

**THR Number One plc**



**(Registered number 08996524)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**For the year ended 30 June 2022**



## **THR Number One plc**

### **Directors**

Mr Malcolm Naish  
Mr Richard Cotton  
Mr Gordon Coull  
Ms Alison Fyfe  
Mr Vince Niblett  
Dr Amanda Thompsell

### **Registered Office**

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

### **Solicitors**

Dickson Minto WS  
16 Charlotte Square  
Edinburgh  
EH2 4DF

### **Auditors**

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

## STRATEGIC REPORT

### Principal Activity and Status

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

As at 30 June 2022, the Company is a wholly owned subsidiary of Target Healthcare REIT Limited (the 'parent company') which in turn is a wholly owned subsidiary of Target Healthcare REIT plc. Target Healthcare REIT plc is the ultimate parent of the Company.

During the year to 30 June 2022, the Company issued 22,697,806 ordinary shares of £1 each to the parent company in consideration for the entire share capital of each of THR Number 11 Limited, THR Number 14 Limited and THR Number 16 Limited. The Company also owns 100 per cent of the share capital of THR Number Two Limited. These subsidiaries are each a property investment company. THR Number 11 Limited is registered in Scotland. THR Number Two Limited, THR Number 14 Limited and THR Number 16 Limited are registered in England & Wales.

### Business Review

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 One plc is one of a number of subsidiaries that the ultimate parent owns that contributes to meeting the ultimate parent's objective by holding care home properties that are let to care home operators. 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](http://www.targethealthcarereit.co.uk).

The Company has entered into a borrowing facility with the Royal Bank of Scotland plc on behalf of the Target Healthcare REIT plc group (the "Group"). In November 2020, this facility was refinanced and the existing interest swaps were closed. The current facility with the Royal Bank of Scotland is a £70m committed term loan and revolving credit facility which is repayable on 5 November 2025. The committed loan element of this facility of £30m has been fully hedged with an interest rate swap.

During the year ended 30 June 2022, the Company made a profit of £17,117,000 (2021: £11,805,000). This mainly reflects rental income received of £9,089,000 (2021: £8,274,000) with the fair value of the property portfolio held, after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives, having increased over the year by a total of £4,283,000 (2021: £5,831,000). The Company also received a surrender premium of £3,073,000 (2021: £nil) from an outgoing tenant and £3,390,000 of dividends from its wholly owned subsidiaries (2021: £nil). The Company also received interest income of £262,000 (2021: £262,000). The Company's only significant expenses are the investment management fee of £1,290,000 (2021: £1,069,000), which is set by reference to the net assets of the Company, and the interest charge of £1,595,000 (2021: £1,429,000) on the Company's long term borrowings (see notes 5 and 13).


### 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 16 on pages 22 to 25.

These risks and uncertainties take into consideration the economic conditions in which the Company is operating, including COVID-19, market uncertainty and rising costs. These economic conditions could result in uncertainty over the fair value of the Company's investment properties or increase the risk of default by the tenants of the properties.

The impact of the current economic conditions, including 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 headroom within the financial covenants relating to the Company's external borrowings, even if the property valuations 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 at least twelve months from the date of these financial statements.

On behalf of the Board,



Mr Vince Niblett, Director  
1 November 2022

## **THR Number One plc**

### **Report of the Directors**

The Directors submit their Report and Financial Statements of the Company for the year ended 30 June 2022.

### **Results and Dividends**

The profit for the year was £17,117,000 (2021: £11,805,000).

The Company paid an interim dividend of £12,800,000 to its parent company during the year (2021: nil). No final dividend is proposed in respect of the year (2021: nil).

### **Directors**

The Directors who held office during the period to 1 November 2022 are shown below:

Mr Malcolm Naish  
Mr Richard Cotton (appointed 1 November 2022)  
Mr Gordon Coull  
Ms Alison Fyfe  
Mr Vince Niblett (appointed 25 August 2021)  
Dr Amanda Thompsell (appointed 1 February 2022)  
Professor June Andrews (resigned 14 December 2021)  
Mr Thomas Hutchison III (resigned 14 December 2021)

No Director had any interest in the shares of the Company as at 30 June 2022 and as at 1 November 2022.

The Directors' interests in the ultimate parent company, Target Healthcare REIT plc (see note 19), are set out in that company's Annual Report and Financial Statements for the year ended 30 June 2022.

### **Auditors**

The Company's auditors for the year 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 Vince Niblett  
Director  
1 November 2022

## Statement of Directors' Responsibilities in respect of the annual financial statements

The Directors are responsible for preparing the Annual 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 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements 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 Vince Niblett

Director

1 November 2022

## **THR Number One plc**

### **Independent Auditor's Report to the Member of THR Number One plc**

#### **Opinion**

We have audited the financial statements of THR Number One PLC ('the Company') for the year ended 30 June 2022 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 19, 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 Company's affairs as at 30 June 2022 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. 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 a period to 31 December 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 year 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 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 properties 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 properties.

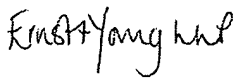
## THR Number One plc

- 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.



*Caroline Mercer (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Edinburgh  
2 November 2022*

THR Number One plc

Statement of Comprehensive Income  
For the year ended 30 June 2022

	Notes	Year ended 30 June 2022			Year ended 30 June 2021		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Revenue</b>							
Rental income		7,691	1,398	9,089	6,949	1,325	8,274
Other rental income		611	2,462	3,073	-	-	-
Dividends received		3,390	-	3,390	-	-	-
<b>Total revenue</b>		<b>11,692</b>	<b>3,860</b>	<b>15,552</b>	<b>6,949</b>	<b>1,325</b>	<b>8,274</b>
Gains on revaluation of investment properties	8	-	4,283	4,283	-	5,831	5,831
<b>Total income</b>		<b>11,692</b>	<b>8,143</b>	<b>19,835</b>	<b>6,949</b>	<b>7,156</b>	<b>14,105</b>
<b>Expenditure</b>							
Investment management fee	2	(1,290)	-	(1,290)	(1,069)	-	(1,069)
Other expenses	3	(95)	-	(95)	(64)	-	(64)
<b>Total expenditure</b>		<b>(1,385)</b>	<b>-</b>	<b>(1,385)</b>	<b>(1,133)</b>	<b>-</b>	<b>(1,133)</b>
<b>Profit before finance costs and taxation</b>		<b>10,307</b>	<b>8,143</b>	<b>18,450</b>	<b>5,816</b>	<b>7,156</b>	<b>12,972</b>
<b>Net finance costs</b>							
Interest receivable	4	262	-	262	262	-	262
Interest payable	5	(1,595)	-	(1,595)	(1,101)	(328)	(1,429)
<b>Profit before taxation</b>		<b>8,974</b>	<b>8,143</b>	<b>17,117</b>	<b>4,977</b>	<b>6,828</b>	<b>11,805</b>
Taxation	6	-	-	-	-	-	-
<b>Profit for the year</b>		<b>8,974</b>	<b>8,143</b>	<b>17,117</b>	<b>4,977</b>	<b>6,828</b>	<b>11,805</b>
<b>Other comprehensive income:</b>							
<i>Items that are or may be reclassified subsequently to profit or loss</i>							
Movement in fair value of interest rate swap	13	-	2,033	2,033	-	298	298
Reclassification to profit and loss on discontinuation of interest rate swaps	13	-	-	-	-	180	180
<b>Total comprehensive income for the year</b>		<b>8,974</b>	<b>10,176</b>	<b>19,150</b>	<b>4,977</b>	<b>7,306</b>	<b>12,283</b>

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK GAAP. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

There are no recognised gains or losses other than those shown in the Statement of Comprehensive Income.

All revenue and capital items in the above statement are derived from continuing operations.

No operations were discontinued in the year.

The notes on pages 11 to 25 are an integral part of these statements.

THR Number One plc

Statement of Financial Position  
As at 30 June 2022

	Notes	30 June 2022 £'000	30 June 2021 £'000
<b>Non-current assets</b>			
Investment properties	8	114,385	96,372
Investment in subsidiaries	9	46,548	23,850
Trade and other receivables	11	15,263	15,388
Interest rate swap	13	2,284	251
		<b>178,480</b>	<b>135,861</b>
<b>Current assets</b>			
Intercompany loans receivable	10	15,135	10,001
Trade and other receivables	11	509	295
Cash at bank and on deposit	12	4,689	2,900
		<b>20,333</b>	<b>13,196</b>
<b>Total assets</b>		<b>198,813</b>	<b>149,057</b>
<b>Non-current liabilities</b>			
Bank loan	13	(49,343)	(29,337)
Trade and other payables	14	(1,285)	(1,022)
		<b>(50,628)</b>	<b>(30,359)</b>
<b>Current liabilities</b>			
Trade and other payables	14	(2,144)	(1,705)
		<b>(2,144)</b>	<b>(1,705)</b>
<b>Total liabilities</b>		<b>(52,772)</b>	<b>(32,064)</b>
<b>Net assets</b>		<b>146,041</b>	<b>116,993</b>
<b>Share capital and reserves</b>			
Share capital	15	23,438	740
Share premium		68,307	68,307
Hedging reserve		2,284	251
Capital reserve		41,033	32,890
Revenue reserve		10,979	14,805
<b>Equity shareholders' funds</b>		<b>146,041</b>	<b>116,993</b>

Company number: 08996524

The financial statements were approved by the Board and authorised for issue on 1 November 2022 and were signed on its behalf by:



Mr Vince Niblett, Director

The notes on pages 11 to 25 are an integral part of these statements.

THR Number One plc

Statement of Changes in Equity

For the year ended 30 June 2022

	Note	Share Capital £'000	Share premium £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2021		740	68,307	251	32,890	14,805	116,993
Total comprehensive income for the year		-	-	2,033	8,143	8,974	19,150
<b>Transactions with owners recognised in equity:</b>							
Dividend paid	7	-	-	-	-	(12,800)	(12,800)
Proceeds of share issue	15	22,698	-	-	-	-	22,698
<b>Balance as at 30 June 2022</b>		<b>23,438</b>	<b>68,307</b>	<b>2,284</b>	<b>41,033</b>	<b>10,979</b>	<b>146,041</b>

For the year ended 30 June 2021

	Note	Share Capital £'000	Share premium £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
Balance as at 30 June 2020		740	68,307	(227)	26,062	9,828	104,710
Total comprehensive income for the year		-	-	478	6,828	4,977	12,283
<b>Balance as at 30 June 2021</b>		<b>740</b>	<b>68,307</b>	<b>251</b>	<b>32,890</b>	<b>14,805</b>	<b>116,993</b>

The notes on pages 11 to 25 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 19). A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

#### 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.

#### 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 8 and 16.

#### *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 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 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 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.

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

## 1. Accounting policies (continued)

### 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 potentially significant impact relating to economic conditions in which the Company is operating, including COVID-19 and market uncertainty and rising costs, and 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 headroom within the financial covenants relating to the Company's external borrowings, even if the property valuations 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 at least twelve months from the date 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; 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 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 in the capital column of the Statement of Comprehensive Income.

#### **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 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. Property-related expenses which are not recoverable from tenants are recognised in expenses on an accruals basis.

#### **Dividends Receivable**

Dividends receivable are recognised as income when the Company's right to receive payment is established.

### (c) Expenses

Expenses are accounted for on an accruals basis and are inclusive of VAT. The Company's investment management fee, 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.

## 1. Accounting policies (continued)

### (d) Dividends payable

Dividends payable by the Company are accounted for in the period in which they are paid. In-specie dividends paid are recognised at the book cost of the assets transferred.

### (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**

THR Number One plc joined the Group REIT regime with effect from 17 June 2014. 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) Investments in subsidiary undertakings

Investments in subsidiary undertakings are initially recognised at cost at the date at which control is acquired and are subsequently measured at cost unless there are indicators of impairment. Investments in subsidiary undertakings are derecognised at the date on which the Company transfers control and substantially all the risks and rewards of ownership to another party.

### (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 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.

## 1. Accounting policies (continued)

### (h) Investment Properties

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.

### (i) 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.

### (j) 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.

### (k) Derivative financial instruments

The Company uses derivative financial instruments to hedge its risk associated with interest rate fluctuations. The Company'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 are reported through Other Comprehensive Income and are recognised through the Hedging Reserve. The ineffective portion is recognised through profit or loss in the Statement of Comprehensive Income. On maturity, or early redemption, the unrealised gains or losses arising from cash flow hedges in the form of derivative instruments, initially recognised in Other Comprehensive Income, are reclassified to profit or loss.

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

- The instruments must be related to an asset or liability;
- They must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa;
- They must match the principal amounts and maturity dates of the hedged items;
- As cash-flow hedges, the forecast transactions (incurring interest payable on the bank loans) that are subject to the hedges must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the profit or loss.

## 1. Accounting policies (continued)

### (k) Derivative financial instruments (continued)

- 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 Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item; and
- At the inception of the hedge there must be a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge.

### (l) Interest-bearing bank loans and borrowings

All bank loans and 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.

### (m) Reserves

#### *Hedging Reserve*

The following are accounted for in the hedging reserve:

- increases and decreases in the fair value of interest rate swaps held at the period end.

#### *Capital Reserve*

The following are accounted for in the capital reserve:

- gains and losses on the disposal of investment properties;
- 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 capital column of the Statement of Comprehensive Income.

#### *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. Investment management fee

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Investment management fee	1,290	1,069
<b>Total</b>	<b>1,290</b>	<b>1,069</b>

The Company's Investment Manager is Target Fund Managers Limited. The Investment Manager is responsible for the day-to-day management of the Company. The Investment Manager is entitled to an annual management fee calculated based on the net assets of the Company on a tiered basis set by reference to the net assets of the overall 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 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

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Credit loss allowance	83	(66)
Audit fee	11	11
Bad debt write off	-	100
Legal fees	-	17
Other expenses	1	2
<b>Total</b>	<b>95</b>	<b>64</b>

### 4. Interest receivable

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Intercompany loan interest	262	262
<b>Total</b>	<b>262</b>	<b>262</b>

### 5. Interest payable and similar charges

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Interest paid on bank loans	1,365	934
Amortisation of bank loan costs	175	161
Cost of early redemption of bank loan	-	328
Intercompany loan interest	55	6
<b>Total</b>	<b>1,595</b>	<b>1,429</b>

In November 2020, the Company entered into a £70,000,000 committed term loan and revolving credit facility with 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. Further detail on the loans is provided in note 13.

### 6. Taxation

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Current tax	-	-

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 2022 £'000	For the year ended 30 June 2021 £'000
Profit before taxation	17,117	11,805
UK tax at a rate of 19.0% (2021: 19.0%)	3,252	2,243
Effects of:		
REIT exempt gains	(1,281)	(1,108)
REIT exempt profits	(1,342)	(1,180)
Capital allowances	(94)	(106)
Non-taxable income	(644)	-
Expenses not deductible for tax purposes	-	62
Excess expenses carried forward	109	89
<b>Total tax charge</b>	<b>-</b>	<b>-</b>

From 17 June 2014, 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.

## 6. Taxation (continued)

The Company has unutilised tax losses carried forward in its residual business of £2,621,000 at 30 June 2022 (2021: £2,080,000). 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.

## 7. Dividends paid

Amounts paid as distributions for equity holders

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Interim dividend paid	12,800	-
<b>Total</b>	<b>12,800</b>	<b>-</b>

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend.

## 8. Investment properties

### Freehold and Long Leasehold Properties

	As at 30 June 2022 £'000	As at 30 June 2021 £'000
<b>Opening market value</b>	<b>110,738</b>	<b>103,564</b>
Opening fixed or guaranteed rent reviews	(14,366)	(13,041)
<b>Opening carrying value</b>	<b>96,372</b>	<b>90,523</b>
Purchases	11,639	18
Revaluation movement – gains	10,883	7,156
Revaluation movement – losses	(4,890)	-
<b>Movement in market value</b>	<b>17,632</b>	<b>7,174</b>
Movement in fixed or guaranteed rent reviews and lease incentives	(1,710)	(1,325)
Fixed or guaranteed rent reviews derecognised on re-tenanting	3,021	-
Fixed or guaranteed rent reviews and lease incentives recognised on property acquisition	(930)	-
<b>Movement in carrying value</b>	<b>18,013</b>	<b>5,849</b>
<b>Closing market value</b>	<b>128,370</b>	<b>110,738</b>
Closing fixed or guaranteed rent reviews and lease incentives	(13,985)	(14,366)
<b>Closing carrying value</b>	<b>114,385</b>	<b>96,372</b>

### Changes in the valuation of investment properties

	For the year ended 30 June 2022 £'000	For the year ended 30 June 2021 £'000
Revaluation movement	5,993	7,156
Movement in fixed or guaranteed rent reviews	(1,398)	(1,325)
Movement in lease incentives	(312)	-
<b>Gains on revaluation of investment properties</b>	<b>4,283</b>	<b>5,831</b>

The properties were valued at £128,370,000 (2021: £110,738,000) 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 portfolio value. 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.

## 8. Investment properties (continued)

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 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 £114,385,000 (2021: £96,372,000). The adjustment consisted of £13,427,000 (2021: £14,366,000) relating to fixed or guaranteed rent reviews and £558,000 (2021: £nil) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the accounts as non-current or current assets within 'trade and other receivables' (see note 11).

All leasehold properties are carried at fair value rather than amortised over the term of the lease. The same valuation criteria are therefore applied to leasehold as freehold properties. All leasehold properties have more than 800 years remaining on the lease term.

The Company'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 an investment 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 Company is required to classify fair value measurements of its investment properties 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.

In determining what level of the fair value hierarchy to classify the Company's investments 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 assets within level 3 of the fair value hierarchy.

The Company's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield on these assets is 5.8%. The yield on individual assets ranges from between 5.3% and 6.8%. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels of the fair value hierarchy.

## 8. Investment properties (continued)

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 Company's reported income from unrealised gains on investments, by £1.3m (2021: £1.1m); an equal and opposite movement would have decreased net assets and decreased the Company's income by the same amount.

A decrease of 0.25 per cent in the investment yield applied to the portfolio will increase the fair value of the portfolio by £5.8m (2021: £4.9m), and consequently increase the Company's reported income from unrealised gains on investments. An increase of 0.25 per cent in the yield will decrease the fair value of the portfolio by £5.3m (2021: £4.5m) and reduce the Company's income.

## 9. Investment in subsidiary undertakings

Name	Principal Activity	Country of incorporation	Investment at cost £'000
THR Number Two Limited	Investment and property company	England & Wales	23,850
THR Number 11 Limited	Investment and property company	Scotland	5,881
THR Number 14 Limited	Investment and property company	England & Wales	7,389
THR Number 16 Limited	Investment and property company	England & Wales	9,428
<b>Total</b>			<b>46,548</b>

All subsidiary undertakings are wholly owned by the Company. During the year ended 30 June 2022, the Company acquired the entire share capital of THR Number 11 Limited, THR Number 14 Limited and THR Number 16 Limited, at fair value, through the issue of ordinary shares to its parent company, Target Healthcare REIT Limited (see note 15).

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

The registered office of the subsidiary incorporated in Scotland is 1<sup>st</sup> Floor, Glendevon House, Castle Business Park, Stirling, FK9 4TZ.

## 10. Intercompany loans to group companies

	As at 30 June 2022 £'000	As at 30 June 2021 £'000
Loan balance outstanding from Target Healthcare REIT Limited	15,135	10,001
<b>Total</b>	<b>15,135</b>	<b>10,001</b>

The loan is unsecured and interest is payable at a fixed rate of 1.5 per cent per annum (2021: 1.5 per cent) or such other interest rate as may be agreed from time to time between the Company and the counterparty. The loan is repayable on demand.

## THR Number One plc

### 11. Trade and other receivables

	As at 30 June 2022 £'000	As at 30 June 2021 £'000
<i>Non-current trade and other receivables</i>		
Fixed rent reviews	13,427	14,366
Lease incentives	551	-
Rental deposits held in escrow for tenants	1,285	1,022
<b>Total</b>	<b>15,263</b>	<b>15,388</b>
	As at 30 June 2022 £'000	As at 30 June 2021 £'000
<i>Current trade and other receivables</i>		
Lease incentives	7	-
Accrued income – rent receivable	235	128
Other debtors	267	167
<b>Total</b>	<b>509</b>	<b>295</b>

At the year end, trade and other receivables includes a fixed rent review debtor of £13,427,000 (2020: £14,366,000) which represents the effect of recognising guaranteed rental uplifts on a straight line basis over the lease term and £558,000 (2021: £nil) of accrued income in relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease.

### 12. Cash and cash equivalents

All cash balances at the period end were held in cash, current accounts or the deposit account.

	As at 30 June 2022 £'000	As at 30 June 2021 £'000
Cash at bank	4,689	2,900
<b>Total</b>	<b>4,689</b>	<b>2,900</b>

### 13. Loan

	As at 30 June 2022 £'000	As at 30 June 2021 £'000
Principal amount outstanding	50,000	30,000
Set-up costs	(929)	(760)
Amortisation of set-up costs	272	97
<b>Total</b>	<b>49,343</b>	<b>29,337</b>

On 5 November 2020, the THR Number One plc Group ("THR 1 Group"), which consisted of THR Number One plc, its directly held subsidiary, THR Number Two Limited, and its indirectly held subsidiary, THR Number 9 Limited, entered into an amended and restated £70.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable in November 2025. During the year, the Company also acquired THR Number 11 Limited, THR Number 14 Limited and THR Number 16 Limited. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.18 per cent per annum on £50.0 million of the facility and 2.33 per cent per annum on the remaining £20.0 million of the revolving credit facility, both for the duration of the loan. A non-utilisation fee of 1.13 per cent per annum is payable on the first £20 million of any undrawn element of the facility, reducing to 1.05 per cent per annum thereafter.

At 30 June 2022, THR1 Group had drawn a total of £50.0 million (2021: £30.0 million) under its loan facility.

The following interest rate swap was in place during the year ended 30 June 2022:

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

The fair value of the interest rate swap at 30 June 2022 was an aggregate asset of £2,284,000 (2021: £251,000).

## THR Number One plc

### 13. Loan (continued)

The bank loan is secured by way of a fixed and floating charge over the assets of THR 1 Group. Under the bank covenants related to this loan, the Company is to ensure that for THR 1 Group:

- the loan to value percentage does not exceed 50 per cent; and
- the interest cover is greater than 300 per cent on any calculation date.

THR 1 Group complied with all the bank loan covenants during the year.

#### Analysis of net debt:

	Cash and cash equivalents	Borrowing	Net debt	Cash and cash equivalents	Borrowing	Net debt
	2022	2022	2022	2021	2021	2021
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance	2,900	(29,337)	(26,437)	4,885	(29,789)	(24,904)
Cash flows	1,789	(19,831)	(18,042)	(1,985)	760	(1,225)
Non-cash flows	-	(175)	(175)	-	(308)	(308)
<b>Closing balance</b>	<b>4,689</b>	<b>(49,343)</b>	<b>(44,654)</b>	<b>2,900</b>	<b>(29,337)</b>	<b>(26,437)</b>

### 14. Trade and other payables

	As at 30 June 2022	As at 30 June 2021
	£'000	£'000
<i>Non-current trade and other payables</i>		
Rental deposits	1,285	1,022
<b>Total</b>	<b>1,285</b>	<b>1,022</b>

	As at 30 June 2022	As at 30 June 2021
	£'000	£'000
<i>Current trade and other payables</i>		
Rental income received in advance	1,167	1,085
Bank loan interest due	366	275
Other payables	611	345
<b>Total</b>	<b>2,144</b>	<b>1,705</b>

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

### 15. Share Capital

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares of £1 each		
Opening balance as at 30 June 2021	739,965	740
Issued on 5 October 2021	22,697,806	22,698
<b>Closing balance as at 30 June 2022</b>	<b>23,437,771</b>	<b>23,438</b>

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

During the year to 30 June 2022, the Company issued 22,697,806 ordinary shares of £1 each to its parent company, Target Healthcare REIT Limited, in consideration for the entire share capital, at fair value, of each of THR Number 11 Limited, THR Number 14 Limited and THR Number 16 Limited; each being a property investment company.

#### Capital management

The Company's capital is represented by the share capital account, share premium, hedging reserve, capital reserve, revenue reserve and long-term borrowings. The Company 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 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.

## **15. Share Capital (continued)**

### **Capital risk management**

The objective of the Company's 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 are 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.

## **16. Financial instruments**

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

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 properties which, whilst not constituting financial instruments as defined by relevant UK GAAP, 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.

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 Company 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, Target Fund Managers Limited, monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

As at 30 June 2022, the Company had recognised a credit loss allowance totalling £87,000 (2021: £3,000) against a gross rent receivable balance of £322,000 (2021: £131,000). As of 30 June 2021, the gross rent receivable was £131,000, of which £131,000 is still outstanding. There were no other financial assets which were either past due or considered impaired at 30 June 2022.

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.

## 16. Financial instruments (continued)

### 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 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 at an amount close to their fair value in order to meet its liquidity requirements.

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager 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 2022

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Intercompany balances	15,135	-	-	15,135
Rental deposits held in escrow for tenants	-	-	1,285	1,285
Other debtors	502	-	-	502
Cash	4,689	-	-	4,689
<b>Total</b>	<b>20,326</b>	<b>-</b>	<b>1,285</b>	<b>21,611</b>

#### 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
Intercompany balances	10,001	-	-	10,001
Rental deposits held in escrow for tenants	-	-	1,022	1,022
Other debtors	295	-	-	295
Cash	2,900	-	-	2,900
<b>Total</b>	<b>13,196</b>	<b>-</b>	<b>1,022</b>	<b>14,218</b>

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

#### Financial liabilities as at 30 June 2022

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan and interest rate swap	414	1,228	53,866	55,508
Rental deposits	-	-	1,285	1,285
Other payables	977	-	-	977
<b>Total</b>	<b>1,391</b>	<b>1,228</b>	<b>55,151</b>	<b>57,770</b>

#### 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
Bank loan and interest rate swap	297	882	33,954	35,133
Rental deposits	-	-	1,022	1,022
Other payables	620	-	-	620
<b>Total</b>	<b>917</b>	<b>882</b>	<b>34,976</b>	<b>36,775</b>

## 16. Financial instruments (continued)

The total amount due to RBS under the interest-bearing £70 million (2021: £70 million) bank facility includes the expected hedged interest payments due under both the loan and interest rate swap combined (see note 13 for further details) assuming that both the drawn element of the loan and the notional value of the interest rate swap remains unchanged from 30 June 2022 (30 June 2021) until expiry on 5 November 2025. The interest rate on any unhedged element of the loan is based on the rate of SONIA at 30 June 2022 plus the lending margin. The commitment fee is included on any undrawn element of the facility at the respective balance sheet dates.

### 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 (2021: nil 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 THR Number One plc Group ("THR 1 Group") has a £70 million (2021: £70 million) committed term loan and revolving capital facility which is charged interest at a rate of SONIA plus a margin. Of this facility, £50.0 million had been drawn by THR Number One plc at 30 June 2022 (2021: £30.0 million). The Company has hedged its exposure on £30.0 million of the loan drawn down at 30 June 2022 through entering into a fixed rate interest rate swap (see note 13). Fixing the interest rate exposes the Company to fair value interest rate risk. At 30 June 2022, an increase of 0.25 per cent in interest rates would have increased the fair value of the interest rate swap and the reported total comprehensive income for the year by £0.2 million (2021: £0.3 million). A decrease in interest rates would have had an equal and opposite effect.

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 2022		As at 30 June 2021	
	Fixed rate £'000	Variable rate £'000	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	-	4,689	-	2,900
Intercompany loans	15,135	-	10,001	-
Bank loan and interest rate swap	(30,000)	(20,000)	(30,000)	-

An increase of 0.25 per cent in interest rates would have decreased the reported profit for the period and the net assets at the period end by £38,000 (2021: increase of £7,000), 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 2022 and 30 June 2021 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 8.

As set out in note 8, 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 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.

## 16. Financial instruments (continued)

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 portfolio held at the balance sheet date are disclosed in note 8. A 10 per cent increase in the carrying value of the investment properties held as at 30 June 2022 would have increased net assets available to shareholders and increased the net income for the year by £11.4 million (2021: £9.6 million); an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

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

## 17. 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 was as follows (based on annual rentals):

	As at 30 June 2022 £'000	As at 30 June 2021 £'000
Less than one year	7,470	7,084
Between one and two years	7,903	7,224
Between two and three years	8,046	7,367
Between three and four years	8,193	7,514
Between four and five years	8,342	7,663
Over five years	213,209	171,518
<b>Total</b>	<b>253,163</b>	<b>208,370</b>

The largest single tenant at the period end accounted for 28 per cent (2021: 29 per cent) of the current annual rental income. There were no unoccupied properties at the year end.

The Company has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with remaining lease terms of between 19 years and 32 years.

## 18. 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 Investment Manager appointed to the Group, Target Fund Managers Limited, is also considered to be a related party. The Investment Manager received £1,290,000 in relation to the year ended 30 June 2022 (2021: £1,069,000) of which £334,000 (including VAT) remained payable at the year end (2021: £256,000).

## 19. Holding Company and Ultimate Parent Company

As at 30 June 2022, the Company is a wholly owned subsidiary of Target Healthcare REIT Limited, a listed Company registered in Jersey. Target Healthcare REIT Limited is a wholly owned subsidiary of Target Healthcare REIT plc, a company incorporated in England & 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 2022 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.