Investing in care. Delivering returns.

Target Healthcare REIT plc
Interim Report and
Financial Statements 2023

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

Key financial metrics for the period to, or as at, 31 December 2023

EPRA NTA per share (pence)[1]
106.7 +2.1%

Accounting total return (per cent)[2]
+4.9%

Adjusted EPRA earnings per share (pence)[1]
3.05 +1.3%

Dividend per share (pence)
2.86 -15.5%

Dividend cover (per cent)[3]
107%

IFRS profit (£ million)
+30.8

1 Alternative performance measure. See note 6 to the condensed consolidated financial statements for details.
2 Based on EPRA NTA movement and dividends paid, see the alternative performance measures on page 25.
3 Alternative performance measure. See page 24 for details.

Contents

Portfolio snapshot at 31 December 2023

High quality real estate

Scale

98 homes

£911m market value

Wet rooms

99%

EPC ratings

98% A-B

100% A-C

Diversified

Tenants

32 tenants

£58m contractual rent

Beds

6,460 beds[1]

Fee sources

71% private[3]

29% public

Long-term focus

Weighted average unexpired lease term

26.0 years

Net loan-to-value

25.8%

Upwards only rent reviews

99% inflation-linked leases[4]

1% fixed/other leases

European Public Real Estate Association ('EPRA') Summary[2]

	At 31 Dec 23	At 30 June 23
EPRA NTA per share (pence)	106.7	104.5
EPRA NDV per share (pence)	111.5	112.0
EPRA 'topped-up' Net Initial Yield (per cent)	6.25	6.22
EPRA Net Initial Yield (per cent)	6.17	6.05

	Six months to 31 Dec 23	Six months to 31 Dec 22
Adjusted EPRA EPS (pence)	3.05	3.01
EPRA EPS (pence)	3.78	3.89
Adjusted EPRA Cost Ratio (per cent)	18.5	18.7
EPRA Cost Ratio (per cent)	16.0	15.7

1 At 31 December 2023. A further 329 beds will be added to the portfolio upon completion of the five development sites.
2 See note 6 to the condensed consolidated financial statements and the alternative performance measures on pages 24 and 25 for further details.
3 Consists of 51% purely privately-paid fees and 20% 'top-ups' funded by a mix of publicly and privately-paid fees. All fee source figures are estimated based on information provided by tenants over the previous twelve months.
4 Lease agreements which allow for regular increases in the contracted rental level in line with inflation, within a cap and a collar.

Key Performance Indicators and Corporate Activity

For the six months ended 31 December 2023

Highlights

- Principled investment exclusively in well-designed, purpose-built care homes
- Structural tailwinds underpinning modern care home sector
- Long-term debt with interest costs hedged at attractive rates for the entire duration of 91% of the Group's drawn debt
- Resilient capital values from the diversified portfolio, with robust rent collection and improving underlying tenant performance providing the portfolio's highest rent covers to date

Strategic Pillars	Activity & Key Performance Indicators (KPIs) for the period

Build a high-quality real estate portfolio which supports long-term investor demand
Our focus is on real estate quality and stability for the long-term.
	– Portfolio valuation increase of 4.9% by market value
	  – Like-for-like movement of +1.4%, being +2.0% from inflation-linked rental uplifts and the unwind of rent-free periods offset by -0.6% due to outward yield movements
	  – Increase of 3.5% due to acquisitions and capital expenditure
	– Contractual rent increase of £1.4 million (2.4%), including +0.5% from the rentalisation of capital expenditure
	– Wet-rooms 99% of portfolio, relative to national average of just 32%
	– Diversified portfolio with 32 tenants across 98 properties
	– Two development sites reached practical completion following the period end

Manage portfolio as a trusted landlord in a fair and commercial manner
Recognise the value of relationships and our influence within a complex sector
	– NAV total return[1] of +4.9% (2022: -5.4%)
	– Portfolio total return on standing assets of +4.7% (2022: -2.2%)
	– Like-for-like movement
	  – Contractual rent +1.9%
	  – Market valuation +1.4%
	– Rent collection of 99%
	– Mature home rent cover of 1.9 times

Deliver regular investment returns for shareholders
Disciplined and conservative financial and risk management to deliver earnings supporting quarterly dividends.
	– Earnings per share[2]: adjusted EPRA EPS 3.05 pence, EPRA EPS 3.78 pence
	– Dividends declared of 2.856 pence in respect of the period (2022: 3.38 pence), with quarterly rate increased by 2% compared to six months to 30 June 2023
	– Cost control[3]: Adjusted EPRA cost ratio 18.5%, EPRA cost ratio 16.0%
	– Dividend cover[3]
	  – 107% on adjusted EPRA earnings
	  – 132% on EPRA earnings
	– Financial strength: Average cost of drawn debt 4.0%, average term to maturity 5.7 years, net LTV 25.8%, with interest rate hedged on 91% of drawn debt until expiry

Achieve our social purpose via responsible and sustainable investment Our focus is on our social impact, allied with a firm commitment to environmental sustainability and good governance.	– Acquisition of a pre-let development site subject to a forward fund agreement to construct an operationally net zero carbon care home – Selective development investment supporting high standard new-build care homes, with five homes (329 beds) being funded at the period end, with two reaching practical completion post period end – Completion of retrofit programmes to add a further 18 bedrooms to one home, and another 29 wet rooms at others to bring them to the higher standard we expect – Homes provide generous space at an average of 47m^2 per resident – EPC ratings: 98% A or B rated, and currently compliant with the minimum energy efficiency standards anticipated to apply from 2030

Unless otherwise stated in the above table, references to 2022 mean the comparative six month period to 31 December 2022 and references to 2023 mean 30 June 2023, being the start of the period under review.

1 Based on EPRA NTA movement and dividends paid, see alternative performance measures on page 25.
2 For details of EPRA earnings and adjusted EPRA earnings refer to note 6 of the condensed consolidated financial statements.
3 See alternative performance measures on page 24.

Investing in care. Delivering returns.

1. Introduction

Dear valued shareholders, I am delighted to provide you with this update which describes a strong real estate business delivering sustainable returns from impactful investment in a structurally-supported sector.

Commercial real estate is experiencing many headwinds right now, though we note a clear bifurcation in sentiment towards high quality assets with a solid long-term future in their current or near-current state, and those which struggle to support such assertions. Energy efficiency, social impact and positive experience for users rank highly in these assessments, and we remain deeply proud to be running a portfolio and strategy with real impact and longevity.

As a reminder of what this provides, our portfolio is fully let, provides inflation-linked annual rental growth supported by tenants with robust underlying trading, and has historically demonstrated a low volatility in asset valuations. In this period we have delivered an accounting total return of +4.9%[1] and earnings growth of 1.3%[2].

Our portfolio focus this period has been on enhancing the existing high quality nature of our real estate. Targeted, rent-producing capital expenditure has taken our wet-room proportion closer to full provision, now standing at 99%, and the addition of 18 rooms on the upper floor of one asset will help realise its significant trading potential. We also continue the build-out of our development sites, with two of the five held during the reporting period having now reached practical completion.

We note we are making progress towards our target of 100% EPC A and B rated, with 99% of the portfolio achieving this as at today's date. This is an important metric for the longevity and sustainability of the portfolio and cements our sector-leading position.

2. Results summary

Our accounting total return performance of +4.9% was driven by an increase in the EPRA NTA per share of 2.1% (106.7 pence from 104.5 pence), with dividends of 2.856 pence per share paid in respect of the period.

Dividend cover
107%

EPRA NTA per share movement
2.1%

The Manager provides further detail on the portfolio's key underlying trading metrics on pages 6 to 7. These continue to trend positively, and portfolio rent cover has reached the highest level we have seen since our IPO in 2013.

The like-for-like increase of 1.4% in the portfolio valuation largely reflects the impact of our annual rental uplifts (2.0% from rent reviews, offset by 0.6% from outward yield shift applied by the external valuers). The overall increase of 4.9% also reflects the effect of capital expenditure and development investment. Contracted rent has increased by 2.4% to £57.9 million, including 1.9% on a like-for-like basis.

Adjusted EPRA earnings per share increased by 1.3% to 3.05 pence, translating to dividend cover of 107%. Under the widely-used EPRA earnings metric the dividend was 132% covered.

3. Sector: Investment

Despite the positive structural dynamics for investment in prime care home real estate, and a performing portfolio, the Company's share price continues to trade at a discount to EPRA NTA, albeit we saw a positive share price total return of 24.4% over the period. This discount is consistent with other high-quality real estate businesses, reflecting the uncertain economic outlook generally, and more specific sensitivity to sentiment and outlook on interest rates.

We believe our portfolio is well-placed in its current state to meet the long-term needs of residents and their care providers, to remain in demand by tenant operators and to provide long-term returns to investors. We note, however, that significant transformation is required to the majority of the sector's infrastructure. In our view, only 32% of available beds are of a suitable standard, in providing private wet-room facilities for all residents.

Care homes fill a crucial role in meeting the nation's health and social care need. A growing and ageing population is placing stress on the system overall, given the increased frailty and dementia naturally associated with an increased elderly population. This is an obvious demand driver for care home places. As our healthcare system struggles to keep up with increasing demand, social care is increasingly being recognised and looked-to as the appropriate setting for many who don't necessarily require NHS/primary care. Increased investment in the sector can readily help alleviate the pressures on the NHS and primary medical care settings.

We see no let-up in the need for substantial investment in modern care home real estate and our mission is to provide and support such investment. Being capital-constrained at present given interest rates and equity market sentiment limits our ability to do so, though we will continue to engage with relevant stakeholders and act when we see opportunities to allocate capital in line with our investment strategy.

4. Sector: Values and activity

The healthcare sector has continued to perform well relative to mainstream commercial property classes, most notably office and retail which according to the CBRE Monthly Index have produced total returns of -5.4% and -2.0%, respectively, over the six month period. Modernity, environmental credentials, inflation-linked rental growth, and of course the support of structural demand within the sector, all play their part. Current signs are that property valuations and interest rates are en route to something more closely resembling stability, which would provide a better platform for decision-making. We will continue to monitor closely.

Transaction volumes for prime care home real estate remain lower than prior to Autumn 2023, though we are aware of private capital deals completing and continue to emphasise that assets in our investible universe which come to market see significant interest and attract a number of bids. This is consistent with our understanding of the demand dynamic for our assets and helps evidence values. The continued improvement in underlying tenant profitability at the individual home level is also supportive.

Assets of the quality which make up our portfolio are a relatively small part of the overall commercial property market, and are tightly held by a small number of knowledgeable investors who are generally lowly-geared.

We prize our own portfolio for (amongst other characteristics) its:

- Scale, quality and tenant and geographic diversification (32 tenants)
- Robust and growing rental stream
- ESG-credentials
- Total return outlook

5. Governance

I am pleased to announce the appointment of Amanda Thompsell as chair of the Nomination Committee. This completes the expected amendments to the Board's roles and responsibilities following the appointment of two directors during the course of the previous financial year.

The Board has also recently appointed CBRE Limited as valuation adviser, having completed a tender of valuation services to reflect best practice and in the expectation of regular rotation becoming a mandatory requirement. The Board thanks Colliers International Healthcare Property Consultants Limited for the valuation services it has provided to the Group since its launch in 2013.

6. Outlook

Near-term growth will come from embedded rental uplifts across the portfolio, as well as completion of our three ongoing developments and our remaining capex initiatives. On completion of these activities, all other things being equal, the Group's LTV will increase to c.28%, and it will have available capital remaining of £41 million and borrowings substantially-protected from higher interest rates on long-term facilities.

The Board retains its belief in the Group's strategy and the positive impact it makes across its stakeholder base. We are frustrated that current conditions are limiting our ambition to grow this further, but are delighted that the existing portfolio is providing great care homes and we will focus on delivering consistent returns.

Alison Fyfe
11 March 2024

1 Based on EPRA NTA movement and dividends paid, see alternative performance measures on page 25.
2 Based on adjusted EPRA earnings per share, see page 14.

We believe in taking a long-term view

Overall portfolio review and performance

Portfolio performance and progression in the six months under review extended the trends seen before, namely: rental and valuation growth (like-for-like and absolute); near-full rent collection (99%); rent covers improving to portfolio-high levels; and further establishment of homes as maturing businesses in their local markets (92% of the portfolio is now mature).

Contractual rent has increased to £57.9 million, with 43 rent reviews completed in the period at an average increase of 3.9% and contributing to a like-for-like increase of 1.9% for the half year. Portfolio capital expenditure increased contractual rent by a further 0.5%.

Resident occupancy, whilst lower than the typical mature home's pre-pandemic rate of c.90%, has seen steady growth towards its current 86%, enabling operators to manage their resident admissions, fee levels, and their staffing/cost bases effectively. This has resulted in growing rent covers, supporting the Group's rental receipts and embedded rental growth. The relevant metrics are 1.8x for the last year, 1.9x for the most recent six months, and 1.9x for the December quarter.[1]

This improved profitability at the care home level has also supported valuations, which have proven significantly less volatile than other real estate sectors. We have now seen four consecutive quarters of like-for-like valuation growth following the market nadir in December 2022, with a like-for-like increase of 1.4% during the period under review.

The portfolio's strong relative performance is evidenced by comparison to the MSCI UK Annual Healthcare Property Index, with the portfolio being ranked first out of the 37 constituents of the Index for the most recent calendar year. The Group's standing portfolio total return for the calendar year to 31 December 2023 was 9.7%, outperforming the Index's 4.2%. The portfolio's quality is further emphasised by its consistent long-term relative returns, with its annualised total return since launch now standing at 10.1%, while the portfolio's last five-year period has an annualised total return of 8.0% relative to 5.9% for the Index.

The portfolio's bias towards, and its relative attractiveness to, private-fee paying residents has helped tenant operators manage the inflationary environment and reflect the true cost of their service provision. Operators' revenue generally increased on the back of growing occupancy combined with increased fees per resident. These factors, along with well-managed costs per resident, resulted in the improved profitability described previously. This supports the continued building of resilience in our tenant operators, which we welcome following what has been a challenging period since the beginning of the pandemic.

Asset management

Our asset management activity in the period has remained focussed on making marginal quality improvements to what is already considered a best-in-class portfolio. During the period we have:

- Converted 29 bedrooms to full en suite private wet-room provision
- Constructed 18 brand new rooms in an asset to capitalise on demand in its local market

Subsequent to the period end:

- Practical completion was achieved on two development sites, bringing 137 new beds to market, with operational leases entered into for £1.7 million contractual rent
- EPC A and B ratings have increased to 99%

The Group has a further three pre-let developments ongoing which, on completion, will add a further £2.3 million to contractual rent.

Borrowings

As at 31 December 2023, the Group's total borrowings were £252.5 million, representing a net LTV of 25.8%. The Group's weighted average cost on its drawn debt, inclusive of amortisation of loan arrangement costs, was 4.05%.

The weighted average term to expiry on the Group's total committed loan facilities was 5.7 years, with the earliest maturity in November 2025 and 91% of the Group's drawn debt being fully hedged to maturity.

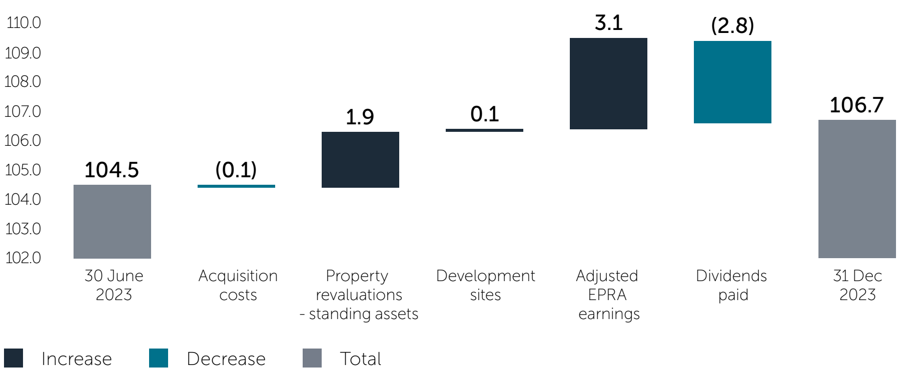
The Group has access to a further £67.5 million of committed, but undrawn, revolving credit facilities which, if drawn, would carry an interest rate of SONIA plus 2.22%. A proportion of these facilities will be drawn to complete the Group's capital commitments, including the completion of its development properties, and we are actively considering the Group's optimal debt position going forward.

Health & social care update

Regular readers will note a familiar tale, as government reforms to social care policy continue to drift whilst:

- Data shows clear under-resource. The ADASS 2023 Autumn Survey highlighted 470,000 people in England are waiting for care, while 250,000 are a stage behind and await assessment of need; and
- Influential voices continue to advocate for enhanced adult social care provision as very much "part of the solution" to the NHS's challenges.

EPRA NTA per share (pence)



1 All occupancy and rent cover figures quoted relate to mature homes within the portfolio.

Strong underlying portfolio performance underpinning sustainable rental income, with rent cover from mature homes of 1.9 times

Regarding the latter, the CQC's annual "State of Care" report published in October 2023 noted "insufficient capacity in adult social care is continuing to contribute to delays in discharging people from hospital".

The King's Fund asserted similar in February 2024, noting that solutions require more than just a narrow focus on the NHS.

In the meantime, the Chancellor's Autumn Statement brought news of a long-term workforce plan for the NHS, alongside the largest expansion of staff training in its history. In January 2024 a lesser "workforce pathway" was announced for social care.

The CQC also made prominent their comments on Local Authority funding pressure:

- Local Authority budgets have failed to keep track with the numbers of people requiring social care; and
- The lower level of fees paid by Local Authorities to providers of adult social care impacts on quality of care.

This remains a significant issue for the large part of the care home sector who rely on Local Authority funding of residents, and of course for the Local Authorities themselves and their wider obligations to their communities (witness the extent of cost-cutting across a wide range of public services). We note that our own portfolio is weighted towards private-fee paying residents. The CQC has also commenced its new assessment approach, which appears to be less prescriptive and more focussed on "care outcomes", as well as an assessment programme of Local Authorities, which could be useful.

Staffing & Visas

Staffing pressures have eased greatly, with the Health and Care Worker Visa scheme having been a very effective and warmly-received policy, helping the sector increase immediate capacity (see occupancy increases). Changes to the legislation announced late in 2023, effective this month, spared the care home sector the addition of a minimum salary requirement for incoming international workers, however did place restrictions on dependants which once again puts the sector at a disadvantage to the NHS which continues to enjoy lesser restrictions.

General election

As we enter a period of increased political campaigning, it may be that all parties will be unwilling to be too specific on social care policy. Labour is concentrating on a plan to recruit and retain, elevate as well as better reward care workers, with wider reform taking 10 years or two parliamentary terms, while the Conservatives have yet to commit to an outline plan or update their commitment to a 'Cap on Social Care costs' which is now pushed back to beyond the current parliament. The Liberal Democrats have announced a 'Scottish style' free personal care manifesto but have noted it does not include 'care home costs', as well as an emphasis on preventative health interventions and greater support for individuals to remain in their own home. They also propose a Royal College of Care Workers to provide recognition, skills development and regulation of the workforce along with the usual 'wider reform' of social care. Irrespective of the outcome of the general election, we remain dedicated to improving UK care home real estate.

Target Fund Managers Limited
11 March 2024

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2023

	Notes	Six months ended 31 December 2023 (unaudited)			Six months ended 31 December 2022 (unaudited)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**28,588**	**5,463**	**34,051**	28,058	5,897	33,955
Other income		**5**	**–**	**5**	81	–	81
Total revenue		**28,593**	**5,463**	**34,056**	28,139	5,897	34,036
Gains/(losses) on investment properties	8	**–**	**7,745**	**7,745**	–	(58,058)	(58,058)
Gains on sale of investment properties realised	8	**–**	**–**	**–**	–	55	55
Total income		**28,593**	**13,208**	**41,801**	28,139	(52,106)	(23,967)
Expenditure							
Investment management fee	2	**(3,679)**	**–**	**(3,679)**	(3,799)	–	(3,799)
Credit loss allowance and bad debts	3	**(306)**	**–**	**(306)**	8	–	8
Other expenses	3	**(1,474)**	**–**	**(1,474)**	(1,564)	–	(1,564)
Total expenditure		**(5,459)**	**–**	**(5,459)**	(5,355)	–	(5,355)
Profit/(loss) before finance costs and taxation		**23,134**	**13,208**	**36,342**	22,784	(52,106)	(29,322)
Net finance costs							
Interest income		**33**	**–**	**33**	84	–	84
Finance costs	4	**(5,212)**	**(402)**	**(5,614)**	(4,636)	(302)	(4,938)
Net finance costs		**(5,179)**	**(402)**	**(5,581)**	(4,552)	(302)	(4,854)
Profit/(loss) before taxation		**17,955**	**12,806**	**30,761**	18,232	(52,408)	(34,176)
Taxation	5	**–**	**–**	**–**	–	–	–
Profit/(loss) for the period		**17,955**	**12,806**	**30,761**	18,232	(52,408)	(34,176)
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate derivatives designated as cash flow hedges		**–**	**(2,975)**	**(2,975)**	–	879	879
Total comprehensive income for the period		**17,955**	**9,831**	**27,786**	18,232	(51,529)	(33,297)
Earnings/(loss) per share (pence)	6	**2.90**	**2.06**	**4.96**	2.94	(8.45)	(5.51)

The total column of this statement represents the Group's Condensed Consolidated Statement of Comprehensive Income, prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting'. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

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

No operations were discontinued in the period.

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	As at 31 December 2023 (unaudited) £'000	As at 30 June 2023 (audited) £'000
Non-current assets			
Investment properties	8	**836,558**	800,155
Trade and other receivables	9	**82,754**	76,373
Interest rate derivatives	11	**3,528**	6,905
		922,840	883,433
Current assets			
Trade and other receivables	9	**6,219**	9,459
Cash and cash equivalents		**17,631**	15,366
		23,850	24,825
Total assets		**946,690**	908,258
Non-current liabilities			
Loans	11	**(249,863)**	(227,051)
Trade and other payables	12	**(8,504)**	(8,093)
		(258,367)	(235,144)
Current liabilities			
Trade and other payables	12	**(23,269)**	(18,306)
Total liabilities		**(281,636)**	(253,450)
Net assets		**665,054**	654,808
Share capital and reserves			
Share capital	13	**6,202**	6,202
Share premium		**256,633**	256,633
Merger reserve		**47,751**	47,751
Distributable reserve		**170,347**	187,887
Hedging reserve		**2,051**	5,026
Capital reserve		**53,720**	40,914
Revenue reserve		**128,350**	110,395
Equity shareholders' funds		**665,054**	654,808
Net asset value per ordinary share (pence)	6	**107.2**	105.6

The condensed consolidated financial statements on pages 8 to 20 were approved by the Board of Directors on 11 March 2024 and were signed on its behalf by:

Alison Fyfe
Chair

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2023 (unaudited)

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 June 2023		**6,202**	**256,633**	**47,751**	**187,887**	**5,026**	**40,914**	**110,395**	**654,808**
Profit for the period		**–**	**–**	**–**	**–**	**–**	**12,806**	**17,955**	**30,761**
Other comprehensive income		**–**	**–**	**–**	**–**	**(2,975)**	**–**	**–**	**(2,975)**
Total comprehensive income		**–**	**–**	**–**	**–**	**(2,975)**	**12,806**	**17,955**	**27,786**
Transactions with owners recognised in equity:									
Dividends paid	7	**–**	**–**	**–**	**(17,540)**	**–**	**–**	**–**	**(17,540)**
As at 31 December 2023		**6,202**	**256,633**	**47,751**	**170,347**	**2,051**	**53,720**	**128,350**	**665,054**

For the six months ended 31 December 2022 (unaudited)

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 June 2022		6,202	256,633	47,751	226,461	2,284	83,750	75,686	698,767
(Loss)/profit for the period		–	–	–	–	–	(52,408)	18,232	(34,176)
Other comprehensive income		–	–	–	–	879	–	–	879
Total comprehensive income		**–**	**–**	**–**	**–**	**879**	**(52,408)**	**18,232**	**(33,297)**
Transactions with owners recognised in equity:									
Dividends paid	7	–	–	–	(20,964)	–	–	–	(20,964)
As at 31 December 2022		6,202	256,633	47,751	205,497	3,163	31,342	93,918	644,506

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2023

	Notes	Six months ended 31 December 2023 (unaudited) £'000	Six months ended 31 December 2022 (unaudited) £'000
Cash flows from operating activities			
Profit/(loss) before tax		**30,761**	(34,176)
Adjustments for:			
Interest income		**(33)**	(84)
Finance costs		**5,614**	4,938
Revaluation (gains)/losses on investment properties and movements in lease incentives, net of acquisition costs written off		**(13,208)**	52,106
Decrease/(increase) in trade and other receivables		**3,697**	(512)
Increase/(decrease) in trade and other payables		**506**	(358)
		27,337	21,914
Interest paid		**(4,598)**	(4,101)
Premium paid on interest rate cap	11	**–**	(2,577)
Interest received		**33**	84
		(4,565)	(6,594)
Net cash inflow from operating activities		**22,772**	15,320
Cash flows from investing activities			
Disposal of investment properties, net of lease incentives		**–**	4,280
Purchase of investment properties, including acquisition costs		**(25,477)**	(16,457)
Net cash outflow from investing activities		**(25,477)**	(12,177)
Cash flows from financing activities			
Drawdown of bank loan facilities	11	**22,500**	42,000
Expenses of arrangement of bank loan facilities	11	**–**	(205)
Repayment of bank loan facilities	11	**–**	(36,750)
Dividends paid		**(17,530)**	(20,870)
Net cash inflow/(outflow) from financing activities		**4,970**	(15,825)
Net increase/(decrease) in cash and cash equivalents		**2,265**	(12,682)
Opening cash and cash equivalents		**15,366**	34,483
Closing cash and cash equivalents		**17,631**	21,801
Transactions which do not require the use of cash			
Fixed or guaranteed rent reviews derecognised on disposal		**–**	(50)
Movement in fixed or guaranteed rent reviews and lease incentives		**6,012**	7,349

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

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with UK-adopted IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory financial statements of the Group for the year ended 30 June 2023.

The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2023, which were prepared under full UK-adopted IFRS requirements.

Going concern

The condensed consolidated financial statements have been prepared on the going concern basis. In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. The Directors have continued to place a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the period ended 31 December 2023.

The Group's going concern assessment particularly considered that:

- The value of the Group's portfolio of assets significantly exceeds the value of its liabilities;
- The Group is contractually entitled to receive rental income which significantly exceeds its forecast expenses and loan interest; and
- The Group remains within its loan covenants, with a weighted average term to maturity of 5.7 years at 31 December 2023 and an earliest repayment date of November 2025. Initial discussions with existing and potential lenders do not raise any concerns over the Group's ability to re-finance its shorter-dated debt facilities on appropriate terms in due course.

The Group has a significant balance of cash and undrawn debt available and the Group's current policy is to prudently retain a proportion of this to ensure it can continue to pay the Group's expenses and loan interest in the unlikely scenario that the level of rental income received deteriorates significantly. The proportion retained will be kept under review dependent on portfolio performance and market conditions.

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

2. Investment Management Fee

	For the six month period ended 31 December 2023 £'000	For the six month period ended 31 December 2022 £'000
Investment management fee	**3,679**	3,799

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

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

The Investment 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; 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 six month period ended 31 December 2023 £'000	For the six month period ended 31 December 2022 £'000
Total movement in credit loss allowance	**306**	(323)
Bad debts written off	**–**	315
Credit loss allowance charge/(credit)	**306**	(8)

Valuation and other professional fees	**835**	922
Secretarial and administration fees	**116**	106
Directors' fees	**114**	110
Other	**409**	426
Total other expenses	**1,474**	1,564

4. Finance costs

	For the six month period ended 31 December 2023 £'000	For the six month period ended 31 December 2022 £'000
Interest paid on loans	**4,900**	4,320
Amortisation of loan costs	**312**	316
Finance and transaction costs relating to the interest rate cap	**402**	302
Total	**5,614**	4,938

5. Taxation

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

The Group has entered the REIT regime for the purposes of UK taxation. Subject to continuing relevant UK-REIT criteria being met, the profits from the Group's property rental business, arising from both income and capital gains, are exempt from corporation tax.

6. Earnings per share and Net Asset Value per share

Earnings per share

	For the six month period ended 31 December 2023 £'000	For the six month period ended 31 December 2023 Pence per share	For the six month period ended 31 December 2022 £'000	For the six month period ended 31 December 2022 Pence per share
Revenue earnings	**17,955**	**2.90**	18,232	2.94
Capital earnings	**12,806**	**2.06**	(52,408)	(8.45)
Total earnings	**30,761**	**4.96**	(34,176)	(5.51)
Average number of shares in issue		**620,237,346**		620,237,346

The European Public Real Estate Association ('EPRA') is an industry body which issues best practice reporting guidelines for property companies and the Group reports an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below.

The EPRA earnings are calculated by making prescribed adjustments specifically defined by EPRA, being an adjustment for the revaluation movements on investment properties and other items of a capital nature. EPRA considers this to be a measure of operational performance and representative of the net income generated from the Group's operational activities.

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

	For the six month period ended 31 December 2023 £'000	For the six month period ended 31 December 2022 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**30,761**	(34,176)
Adjusted for (gains)/losses on investment properties	**(7,745)**	58,058
Adjusted for gains on investment properties realised	**–**	(55)
Adjusted for finance and transaction costs on the interest rate cap and other capital items	**402**	302
EPRA earnings	**23,418**	24,129
Adjusted for rental income arising from recognising guaranteed rent review uplifts	**(5,463)**	(5,897)
Adjusted for development interest under forward fund agreements	**964**	460
Group specific adjusted EPRA earnings	**18,919**	18,692
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**4.96**	(5.51)
EPRA EPS	**3.78**	3.89
Group specific adjusted EPRA EPS	**3.05**	3.01

Earnings for the period ended 31 December 2023 should not be taken as a guide to the results for the year to 30 June 2024.

Net Asset Value per share

The Group's net asset value per ordinary share of 107.2 pence (30 June 2023: 105.6 pence) is based on equity shareholders' funds of £665,054,000 (30 June 2023: £654,808,000) and on 620,237,346 (30 June 2023: 620,237,346) ordinary shares, being the number of shares in issue at the period end.

The three EPRA NAV metrics are shown below. Further details are included in the glossary on page 23.

	As at 31 December 2023			As at 30 June 2023		
	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000	EPRA NRV £'000	EPRA NTA £'000	EPRA NDV £'000
IFRS NAV per financial statements	**665,054**	**665,054**	**665,054**	654,808	654,808	654,808
Fair value of interest rate derivatives	**(3,528)**	**(3,528)**	**–**	(6,905)	(6,905)	–
Fair value of loans	**–**	**–**	**26,639**	–	–	39,672
Estimated purchasers' costs	**58,635**	**–**	**–**	57,461	–	–
EPRA net assets	**720,161**	**661,526**	**691,693**	705,364	647,903	694,480
EPRA net assets (pence per share)	**116.1**	**106.7**	**111.5**	113.7	104.5	112.0

7. Dividends

Dividends paid as distributions to equity shareholders during the period.

	For the six month period ended 31 December 2023		For the six month period ended 31 December 2022	
	Pence	£'000	Pence	£'000
Fourth interim dividend for prior year	**1.400**	**8,683**	1.69	10,482
First interim dividend	**1.428**	**8,857**	1.69	10,482
Total	**2.828**	**17,540**	3.38	20,964

A second interim dividend for the year to 30 June 2024, of 1.428 pence per share, was paid on 23 February 2024 to shareholders on the register on 9 February 2024.

8. Investment properties

Freehold and leasehold properties	As at 31 December 2023 £'000
Opening market value	**868,705**
Opening fixed or guaranteed rent reviews and lease incentives	**(68,550)**
Opening carrying value	**800,155**
Purchases and performance payments	**28,377**
Acquisition costs capitalised	**281**
Acquisition costs written off	**(281)**
Revaluation movement – gains	**21,130**
Revaluation movement – losses	**(7,092)**
Movement in market value	**42,415**
Movement in fixed or guaranteed rent reviews and lease incentives	**(6,012)**
Movement in carrying value	**36,403**
Closing market value	**911,120**
Closing fixed or guaranteed rent reviews and lease incentives	**(74,562)**
Closing carrying value	**836,558**

The investment properties can be analysed as follows:

	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Standing assets	**868,360**	851,305
Developments under forward fund agreements	**42,760**	17,400
Closing market value	**911,120**	868,705

8. Investment properties continued

Changes in the valuation of investment properties

	For the six month period ended 31 December 2023 £'000	For the six month period ended 31 December 2022 £'000
Loss on sale of investment properties	–	(559)
Unrealised loss realised during the period	–	614
Gains on sale of investment properties realised	–	55
Revaluation movement	**14,038**	(50,593)
Acquisition costs written off	**(281)**	(116)
Movement in lease incentives	**(549)**	(1,452)
Movement in fixed or guaranteed rent reviews	**(5,463)**	(5,897)
Gains/(losses) on revaluation of investment properties	**7,745**	(58,003)

The investment properties were valued at £911,120,000 (30 June 2023: £868,705,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation – Professional 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. 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 properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £836,558,000 (30 June 2023: £800,155,000). The adjustment consisted of £64,841,000 (30 June 2023: £59,378,000) relating to fixed or guaranteed rent reviews and £9,721,000 (30 June 2023: £9,172,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the financial statements as non-current and current assets within 'trade and other receivables' (see note 9).

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 'Fair Value Measurement'. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:
- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: observable inputs other than quoted prices included within level 1;
- Level 3: use of inputs that are not based on observable market data.

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

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

Observable market data is considered to be that which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. In arriving at the valuation Colliers make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this involves the use of considerable judgement.

Considering the Group's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Group's investment properties within level 3 of the fair value hierarchy.

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield ('NIY') on these assets, as measured by the EPRA topped-up net initial yield, is 6.2 per cent. The yield on the majority of the individual assets ranges from 5.6 per cent to 8.7 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

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

8. Investment properties continued

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

The lease agreements on the properties held within the Group's property portfolio generally allow for annual increases in the contracted rental level in line with inflation, within a cap and a collar. An increase of 1.0 per cent in the contracted rental level will increase the fair value of the portfolio, and consequently the Group's reported income from unrealised gains on investments, by £9,111,000 (30 June 2023: £8,687,000); an equal and opposite movement would have decreased net assets and decreased the Group's income by the same amount.

A decrease of 0.25 per cent in the net initial yield applied to the property portfolio will increase the fair value of the portfolio by £37,705,000 (30 June 2023: £37,940,000), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £34,823,000 (30 June 2023: £35,025,000) and reduce the Group's income.

9. Trade and other receivables

Non-current trade and other receivables	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Fixed rent reviews	**64,841**	59,378
Rental deposits held in escrow for tenants	**8,504**	8,093
Lease incentives	**9,409**	8,902
Total	**82,754**	76,373

Current trade and other receivables	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Cash held in escrow for property purchases	**–**	4,295
Lease incentives	**312**	270
VAT recoverable	**956**	667
Accrued income – net rent receivable	**1,363**	1,088
Accrued development interest under forward fund agreements	**1,974**	1,010
Other debtors and prepayments	**1,614**	2,129
Total	**6,219**	9,459

10. Investment in subsidiary undertakings

The Group included 49 subsidiary companies as at 31 December 2023. All subsidiary companies were wholly owned, either directly or indirectly, by the Company and, from the date of acquisition onwards, the principal activity of each company within the Group was to act as an investment and property company. Other than one subsidiary which is incorporated in Jersey, two subsidiaries which are incorporated in Gibraltar and two subsidiaries which are incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

11. Loans

	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Principal amounts outstanding	**252,500**	230,000
Set-up costs	**(4,520)**	(4,520)
Amortisation of set-up costs	**1,883**	1,571
Total	**249,863**	227,051

In November 2020, the Group entered into a £70,000,000 committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.18 per cent per annum on £50,000,000 of the facility and 2.33 per cent per annum on the remaining £20,000,000 revolving credit facility, both for the duration of the loan. A non-utilisation fee of 1.13 per cent per annum is payable on the first £20,000,000 of any undrawn element of the facility, reducing to 1.05 per cent per annum thereafter. As at 31 December 2023, the Group had drawn £50,000,000 under this facility (30 June 2023: £30,000,000).

In November 2020, the Group entered into a £100,000,000 revolving credit facility with HSBC Bank plc ('HSBC') which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.17 per cent per annum for the duration of the loan and a non-utilisation fee of 0.92 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2023, the Group had drawn £52,500,000 under this facility (30 June 2023: £50,000,000).

In January 2020 and November 2021, the Group entered into committed term loan facilities with Phoenix Group of £50,000,000 and £37,250,000, respectively. Both these facilities are repayable on 12 January 2032. The Group has a further committed term loan facility with Phoenix Group of £62,750,000 which is repayable on 12 January 2037. Interest accrues on these three loans at aggregate annual fixed rates of interest of 3.28 per cent, 3.13 per cent and 3.14 per cent, respectively and is payable quarterly. As at 31 December 2023, the Group had drawn £150,000,000 under these facilities (30 June 2023: £150,000,000).

The following interest rate derivatives were in place during the period ended 31 December 2023:

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

The Group paid a premium of £2,577,000, inclusive of transaction costs of £169,000, on entry into the £50,000,000 interest rate cap in November 2022.

At 31 December 2023, inclusive of the interest rate derivatives, the interest rate on £230,000,000 of the Group's borrowings had been capped, including the amortisation of loan arrangement costs, at an all-in rate of 3.70 per cent per annum until at least November 2025. The remaining £90,000,000 of debt, of which £22,500,000 was drawn at 31 December 2023, would, if fully drawn, carry interest at a variable rate equal to daily compounded SONIA plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.46 per cent per annum.

The aggregate fair value of the interest rate derivatives at 31 December 2023 was an asset of £3,528,000 (30 June 2023: asset of £6,905,000). The Group categorises all interest rate derivatives as level 2 in the fair value hierarchy (see note 8).

At 31 December 2023, the nominal value of the Group's loans equated to £252,500,000 (30 June 2023: £230,000,000). Excluding the interest rate derivatives referred to above, the fair value of these loans, based on a discounted cashflow using the market rate on the relevant treasuries plus an estimated margin based on market conditions at 31 December 2023, totalled, in aggregate, £225,861,000 (30 June 2023: £190,328,000). The payment required to redeem the loans in full, incorporating the terms of the Spens clause in relation to the Phoenix Group facilities, would have been £241,619,000 (30 June 2023: £209,898,000). The loans are categorised as level 3 in the fair value hierarchy.

The RBS loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number One plc Group ('THR1 Group') which consists of THR1 and its five subsidiaries. The Phoenix Group loans of £50,000,000 and £37,250,000 are secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consists of THR12 and its eight subsidiaries. The Phoenix Group loan of £62,750,000 is secured by way of a fixed and floating charge over the majority of the assets of THR Number 43 plc ('THR43'). The HSBC loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 15 plc Group ('THR15 Group') which consists of THR15 and its 18 subsidiaries. In aggregate, the Group has granted a fixed charge over properties with a market value of £775,025,000 as at 31 December 2023 (30 June 2023: £762,100,000).

Under the financial covenants related to the loans, the Group is to ensure that:

- the loan to value percentage for THR1 Group and THR15 Group does not exceed 50 per cent;
- the loan to value percentage for THR12 Group and THR43 does not exceed 60 per cent;
- the interest cover for THR1 Group is greater than 225 per cent on any calculation date;
- the interest cover for THR15 Group is greater than 200 per cent on any calculation date; and
- the debt yield for each of THR12 Group and THR43 is greater than 10 per cent on any calculation date.

All loan covenants have been complied with during the period.

12. Trade and other payables

Non-current trade and other payables	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Rental deposits	**8,504**	8,093
Total	**8,504**	8,093

Current trade and other payables	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Rental income received in advance	**9,042**	8,239
Property acquisition and development costs accrued	**8,020**	3,875
Interest payable	**2,294**	1,992
Investment Manager's fees payable	**1,841**	1,835
Other payables	**2,072**	2,365
Total	**23,269**	18,306

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

13. Share capital

Allotted, called-up and fully paid ordinary shares of £0.01 each	Number of shares	£'000
Balance as at 30 June 2023 and 31 December 2023	**620,237,346**	**6,202**

During the period to 31 December 2023, the Company did not issue any ordinary shares of £0.01 each (period to 31 December 2022: nil). The Company did not buyback or resell any ordinary shares (period to 31 December 2022: nil).

At 31 December 2023, the Company did not hold any shares in treasury (30 June 2023: nil).

14. Commitments

The Group had capital commitments as follows:

	As at 31 December 2023 £'000	As at 30 June 2023 £'000
Amounts due to complete forward fund developments	**21,982**	31,066
Other capital expenditure commitments	**1,061**	2,160
Total	**23,043**	33,226

15. Contingent assets and liabilities

As at 31 December 2023, three (30 June 2023: six) properties within the Group's investment property portfolio contained performance payment clauses meaning that, subject to contracted performance conditions being met, further capital payments totalling £3,695,000 (30 June 2023: £5,720,000) may be payable by the Group to the vendors/tenants of these properties. The potential timings of these payments are also conditional on the date(s) at which the contracted performance conditions are met and are therefore uncertain.

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

Having assessed each clause on an individual basis, the Group has determined that the contracted performance conditions were not highly likely to be met in relation to any of these properties and therefore no liability was recognised at 31 December 2023 (30 June 2023: £nil).

16. Related party transactions

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

The Directors of the Company received fees for their services. Total fees for the period were £114,000 (period ended 31 December 2022: £110,000) of which £nil (31 December 2022: £56,000) remained payable at the period end.

The Investment Manager received £3,679,000 (inclusive of estimated irrecoverable VAT) in management fees in relation to the period ended 31 December 2023 (period ended 31 December 2022: £3,799,000). Of this amount £1,841,000 remained payable at the period end (31 December 2022: £1,816,000). The Investment Manager received a further £94,000 (inclusive of irrecoverable VAT) during the period ended 31 December 2023 (period ended 31 December 2022: £85,000) in relation to its appointment as Company Secretary and Administrator, of which £47,000 (31 December 2022: £42,000) remained payable at the period end. Certain employees of the Investment Manager are directors of some of the Group's subsidiaries. Neither they nor the Investment Manager receive any additional remuneration in relation to fulfilling this role.

17. Operating segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board is the EPRA NTA. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NTA is detailed in note 6.

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

18. Post balance sheet events

In February 2024, two of the Group's development sites in Dartford, Kent and Holt, Norfolk reached practical completion. These developments contributed an aggregate of 137 new beds with modern, en suite wet-rooms to the portfolio and increased annual contracted rent by £1.7 million. Each asset is leased on terms typical of the portfolio, being long-term with annual, upwards-only RPI-linked rent reviews, subject to a cap and collar.

As described in note 8, the valuation of the property portfolio as at 31 December 2023 was conducted by Colliers International Healthcare Property Consultants Limited. The Directors highlighted in the Annual Report 2023 that a tender of the provision of external valuation services was anticipated in advance of the expected introduction of new rules prescribing mandatory rotation. The Board also consider such rotation of the external valuers on a periodic basis to reflect best practice. The tender process has now been completed and resulted in the appointment of CBRE Limited, who will conduct the next quarterly valuation of the property portfolio.

19. Interim Report Statement

These are not full statutory accounts in terms of Section 434 of the Companies Act 2006 and are unaudited. Statutory accounts for the Company for the year ended 30 June 2023, which received an unqualified audit report and which did not contain a statement under Section 498 of the Companies Act 2006, have been lodged with the Registrar of Companies. No full statutory accounts, for either the Company or Group, in respect of any period after 30 June 2023 have been reported on by the Company's auditor or delivered to the Registrar of Companies.

The Interim Report and Condensed Consolidated Financial Statements for the six months ended 31 December 2023 will be posted to shareholders and made available on the website: www.targethealthcarereit.co.uk. Copies may also be obtained from the Company Secretary, Target Fund Managers Limited, 1st Floor, Glendevon House, Castle Business Park, Stirling FK9 4TZ.

Directors’ Statement of Principal Risks and Uncertainties

The risks, and the way in which they are managed, are described in more detail in the Strategic Report within the Annual Report and Financial Statements for the year to 30 June 2023. Other than as disclosed in the Chair’s Statement and Investment Manager’s Report, the Group’s principal risks and uncertainties have not changed materially since the date of the report and are not expected to change materially for the remainder of the Group’s financial year.

Statement of Directors’ Responsibilities in Respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 ‘Interim Financial Reporting’ and gives a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Chair’s Statement and Investment Manager’s Report (together constituting the Interim Management Report) include a fair review of the information required by the Disclosure Guidance and Transparency Rules (‘DTR’) 4.2.7R, being an indication of important events that have occurred during the period and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties referred to above is a fair review of the information required by DTR 4.2.7R; and
- the condensed set of financial statements includes a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the period and that have materially affected the financial position or performance of the Group during the period.

On behalf of the Board

Alison Fyfe
Chair
11 March 2024

Independent Review Report to Target Healthcare REIT plc

Introduction
We have been engaged by Target Healthcare REIT plc ("the Company") to review the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2023 which comprises the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Statement of Cash Flows and the related notes 1 to 19 to the Condensed Consolidated Financial Statements. We have read the other information contained in the Interim Report and Financial Statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

Review Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion
We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with UK adopted international accounting standards. The condensed set of consolidated financial statements included in this Interim Report and Financial Statements has been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting'.

Conclusions Relating to Going Concern
Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the Directors
The Directors are responsible for preparing the Interim Report and Financial Statements in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the Interim Report and 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 Review of the Financial Information
In reviewing the Interim Report and Financial Statements, we are responsible for expressing to the Company a conclusion on the condensed consolidated set of financial statements in the Interim Report and Financial Statements. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our Report
This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
11 March 2024

Glossary of Terms and Definitions

Building Research Establishment Environmental Assessment Method ('BREEAM')	BREEAM is the world's leading science-based suite of validation and certification systems for sustainable built environment. The BREEAM in-use standards provide a framework to enable property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their assets, leading to benchmarking, assurance and validation of operational asset data.
Contractual Rent	The annual rental income receivable on a property as at the balance sheet date, adjusted for the inclusion of rent currently subject to a rent free period.
Discount/Premium*	The amount by which the market price per share of a Closed-end Investment Company is lower or higher than the net asset value per share. The discount or premium is expressed as a percentage of the net asset value per share.
Dividend Cover*	The absolute value of Group specific adjusted EPRA Earnings, or EPRA earnings, divided by the absolute value of dividends relating to the period of calculation.
Dividend Yield*	The annual Dividend expressed as a percentage of the share price at the date of calculation.
Energy Performance Certificate ('EPC')	An Energy Performance Certificate (EPC) rates how energy efficient a building is using grades from A to G (with 'A' the most efficient grade). All commercial properties leased to a tenant must have an EPC. All EPCs are valid for 10 years.
EPRA Cost Ratio*	Reflects the relevant overhead and operating costs of the business. It is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income.
EPRA Group specific adjusted Cost Ratio*	The EPRA Cost Ratio adjusted for items thought appropriate for the Group's specific business model. The adjustments made are consistent with those made to the Group specific adjusted EPRA earnings as detailed in note 6.
EPRA Earnings per Share*	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. A reconciliation of the earnings per IFRS and the EPRA earnings, including any items specific to the Group, is contained in note 6.
EPRA Net Disposal Value ('NDV')*	A measure of Net Asset Value which represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.
EPRA Net Reinstatement Value ('NRV')*	A measure of Net Asset Value which assumes that entities never sell assets and aims to represent the value required to rebuild the entity. The objective is to highlight the value of net assets on a long-term basis. Assets and liabilities that are not expected to crystallise in normal circumstances, such as the fair value movements on financial derivatives, are excluded and the costs of recreating the Group through investment markets, such as property acquisition costs and taxes, are included.
EPRA Net Tangible Assets ('NTA')*	A measure of Net Asset Value which assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.
EPRA Net Initial Yield*	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. EPRA's purpose is to provide a comparable measure around Europe for portfolio valuations.
EPRA Topped-up Net Initial Yield*	Incorporates an adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives).
Loan-to-Value ('LTV')*	A measure of the Group's Gearing level. Gross LTV is calculated as total gross debt as a proportion of gross property value. Net LTV is calculated as total gross debt less cash (including any cash held as security in relation to the debt facilities) as a proportion of gross property value.
Mature Homes	Care homes which have been in operation for more than three years. Homes which do not meet this definition are referred to as 'immature'.
Portfolio or Passing Rent*	The annual rental income currently receivable on a property as at the balance sheet date, excluding rental income where a rent free period is in operation. The gross rent payable by a tenant at a point in time.
Rent Cover*	A measure of a tenant's ability to meet its rental liability from the profit generated by their underlying operations. Generally calculated as the tenant's EBITDARM (earnings before interest, taxes, depreciation, amortisation, rent and management fees) divided by the contracted rent.
Total Return*	The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.
WAULT*	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

* Alternative Performance Measure

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The definitions of all APMs used by the Company are highlighted in the glossary on page 23, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below.

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

		31 December 2023 pence	30 June 2023 pence
EPRA Net Tangible Assets per share (see page 14)	(a)	**106.7**	104.5
Share price	(b)	**86.3**	71.8
Discount	**= (b-a)/a**	**(19.1)%**	(31.3)%

Dividend Cover – the percentage by which earnings for the period cover the dividend paid.

		Period ended 31 December 2023 £'000	Period ended 31 December 2022 £'000
EPRA earnings for the period (see page 14)	(a)	**23,418**	24,129
Group-specific adjusted EPRA earnings for the period (see page 14)	(b)	**18,919**	18,692
First interim dividend		**8,857**	10,482
Second interim dividend		**8,857**	10,482
Dividends paid in relation to the period	(c)	**17,714**	20,964
Dividend cover based on EPRA earnings	**= (a/c)**	**132%**	115%
Dividend cover based on Group-specific adjusted EPRA earnings	**= (b/c)**	**107%**	89%

EPRA Cost Ratio – the EPRA cost ratios are produced using EPRA methodology, which aims to provide a consistent base-line from which companies can provide additional information, and include all property expenses and management fees. The Group did not have any vacant properties during the periods and therefore separate measures excluding direct vacancy costs are not presented. Consistent with the Group specific adjusted EPRA earnings detailed in note 6 to the Condensed Consolidated Financial Statements, similar adjustments have been made to also present the adjusted Cost Ratio which is thought more appropriate for the Group's business model.

		Period ended 31 December 2023 £'000	Period ended 31 December 2022 £'000
Investment management fee		**3,679**	3,799
Credit loss allowance and bad debts written off		**306**	(8)
Other expenses		**1,474**	1,564
EPRA costs (including direct vacancy costs)	(a)	**5,459**	5,355
Specific cost adjustments, if applicable		–	–
Group specific adjusted EPRA costs (including direct vacancy costs)	(b)	**5,459**	5,355
Gross rental income per IFRS	(c)	**34,056**	34,036
Adjusted for rental income arising from recognising guaranteed rent review uplifts		**(5,463)**	(5,897)
Adjusted for development interest under forward fund arrangements		**964**	460
Group specific adjusted gross rental income	(d)	**29,557**	28,599
EPRA Cost Ratio (including direct vacancy costs)	**= (a/c)**	**16.0%**	15.7%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	**= (b/d)**	**18.5%**	18.7%

EPRA Loan-to-Value ('LTV') – A shareholder-gearing measure to determine the percentage of debt comparing to the appraised value of the properties. EPRA LTV is calculated as total gross debt (adding net trade payables and less cash) as a proportion of gross property value.

		31 December 2023 £'000	30 June 2023 £'000
Borrowings		**252,500**	230,000
Net payables		**17,362**	9,117
Cash and cash equivalents		**(17,631)**	(15,366)
Net debt	(a)	**252,231**	223,751
Investment properties at market value		**911,120**	868,705
Total property value	(b)	**911,120**	868,705
EPRA Loan-to-Value	**= (a/b)**	**27.7%**	25.8%

EPRA Net Initial Yield and EPRA Topped-up Net Initial Yield – EPRA Net Initial Yield is calculated as annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. The EPRA Topped-up Net Initial Yield incorporates an adjustment in respect of the expiration of rent-free periods (or other unexpired lease incentives).

		31 December 2023 £'000	30 June 2023 £'000
Annualised passing rental income based on cash rents	(a)	**57,169**	55,003
Notional rent expiration of rent-free periods or other lease incentives		**751**	1,554
Topped-up net annualised rent	(b)	**57,920**	56,557
Standing property assets (see page 15)		**868,360**	851,305
Allowance for estimated purchasers' costs		**58,635**	57,461
Grossed-up completed property portfolio valuation	(c)	**926,995**	908,766
EPRA Net Initial Yield	**= (a/c)**	**6.17%**	6.05%
EPRA Topped-up Net Initial Yield	**= (b/c)**	**6.25%**	6.22%

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

		Period ended 31 December 2023			Period ended 31 December 2022		
		EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)	EPRA NTA (pence)	IFRS NAV (pence)	Share price (pence)
Value at start of period	(a)	**104.5**	**105.6**	**71.8**	112.3	112.7	108.4
Value at end of period	(b)	**106.7**	**107.2**	**86.3**	103.0	103.9	80.2
Change in value during the period **(b-a)**	(c)	**2.2**	**1.6**	**14.5**	(9.3)	(8.8)	(28.2)
Dividends paid	(d)	**2.8**	**2.8**	**2.8**	3.4	3.4	3.4
Additional impact of dividend reinvestment	(e)	**0.1**	**0.1**	**0.2**	(0.2)	(0.1)	(0.2)
Total gain in period (c+d+e)	(f)	**5.1**	**4.5**	**17.5**	(6.1)	(5.5)	(25.0)
Total return for the period	**= (f/a)**	**4.9%**	**4.3%**	**24.4%**	(5.4)%	(4.9)%	(23.1)%

Important Information

Past performance is not necessarily a guide to future performance. The value of investments and income from them may go down as well as up and are not guaranteed. Net asset value performance is not linked to share price performance and shareholders may realise returns that are lower or higher in performance.

If you have sold or otherwise transferred all of your ordinary shares in Target Healthcare REIT plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or event to differ materially from those expressed or implied by those statements. Statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.

Corporate Information

Directors	Alison Fyfe (Chair) Michael Brodtman Richard Cotton* Vince Niblett** Dr Amanda Thompsell
Registered office	Level 4 Dashwood House 69 Old Broad Street London EC2M 1QS
AIFM and Investment Manager, Company Secretary and Administrator	Target Fund Managers Limited 1st Floor Glendevon House Castle Business Park Stirling FK9 4TZ
UK Legal Adviser	Dickson Minto W.S. Dashwood House 69 Old Broad Street London EC2M 1QS
Broker	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Valuers	Colliers International Healthcare Property Consultants Limited 50 George Street London W1U 7GA
Auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY
Tax Adviser	Deloitte LLP Athene Place 66 Shoe Lane London EC4A 3BQ
Tax Compliance	Alvarez & Marsal Tax LLP 1 West Regent Street Glasgow G2 1RW
Depositary	IQ EQ Depositary Company (UK) Limited Two London Bridge London SE1 9RA
Registrars	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE

* Senior Independent Director
** Chairman of Audit Committee

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