £9,172,000 (2022: £7,903,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease.

11. Investment in subsidiary undertakings

The Group included 49 subsidiary companies as at 30 June 2023 (30 June 2022: 57). 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.

The Group did not incorporate or acquire any new subsidiaries during the year. At 30 June 2022, the Group included eight companies which had been acquired as part of previous corporate acquisitions and which, having remained dormant throughout the prior year, were dissolved during the year ended 30 June 2023.

12. Cash and cash equivalents

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

	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Cash at bank and in hand	**12,745**	34,020
Short-term deposits	**2,621**	463
Total	**15,366**	34,483

13. Loans

	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Principal amount outstanding	**230,000**	234,750
Set-up costs	**(4,520)**	(4,315)
Amortisation of set-up costs	**1,571**	948
Total	**227,051**	231,383

In November 2020, the Group entered into a £70,000,000 committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.18 per cent per annum on £50,000,000 of the facility and 2.33 per cent per annum on the remaining £20,000,000 revolving credit facility, both for the duration of the loan. A non-utilisation fee of 1.13 per cent per annum is payable on the first £20,000,000 of any undrawn element of the facility, reducing to 1.05 per cent per annum thereafter. As at 30 June 2023, the Group had drawn £30,000,000 under this facility (2022: £50,000,000).

In November 2020, the Group entered into a £100,000,000 revolving credit facility with HSBC Bank plc ('HSBC') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.17 per cent per annum for the duration of the loan and a non-utilisation fee of 0.92 per cent per annum is payable on any undrawn element of the facility. As at 30 June 2023, the Group had drawn £50,000,000 under this facility (2022: £34,750,000).

In January 2020 and November 2021, the Group entered into committed term loan facilities with Phoenix Group of £50,000,000 and £37,250,000, respectively. Both these facilities are repayable on 12 January 2032. The Group has a further committed term loan facility with Phoenix Group of £62,750,000 which is repayable on 12 January 2037. Interest accrues on these three loans at aggregate annual fixed rates of interest of 3.28 per cent, 3.13 per cent and 3.14 per cent, respectively and is payable quarterly. As at 30 June 2023, the Group had drawn £150,000,000 under these facilities (2022: £150,000,000).

The following interest rate derivatives were in place during the year ended 30 June 2023:

Notional Value	Starting Date	Ending Date	Interest paid	Interest received	Counterparty
30,000,000	5 November 2020	5 November 2025	0.30%	Daily compounded SONIA (floor at -0.08%)	RBS
50,000,000	1 November 2022	5 November 2025	nil	Daily compounded SONIA above 3.0% cap	HSBC

The Group paid a premium of £2,577,000, inclusive of transaction costs of £169,000, on entry into the £50,000,000 interest rate cap.

At 30 June 2023, inclusive of the interest rate derivatives, the interest rate on £230,000,000 of the Group's borrowings has been capped, including the amortisation of loan arrangement costs, at an all-in rate of 3.70 per cent per annum until at least 5 November 2025. The remaining £90,000,000 of debt, which was undrawn at 30 June 2023, would, if fully drawn, carry interest at a variable rate equal to daily compounded SONIA plus a weighted average lending margin, including the amortisation of loan arrangement costs, of 2.46 per cent per annum.

The aggregate fair value of the interest rate derivatives held at 30 June 2023 was an asset of £6,905,000 (2022: £2,284,000). The Group categorises all interest rate derivatives as level 2 in the fair value hierarchy (see Note 9 for further explanation of the fair value hierarchy).

At 30 June 2023, the nominal value of the Group's loans equated to £230,000,000 (2022: £234,750,000). Excluding the interest rate derivatives 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 2023, totalled, in aggregate, £190,328,000 (2022: £212,493,000). The payment required to redeem the loans in full, incorporating the terms of the Spens clause in relation to the Phoenix Group facilities, would have been £209,898,000 (2022: £239,728,000). 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 five subsidiaries. The Phoenix Group loans of £50,000,000 and £37,250,000 are 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 eight subsidiaries. The Phoenix Group loan of £62,750,000 is secured by way of a fixed and floating charge over the majority of the assets of THR Number 43 plc ('THR43'). 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. In aggregate, the Group has granted a fixed charge over properties with a market value of £762,100,000 as at 30 June 2023 (2022: £795,949,000).

Under the 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 and THR43 does not exceed 60 per cent;
- the interest cover for THR1 Group is greater than 225 per cent (30 June 2022: 300 per cent) on any calculation date;
- the interest cover for THR15 Group is greater than 200 per cent (30 June 2022: 300 per cent) on any calculation date; and
- the debt yield for each of THR12 Group and THR43 is greater than 10 per cent on any calculation date.

During the year ended 30 June 2023, the Group entered into agreements with HSBC and RBS to relax the interest cover covenants on the relevant loans with effect from 1 January 2023. All other significant terms of the facilities remained unchanged. All loan covenants have been complied with during the year.

Analysis of net debt:

	Cash and cash equivalents 2023 £'000	Borrowing 2023 £'000	Net debt 2023 £'000	Cash and cash equivalents 2022 £'000	Borrowing 2022 £'000	Net debt 2022 £'000
Opening balance	**34,483**	**(231,383)**	**(196,900)**	21,106	(127,904)	(106,798)
Cash flows	**(19,117)**	**4,955**	**(14,162)**	13,377	(102,911)	(89,534)
Non-cash flows	**–**	**(623)**	**(623)**	–	(568)	(568)
Closing balance as at 30 June	**15,366**	**(227,051)**	**(211,685)**	34,483	(231,383)	(196,900)

14. Trade and other payables

Non-current trade and other payables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Rental deposits	**8,093**	7,145
Total	**8,093**	7,145

Current trade and other payables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Rental income received in advance	**8,239**	8,390
Property acquisition and development costs accrued	**3,875**	8,892
Performance payments	**–**	2,800
Investment Manager's fees payable	**1,835**	1,895
Interest payable	**1,992**	1,762
Other payables	**2,365**	2,624
Total	**18,306**	26,363

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

15. Share capital

Allotted, called-up and fully paid ordinary shares of £0.01 each	Number of shares	£'000
Balance as at 30 June 2022 and 30 June 2023	**620,237,346**	**6,202**

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

During the year to 30 June 2023, the Company did not issue any ordinary shares (2022: issued 108,695,652 ordinary shares of £0.01 each raising gross proceeds of £125,000,000). The Company did not repurchase any ordinary shares into treasury (2022: nil) or resell any ordinary shares from treasury (2022: nil). At 30 June 2023, the Company did not hold any shares in treasury (2022: 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 13.

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.

16. Financial instruments

Consistent with its objective, the Group holds UK care home property investments. In addition, the Group's financial instruments comprise cash, loans and receivables and payables that arise directly from its operations. The Group's exposure to derivative instruments consists of interest rate swaps and interest rate caps 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 £23,517,000 (2022: £38,996,000), consisting of cash of £15,366,000 (2022: £34,483,000), cash held in escrow for property purchases of £4,295,000 (2022: £nil), net rent receivable of £1,088,000 (2022: £906,000), VAT recoverable of £667,000 (2022: £1,387,000), accrued development interest of £1,010,000 (2022: £452,000) and other debtors of £1,091,000 (2022: £1,768,000).

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 Group may also require to provide rental incentives to the incoming tenant. 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 2023, the Group had recognised a credit loss allowance totalling £1,972,000 against a gross rent receivable balance of £2,496,000 and gross loans to tenants totalling £989,000. As at 30 June 2022, the gross receivable was £8,496,000, of which £1,280,000 was subsequently recovered, £5,117,000 was written off and £2,099,000 is still outstanding. There were no other financial assets which were either past due or considered impaired at 30 June 2023 (2022: nil).

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

Should the Group hold significant cash balances for an extended period, then counterparty risk will be spread, by placing cash across different financial institutions. At 30 June 2023 the Group held £15.2 million (2022: £34.5 million) with The Royal Bank of Scotland plc and £0.2 million (2022: £nil) with HSBC Bank plc. Given the credit quality of the counterparties used, no credit loss allowance is recognised against cash balances as it is considered to be immaterial.

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 2023	**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	**15,366**	**–**	**–**	**–**	**–**	**15,366**
Rental deposits held in escrow for tenants	**–**	**–**	**–**	**–**	**8,093**	**8,093**
Cash held in escrow for property purchases	**4,295**	**–**	**–**	**–**	**–**	**4,295**
Other debtors	**3,856**	**–**	**–**	**–**	**–**	**3,856**
Total	**23,517**	**–**	**–**	**–**	**8,093**	**31,610**

Financial assets as at 30 June 2022	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	34,483	–	–	–	–	34,483
Rental deposits held in escrow for tenants	–	–	–	–	7,145	7,145
Other debtors	4,513	–	–	–	–	4,513
Total	38,996	–	–	–	7,145	46,141

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

Financial liabilities as at 30 June 2023	**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**
Loans and interest rate derivatives	**2,269**	**6,757**	**9,001**	**95,821**	**176,747**	**290,595**
Rental deposits	**–**	**–**	**–**	**–**	**8,093**	**8,093**
Other payables	**10,067**	**–**	**–**	**–**	**–**	**10,067**
Total	**12,336**	**6,757**	**9,001**	**95,821**	**184,840**	**308,755**

Financial liabilities as at 30 June 2022	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
Loans and interest rate derivatives	2,046	6,072	8,140	101,890	181,533	299,681
Rental deposits	–	–	–	–	7,145	7,145
Other payables	17,973	–	–	–	–	17,973
Total	20,019	6,072	8,140	101,890	188,678	324,799

The total amount due under the loan facilities includes the expected hedged interest payments due under both the loan and interest rate derivatives combined (see Note 13 for further details) assuming that both the drawn element of the loans and the notional value of the interest rate derivatives remain unchanged from 30 June 2023 (30 June 2022) until the repayment date of the relevant loan and expiry date of the related interest rate derivative. The interest rate on any unhedged element of the loans is based on the rate of SONIA at 30 June 2023 (30 June 2022) plus the relevant lending margin. The commitment fee payable on the undrawn element of any facility is included, where applicable.

16. 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 Group's policy is to hold cash in variable rate or short-term fixed rate bank accounts. At 30 June 2023, interest was being received on cash at a weighted average variable rate of nil (2022: nil). 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 £170,000,000 (2022: £170,000,000) of committed term loans and revolving credit facilities which were charged interest at a rate of SONIA plus the relevant margin. At the year-end £80,000,000 of the variable rate facilities had been drawn down (2022: £84,750,000). 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 2023 and 30 June 2022.

At 30 June 2023, the Group had fully hedged its exposure on the £80,000,000 of drawn variable rate borrowings (2022: £54,750,000 of the £84,750,000 of variable rate facilities was unhedged). On any unhedged variable rate borrowings, interest is payable at a variable rate equal to SONIA plus the weighted average lending margin, including the amortisation of costs, of 2.46 per cent per annum (2022: 2.43 per cent). The variable rate borrowings expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

The Group has fixed rate term loans totalling £150,000,000 (2022: £150,000,000) and has hedged its exposure to increases in interest rates on £80,000,000 (2022: £30,000,000) of the variable rate loans, as referred to above, through entering into a £30,000,000 fixed rate interest rate swap and a £50,000,000 interest rate cap at 3.0%. 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 derivative used to fix the interest rate on an otherwise variable rate loan, will be affected by movements in the market rate of interest. The £150,000,000 fixed rate term loans are carried at amortised cost on the Group's balance sheet, with the estimated fair value and cost of repayment being disclosed in Note 13, whereas the fair value of the interest rate derivatives are recognised directly on the Group's balance sheet. At 30 June 2023, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate derivative assets and increased the reported total comprehensive income for the year by £377,000 (2022: £211,000). The same movement in interest rates would have decreased the fair value of the fixed rate term loans by an aggregate of £2,169,000 (2022: £2,822,000); 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 13.

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 2023		As at 30 June 2022	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	**–**	**15,366**	–	34,483
Loans	**(230,000)**	**–**	(180,000)	(54,750)
	(230,000)	**15,366**	(180,000)	(20,267)

Based on the Group'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 £38,000 (2022: decrease of £51,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2023 (30 June 2022) 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.

As set out in Note 9, Colliers are mindful of the potential impacts ESG may have on capital and rental valuations. Currently in the UK, the external valuers have not seen consistent prima facie evidence to suggest that ESG has a direct impact on the valuation of all commercial and residential buildings. However, as the UK real estate market continues to adapt to ESG development practices and legislative requirements, Colliers anticipate an evolution in the analysis undertaken when providing real estate valuations. This may potentially impact on the valuation of a property over the course of a typical investment period.

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. A 10 per cent increase in the carrying value of the investment properties as at 30 June 2023 (30 June 2022) would have increased net assets available to shareholders and increased the net income for the year by £80,016,000 (2022: £85,769,000); 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.

17. Lease length

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with lease terms remaining of between 14 and 34 years.

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 2023 £'000	**As at 30 June 2022 £'000**
Less than one year	**56,010**	54,408
Between one and two years	**58,013**	56,750
Between two and three years	**58,912**	57,618
Between three and four years	**59,826**	58,517
Between four and five years	**60,591**	59,439
Over five years	**1,570,251**	1,630,700
Total	**1,863,603**	1,917,432

The largest single tenant at the year-end accounted for 16.1 per cent (2022: 15.7 per cent) of the current annual rental income. There were no unoccupied properties at the year-end (2022: none).

18. Contingent assets and liabilities

As at 30 June 2023, six (2022: fourteen) properties within the Group's investment property portfolio contained performance payment clauses meaning that, subject to contracted performance conditions being met, further capital payments totalling £5,720,000 (2022: £13,320,000) may be payable by the Group to the vendors/tenants of these properties. The potential timings of these payments are also conditional on the date(s) at which the contracted performance conditions are met and are therefore uncertain.

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

Having assessed each clause on an individual basis, the Group has determined that the contracted performance conditions had not been met in relation to any of these properties and therefore at 30 June 2023 no liability was recognised (2022: £2,800,000). Had a liability been recognised, an equal but opposite amount would have been recognised as an asset in 'investment properties' in Note 9 to reflect the increase in the investment property value that would be expected to arise from the payment of the performance payment(s) and the resulting increase in the contracted rental income. The performance payments of £2,800,000 recognised as a liability at 30 June 2022 were paid during the year ended 30 June 2023 (see Note 9).

19. Capital commitments

The Group had capital commitments as follows:

	30 June 2023 £'000	**30 June 2022 £'000**
Amounts due to complete forward fund developments	**31,066**	34,458
Other capital expenditure commitments	**2,160**	3,594
Total	**33,226**	38,052

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 £218,000 (2022: £214,000) of which £nil (2022: £nil) remained payable at the year-end.

The Investment Manager received £7,428,000 (inclusive of irrecoverable VAT) in management fees in relation to the year ended 30 June 2023 (2022: £7,307,000). Of this amount £1,835,000 (2022: £1,895,000) remained payable at the year-end. The Investment Manager received a further £169,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2023 (2022: £151,000) in relation to its appointment as Company Secretary and Administrator, of which £42,000 (2022: £38,000) remained payable at the year end. Certain employees of the Investment Manager are directors of some of the Group's subsidiaries. Neither they nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

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

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 NTA. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NTA is detailed in Note 8.

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

22. Post balance sheet events

Subsequent to the year end, the Group acquired a pre-let development site subject to a forward funding agreement to construct a 66-bed care home in Weston-super-Mare, Somerset for a maximum commitment of £16.0 million including acquisition costs. Construction on the home has commenced and is expected to be completed in the summer of 2024.

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

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

The Group's maximum and average actual leverage levels at 30 June 2023 are shown below:

Leverage exposure	Gross method	Commitment method
Maximum limit	3.00	3.00
Actual	1.82	1.84

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 derivatives 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 2023

	Notes	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Non-current assets			
Investment in subsidiary undertakings	3	**699,223**	698,341
Investment properties	4	**7,433**	7,626
Trade and other receivables	5	**197**	114
		706,853	706,081
Current assets			
Trade and other receivables	5	**8,161**	8,285
Cash and cash equivalents	6	**139**	9,406
		8,300	17,691
Total assets		**715,153**	723,772
Non-current liabilities			
Trade and other payables	7	**(110)**	(110)
Current liabilities			
Trade and other payables	7	**(20,563)**	(2,638)
Total liabilities		**(20,673)**	(2,748)
Net assets		**694,480**	721,024
Share capital and reserves			
Share capital	8	**6,202**	6,202
Share premium	8	**256,633**	256,633
Merger reserve		**47,751**	47,751
Distributable reserve		**249,436**	288,010
Capital reserve		**93,334**	120,873
Revenue reserve		**41,124**	1,555
Equity shareholders' funds		**694,480**	721,024
Net asset value per ordinary share (pence)	9	**112.0**	116.2

Company number: 11990238

The Company made a profit for the year ended 30 June 2023 of £13,585,000 (2022: £74,776,000).

The financial statements on pages 81 to 90 were approved by the Board of Directors and authorised for issue on 9 October 2023 and were signed on its behalf by:

Alison Fyfe
Chair

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

Company Statement of Changes in Equity

For the year ended 30 June 2023

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2022		**6,202**	**256,633**	**47,751**	**288,010**	**120,873**	**1,555**	**721,024**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(27,539)**	**41,124**	**13,585**
Transactions with owners recognised in equity:								
Dividends paid	2	**–**	**–**	**–**	**(38,574)**	**–**	**(1,555)**	**(40,129)**
At 30 June 2023		**6,202**	**256,633**	**47,751**	**249,436**	**93,334**	**41,124**	**694,480**

For the year ended 30 June 2022

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 30 June 2021		5,115	135,228	47,751	326,713	47,652	1,337	563,796
Total comprehensive income for the year		–	–	–	–	73,221	1,555	74,776
Transactions with owners recognised in equity:								
Dividends paid	2	–	–	–	(38,703)	–	(1,337)	(40,040)
Issue of ordinary shares	8	1,087	123,913	–	–	–	–	125,000
Expenses of issue	8	–	(2,508)	–	–	–	–	(2,508)
At 30 June 2022		6,202	256,633	47,751	288,010	120,873	1,555	721,024

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

1. Accounting policies

(a) Basis of preparation

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

Basis of accounting

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

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in July 2022 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 60 to 80. 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. 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 65.

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 £13,585,000 (2022: £74,776,000).

The Company does not have any employees (2022: nil). Details of the Directors' fees paid during the year are disclosed in the Group's Remuneration Report and in Note 3 to the Consolidated Financial Statements. The Company has paid the Directors' fees which equated to £218,000 during the year ended 30 June 2023 (2022: £214,000).

Audit fees in relation to the parent company were £139,000 (2022: £120,000), including irrecoverable VAT. This included £8,000 payable by the Company on behalf of certain subsidiaries (2022: £2,000) and £7,000 relating to additional audit work undertaken in relation to the prior year financial statements regarding the significant portfolio acquisition. The fee for assurance related services, being the review of the Company's Interim Report, was £16,000 (2022: £16,000). There were no other non-audit fees paid to Ernst & Young LLP by the Company during the year (2022: £nil).

2. Dividends

Amounts paid as distributions to equity holders.

	Dividend rate (pence per share)	Year ended 30 June 2023 £'000	Dividend rate (pence per share)	Year ended 30 June 2022 £'000
Fourth interim dividend for the prior year	**1.69**	**10,482**	1.68	8,594
First interim dividend	**1.69**	**10,482**	1.69	10,482
Second interim dividend	**1.69**	**10,482**	1.69	10,482
Third interim dividend	**1.40**	**8,683**	1.69	10,482
Total	**6.47**	**40,129**	6.75	40,040

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 2023, of 1.40 pence per share, was paid on 25 August 2023 to shareholders on the register on 11 August 2023 and amounted to £8,683,000. It is the intention of the Directors that the Company will continue to pay dividends quarterly.

3. Investments in subsidiary undertakings

As at 30 June 2023, 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	393,537
THR Number 12 plc	England & Wales	Ordinary	100	100	103,336	148,467
THR Number 37 Limited	England & Wales	Ordinary	100	100	6,655	6,915
THR Number 39 Limited	England & Wales	Ordinary	100	100	5,462	3,218
THR Number 40 Limited	England & Wales	Ordinary	100	100	6,583	4,085
THR Number 41 Limited	England & Wales	Ordinary	100	100	14,086	12,194
THR Number 42 Limited	England & Wales	Ordinary	100	100	–	(22)
THR Number 43 plc	England & Wales	Ordinary	100	100	94,861	115,301
THR Number 45 Limited	England & Wales	Ordinary	100	100	9,461	6,848
THR Number 46 Limited	England & Wales	Ordinary	100	100	2,801	1,859
THR Number 47 Limited	England & Wales	Ordinary	100	100	6,197	6,821
Total					**682,283**	**699,223**

The registered office of Target Healthcare REIT Limited at 30 June 2023 was: 3rd Floor, 44 Esplanade, St Helier, Jersey JE4 9WG.

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

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Opening fair value	**698,341**	509,228
Additions	**27,878**	184,090
Disposals	**–**	(51,089)
Movement in fair value	**(26,996)**	56,112
Closing fair value	**699,223**	698,341

The Company'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 Company's subsidiaries is primarily dependent on the fair value of the properties and bank loans that they hold. See Notes 9, 13 and 16 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 2023, the Company's indirectly held subsidiary undertakings were:

Name	Country of incorporation	Class of Capital	% of class held	% of equity held
THR Number One plc	England & Wales	Ordinary	100	100
THR Number Two Limited	England & Wales	Ordinary	100	100
THR Number 3 Limited	England & Wales	Ordinary	100	100
THR Number 4 Limited	England & Wales	Ordinary	100	100
THR Number 5 Limited	England & Wales	Ordinary	100	100
THR Number 6 Limited	England & Wales	Ordinary	100	100
THR Number 7 Limited	Gibraltar	Ordinary	100	100
THR Number 8 Limited	Gibraltar	Ordinary	100	100
THR Number 9 Limited	England & Wales	Ordinary	100	100
THR Number 10 Limited	England & Wales	Ordinary	100	100
THR Number 11 Limited	Scotland	Ordinary	100	100
THR Number 13 Limited	England & Wales	Ordinary	100	100
THR Number 14 Limited	England & Wales	Ordinary	100	100
THR Number 15 plc	England & Wales	Ordinary	100	100
THR Number 16 Limited	England & Wales	Ordinary	100	100
THR Number 17 (Holdings) Limited	England & Wales	Ordinary	100	100
THR Number 17 Limited	England & Wales	Ordinary	100	100
THR Number 18 Limited	England & Wales	Ordinary	100	100
THR Number 19 Limited	England & Wales	Ordinary	100	100
THR Number 20 Limited	England & Wales	Ordinary	100	100
THR Number 21 Limited	England & Wales	Ordinary	100	100
THR Number 22 Limited	England & Wales	Ordinary	100	100
THR Number 23 Limited	England & Wales	Ordinary	100	100
THR Number 24 Limited	England & Wales	Ordinary	100	100
THR Number 25 S.à r.l.	Luxembourg	Ordinary	100	100
THR Number 26 S.à r.l.	Luxembourg	Ordinary	100	100
THR Number 27 Limited	England & Wales	Ordinary	100	100
THR Number 28 Limited	England & Wales	Ordinary	100	100
THR Number 29 Limited	England & Wales	Ordinary	100	100
THR Number 30 Limited	England & Wales	Ordinary	100	100
THR Number 31 Limited	England & Wales	Ordinary	100	100
THR Number 32 Limited	England & Wales	Ordinary	100	100
THR Number 33 Limited	England & Wales	Ordinary	100	100
THR Number 34 Limited	England & Wales	Ordinary	100	100
THR Number 35 Limited	England & Wales	Ordinary	100	100
THR Number 36 Limited	England & Wales	Ordinary	100	100
THR Number 38 Limited	England & Wales	Ordinary	100	100
THR Number 48 Limited	England & Wales	Ordinary	100	100

The registered office of the companies incorporated in England & Wales is: Level 4 Dashwood House, 69 Old Broad Street, London EC2M 1QS.

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: Glendevon House, Castle Business Park, Stirling FK9 4TZ.

4. Investment properties

Freehold properties	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Opening market value	**7,630**	21,320
Opening fixed or guaranteed rent reviews and lease incentives	**(4)**	(814)
Opening carrying value	**7,626**	20,506
Purchases	**400**	7,600
Disposals – proceeds	**–**	(22,050)
– gain on sale	**–**	1,140
Unrealised gain realised during the year	**–**	(410)
Acquisition costs capitalised	**33**	662
Acquisition costs written off	**(33)**	(662)
Revaluation movement – (loss)/gain	**(510)**	30
Movement in market value	**(110)**	(13,690)
Fixed or guaranteed rent reviews and lease incentives derecognised on disposal	**–**	978
Movement in fixed or guaranteed rent reviews and lease incentives	**(83)**	(168)
Movement in carrying value	**(193)**	(12,880)
Closing market value	**7,520**	7,630
Closing fixed or guaranteed rent reviews	**(87)**	(4)
Closing carrying value	**7,433**	7,626

The properties were valued at £7,520,000 (2022: £7,630,000) 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 2022) issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Colliers has recent experience in the location and category of the investment properties being valued.

Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The quarterly property valuations are reviewed by the Board at each Board meeting. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews was £7,433,000 (2022: £7,626,000). The adjustment consisted of £87,000 (2022: £4,000) relating to fixed or guaranteed rent reviews, which is separately recorded in the accounts as a non-current asset 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 and included a single care home at the year end, is considered to be a single class of assets. The weighted average net initial yield on the property, as measured by the EPRA topped up NIY, is 5.7 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

The lease agreement on the properties held within the Company's portfolio allows for an annual increase in the contracted rental level in line with inflation, within a cap and a collar. An increase of 1.0 per cent in the contracted rental level will increase the fair value of the portfolio, and consequently the Company's reported income from unrealised gains on investments, by £75,000 (2022: £76,000); an equal and opposite movement would have decreased net assets and reduced the Company's income by the same amount.

A decrease of 0.25 per cent in the yield applied to the portfolio will increase the fair value of the portfolio by £345,000 (2022: £389,000), and consequently increase the Company's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £316,000 (2022: £353,000) and reduce the Company's income.

5. Trade and other receivables

Non-current trade and other receivables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Fixed rent reviews	**87**	4
Rental deposits held in escrow for tenants	**110**	110
Total	**197**	114

Current trade and other receivables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Balances due from group undertakings	**7,948**	8,030
Other debtors and prepayments	**213**	255
Total	**8,161**	8,285

At the year-end, trade and other receivables include a fixed rent review debtor of £87,000 (2022: £4,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term.

The balances due from group undertakings are unsecured and interest is receivable at a fixed rate of 5.7 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 2023 £'000	As at 30 June 2022 £'000
Cash at bank and in hand	**139**	9,406
Total	**139**	9,406

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

7. Trade and other payables

Non-current trade and other payables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Rental deposits	**110**	110
Total	**110**	110

Current trade and other payables	As at 30 June 2023 £'000	As at 30 June 2022 £'000
Balances due to group undertakings	**18,402**	–
Rental income received in advance	**106**	420
Income tax payable	**922**	1,067
Investment Manager's fees payable	**181**	245
Other payables	**952**	906
Total	**20,563**	2,638

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

8. Share capital

Allotted, called-up and fully paid ordinary shares of £0.01 each	Number of shares	£'000
Balance as at 30 June 2022 and 30 June 2023	**620,237,346**	**6,202**

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

During the year to 30 June 2023, the Company did not issue any ordinary shares (2022: issued 108,695,652 ordinary shares of £0.01 each raising gross proceeds of £125,000,000). The Company did not repurchase any ordinary shares into treasury (2022: nil) or resell any ordinary shares from treasury (2022: nil). At 30 June 2023, the Company did not hold any shares in treasury (2022: 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 76.

9. Net Asset Value

The Company's net asset value per ordinary share of 112.0 pence (2022: 116.2 pence) is based on equity shareholders' funds of £694,480,000 (2022: £721,024,000) and on 620,237,346 (2022: 620,237,346) 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 16 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 £8,098,000 (2022: £17,477,000) consisting of balances due from group undertakings of £7,948,000 (2022: £8,030,000), cash balances of £139,000 (2022: £9,406,000) and other debtors of £11,000 (2022: £41,000).

There have been no historical losses from intercompany loans and any resulting provision from the estimated credit loss allowance is considered to be immaterial. The Company has no financial assets which were either past due or considered impaired at 30 June 2023 (2022: nil).

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 2023	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	**139**	**–**	**–**	**–**	**–**	**139**
Rental deposits held in escrow for tenants	**–**	**–**	**–**	**–**	**110**	**110**
Balances due from group undertakings	**7,948**	**–**	**–**	**–**	**–**	**7,948**
Other debtors	**11**	**–**	**–**	**–**	**–**	**11**
Total	**8,098**	**–**	**–**	**–**	**110**	**8,208**

Financial assets as at 30 June 2022	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	9,406	–	–	–	–	9,406
Rental deposits held in escrow for tenants	–	–	–	–	110	110
Balances due from group undertakings	8,030	–	–	–	–	8,030
Other debtors	41	–	–	–	–	41
Total	17,477	–	–	–	110	17,587

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

Financial liabilities as at 30 June 2023	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	**–**	**–**	**–**	**–**	**110**	**110**
Balances due to group undertakings	**18,402**	**–**	**–**	**–**	**–**	**18,402**
Other payables	**2,055**	**–**	**–**	**–**	**–**	**2,055**
Total	**20,457**	**–**	**–**	**–**	**110**	**20,567**

Financial liabilities as at 30 June 2022	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	–	–	–	–	110	110
Other payables	2,218	–	–	–	–	2,218
Total	2,218	–	–	–	110	2,328

Interest rate risk

Some of the Company's financial instruments are interest-bearing. Interest-rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates. The Company's policy is to hold cash in variable rate or short-term fixed rate bank accounts. Interest is received on cash at a weighted average variable rate which was nil at 30 June 2023 (2022: nil).

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 2023		As at 30 June 2022	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	**–**	**139**	–	9,406
Balances due from group undertakings	**7,948**	**–**	8,030	–
Balances due to group undertakings	**(18,402)**	**–**	–	–
Total	**(10,454)**	**139**	8,030	9,406

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 £nil (2022: £24,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on balances as at 30 June 2023 (30 June 2022) 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 16 to the Consolidated Financial Statements.

11. Lease length

The Company 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 2023 £'000	As at 30 June 2022 £'000
Less than one year	**458**	440
Between one and two years	**464**	445
Between two and three years	**468**	449
Between three and four years	**473**	454
Between four and five years	**476**	458
Over five years	**16,097**	16,064
Total	**18,436**	18,310

The largest single tenant at the year-end accounted for 100 per cent (2022: 100 per cent) of the current annual rental income. There were no unoccupied properties at the year-end.

The Company has entered into a commercial property lease on its investment property. This property, held under an operating lease, is measured under the fair value model as the property is held to earn rentals. The lease is a non-cancellable lease with a lease term remaining of 34 years (2022: 35 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 £218,000 (2022: £214,000) of which £nil (2022: £nil) remained payable at the year-end.

The Investment Manager received management fees of £714,000 (inclusive of irrecoverable VAT) from the Company in relation to the year ended 30 June 2023 (2022: £1,453,000). Of this amount £181,000 (2022: £245,000) remained payable at the year-end.

The Investment Manager received a further £169,000 (inclusive of irrecoverable VAT) during the year ended 30 June 2023 (2022: £151,000) in relation to its appointment as Company Secretary and Administrator. Of this amount £42,000 (2022: £38,000) remained payable at the year-end.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the fifth Annual General Meeting ('AGM') of Target Healthcare REIT plc (the 'Company') will be held on Wednesday 29 November 2023 at 4.00 p.m. at the offices of Dickson Minto W.S., Level 4, Dashwood House, 69 Old Broad Street, London EC2M 1QS 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 14 inclusive will be proposed as special resolutions:

Ordinary resolutions

1. That the Annual Report and Accounts for the year ended 30 June 2023 be received.
2. That the Directors' Annual Report on Remuneration for the year ended 30 June 2023 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 Michael Brodtman as a Director.
7. To re-elect Richard Cotton as a Director.
8. To re-elect Alison Fyfe as a Director.
9. To re-elect Vince Niblett as a Director.
10. To re-elect Amanda Thompsell 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 and to grant rights to subscribe for or to convert any security into shares in the Company ("Securities") up to an aggregate nominal amount of £620,237 (being approximately 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 enter into agreements which would or might require shares to be allotted or Securities to be granted and the Directors may allot shares or grant Securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

Special resolutions

12. That, in addition to any existing authority and 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 or sale, 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 or sell treasury shares in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired; and
    (b) shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £620,237 (being approximately equal to 10% of the nominal value of the issued share capital of the Company immediately prior to the passing of this resolution).

    This power applies in relation to the sale of treasury shares as if in the opening paragraph of this resolution the words "and subject to the passing of resolution 11" were omitted.
13. To authorise the Company generally and unconditionally, pursuant to and in accordance with section 701 of the Companies Act 2006, 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) either for retention as treasury shares for future reissue, resale or transfer or cancellation provided that:
    (a) the maximum aggregate number of ordinary shares that may be purchased is 92,973,578 ordinary shares or, if less, 14.99% of the issued ordinary share capital of the Company immediately prior to the passing of this resolution (excluding treasury shares);
    (b) the minimum price (excluding expenses) which may be paid for each ordinary share is the nominal value at the time of purchase;
    (c) the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
        (i) 105% of the average market value of an ordinary share in the Company for the five business days prior to the day the purchase is made; and
        (ii) the higher of the last independent trade and the highest current independent bid on the London Stock Exchange; and
    (d) unless previously varied, revoked or renewed, the authority hereby conferred shall expire at the conclusion of the Company's next Annual General Meeting or on 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of shares pursuant to any such contract.
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.

By order of the Board
Target Fund Managers Limited
Company Secretary

Registered office:
Level 4, Dashwood House
69 Old Broad Street
London
EC2M 1QS

9 October 2023

Notes:

1. Only those shareholders registered in the Company's register of members at 10.00 p.m. on 27 November 2023 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 27 November 2023 or, in the event of an adjournment of the meeting, 48 hours before the adjourned meeting. In the case of a shareholder which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form. If you have not received a proxy form and believe that you should have one, or if you require additional proxy forms, please contact Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY (Telephone: 0370 703 0013).
6. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of it by using the procedures described in the CREST manual (available via www.euroclear.com). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & International Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Computershare Investor Services PLC (ID 3RA50) no later than 4.00 p.m. on 27 November 2023 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 27 November 2023 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 9 October 2023, the Company's issued share capital comprised 620,237,346 Ordinary Shares of £0.01 each. Each Ordinary Share carries the right to one vote at a General Meeting of the Company and, therefore, the total number of voting rights in the Company as at 6.00 p.m. on 9 October 2023 is 620,237,346. The website referred to in Note 2 will include information on the number of shares and voting rights.
10. Under section 319A of the Act, any member attending the meeting has a right to ask questions. The Company must answer any question you ask relating to the business being dealt with at the meeting unless: (a) answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; (b) the answer has already been given on a website in the form of an answer to a question; or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

11. Under section 338 of the Act, a member or members meeting the qualification criteria set out in Note 14 below may, subject to certain conditions, require the Company to circulate to members notice of a resolution which may properly be moved and is intended to be moved at that meeting. The conditions are that: (a) the resolution must not, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); (b) the resolution must not be defamatory of any person, frivolous or vexatious; and (c) the request: (i) may be in hard copy form or in electronic form; (ii) must identify the resolution of which notice is to be given by either setting out the resolution in full or, if supporting a resolution sent by another member, clearly identifying the resolution which is being supported; (iii) must be authenticated by the person or persons making it; and (iv) must be received by the Company not later than six weeks before the meeting to which the request relates.
12. Under section 338A of the Act 2006, a member or members meeting the qualification criteria set out at Note 14 below may require the Company to include in the business to be dealt with at the Annual General Meeting a matter (other than a proposed resolution) which may properly be included in the business (a matter of business). The request must have been received by the Company not later than 18 October 2023. 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 Glendevon House, Castle Business Park, Stirling FK9 4TZ; (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 92 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.

Tax Summary for Real Estate Investment Trusts

Target Healthcare REIT plc is a Real Estate Investment Trust (REIT) and is tax resident in the UK 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 summarised 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 carry on a 'property rental business' throughout each accounting period and must hold a minimum of either a single commercial property worth at least £20 million or three properties with none exceeding 40% of the total value of the properties.

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 other 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-Property Income Distribution ('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 and has been relaxed for shareholders who are entitled to receive gross PIDs effective from 1 April 2022.

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 ('Gross PIDs'). This is dependant on the shareholder notifying the Company's registrar of this entitlement sufficiently in advance of a PID being paid and the Company being satisfied that the shareholder concerned is entitled to that treatment.

Shareholders entitled to elect to receive gross distributions 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 with potential offsets against tax payable in another jurisdiction under a Double Tax Treaty. 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 £1,000 per annum for tax year 2023/24 (£2,000 per annum for tax year 2022/23) 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 94 and 95 are intended to be a general outline of certain tax consequences that may arise in relation to the Company and shareholders. This is not a comprehensive summary of all technical aspects of the taxation of the Company and its shareholders and is not intended to constitute legal or tax advice to investors.

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

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

Historical Distributions

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

Distribution	Ex-dividend date	Payment date	PID (pence per share)	Non-PID (pence per share)	Total distribution (pence per share)
In relation to the year ended 30 June 2023					
Fourth interim dividend	10/08/23	25/08/23	1.19000	0.21000	1.40000
Third interim dividend	11/05/23	26/05/23	1.40000	–	1.40000
Second interim dividend	09/02/23	24/02/23	1.69000	–	1.69000
First interim dividend	10/11/22	25/11/22	1.69000	–	1.69000
Total			**5.97000**	**0.21000**	**6.18000**
In relation to the year ended 30 June 2022					
Fourth interim dividend	11/08/22	26/08/22	–	1.69000	1.69000
Third interim dividend	12/05/22	27/05/22	1.69000	–	1.69000
Second interim dividend	10/02/22	25/02/22	1.69000	–	1.69000
First interim dividend	11/11/21	26/11/21	1.69000	–	1.69000
Total			**5.07000**	**1.69000**	**6.76000**
In relation to the year ended 30 June 2021					
Fourth interim dividend	12/08/21	27/08/21	0.16800	1.51200	1.68000
Third interim dividend	13/05/21	28/05/21	1.68000	–	1.68000
Second interim dividend	11/02/21	26/02/21	1.68000	–	1.68000
First interim dividend	12/11/20	27/11/20	1.68000	–	1.68000
Total			**5.20800**	**1.51200**	**6.72000**
In relation to the year ended 30 June 2020					
Fourth interim dividend	13/08/20	28/08/20	0.08350	1.58650	1.67000
Third interim dividend	07/05/20	29/05/20	1.67000	–	1.67000
Second interim dividend	13/02/20	28/02/20	1.67000	–	1.67000
First interim dividend	14/11/19	29/11/19	1.67000	–	1.67000
Total			**5.09350**	**1.58650**	**6.68000**
In relation to the year ended 30 June 2019*					
Fourth interim dividend	18/07/19	02/08/19	–	1.64475	1.64475
Third interim dividend	02/05/19	31/05/19	1.64475	–	1.64475
Second interim dividend	07/02/19	22/02/19	1.64475	–	1.64475
First interim dividend	25/10/18	30/11/18	1.64475	–	1.64475
Total			**4.93425**	**1.64475**	**6.57900**

* 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, a Jersey-registered company in relation to which the tax consequences set out on pages 94 and 95 may differ.

Historical Record

Assets

At 30 June	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total assets (£'000)	105,071	176,310	282,791	306,246	434,822	538,379	663,772	718,394	963,658	**908,258**
Market value of property portfolio (£'000)	83,246	143,748	210,666	281,951	385,542	500,884	617,584	684,845	911,596	**868,705**
Shareholders' funds (£'000)	90,218	139,292	253,282	256,937	358,607	413,089	494,113	565,185	698,767	**654,808**

Performance

At 30 June	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
EPRA NTA per share	94.7p	97.9p	100.6p	101.9p	105.7p	107.5p	108.1p	110.4p	112.3p	**104.5p**
Share price	104.8p	106.9p	109.0p	117.8p	110.5p	115.6p	110.0p	115.4p	108.4p	**71.8p**
Premium/(discount)	10.6%	9.2%	8.3%	15.6%	4.5%	7.5%	1.8%	4.5%	(3.5)%	**(31.3)%**
IFRS EPS	1.08p	8.02p	6.81p	7.58p	9.77p	8.10p	7.18p	9.23p	8.20p	**(1.06)p**
Adjusted EPRA EPS	4.41p	6.10p	5.25p	5.23p	5.54p	5.45p	5.27p	5.46p	5.05p	**6.00p**
Dividends per share	6.00p	6.12p	6.18p	6.28p	6.45p	6.58p	6.68p	6.72p	6.76p	**6.18p**
Ongoing charges	1.95%	1.58%	1.42%	1.48%	1.48%	1.52%	1.51%	1.55%	1.51%	**1.53%**

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');
- Check the investment opportunity you have been offered at www.fca.org.uk/scamsmart;
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date;
- Check the list of unauthorised firms to avoid at www.fca.org.uk;
- 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; and
- Think about getting independent financial and professional advice.

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

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The definitions of all APMs used by the Company are highlighted in the glossary on pages 101 to 103, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below and within the EPRA Performance Measures.

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

		2023 pence	2022 pence
EPRA Net Tangible Assets per share (see Note 8 to the Consolidated Financial Statements)	(a)	**104.5**	112.3
Share price	(b)	**71.8**	108.4
(Discount)/premium	**= (b-a)/a**	**(31.3)%**	(3.5)%

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

		2023 £'000	2022 £'000
Group-specific EPRA earnings for the year (see Note 8 to the Consolidated Financial Statements)	(a)	**37,216**	30,242
First interim dividend		**10,482**	10,482
Second interim dividend		**10,482**	10,482
Third interim dividend		**8,683**	10,482
Fourth interim dividend		**8,683**	10,482
Dividends paid in relation to the year	(b)	**38,330**	41,928
Dividend cover	**= (a/b)**	**97%**	72%

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.

		2023 £'000	2022 £'000
Investment management fee		**7,428**	7,307
Other expenses		**3,046**	3,163
Less direct property costs and other non-recurring items		**(292)**	(347)
Adjustment to management fee arrangements and irrecoverable VAT*		**(35)**	312
Total	(a)	**10,147**	10,435
Average net assets	(b)	**661,231**	693,292
Ongoing charges	**= (a/b)**	**1.53%**	1.51%

* Based on the Group's net asset value at 30 June 2023, the management fee is expected to be paid at a weighted average rate of 1.03% (2022: 1.02%) of the Group's average net asset plus an effective irrecoverable VAT rate of approximately 9% (2022: 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% (2022: 1.10%).

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.

		2023			2022		
		EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)	EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)
Value at start of year	(a)	**112.3**	**112.7**	**108.4**	110.4	110.5	115.4
Value at end of year	(b)	**104.5**	**105.6**	**71.8**	112.3	112.7	108.4
Change in value during the year **(b-a)**	(c)	**(7.8)**	**(7.1)**	**(36.6)**	1.9	2.2	(7.0)
Dividends paid	(d)	**6.2**	**6.2**	**6.2**	6.8	6.8	6.8
Additional impact of dividend reinvestment	(e)	**0.3**	**0.4**	**–**	0.3	0.3	(0.2)
Total (loss)/gain in year (c+d+e)	(f)	**(1.3)**	**(0.5)**	**(30.4)**	9.0	9.3	(0.4)
Total return for the year	**= (f/a)**	**(1.2)%**	**(0.5)%**	**(28.1)%**	8.1%	8.4%	(0.3)%

EPRA Performance Measures

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

The figures below are calculated and presented in line with the BPR Guidelines published by EPRA in February 2022.

	2023	2022
EPRA Net Reinstatement Value (£'000)	**705,364**	756,708
EPRA Net Tangible Assets (£'000)	**647,903**	696,483
EPRA Net Disposal Value (£'000)	**694,480**	721,024
EPRA Net Reinstatement Value per share (pence)	**113.7**	122.0
EPRA Net Tangible Assets per share (pence)	**104.5**	112.3
EPRA Net Disposal Value per share (pence)	**112.0**	116.2
EPRA Earnings (£'000)	**47,572**	39,674
Group specific adjusted EPRA earnings (£'000)	**37,216**	30,242
EPRA Earnings per share (pence)	**7.67**	6.62
Group specific adjusted EPRA earnings per share (pence)	**6.00**	5.05
EPRA Net Initial Yield	**6.05%**	5.38%
EPRA Topped-up Net Initial Yield	**6.22%**	5.82%
EPRA Vacancy Rate	**–**	–
EPRA Cost Ratio (including direct vacancy costs)	**15.8%**	21.5%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**18.7%**	27.1%
EPRA Cost Ratio (excluding direct vacancy costs)	**15.8%**	21.5%
EPRA Group specific adjusted Cost Ratio (excluding direct vacancy costs)	**18.7%**	27.1%
EPRA Loan-to-Value	**25.8%**	24.0%
Capital Expenditure (£'000)	**23,767**	209,540
Like-for-like Rental Growth	**3.8%**	4.6%

EPRA NAV metrics and EPRA Earnings

Full details of these calculations, including reconciliations of each to the IFRS measures, are detailed in Note 8 to the Consolidated Financial Statements on pages 70 and 71.

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).

		As at 30 June 2023 £'000	As at 30 June 2022 £'000
Annualised passing rental income based on cash rents	(a)	**55,003**	51,217
Notional rent expiration of rent-free periods or other lease incentives		**1,554**	4,259
Topped-up net annualised rent	(b)	**56,557**	55,476
Standing assets (see page 72)		**851,305**	892,336
Allowance for estimated purchasers' costs		**57,461**	60,225
Grossed-up completed property portfolio valuation	(c)	**908,766**	952,561
EPRA Net Initial Yield	**= (a/c)**	**6.05%**	5.38%
EPRA Topped-up Net Initial Yield	**= (b/c)**	**6.22%**	5.82%

EPRA Vacancy Rate

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

		As at 30 June 2023 £'000	As at 30 June 2022 £'000
Annualised potential rental value of vacant premises*	(a)	**–**	–
Annualised potential rental value of the property portfolio (including vacant properties)	(b)	**56,557**	55,476
EPRA Vacancy Rate	**= (a/b)**	**–**	–

* As detailed in Note 17 to the Consolidated Financial Statements, there were no unoccupied properties at either 30 June 2022 or 30 June 2023.

EPRA Cost Ratio

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

		Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Investment management fee		**7,428**	7,307
Credit loss allowance and bad debts		**264**	3,232
Other expenses		**3,046**	3,163
EPRA costs (including direct vacancy costs)	(a)	**10,738**	13,702
Specific cost adjustments, if applicable		**–**	–
Group specific adjusted EPRA costs (including direct vacancy costs)	(b)	**10,738**	13,702
Direct vacancy costs	(c)	**–**	–
Gross rental income per IFRS	(d)	**67,748**	63,859
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives		**(11,308)**	(10,215)
Adjusted for surrender premiums recognised in capital		**–**	(3,877)
Adjusted for development interest under forward fund arrangements		**952**	783
Group specific adjusted gross rental income	(e)	**57,392**	50,550
EPRA Cost Ratio (including direct vacancy costs)	**= (a/d)**	**15.8%**	21.5%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**= (b/e)**	**18.7%**	27.1%
EPRA Cost Ratio (excluding direct vacancy costs)	**= ((a-c)/d)**	**15.8%**	21.5%
EPRA Group specific adjusted Cost Ratio (excluding direct vacancy costs)	**= ((b-c)/e)**	**18.7%**	27.1%

EPRA Loan-to-Value

		As at 30 June 2023 £'000	As at 30 June 2022 £'000
Borrowings		**230,000**	234,750
Net payables		**9,117**	18,213
Cash and cash equivalents		**(15,366)**	(34,483)
Net debt	(a)	**223,751**	218,480
Investment properties at market value		**868,705**	911,596
Total property value	(b)	**868,705**	911,596
EPRA Loan-to-Value	**= (a/b)**	**25.8%**	24.0%

EPRA Capital Expenditure

	Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Acquisitions (including acquisition costs)	**234**	178,830
Forward fund developments	**17,385**	28,851
Like-for-like portfolio	**6,148**	1,859
Total capital expenditure	**23,767**	209,540
Conversion from accrual to cash basis	**5,575**	(2,547)
Total capital expenditure on a cash basis	**29,342**	206,993

Like-for-like Rental Growth

		Year ended 30 June 2023 £'000	Year ended 30 June 2022 £'000
Opening contractual rent	(a)	**55,476**	41,213
Rent reviews		**2,080**	1,581
Re-tenanting of properties		**39**	312
Like-for-like rental growth	(b)	**2,119**	1,893
Acquisitions and developments		**1,019**	12,370
Disposals		**(2,057)**	–
Total movement	(c)	**1,081**	14,263
Closing contractual rent	**= (a+c)**	**56,557**	55,476
Like-for-like rental growth	**= (b/a)**	**3.8%**	4.6%

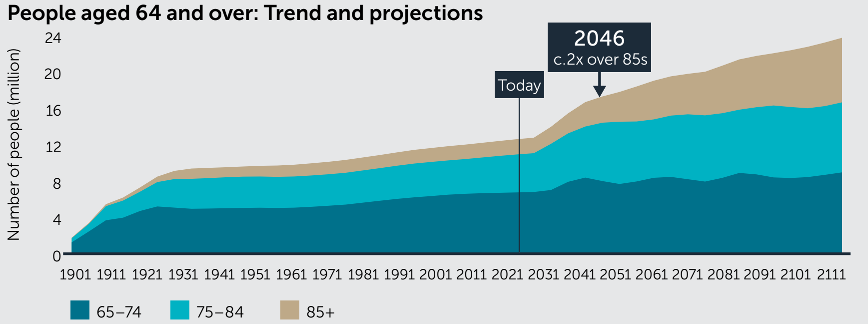
As the age of the UK population increases along with the care needs of older people, there is a clear requirement for investment that will modernise and grow the supply of fit-for-purpose care homes. Much of the UK's existing care home real estate is sub-standard for residents and their care professionals.

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

1. Demographics

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

People aged 64 and over: Trend and projections

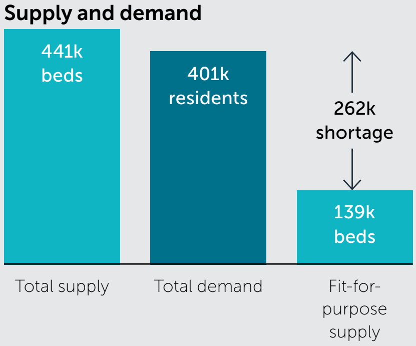


Sources: 1901–2001, Census data; Following 2001, successive principal national projections (the latest being 2018-based) from the Office for National Statistics and (formerly) the Government Actuary's Department.

2. Real estate standards

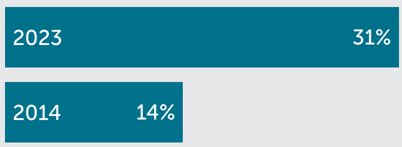
- Resident and family expectations on accommodation quality are increasing.
- Only 31% of rooms in UK have the en suite wet-rooms which are vital for hygiene, privacy & dignity.
- Purpose-built homes offer advantages for residents and care providers, and better social space for communities.

Supply and demand



Total en suite wet-room provision

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

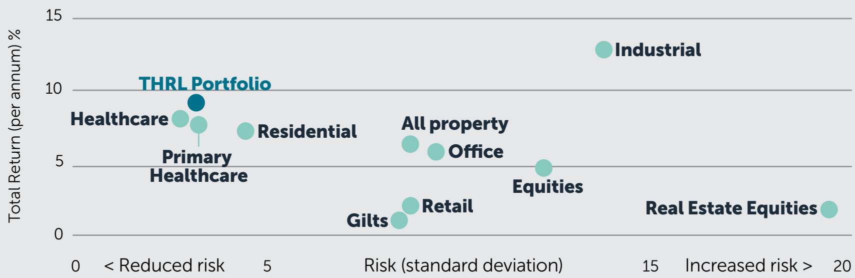


Sources:
Carterwood, analysis covers Great Britain as at September 2023.

3. Long-term investment, stable returns

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

Nine year total return vs standard deviation 2014-2022



Source: MSCI, based on annual index to 31 December 2022.

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	The UK version of the Alternative Investment Fund Managers Directive and all delegated legislation thereunder as it forms part of UK law pursuant to the European Union (Withdrawal) Act 2018, as amended. Issued by the European Parliament in 2012 and 2013, the Directive requires that all investment vehicles, 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 97.
Dividend	The income from an investment. The Company currently pays interim dividends to shareholders quarterly.
Dividend Cover*	The absolute value of Group specific adjusted EPRA Earnings divided by the absolute value of dividends relating to the period of calculation. The detailed method of calculation is shown on page 97.
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 pages 98 and 99.
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 Loan-to-Value ('LTV')*	A shareholder-gearing measure to determine the percentage of debt comparing to the appraised value of the properties. EPRA LTV is calculated as total gross debt (adding net trade payables and less cash) as a proportion of gross property value. The detailed method of calculation is shown on page 99.
EPRA Net Disposal Value ('NDV')*	A measure of Net Asset Value which represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax. A reconciliation of the NAV per IFRS and the EPRA NDV is contained in Note 8 to the Consolidated Financial Statements.
EPRA Net Initial Yield*	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. EPRA's purpose is to provide a comparable measure around Europe for portfolio valuations. The detailed method of calculation is shown on page 98.
EPRA Net Reinstatement Value ('NRV')*	A measure of Net Asset Value which assumes that entities never sell assets and aims to represent the value required to rebuild the entity. The objective is to highlight the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value movements on financial derivatives, are excluded and the costs of recreating the Group through investment markets, such as property acquisition costs and taxes, are included. A reconciliation of the NAV per IFRS and the EPRA NRV is contained in Note 8 to the Consolidated Financial Statements.

EPRA Net Tangible Assets ('NTA')*	A measure of Net Asset Value which assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax. A reconciliation of the NAV per IFRS and the EPRA NTA is contained in Note 8 to the Consolidated Financial Statements.
EPRA Topped-up Net Initial Yield*	Incorporates an adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives). The detailed method of calculation is shown on page 98.
GAAP	Generally Accepted Accounting Practice. This includes UK GAAP and International GAAP (IFRS or International Financial Reporting Standards). The Group's Consolidated Financial Statements are prepared in accordance with UK-adopted IFRS.
Gearing	Unlike open-ended investment companies, Closed-end Investment Companies have the ability to borrow to invest. This term is used to describe the level of borrowings that an Investment Company has undertaken. The higher the level of borrowings, the higher the gearing ratio. The gross gearing figure is calculated as debt divided by the market value of the properties held. The net gearing figure is calculated as debt less cash divided by the market value of the properties held.
Investment Manager	The Company's Investment Manager is Target Fund Managers Limited. Further details are set out on pages 30 and 31 and in Note 2 to the Consolidated Financial Statements.
Leverage	As defined under AIFMD rules, leverage is any method by which the exposure of an AIF is increased through borrowing of cash or securities or leverage embedded in derivative positions. Leverage is broadly equivalent to Gearing, but is expressed as a ratio between the assets (excluding borrowings) and the net assets (after taking account of borrowing). Under the gross method, exposure represents the sum of the Group's positions after deduction of cash balances, without taking account of any hedging or netting arrangements. Under the commitment method, exposure is calculated without the deduction of cash balances and after certain hedging and netting positions are offset against each other.
Loan-to-Value*	A measure of the Group's Gearing level. Gross LTV is calculated as total gross debt as a proportion of gross property value. Net LTV is calculated as total gross debt less cash as a proportion of gross property value.
Market Capitalisation	The stock market value of the Company as determined by multiplying the number of Ordinary Shares in issue, excluding any shares held in treasury, by the Share Price of the Ordinary Shares.
MSCI	Produces indexes for both privately-held real estate portfolios, as well as publicly-listed organisations which provides a long performance history and which are mostly appraised quarterly.
NAV per Ordinary Share	This is calculated as the Net Asset Value (NAV) divided by the number of shares in issue.
Net Asset Value (or Shareholders' Funds)	The value of total assets less liabilities. Liabilities for this purpose include current and long-term liabilities. It represents the underlying value of an Investment Company at a point in time.
Ongoing Charges Ratio*	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs of buying and selling investments, interest costs, taxation, non-recurring costs and the costs of buying back or issuing ordinary shares. The detailed method of calculation is shown on page 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. The Company has only Ordinary Shares in issue.
Real Estate Investment Trust (or REIT)	A tax regime which in the UK exempts participants from corporation tax both on UK rental income and gains arising on UK investment property sales, subject to certain requirements. Further details are provided on pages 94 and 95.
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.

* Alternative Performance Measure.

Property and ESG 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.
Building Research Establishment Environmental Assessment Method ('BREEAM')	BREEAM is the world's leading science-based suite of validation and certification systems for sustainable built environment. The BREEAM in-use standards provide a framework to enable property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their assets, leading to benchmarking, assurance and validation of operational asset data.
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.
COP26	The 26th UN Climate Change Conference held in November 2021.
Deed of Surrender	A legal document which allows the early termination of a lease upon the agreement of both parties. It will list the obligations that need to be fulfilled by both parties before the rights and interests under the lease are extinguished. Depending on the circumstances a surrender premium may be payable from the Group to the tenant, or receivable by the Group from the tenant.
Energy Performance Certificate ('EPC')	An Energy Performance Certificate (EPC) rates how energy efficient a building is using grades from A to G (with 'A' the most efficient grade). All commercial properties leased to a tenant must have an EPC. All EPCs are valid for 10 years.
Estimated Rental Value ('ERV')	The estimated annual market rental value of a property as determined by the Company's External Valuer. This will normally be different from the actual rent being paid.
Fixed and Minimum Guaranteed Rental Uplifts	Rents subject to fixed uplifts at an agreed level on agreed dates stipulated within the lease, or rents subject to contracted minimum uplifts at specified review dates.
Forward Fund/Commitment	A contract pertaining to the future purchase of a property. Forward Funding relates to the acquisition of a property which hasn't yet been built, with the Group providing the developer with the funding for the development, usually in staged payments throughout the contract.
GRESB	GRESB is a mission-driven and investor-led organisation that provides actionable and transparent ESG data to financial markets. GRESB collects, validates, scores and benchmarks ESG data using a standardised, globally recognised framework so that both investors and Investment Managers can act on ESG data and insights.
Lease	A legally binding contract between a landlord and a tenant which sets out the basis on which the tenant is permitted to occupy a property, including the lease length.
Lease Incentive	A payment used to encourage a tenant to take on a new lease, for example by a landlord paying a tenant a sum of money to contribute to the cost of a tenant's fit-out of a property or by allowing a rent free period.
Lease Renewal	The renegotiation of a lease with the existing tenant at its contractual expiry.
Mature Homes	Care homes which have been in operation for more than three years. There were 77 homes in the Group's portfolio which both met this definition and were held by the Group for the entire duration of the year ended 30 June 2023, closing at 84 homes on 30 June 2023.
Occupancy Rate or Resident 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.
Photovoltaic ('PV') Panels	Panels which are used to generate renewable electricity by capturing solar energy.
Portfolio or Passing Rent*	The annual rental income currently receivable on a property as at the balance sheet date, excluding rental income where a rent-free period is in operation. The gross rent payable by a tenant at a point in time.
Rent Cover*	A measure of the tenant's ability to meet its rental liability from the profit generated by their underlying operations. Generally calculated as the tenant's EBITDARM (earnings before interest, taxes, depreciation, amortisation, rent and management fees) divided by the contracted rent. Unless otherwise stated, rent cover is calculated based on Mature Homes only.
Rent Review	A periodic review of rent during the term of a lease, as provided for within a lease agreement.
Surrender Premium	A sum of monies that may be paid from the tenant to the landlord, or from the landlord to a tenant, in order to extinguish a lease prior to the termination date originally set out in the 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.
Wet-room	A private, en-suite shower and toilet room, fully tiled and drained, providing the practical living space for personal hygiene to be applied in a dignified manner and with assistance as required.
WAULT*	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

* Alternative Performance Measure.

Corporate Information

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