THR Number 22 Limited

(Registered number 11390916)

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2021

THR Number 22 Limited

Directors

Mr Gordon Bland
Mr Andrew Brown
Mr John Flannelly
Mr Kenneth MacKenzie

Registered Office

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

Solicitors

Dickson Minto WS
16 Charlotte Square
Edinburgh
EH2 4DF

Auditors

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

THR Number 22 Limited

STRATEGIC REPORT

Principal Activity and Status

THR Number 22 Limited (the "Company"), which is not a 'Close Company', is a Property Investment Company.

At 30 June 2021, the Company was a wholly owned subsidiary of THR Number 15 plc (the 'parent company'), which in turn is a wholly owned subsidiary of Target Healthcare REIT Limited. Target Healthcare REIT plc, a company incorporated in England & Wales, is the sole shareholder in Target Healthcare REIT Limited and the ultimate parent of the Company.

Business Review

The Company owns a care home. The operation of the care home is conducted by a third party care home operator, who has entered into an agreement with the Company to lease the care home property. The business of the Company is to operate as a property investment company, in line with the investment objective of its ultimate parent.

The objective of the Company's ultimate parent is to provide its 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.

THR Number 22 Limited is one of a number of subsidiaries that the ultimate parent owns that contributes to meeting the ultimate parent's objective by holding a care home property that is let to a care home operator.

A full business review is contained in the report and financial statements of the ultimate parent company which can be found on the ultimate parent company's website: www.targethealthcarereit.co.uk.

The Company has a single property asset, originally being a forward funding opportunity. During the year ended 30 June 2021, the Company made a profit of £1,762,000 (2020: £749,000). This mainly reflects rental income of £882,000 (2020: £883,000) and an increase in the fair value of the investment property, after adjusting for the movement in the fixed or guaranteed rent reviews, of £875,000 (2020: decrease of £64,000). The Company does not have any significant expenses, with the investment management fee, which is set by reference to the net assets of the Company, being paid by its parent company.

A fixed and floating charge has been granted over the assets of the Company as part of the security provided to HSBC in relation to the loan facility granted by HSBC to the Company's parent, THR Number 15 plc.

Principal Risks and Uncertainties

The Company's principal risks and uncertainties are similar to those of the Group and are contained in the report and financial statements of the ultimate parent company, or are related to the Company's financial instruments as detailed in note 9 on pages 18 to 20.

These risks and uncertainties include matters relating to the Novel Coronavirus (COVID-19) outbreak which was declared as a global pandemic by the World Health Organisation on 11 March 2020. The pandemic could result in uncertainty over the fair value of the Company's investment property or increase the risk of default by the tenant of the property.

The impact of COVID-19 on the going concern of the Company has been considered. However, as a property holding company forming part of a larger, solvent group, with limited expenses and no external borrowings held directly by the Company, even if the property valuation or the level of rental income received were to fall significantly, this would not be expected to result in the Company being unable to pay its liabilities as they fall due over a period of twelve months from the date of approval of these financial statements.

On behalf of the Board,

Mr Gordon Bland
Director
28 March 2022

THR Number 22 Limited

Report of the Directors

The Directors submit their Report and Financial Statements of the Company for the year ended 30 June 2021.

Results and Dividends

The profit for the year was £1,762,000 (2020: £749,000).

The Company paid an interim dividend of £1,250,000 during the year (2020: £nil). No final dividend is proposed in respect of the year (2020: £nil).

Directors

The Directors who held office during the year and for the period through to 28 March 2022 are shown below:

Mr Gordon Bland
Mr Andrew Brown
Mr John Flannelly
Mr Kenneth MacKenzie

No Director had any interest in the shares of the Company as at 30 June 2021 and as at 28 March 2022.

Auditors

The Company's auditors for the period were Ernst & Young LLP. Ernst & Young LLP have expressed their willingness to continue in office.

Going Concern

The financial statements have been prepared on a going concern basis, appropriate accounting policies have been used and consistently applied, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements. Applicable UK Generally Accepted Accounting Practice ("UK GAAP") has been followed. The risk of COVID-19, as described in the *Strategic Report*, was considered when concluding the accounts should be prepared on a going concern basis.

On behalf of the Board,

Mr Gordon Bland
Director
28 March 2022

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice ("UK GAAP"), including Financial Reporting Standard 101 'Reduced Disclosure Framework', and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report that complies with that law and those regulations.

The Directors confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with UK GAAP, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- that, in the opinion of the Directors, the Annual Report and Financial Statements taken as whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's performance, business model and strategy; and
- the Strategic Report includes fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

Directors' statement as to disclosure of information to Auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 3. Having made enquiries of fellow Directors and of the Company's Auditors, each of these Directors confirms that:

- to the best of his/her knowledge and belief, there is no information (that is, information needed by the Company's Auditors in connection with preparing their report) of which the Company's Auditors are unaware; and

- he/she has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's Auditors are aware of that information.

By Order of the Board

Mr Gordon Bland
Director
28 March 2022

Independent Auditor's Report to the Member of THR Number 22 Limited

Opinion

We have audited the financial statements of THR Number 22 Limited ("the Company") for the year ended 30 June 2021 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:
- give a true and fair view of the state of the Company's affairs as at 30 June 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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 Company's ability to continue as a going concern for the period to 31 March 2023, being at least 12 months from when the financial statements are authorised for issue.

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 Company's ability to continue as a going concern.

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, 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 period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and 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 Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, 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 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 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 entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are the Companies Act 2006 and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework".
- We understood how the Company is complying with those frameworks through discussions with the Company Secretary and review of documented policies and procedures.

- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements. We identified fraud risks with respect to the incomplete or inaccurate recognition of rental income including accounting for fixed rental uplifts and lease incentives; and the incorrect valuation and the calculation of unrealised gains/(losses) of investment properties; In order to address these risks we recalculated rental income recognised including accounting for fixed rental uplifts and lease incentives with reference to lease documentation and agreed a sample of receipts to bank statements; and we engaged our valuation specialists to perform a review of the independent valuers work for the property including an assessment of the methods applied and key assumptions such as rent terms, tenant rent cover, and covenant strength and we recalculated the unrealised gains/(losses) of the property.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved review of the reporting to the Directors with respect to the application of the documented policies, an assessment of legal expenses and a review of the financial statements to ensure compliance with the reporting requirements of the 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.

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.

Ernst & Young LLP

Caroline Mercer (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Edinburgh
28 March 2022

Statement of Comprehensive Income
For the year ended 30 June 2021

	Notes	Year ended 30 June 2021 £'000	Year ended 30 June 2020 £'000
Revenue			
Rental income		**882**	883
Total revenue		**882**	883
Gain/(loss) on revaluation of investment property	4	**875**	(64)
Total income		**1,757**	819
Expenditure			
Auditor's remuneration		**(4)**	(10)
Total expenditure		**(4)**	(10)
Profit before finance costs and taxation		**1,753**	809
Net finance costs			
Interest receivable		**9**	1
Interest payable	2	**-**	(61)
Profit before taxation		**1,762**	749
Taxation	3	**-**	-
Profit for the year		**1,762**	749

The Company does not have any income or expense that is not included in the profit for the year. Accordingly, the "profit for the year" is also the "Total Comprehensive Income for the year", as defined by UK GAAP and no separate Statement of Other Comprehensive Income has been presented.

This statement represents the Company's profit and loss account, prepared in accordance with UK GAAP.

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

The notes on pages 11 to 21 are an integral part of these statements.

THR Number 22 Limited

Statement of Financial Position
As at 30 June 2021

	Notes	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Non-current assets			
Investment property	4	**10,303**	9,428
Trade and other receivables	5	**647**	402
		10,950	9,830
Current assets			
Cash at bank and on deposit	6	**229**	829
		229	829
Total assets		**11,179**	10,659
Current liabilities			
Trade and other payables	7	**(158)**	(150)
Total liabilities		**(158)**	(150)
Net assets		**11,021**	10,509
Share capital and reserves			
Share capital account	8	**9,820**	9,820
Capital reserve		**1,032**	(88)
Revenue reserve		**169**	777
Equity shareholders' funds		**11,021**	10,509

Company number: 11390916

The financial statements were approved by the Board and authorised for issue on 28 March 2022 and were signed on its behalf by:

Mr Gordon Bland, Director

The notes on pages 11 to 21 are an integral part of these statements.

THR Number 22 Limited

Statement of Changes in Equity

For the year ended 30 June 2021

	Share Capital £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 1 July 2020	**9,820**	**(88)**	**777**	**10,509**
Total comprehensive income for the year	-	-	1,762	1,762
Reallocation of revaluation movement	-	875	(875)	-
Reallocation of movement in fixed or guaranteed rent reviews	-	245	(245)	-
Transactions with owners recognised in equity:				
Dividend paid	-	-	(1,250)	(1,250)
Balance as at 30 June 2021	**9,820**	**1,032**	**169**	**11,021**

For the year ended 30 June 2020

	Share Capital £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 1 July 2019	-	(282)	222	(60)
Total comprehensive income for the year	-	-	749	749
Reallocation of revaluation movement	-	(64)	64	-
Reallocation of movement in fixed or guaranteed rent reviews	-	258	(258)	-
Transactions with owners recognised in equity:				
Issue of ordinary shares	9,820	-	-	9,820
Balance as at 30 June 2020	9,820	(88)	777	10,509

The notes on pages 11 to 21 are an integral part of these statements.

Notes to the Financial Statements

1. Accounting policies

(a) Basis of Preparation
The financial statements as prepared are separate financial statements and the Company is not required to, nor has it elected to, produce consolidated financial statements as the Company is a member of a group where the ultimate parent prepares publicly available consolidated financial statements (see note 12).

Basis of Accounting
These financial statements have been prepared in accordance with FRS 101: Reduced Disclosure Framework ('FRS 101'). The financial statements are prepared on a going concern basis. 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 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 other wholly owned members of the Group and any amounts incurred by the Company for provision of key management personnel from the management entity.

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

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. Significant estimates and assumptions are made in the valuation of the investment properties held. Further information on market risk and sensitivity to market changes is provided in the notes.

Revaluation of investment properties
Significant estimates and assumptions are made in the valuation of the investment properties. The Company 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 4 and 9.

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

Provision for expected credit losses of rental income and trade receivables
The Company uses a provision matrix to calculate expected credit losses for rental income and trade receivables. The provision rates are initially based on the historical observed default rates of the wider group of which the Company is a member, adjusted for forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The continuing impact of COVID-19 is not expected to have a material impact on the provision rates set based on the Group's historical observed default rates. Where historic portfolio losses are not thought an appropriate measure of expected credit losses based on the circumstances of particular tenants, the expected credit losses are calculated by identifying scenarios that specify the amount and timing of cash flows for particular outcomes and estimating a probability of each of these outcomes based on the Company'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.

1. Accounting policies (continued)

The assessment of the correlation between historical observed default rates, forward looking information and estimated credit losses is a significant estimate, as is the assessment of the correlation between the identification of the potential scenarios that may arise and the estimated probability of each such scenario occurring. The amount of estimated credit losses is sensitive to changes in the financial circumstances of individual tenants and in forward-looking information.. Further details are provided in note 9.

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 Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future and for at least the next twelve months from the date of issuance of this report. This assessment took into consideration the potential impact of COVID-19, including the risk that tenants are unable to meet their rental commitments; as a property holding company forming part of a larger, solvent group, with limited expenses and no external borrowings held directly by the Company, even if the property valuation or the level of rental income received were to fall significantly, this would not be expected to result in the Company being unable to pay its liabilities as they fall due over a period of twelve months from the date of approval of these financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

(b) 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 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.
- 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 and 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 and minimum guaranteed rent review uplifts on a straight line basis is recognised through the Statement of Comprehensive Income and transferred to the Capital Reserve.

Interest Receivable

Interest receivable is accounted for on an accruals basis.

Service Charges and Expenses Recoverable from Tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are included gross of the related costs, as the Directors consider the Company acts as principal in this respect.

(c) Expenses

Expenses are accounted for on an accruals basis and are inclusive of VAT. The Company's finance costs and expenses are charged through the Statement of Comprehensive Income and are transferred to the Revenue Reserve, except where such costs relate wholly to capital matters in which case they are transferred to the Capital Reserve.

(d) Dividends payable

Dividends payable by the Company are accounted for in the period in which they are paid.

1. Accounting policies (continued)

(e) 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 Company will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Entry to UK-REIT Regime
The Company joined the Group REIT regime with effect from 8 August 2018, prior to which the Company had been dormant. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Company's property rental business, comprising both income and capital gains, being exempt from UK taxation.

(f) 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 Company, 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, lease surrender premiums 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.

(g) 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.

1. Accounting policies (continued)

(h) 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. 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.

Loans receivable have fixed or determinable payments and are recognised at amortised cost less provision for impairment as calculated through the expected credit loss method.

(i) Interest-bearing borrowings
All borrowings are initially recognised at cost, being 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.

(j) Reserves
Capital Reserve
The following are accounted for in the capital reserve:
– gains and losses on the disposal of investment properties;
– increases and decreases in the fair value of investment properties which are held at the period end;
– rent adjustments which represent the effect of spreading uplifts and incentives; and
– other expenses or finance costs charged to the Statement of Comprehensive Income that are capital in nature.

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

2. Interest payable and similar charges

	For the year ended 30 June 2021 £'000	For the year ended 30 June 2020 £'000
Intercompany loan interest	-	61
Total	**-**	**61**

3. Taxation

	For the year ended 30 June 2021 £'000	For the year ended 30 June 2020 £'000
Current tax	-	-
Total	**-**	**-**

3. 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:

	For the year ended 30 June 2021 £'000	For the year ended 30 June 2020 £'000
Profit before taxation	1,762	749
UK tax at a rate of 19.0% (2020: 19.0%)	335	142
Effects of:		
REIT exempt (gains)/losses	(166)	12
REIT exempt profit	(139)	(112)
Capital allowances	(33)	(47)
Excess expenses carried forward	3	5
Current tax charge	**-**	**-**

From 8 August 2018, subject to continuing relevant UK-REIT criteria being met, the profits from the Company's property rental business, arising from both income and capital gains, are exempt from corporation tax. Prior to this date, the Company was dormant.

The Company has unutilised tax losses carried forward in its residual business of £82,000 at 30 June 2021 (2020: £64,000). No deferred tax asset has been recognised on this amount as the Company 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.

4. Investment property

Freehold Property

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Opening market value	**9,830**	**9,636**
Opening fixed or guaranteed rent reviews	(402)	(144)
Opening carrying value	**9,428**	**9,492**
Revaluation movement	1,120	194
Movement in market value	**1,120**	**194**
Fixed or guaranteed rent reviews movement	(245)	(258)
Movement in carrying value	**875**	**(64)**
Closing market value	**10,950**	**9,830**
Closing fixed or guaranteed rent reviews	(647)	(402)
Closing carrying value	**10,303**	**9,428**

Change in the valuation of the investment property

	For the year ended 30 June 2021 £'000	For the year ended 30 June 2020 £'000
Revaluation movement	1,120	194
Movement in fixed or guaranteed rent reviews	(245)	(258)
Gain/(loss) on revaluation of the investment property	**875**	**(64)**

The Company's investment property consists of a single care home developed under a fixed price forward funding agreement. On completion the property was let at an agreed rental level. The lease was for an original term of 35 years with RPI uplifts subject to a cap and collar.

4. Investment property (continued)

The property was valued at £10,950,000 (2020: £9,830,000) by Colliers International Healthcare Property Consultants Limited ("Colliers"), in their capacity as external valuers. The valuation was prepared on a tiered fee basis, linked to the property value. The valuation was undertaken in accordance with the RICS Valuation - Global Standards, incorporating the International Valuation Standards (the 'Red Book Global', 31 January 2020) issued by the Royal Institution of Chartered Surveyors ("RICS") on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Market Value represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The fair value of the property after adjusting for the movement in the fixed or guaranteed rent reviews was £10,303,000 (2020: £9,428,000).

The Company is required to classify fair value measurements of its investment property using a fair value hierarchy. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

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

The Company's investment property is 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 an investment yield is applied to the asset which, along with the contracted rental level, is used to derive a market value. Whilst the property is under development, the fair value is based on the expected fair value of the completed property less costs to completion (including the deduction of an additional provision to cover uncertainties) and discounted to present value.

In determining what level of the fair value hierarchy to classify the Company's investment within, the Directors have considered the content and conclusion of the position paper 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 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 Company's asset within level 3 of the fair value hierarchy.

The Company's investment property, which is a care home, is a single asset. The net initial yield on this asset is 5.5% (2020: 6.0%). There have been no changes to the valuation technique used through the year, nor have there been any transfers between levels of the fair value hierarchy.

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.

4. Investment property (continued)

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 property, and consequently the Company's reported income from unrealised gains on investments, by £110,000 (2020: £98,000); an equal and opposite movement would have decreased net assets and decreased the Company's income by the same amount.

A decrease in the investment yield applied to the portfolio by 0.25% will increase the fair value of the portfolio by £521,000 (2020: £427,000), and consequently increase the Company's reported income from unrealised gains on investments. An increase in yield by 0.25% will decrease the fair value of the portfolio by £476,000 (2020: £393,000) and reduce the Company's income.

5. Trade and other receivables

	As at 30 June 2021	As at 30 June 2020
Non-current trade and other receivables	**£'000**	**£'000**
Fixed rent reviews	647	402
Total	**647**	**402**

At the year end trade and other receivables include a fixed rent review debtor of £647,000 (2020: £402,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term.

6. Cash and cash equivalents

	As at 30 June 2021	As at 30 June 2020
	£'000	**£'000**
Cash at bank	229	829
Total	**229**	**829**

All cash balances at the balance sheet date were held in cash, current accounts or deposit accounts with a term of less than three months.

7. Trade and other payables

	As at 30 June 2021	As at 30 June 2020
Current trade and other payables	**£'000**	**£'000**
Rental income received in advance	148	145
Other payables	10	5
Total	**158**	**150**

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

8. Share Capital

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of £1 each:		
Opening balance as at 1 July 2020	9,819,637	9,820
Closing balance as at 30 June 2021	**9,819,637**	**9,820**

Under the Company's Articles of Association, the Company may issue an unlimited number of ordinary shares.

Capital management
The Company's capital is represented by the share capital account, capital reserve and revenue reserve. The Company is not subject to any externally-imposed capital requirements. The capital of the Company is managed in order to permit its ultimate parent to meet the Group's investment policy, in pursuit of the Group's investment objective.

Capital risk management
The objective of the Company's ultimate parent 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 Company'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 will be considered and approved by the Board on a regular basis.

The Company's capital structure may be amended in order to meet the overall capital funding requirements of the Target Healthcare REIT Group. To maintain or adjust the capital structure, the Company may adjust the dividend payment to its parent company, return capital to its parent or issue new shares. The Company did not repurchase any ordinary shares during the period.

No changes were made in the objectives, policies or processes during the period.

9. Financial instruments

Consistent with the Company's objective, the Company holds a UK care home property investment. In addition, the Company's financial instruments comprise cash and receivables and payables that arise directly from its operations. The Company does not have any 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 Company's risk exposure. These policies are summarised below and have remained unchanged for the period under review. These disclosures include, where appropriate, consideration of the Company's investment property which, whilst not constituting a financial instrument as defined by relevant UK GAAP, is 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.

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 Company will suffer a rental shortfall and incur additional expenses until the property is re-let. These expenses could include legal and surveyor's costs in re-letting, maintenance costs, insurances, rates and marketing costs and will have a material adverse impact on the financial condition and performance of the Company and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Investment Manager, Target Fund Managers Limited, monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

There were no financial assets which were either past due or considered impaired at 30 June 2021 (2020: nil).

9. Financial instruments (continued)

All of the Company'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 Company'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.

Liquidity risk
Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's investments comprise a UK care home. 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 investment in the property at an amount close to their fair value in order to meet its liquidity requirements.

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

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

Financial assets as at 30 June 2021

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Cash	229	-	-	229
Total	**229**	**-**	**-**	**229**

Financial assets as at 30 June 2020

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Cash	829	-	-	829
Total	**829**	**-**	**-**	**829**

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

Financial liabilities as at 30 June 2021

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Other payables	10	-	-	10
Total	**10**	**-**	**-**	**10**

Financial liabilities as at 30 June 2020

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Other payables	5	-	-	5
Total	**5**	**-**	**-**	**5**

9. Financial instruments (continued)

Interest rate risk
Interest rate risk is the risk that future cash flows will change adversely as a result of changes in market interest rates. Some of the Company's financial instruments are interest-bearing. As a consequence, the Company will be exposed to interest rate risk due to fluctuations in the prevailing market rate.

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 variable rate of nil per cent (2020: 0.01 per cent). Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management policies. These balances expose the Company to cash flow interest rate risk as the Company's income and operating cash flows will be affected by movements in the market rate of interest.

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

	As at 30 June 2021		**As at 30 June 2020**	
	Fixed rate £'000	**Variable rate £'000**	**Fixed rate £'000**	**Variable rate £'000**
Cash and cash equivalents	-	**229**	-	829

An increase of 0.25 per cent in interest rates would have increased the reported profit for the year and increased the net assets at the year end by £1,000 (2020: £2,000), a decrease in interest rates would have an equal and opposite effect. These movements are calculated based on variable rate balances as at 30 June 2021 (30 June 2020) and may not be reflective of actual future conditions.

Market price risk
The management of market price risk is part of the investment management process and is typical of a property investment company. The property 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 is set out in detail in the accounting policies and note 4.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Company's investment property held at the balance sheet date are disclosed in note 4. A 10 per cent increase in the carrying value of the investment property held as at 30 June 2021 would have increased net assets available to shareholders and increased the net income for the year by £1,030,000 (2020: £943,000); 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 actual future market conditions.

10. Lease length

The Company leases out its investment property under an operating lease.

The minimum lease payments based on the unexpired lessor lease length at the period end was as follows (based on annual rentals):

	As at 30 June 2021 £'000	As at 30 June 2020 £'000
Less than one year	**649**	637
Between one and two years	**662**	649
Between two and three years	**676**	662
Between three and four years	**689**	676
Between four and five years	**703**	689
Over five years	**25,895**	26,599
Total	**29,274**	29,912

As the Company only holds one single-let investment property, the largest single tenant at the period end accounted for 100 per cent of the current annual rental income (2020: 100 per cent). The property was fully let 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 remaining lease term of 32 years at 30 June 2021.

11. 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 are also directors of the Investment Manager.

The Investment Manager appointed to the Group, Target Fund Managers Limited, is also considered to be a related party. The Investment Manager's fee is paid by the Company's parent.

12. Holding Company and Ultimate Controlling Party

As at 30 June 2021, the Company was a wholly owned subsidiary of THR Number 15 plc, which in turn was a wholly owned subsidiary of Target Healthcare REIT Limited, a Company registered in Jersey. Target Healthcare REIT Limited is a wholly owned subsidiary of Target Healthcare REIT plc, a listed Company registered in England and Wales (registered number: 11990238). Target Healthcare REIT plc is the ultimate parent of the Company.

The Company's results for the year ended 30 June 2021 are consolidated in the Group Financial Statements of Target Healthcare REIT plc, copies of which are available from Level 13, Broadgate Tower, 20 Primrose Street, London, EC2A 2EW.