TARGET HEALTHCARE REIT LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

For the six months ended 31 December 2018

About Us

Target Healthcare REIT Limited and its subsidiaries ('the Group') is a leading UK care home Real Estate Investment Trust. The Group aims to provide investors with attractive quarterly dividend income from specialist investment in modern, purpose-built care homes which are best-in-class properties in their local market.

The Group's portfolio is designed to deliver predictable and stable returns, with potential for income and capital growth. Assets are let to a diversified group of tenants on long-duration, inflation-linked leases with rents set at sustainable rental levels.

The Investment Manager's rigorous investment appraisal process seeks to create strong asset/tenant combinations to provide the targeted portfolio returns. Well-designed homes in locations with favourable supply/demand characteristics and population demographics are matched with tenants who offer high quality care to residents supported by strong operational capabilities.

Corporate Summary

Target Healthcare REIT Limited ('the Company' or 'Target Healthcare') is a Jersey-registered closed-ended property investment company which was launched in March 2013. The Company has a single class of ordinary shares in issue, which have a premium listing on the Official List of the UK Listing Authority and which are traded on the main market of the London Stock Exchange. The Company has entered the REIT regime for the purposes of UK taxation.

Investment Objective

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

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Key Performance Indicators

For the six months ended 31 December 2018

Highlights

The Group has added further quality assets to its portfolio of care homes, which has continued to generate long-term, secure rental income allowing for the payment of a progressive dividend.

Strategic objective	Key Performance Indicators (KPIs) for the period
1. Dividend – To pay a progressive dividend fully covered when the Group is fully invested	• Dividends declared increased by 2.0% to 3.2895 pence in respect of the period (2017: 3.225 pence). • Group specific adjusted EPRA earnings[1], a measure of underlying/operational profit, of £9.5 million being 2.69 pence per share (2017: £7.8 million and 3.08 pence). • Dividends in respect of the period 80% covered by adjusted earnings[1] (2017: 95%). • Historically, at times when the Group has been operating in a fully invested position, dividends have been fully covered by EPRA earnings.
2. Total returns – To sustain total returns to shareholders by complementing dividends with capital appreciation	• 1.1% increase in EPRA NAV per share to 106.9 pence (2018: 105.7 pence). • EPRA NAV total return of 4.2% (2017: 5.7%). • Share price total return of -0.3% (2017: -1.8%). • Portfolio like-for-like valuation gain in period of 2.8% (2017: 3.3%).
3. Funding – To fund the business through shareholder equity enhanced by modest leverage within predetermined risk thresholds	• £50 million (gross) equity capital provided by shareholders in November 2018. • Group loan-to-value (LTV), based on net debt, of 9.1% (2018: 6.4%). • Group loan-to-value (LTV), based on gross debt, of 15.3% (2018: 17.1%). • Cash and cash equivalents held at the period end of £28.8 million (2018: £41.4 million). • Increase to debt facilities secured after the period end, with an additional £40 million available from the HSBC facility.
4. Long-term secure rental income – To have high quality care providers as tenants with secure, sustainable rental income giving long-term growth	• Contractual rent increase of 7.9% to £28.0 million (2018: £26.0 million). • Like-for-like increase in portfolio passing rent of 1.3% (2017: 1.3%). The assets which were subject to rent review in the period provided an average increase of 3.2% (2017: 3.5%). • Weighted Average Unexpired Lease Term ('WAULT') of 28.5 years (2018: 28.5 years).
5. Grow portfolio – To acquire a diversified portfolio of high quality modern care homes providing excellent accommodation standards for residents	• Agreements during the period to acquire seven assets, a mix of operational homes and forward fund developments, for a total commitment of £81.8 million (including costs). • 21 current tenants, which will increase to 26 upon completion of developments and commitments to acquire properties. • 61 properties with total value of £464 million (2018: 55 properties, £386 million).

[1] For the details of adjusted earnings refer to note 4 to the Condensed Consolidated Financial Statements.

Unless otherwise stated in the above table, references to 2017 mean the comparative six month period to 31 December 2017 and references to 2018 mean 30 June 2018, being the start of the period under review.

The Group uses Alternative Performance Measures ('APMs'). These are defined on page 21.

Chairman's Statement

During the first half of the year we have continued to grow the portfolio while delivering strong financial performance and without compromising on our quality criteria and care ethos. The November 2018 equity issuance and March 2019's doubling of one of our existing debt facilities strengthen the Group's balance sheet and provide further headroom for acquisitions; we are currently very active on potential transactions with a number of deals in the late stages of our investment process. We remain grateful to shareholders and lenders for their ongoing support.

Group performance & dividend

Underlying profits, measured by adjusted EPRA earnings, have increased by 22.1% to £9.5 million (2017: £7.8 million), being 2.69 pence (2017: 3.08 pence) on an Earnings per Share basis. EPRA NAV per share has increased by 1.1% to 106.9 pence (30 June 2018: 105.7 pence per share), contributing to a NAV total return of 4.2% (2017: 5.7%).

We have increased quarterly dividends by 2.0% to 1.64475 pence per share, with the first interim dividend for the year having been paid in November 2018, in respect of the quarter to September 2018. Dividend cover[1] for the six months was 80%, with November's equity issuance yet to be fully reflected in earnings. The Company continues to be fully focused on investing all its available capital and has a strong pipeline of near-term opportunities expected to facilitate this.

Financing & Portfolio growth

Share price total return for the period was (0.3%) with a current dividend yield of 5.7% based on the 4 March 2019 price. The Board was pleased and encouraged by the support from both existing shareholders and new investors for the £50 million equity issuance completed in November 2018.

Subsequent to the period end, a further £40 million of flexible debt has been secured by doubling the size of the Group's revolving credit facility with HSBC, taking the Group's total debt facilities available from its three lenders to £170 million. The funds will be drawn as required and, alongside remaining equity, are allocated to portfolio commitments and further pipeline acquisitions which are in due diligence.

Group LTV at the period end stood at 9.1% and 15.3% on a net and gross basis respectively. Full drawdown and deployment of the Group's available debt would see LTV increase to c.28% on a net and gross basis. The Group's weighted average cost on its drawn debt, inclusive of amortisation of arrangement costs, is 3.09% with a weighted average term to expiry of 2.8 years. The Group continues to closely monitor its debt profile and is exploring opportunities to broaden its lender relationships whilst ensuring facilities remain competitively priced.

Market opportunity & Outlook

We continue to invest in modern, purpose-built properties, offering residents en suite wet-rooms as well as well-designed public areas in which to dine, socialise and welcome guests. We remain selective in our investment choices, only placing shareholder capital in good quality homes, which we believe are significantly under-supplied in the market, with few signs that this will change in the immediate future.

Consistent with our belief on undersupply of the type of home we invest in, we are currently supporting construction of eight homes, having seen one such project complete during the period. These brand-new homes will, when complete during 2019, provide an additional £5.3 million of annual rent, five new tenants and will be spread across five IPD regions. This will also increase the number of appropriate standard beds available to residents in their local markets.

[1] Based on adjusted earnings, please refer to note 4 of the Condensed Consolidated Financial Statements

We acquired four new development assets and two operational homes, and signed an agreement to acquire a home at construction completion, during the period. Purchase yields are representative of assets of similar standard and location within the Group's existing portfolio. The portfolio currently comprises 61 assets, inclusive of 54 operational homes which are let to 21 tenants at a contractual annualised rent of £28.0 million. The WAULT remains long duration at 28.5 years, one of the longest available in the REIT sector.

We design our portfolio to provide long-term sustainable income for shareholders. Diversification by tenant, geography and end-user payment profile is fundamental to this, as is our role as an engaged landlord in managing the portfolio. Our experience and specialist sector knowledge, including a proprietary in-house research function which is critical to this asset class, provide the insight that allows us to support our tenants and make the right investment decisions.

The long-term, stable nature of the returns anticipated from these assets, when allied with the Group's revised fee arrangements and flexible capital structure, should enhance earnings and allow the Group to fully cover the progressive dividend it anticipates delivering to shareholders.

Malcolm Naish
Chairman

4 March 2019

Investment Manager's Report

Portfolio Review

The Group's portfolio of 61 assets was valued at £463.9 million at 31 December 2018. The 54 operational homes were let to 21 tenants, providing 3,725 beds for residents, and generating a contractual rent of £28.0 million per annum. The EPRA topped-up net initial yield was 6.32% and the EPRA net initial yield was 5.64%.

The portfolio market value has increased by 20.3% in the period. Of this 17.5% is due to new acquisitions and further investment into developments, with a positive like-for-like movement in the operational portfolio of 2.8% which reflects both the impact of inflation-linked rent reviews and market yield shift.

The contractual rent roll has increased by 7.9% in the period, comprising a 6.6% increase from acquisitions and completed development sites as well as a 1.3% like-for-like increase from the Group's upwards-only annual rent reviews.

The WAULT has remained steady at 28.5 years as the effect of some existing lease extensions and new assets subject to the Group's typical lease term of 30/35 years counteracts the passage of time on the existing portfolio.

The portfolio total return[2] for the period was 6.3% (12.8% for the 2018 calendar year), maintaining its stable performance since IPO.

In the six months to 31 December 2018, two new trading assets and four new development sites were acquired as well as an exchange of contracts to acquire a further pre-let care home for a combined total consideration of £81.8 million, including transaction costs and future development works. One of the development sites acquired in the period reached practical completion, with the lease commencing in December 2018 and the home opening in early January 2019.

In line with the Group's ethos of being an engaged landlord, the Manager has continued to work closely with individual tenants, maintaining our bi-annual inspections of each property, in order to maintain oversight and shape our pro-active asset management activities. By way of examples, since the start of the period the Manager has:

- Re-tenanted a challenging home to a new, regional operator (previously an SPV tenant), with the lease length significantly extended and now supported by a parent company guarantee;
- Extended the lease at a home which is performing well by a further 8 years;
- Transferred the pre-agreement for lease at one of the development sites to a new operator, following potential cash flow challenges facing the initially intended tenant; and
- Engaged with one of our tenants who took the decision to close a home following compliance challenges, whilst they consider how best to reposition the home (rent has continued to be paid in full since closing).

Overall, the vast majority of assets in the portfolio continue to perform well with all properties having maintained or increased in value during the period. As reported previously, with any portfolio of scale there is the potential for trading challenges to arise on individual assets. The Manager continues to address such instances with due care and sensitivity.

UK Care home investment market

Appetite for Healthcare property remains buoyant, with continued interest in what is perceived to be a defensive, 'needs-led' asset class, particularly in the type of modern real estate in which we invest and one that we believe is less vulnerable to any short-term macro uncertainty than many more traditional asset classes. Yields remain lower than historical averages, with institutional investors attracted by the typical long lease term and the supportive

[2] Accounting basis, operational assets held over the relevant calculation period.

demand/supply imbalances. However, this sector is slowly changing, with progressive operators sensing that families are becoming more discerning when it comes to choosing a place for themselves or their loved one. This is why we focus on best in class operators, benefitting from purpose-built homes with full en suite wet-rooms, which are surprisingly missing in over 75% of UK carehomes.

Health and social care

Recent discussions and analysis in the sector have focused around the triumvirate of demand for care beds from an ageing population, the question of who pays for care, and the politics surrounding strategic planning for health and social care provision and regulation thereof.

Demand: This continues to increase. Population studies indicate projections of most coastal local authorities across the UK having a population aged 65+ of more than 30% by 2025 and virtually all having this proportion by 2037. West Somerset has already reached the 30% mark and also expects to have the highest number of over 85s in the UK by 2036, a record currently held by Christchurch in Dorset with 5.6% of its population. Significantly the Local Government Association has stated that 'The number of people aged 65 or over in England will increase by 65 per cent in the next 25 years'.

Politics: As the Social Care Sector awaits the ever-delayed Green Paper, demand for care continues to grow. There were a reported 5,100 requests for care related help in England every day over the last year, nearly three quarters of these were from pensioners. Four million are said to be 'failed' by the system. There is talk of growing injustice, not least by the English Care Regulator (CQC), and it comes as no surprise that the number of self-funders is on the increase, with people forced to 'buy' their own care as Local Authorities are rationed by budget constraints.

Money makes the world go around of course, and the dilemma for the state is how to fund an ever-growing stream of pensioners requiring various forms of care, and how far to go in persuading this (voting) cohort to perhaps consider funding themselves. (No doubt a headache delaying the Green Paper.)

Operation: Carehome operators watch and plan with interest. It is no longer a simple business to be in. Regulation is rightly tougher and more robust than a decade ago, new entrants to the sector require deep resources and good advisers. Even the best operators will have hiccups; reputational damage is a constant concern. But it remains a sector which will require extensive ongoing investment, smaller homes (often family run) are slipping in increasing numbers from the market, and quality modern successors are desperately required. Progressive operators and their experienced investors such as Target will navigate through the furore of funding woes, Brexit, and not least, 'lost' Green Papers.

Target Fund Managers Limited

Investment Manager

4 March 2019

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2018

		Six months ended 31 December 2018 (unaudited)			Six months ended 31 December 2017 (unaudited)		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**13,277**	**2,903**	**16,180**	10,682	3,200	13,882
Total revenue		**13,277**	**2,903**	**16,180**	10,682	3,200	13,882
Gains on revaluation of investment properties	6	**–**	**3,346**	**3,346**	–	3,829	3,829
Total income		**13,277**	**6,249**	**19,526**	10,682	7,029	17,711
Expenditure							
Investment management fee	2	**(2,396)**	**–**	**(2,396)**	(1,427)	–	(1,427)
Performance fee	2	**–**	**–**	**–**	(396)	–	(396)
Other expenses		**(770)**	**–**	**(770)**	(749)	–	(749)
Total expenditure		**(3,166)**	**–**	**(3,166)**	(2,572)	–	(2,572)
Profit before finance costs and taxation		**10,111**	**6,249**	**16,360**	8,110	7,029	15,139
Net finance costs							
Interest receivable		**55**	**–**	**55**	34	–	34
Interest payable and similar charges		**(1,471)**	**–**	**(1,471)**	(781)	–	(781)
Profit before taxation		**8,695**	**6,249**	**14,944**	7,363	7,029	14,392
Taxation	3	**–**	**–**	**–**	(1)	(1)	(2)
Profit for the period		**8,695**	**6,249**	**14,944**	7,362	7,028	14,390
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swaps		**–**	**1**	**1**	–	75	75
Total comprehensive income for the period		**8,695**	**6,250**	**14,945**	7,362	7,103	14,465
Earnings per share (pence)	4	**2.47**	**1.77**	**4.24**	2.92	2.79	5.71

The total column of this statement represents the Group's Condensed Consolidated Statement of Comprehensive Income, prepared in accordance with IFRS as adopted by the European Union. 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 2018

	Notes	As at 31 December 2018 (unaudited) £'000	As at 30 June 2018 (audited) £'000
Non-current assets			
Investment properties	6	**438,420**	362,918
Trade and other receivables		**30,500**	27,139
		468,920	390,057
Current assets			
Trade and other receivables		**6,093**	3,365
Cash and cash equivalents		**28,814**	41,400
		34,907	44,765
Total assets		**503,827**	434,822
Non-current liabilities			
Bank loan	8	**(69,466)**	(64,182)
Interest rate swaps	8	**(114)**	(115)
Trade and other payables		**(5,017)**	(4,558)
		(74,597)	(68,855)
Current liabilities			
Trade and other payables		**(17,808)**	(7,360)
Total liabilities		**(92,405)**	(76,215)
Net assets		**411,422**	358,607
Stated capital and reserves			
Stated capital account	9	**376,627**	330,436
Hedging reserve		**(114)**	(115)
Capital reserve		**30,632**	24,383
Revenue reserve		**4,277**	3,903
Equity shareholders' funds		**411,422**	358,607
Net asset value per ordinary share (pence)	4	**106.8**	105.7

The condensed consolidated financial statements on pages 6 to 18 were approved by the Board of Directors on 4 March 2019 and were signed on its behalf by:

Malcolm Naish, Chairman

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 2018 (unaudited)

	Notes	Stated capital account £'000	Hedging Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
As at 30 June 2018		**330,436**	**(115)**	**24,383**	**3,903**	**358,607**
Total comprehensive income for the period:		–	1	6,249	8,695	14,945
Transactions with owners recognised in equity:						
Dividends paid	5	(2,728)	–	–	(8,321)	(11,049)
Issue of ordinary shares	9	50,000	–	–	–	50,000
Expenses of issue	9	(1,081)	–	–	–	(1,081)
As at 31 December 2018		**376,627**	**(114)**	**30,632**	**4,277**	**411,422**

For the six months ended 31 December 2017 (unaudited)

	Notes	Stated capital account £'000	Hedging Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
As at 30 June 2017		241,664	(9)	11,616	3,666	256,937
Total comprehensive income for the period:		–	75	7,028	7,362	14,465
Transactions with owners recognised in equity:						
Dividends paid	5	(769)	–	–	(7,257)	(8,026)
As at 31 December 2017		240,895	66	18,644	3,771	263,376

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2018

	Notes	**Six months ended 31 December 2018 (unaudited) £'000**	Six months ended 31 December 2017 (unaudited) £'000
Cash flows from operating activities			
Profit before tax		**14,944**	14,392
Adjustments for:			
Interest receivable		**(55)**	(34)
Interest payable		**1,471**	781
Revaluation gains on property portfolio and movements in lease incentives, net of acquisition costs written off	6	**(6,249)**	(7,029)
(Increase)/decrease in trade and other receivables		**(1,963)**	8,809
Increase in trade and other payables		**200**	1,252
		8,348	18,171
Interest paid		**(1,073)**	(463)
Interest received		**55**	34
Tax refunded/(paid)		**14**	(201)
		(1,004)	(630)
Net cash inflow from operating activities		**7,344**	17,541
Cash flows from investing activities			
Purchase of investment properties, including acquisition costs		**(62,938)**	(45,391)
Net cash outflow from investing activities		**(62,938)**	(45,391)
Cash flows from financing activities			
Issue of ordinary share capital	9	**50,000**	–
Expenses of issue paid		**(951)**	–
Bank loans drawn down	8	**38,500**	41,000
Costs of arranging bank loan facility		**–**	(810)
Bank loans repaid	8	**(33,500)**	–
Dividends paid		**(11,041)**	(7,902)
Net cash inflow from financing activities		**43,008**	32,288
Net (decrease)/increase in cash and cash equivalents		**(12,586)**	4,438
Opening cash and cash equivalents		**41,400**	10,410
Closing cash and cash equivalents		**28,814**	14,848
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		**2,881**	3,769

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

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with 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 2018, except for the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' which have not had a material impact on these condensed consolidated financial statements for the reasons explained in the consolidated financial statements of the Group for the year ended 30 June 2018. 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 2018, which were prepared under full 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. After making enquiries, and bearing in mind the nature of the Group's business and assets, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. 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 2018 £'000	For the six month period ended 31 December 2017 £'000
Base management fee	**2,396**	1,427
Performance fee	**–**	396
Total	**2,396**	1,823

All amounts are inclusive of irrecoverable VAT.

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') is Target Fund Managers Limited (the 'Investment Manager' or 'Target'). The Investment Manager was entitled to an annual base management fee of 0.90 per cent. of the net assets of the Group and an annual performance fee calculated by reference to 10 per cent. of the outperformance of the Group's portfolio total return relative to the IPD UK Annual Healthcare Index ('the Index'). The maximum amount of total fees payable by the Group to the Investment Manager was limited to 1.25 per cent. of the average net assets of the Group over a financial year.

With effect from 1 July 2018, the Investment Manager was entitled to an annual base management fee on a tiered basis based on the net assets of the Group as set out below. No performance fee is payable for any period commencing after 1 January 2018.

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 twelve 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. Taxation

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

The Company 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.

4. Earnings per share and Net Asset Value per share

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

	For the six month period ended 31 December 2018		For the six month period ended 31 December 2017	
	£'000	**Pence per share**	£'000	Pence per share
Revenue earnings	**8,695**	**2.47**	7,362	2.92
Capital earnings	**6,249**	**1.77**	7,028	2.79
Total earnings	**14,944**	**4.24**	14,390	5.71
Average number of shares in issue		**352,680,194**		252,180,851

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties and other items of a capital nature and represents the revenue earned by the Group. The Group's specific adjusted EPRA earnings adjusts the EPRA earnings for the performance fee, where applicable, and for development interest in respect of forward fund agreements.

The reconciliations are provided in the table below:

	For the six month period ended 31 December 2018 £'000	For the six month period ended 31 December 2017 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**14,944**	14,390
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives	**(2,903)**	(3,200)
Adjusted for revaluations of investment properties	**(3,346)**	(3,829)
Adjusted for tax of a capital nature	**–**	1
EPRA earnings	**8,695**	7,362
Adjusted for development interest under forward fund agreements	**777**	–
Adjusted for performance fee	**–**	396
Group specific adjusted EPRA earnings	**9,472**	7,758
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**4.24**	5.71
EPRA EPS	**2.47**	2.92
Group specific adjusted EPRA EPS	**2.69**	3.08

Earnings for the period ended 31 December 2018 should not be taken as a guide to the results for the year to 30 June 2019.

4. Earnings per share and Net Asset Value per share (continued)

Net Asset Value per share

The Group's net asset value per ordinary share of 106.8 pence (30 June 2018: 105.7 pence) is based on equity shareholders' funds of £411,422,000 (30 June 2018: £358,607,000) and on 385,089,448 (30 June 2018: 339,217,889) ordinary shares, being the number of shares in issue at the period end.

The EPRA Net Asset Value ('EPRA NAV') per share is arrived at by adjusting the net asset value ('NAV') calculated under International Financial Reporting Standards ('IFRS'). The EPRA NAV provides a measure of the fair value of a company on a long-term basis. The only adjustment required to the NAV is that the EPRA NAV excludes the fair value of the Group's interest rate swaps which were, in aggregate, recognised as a liability of £114,000 under IFRS as at 31 December 2018 (30 June 2018: liability of £115,000).

	As at 31 December 2018 Pence per share	As at 30 June 2018 Pence per share
NAV per financial statements (pence per share)	**106.8**	105.7
Valuation of interest rate swaps	**0.1**	–
EPRA NAV (pence per share)	**106.9**	105.7

5. Dividends

Dividends paid as distributions to equity shareholders during the period.

	For the six month period ended 31 December 2018		For the six month period ended 31 December 2017	
	Pence	**£'000**	Pence	£'000
Fourth interim dividend for prior year	**1.61250**	**5,470**	1.5700	3,959
First interim dividend	**1.64475**	**5,579**	1.6125	4,067
Total	**3.25725**	**11,049**	3.1825	8,026

A second interim dividend for the year to 30 June 2019, of 1.64475 pence per share, was paid on 22 February 2019 to shareholders on the register on 8 February 2019.

The Company is able to pay a dividend out of the Stated Capital Account in accordance with the requirements of the Companies (Jersey) Law 1991.

6. Investments

Freehold and Leasehold Properties	**As at 31 December 2018 £'000**	As at 30 June 2018 £'000
Opening market value	**385,542**	281,951
Opening fixed or guaranteed rent reviews and lease incentives	**(22,624)**	(15,732)
Opening carrying value	**362,918**	266,219
Purchases	**70,174**	87,515
Acquisition costs capitalised	**1,982**	2,750
Acquisition costs written off	**(1,982)**	(2,750)
Revaluation movement - gains	**12,415**	21,852
Revaluation movement - losses	**(4,206)**	(5,776)
Movement in market value	**78,383**	103,591
Movement in fixed or guaranteed rent reviews and lease incentives	**(2,881)**	(6,892)
Movement in carrying value	**75,502**	96,699
Closing market value	**463,925**	385,542
Closing fixed or guaranteed rent reviews and lease incentives	**(25,505)**	(22,624)
Closing carrying value	**438,420**	362,918
The investment properties can be analysed as follows:		
Standing assets	**415,193**	378,062
Developments under forward fund agreements	**48,732**	7,480
Closing market value	**463,925**	385,542

Changes in the valuation of investment properties

	For the six month period ended 31 December 2018 £'000	For the six month period ended 31 December 2017 £'000
Revaluation movement	**8,209**	9,482
Acquisition costs written off	**(1,982)**	(1,884)
Movement in lease incentives	**22**	(569)
	6,249	7,029
Movement in fixed or guaranteed rent reviews	**(2,903)**	(3,200)
Gains on revaluation of investment properties	**3,346**	3,829

The properties were valued at £463,925,000 (30 June 2018: £385,542,000) 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, June 2017 ('the Red Book') 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 £438,420,000 (30 June 2018: £362,918,000). The adjustment consisted of £24,084,000 (30 June 2018: £21,181,000) relating to fixed or guaranteed rent reviews and £1,421,000 (30 June 2018: £1,443,000) 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'.

6. Investments (continued)

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;

— Level 2: observable inputs other than quoted prices included within level 1;

— Level 3: unobservable inputs.

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 6.3%. The yield on the majority of the individual assets ranges from 5.0 per cent to 7.7 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:

— Estimated rental value ('ERV'): The rent at which space could be let in the market conditions prevailing at the date of valuation; and

— Yield: The net initial yield is defined as the initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.

A decrease in the ERV applied to an asset will decrease the fair value of the asset, and consequently decrease the Group's reported income from unrealised gains on investments. An increase in the ERV will increase the fair value of an asset and increase the Group's income.

A decrease of 0.25 per cent in the net initial yield applied to the portfolio will increase the fair value of the portfolio by £19.2 million (30 June 2018: £15.4 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £17.7 million (30 June 2018: £14.3 million) and reduce the Group's income.

7. Investment in subsidiary undertakings

The Group included 28 subsidiary companies as at 31 December 2018. 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 two subsidiaries which are incorporated in Gibraltar and two subsidiaries which are incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

The Group acquired THR Number 25 S.a.r.l. and THR Number 26 S.a.r.l. on 6 November 2018 and Parris Lawn Limited on 16 November 2018. These acquisitions were accounted for as Investment Property acquisitions.

In addition, the Group established three newly incorporated companies during the period to 31 December 2018: THR Number 22 Limited, THR Number 23 Limited and THR Number 24 Limited.

8. Bank Loans

	As at 31 December 2018 £'000	As at 30 June 2018 £'000
Principal amounts outstanding	**71,000**	66,000
Set-up costs	**(2,644)**	(2,644)
Amortisation of set-up costs	**1,110**	826
Total	**69,466**	64,182

The Group has a £50.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable on 1 September 2021, with the option of two further one year extensions thereafter subject to the consent of RBS. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.5 per cent per annum for the duration of the loan. A non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2018, the Group had drawn £35.0 million under this facility (30 June 2018: £30.0 million).

The Group has a five-year £40.0 million committed term loan facility with First Commercial Bank, Limited ('FCB') which is repayable on 30 August 2022. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.65 per cent per annum for the duration of the loan. The undrawn element of the facility does not incur a non-utilisation fee. As at 31 December 2018, the Group had drawn £36.0 million under this facility (30 June 2018: £36.0 million).

The Group has a £40.0 million revolving credit facility with HSBC Bank plc ('HSBC') which is repayable on 29 January 2021, with the option of two further one year extensions thereafter subject to the consent of HSBC. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.70 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2018, this facility was undrawn (30 June 2018: £nil).

The Group has entered into the following interest rate swaps:

Notional Value	**Starting Date**	**Ending Date**	**Interest paid**	**Interest received**	**Counterparty**
21,000,000	07 July 2016	23 June 2019	0.85%	3-month LIBOR	RBS
21,000,000	24 June 2019	1 September 2021	0.70%	3-month LIBOR	RBS
9,000,000	7 April 2017	1 September 2021	0.86%	3-month LIBOR	RBS
36,000,000	9 July 2018	30 August 2022	1.43%	3-month LIBOR	FCB

Inclusive of all interest rate swaps, the interest rate on £66.0 million of the Group's borrowings is fixed inclusive of the amortisation of arrangement costs at an all-in rate of 3.12 per cent per annum until 23 June 2019 and 3.07 per cent per annum from 24 June 2019 to 1 September 2021. The remaining £64.0m of debt, if drawn, would carry interest at a variable rate equal to three month LIBOR plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.12 per cent per annum.

8. Bank Loans (continued)

The fair value of the interest rate swaps at 31 December 2018 was an aggregate liability of £114,000 (30 June 2018: liability of £115,000) and all interest rate swaps are categorised as level 2 in the fair value hierarchy (see note 6).

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 three subsidiaries: THR Number Two Limited, THR Number 3 Limited and THR Number 9 Limited. The FCB loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consists of THR12 and its three subsidiaries: THR Number 5 Limited, THR Number 6 Limited and THR Number 7 Limited. 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 three of its subsidiaries: THR Number 8 Limited, THR Number 10 Limited and THR Number 17 Limited.

Under the bank 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 does not exceed 60 per cent; and

– the interest cover for each of THR 1 Group, THR 12 Group and THR 15 Group is greater than 300 per cent on any calculation date.

All bank loan covenants have been complied with during the period.

Subsequent to the period end, the Group entered into a further debt facility with HSBC. For further details refer to note 14.

9. Stated Capital Movements

Allotted, called-up and fully paid ordinary shares of no par value	**Number of shares**	**£'000**
Opening balance	**339,217,889**	**330,436**
Issued on 12 November 2018	**45,871,559**	**50,000**
Expenses of issue		**(1,081)**
Dividend allocated to capital		**(2,728)**
Balance as at 31 December 2018	**385,089,448**	**376,627**

During the period to 31 December 2018, the Company issued 45,871,559 ordinary shares raising gross proceeds of £50,000,000 (period to 31 December 2017: nil). The Company did not buyback or resell any ordinary shares (period to 31 December 2017: nil).

At 31 December 2018, the Company did not hold any shares in treasury (30 June 2018: nil).

10. Commitments

The Group had capital commitments as follows:

	As at 31 December 2018 £'000	As at 30 June 2018 £'000
Amounts due to complete forward fund developments	**20,423**	19,982
Other capital expenditure commitments	**1,900**	2,443
Total	**22,323**	22,425

11. Contingent Assets and Liabilities

As at 31 December 2018, ten properties (30 June 2018: nine properties) within the Group's investment property portfolio contained deferred consideration clauses meaning that, subject to contracted performance conditions being met, deferred payments totalling £18.5 million (30 June 2018: £16.0 million) may be payable by the Group to the vendors/tenants of these properties.

Having assessed each clause on an individual basis, the Company has determined that none of these deferred consideration clauses are more likely than not to become payable in the future and therefore an amount of £nil has been recognised as a liability at 31 December 2018 (30 June 2018: £nil).

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

12. 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.

Craig Stewart and Hilary Jones are directors of the Company Secretary, R&H Fund Services (Jersey) Limited. For the period to 31 December 2018, Mr Stewart was a partner of Rawlinson & Hunter's Jersey Partnership, which in turn wholly owns R&H Fund Services (Jersey) Limited, but stood down from the partnership at the end of 2018. Secretarial fees for the period were £3,000 (six months ended 31 December 2017: £3,000).

The Directors of the Company received fees for their services. Total fees for the period were £89,000 (six months ended 31 December 2017: £83,000) of which £21,000 (31 December 2017: £18,000) remained payable at the period end.

The Investment Manager received £2,396,000 (six months ended 31 December 2017: £1,823,000) during the period. Of these amounts £1,241,000 (inclusive of estimated irrecoverable VAT) remained payable at the period end (31 December 2017: £1,509,000).

13. 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 NAV. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NAV is detailed in note 4.

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.

14. Post Balance Sheet Events

On 1 March 2019, the Group entered into an agreement to increase the revolving credit facility with HSBC by a further £40.0 million. The significant terms, including the repayment date, are the same as the existing HSBC facility as set out in note 8.

In order to draw the increased HSBC facility in its entirety, it will require to be secured by way of a fixed and floating charge over the majority of the assets of the THR15 Group, which consists of THR15 and six of its subsidiaries: THR Number 8 Limited, THR Number 10 Limited, THR Number 17 Limited, THR Number 20 Limited, THR Number 21 Limited and Parris Lawn Limited.

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 2018. 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 Chairman'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

Malcolm Naish
Chairman

4 March 2019

Independent Review Report to Target Healthcare REIT Limited

Introduction

We have been engaged by Target Healthcare REIT Limited ('the Group') to review the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2018 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related explanatory notes 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.

This report is made solely to the Group in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 "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 Group, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The Interim Report and Financial Statements are the responsibility of, and have been approved by, 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.

As disclosed in note 1, the annual consolidated financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated set of financial statements included in this Interim Report and Financial Statements has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Group a conclusion on the condensed consolidated set of financial statements in the Interim Report and Financial Statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. 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.

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 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP,
Edinburgh

4 March 2019

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 APMs used by the Company are highlighted below.

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	EPRA Earnings per Share divided by Dividends per share expressed as a ratio.
Dividend Yield	The annual Dividend expressed as a percentage of the share price at the date of calculation.
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 is contained in note 4.
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. Makes adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. A reconciliation of the NAV per IFRS and the EPRA NAV is contained in note 4.
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. The Gross LTV is calculated as total gross debt as a proportion of gross property value. The Net LTV is calculated using net debt (total gross debt less cash) as a proportion of gross property value.
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.
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.

Important Information

Corporate Information

Directors	Malcolm Naish (Chairman) June Andrews OBE Gordon C Coull * Thomas J Hutchison III ** Hilary Jones Craig Stewart
Registered office	Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW
Investment Manager	Target Fund Managers Limited Laurel House Laurelhill Business Park Stirling FK7 9JQ
Company Secretary	R&H Fund Services (Jersey) Limited Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW
Administrator	Maitland Administration Services (Scotland) Limited 20 Forth Street Edinburgh EH1 3LH
UK Legal Adviser	Dickson Minto W.S. Broadgate Tower, 20 Primrose Street London EC2A 2EW
Broker	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Jersey Legal Adviser	Ogier 44 Esplanade, St Helier Jersey JE4 9WG
Valuers	Colliers International Healthcare Property Consultants Limited 50 George Street London W1U 7GA
Auditors	Ernst & Young LLP Atria One, 144 Morrison Street Edinburgh, EH3 8EX
Tax Adviser	Deloitte LLP Athene Place, 66 Shoe Lane London EC4A 3BQ
Depositary	Augentius Depositary Limited Two London Bridge London SE1 9RA
Registrars	Computershare Investor Services (Jersey) Limited Queensway House, Hilgrove Street St. Helier, Jersey JE1 1ES
Website	www.targethealthcarereit.co.uk

* Chairman of Audit Committee
** Senior Independent Director

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The Association of
Investment Companies