TARGET HEALTHCARE REIT LIMITED

INTERIM REPORT AND FINANCIAL STATEMENTS

For the six months ended 31 December 2016

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Key Performance Indicators

For the six months ended 31 December 2016

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 1.6% to 3.14 pence in respect of the period (2015: 3.09 pence). • EPRA Earnings, a measure of underlying/operational profit, of £5.8 million being EPRA EPS of 2.3 pence (2015: £4.0 million and 2.7 pence). • Dividends in respect of the period 74% covered by underlying earnings, 78% excluding the effect of performance fee. • 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 maximise total returns to shareholders through a combination of dividends and capital appreciation	• 1.2% increase in EPRA NAV per share to 101.8 pence (2016: 100.6 pence). • EPRA NAV total return of 4.5% (2015: 6.3%). • Valuation gain in period of 3.1%, inclusive of like-for-like portfolio valuation gains of 2.7% (2015: 3.6%).
3. Funding – To fund the business through shareholder equity enhanced by modest leverage within pre-determined risk thresholds	• Group loan-to-value (LTV) of 8.3% (excluding effect of cash held) (2016: 10.0%). • Cash and cash equivalents held at the period end of £26.7 million (2016: £65.1 million). • Debt facility renegotiated to reduce margin by 50 basis points per annum and extend duration to September 2021. • Interest rates on current borrowings fixed to 1 September 2021 at attractive levels through interest rate swaps.
4. Long-term secure rental income – To have high quality care providers as tenants providing secure, sustainable rental income and predictable long-term growth	• Rent roll increase of 17.6% to £18.2 million (2016: £15.5 million). • Like-for-like increase in rent roll of 0.4% (2015: 0.9%). • Addition of 2 new tenants in the period, increasing the diversity of portfolio income to 15 tenants. • Weighted Average Unexpired Lease Term ('WAULT') of 29.4 years (2016: 28.6 years).
5. Grow portfolio – To acquire a diversified portfolio of high quality modern care homes providing excellent accommodation standards for residents	• 41 properties with total value of £253.1 million (2016: 37 properties, £210.7 million). • 4 acquisitions plus 1 development asset completed during the period for total value of £36.3 million (including costs). • Contracts exchanged to acquire a further property upon completion of construction, expected April 2017, for £5.6 million (including costs). The completed home will be operated by the Group's 16th tenant.

Unless otherwise stated in the above table, references to 2015 mean the comparative six month period to 31 December 2015 and references to 2016 mean 30 June 2016, being the start of the period under review.

Chairman's Statement

Performance

I am pleased to once again report on a successful six months for the Group. When considered against the prevailing background of macroeconomic uncertainty and financial market volatility, it has been particularly pleasing to have delivered stable performance. In contrast to the wider real estate equity market the Company's shares have consistently traded at a solid premium to NAV, reflecting the appeal of our long duration income stream, diversified by our growing number of tenants. Share price total return for the period has been 6.1% with a current dividend yield of 5.5% based on the 24 February 2017 price.

Underlying profits, measured by EPRA earnings, have increased by 45% to £5.8 million. The property portfolio, excluding the effects of acquisitions, continues to increase in value with a valuation uplift of 3.1% based on the opening portfolio value. Our EPRA NAV per share has increased by 1.2% to 101.8 pence per share.

We believe the Group is well-placed to continue to deliver in a period of volatility. The fundamentals of the investment case remain compelling despite the inherent sectoral difficulties faced by our tenants in their provision of care to their residents. That is why we firmly believe it is essential for careful stewardship of investments by a specialist investment manager, who report on the portfolio and their thoughts on the sector on page 4.

Investment

We have continued to carefully invest shareholders' funds, with £77 million (including acquisition costs) of the £84 million equity issued in May 2016 having been allocated. Five homes have become new additions to the rent roll in the period, including the completion of one renovation project. Each of the homes meet our strict investment criteria and are accretive to a portfolio which is now diversified across 15 tenants and geographically across the UK. Rooms are provided in suitably modern surroundings for residents to be cared for by tenants who share our care ethos.

All available capital, including undrawn debt, is committed or allocated to accretive acquisition opportunities which are in solicitors' hands and expected to be completed or contractually committed to during Spring 2017.

Income and dividend

Underlying profit generated by the Group represents EPRA earnings per share of 2.3 pence. We have increased quarterly dividends by 1.6% to 3.14 pence for the period. Dividend cover for the six months was 78% (excluding performance fee) due to the effects of cash drag as we perform our diligence on potential acquisitions, though this has increased to 87% for the three months to December as further earnings from portfolio enhancements and acquisitions came online.

Capital structure

We have strengthened the Group's capital structure with longer and lower-cost debt through the renegotiation of our existing facility. We expect to fully utilise our available debt facility in the short term and, with gearing still below our medium term target of 20%, we continue to actively pursue further debt to provide flexible capital to fund near-term investment opportunities.

Outlook

We are delighted to be providing capital investment to a sector in critical need of a modern estate to facilitate quality care provision to its residents. The Group, through its investment manager, continues to be a highly-engaged landlord, supporting our tenants through observations and advice based on their comprehensive sector knowledge and experience.

We will continue to be focussed and diligent in the management of shareholders' funds, allowing the assembled portfolio to provide the secure, diversified and growing long-term income which is the basis for shareholder returns with those same characteristics.

The Board are committed to growing the Group in a disciplined and sustainable manner and remain confident this strategy will deliver increased earnings supporting a progressive dividend policy.

Malcolm Naish
Chairman

24 February 2017

Investment Manager's Report

Portfolio

As at 31 December 2016, the Group's portfolio comprised 41 modern, purpose-built care homes with a market value of £253.1 million (June 2016: £210.7 million), the majority of which were constructed in 2010 or later. Each home meets our high specification criteria with generously proportioned bedrooms and large areas of communal space. All the 2,797 bedrooms within the portfolio have en-suite facilities, the vast majority with wet rooms, and the homes also include additional on-site facilities such as hairdressing salons, libraries, cinemas and spa facilities.

The portfolio is fully let to 15 separate tenant groups with two new tenants added in the period, further enhancing the diversification of the Group's income source. Additionally, the Group has exchanged contracts to acquire a property in Sutton-in-Ashfield which, once completed in April 2017, will be let to a 16th tenant.

All leases are long-term Full Repairing and Insuring leases and include upwards-only annual rental reviews, either linked to RPI or through fixed-rate uplifts. The portfolio includes two assets which are let on variable rental agreements wherein the Group receives a fixed base rent plus a variable figure dependant on home performance.

The 31 December 2016 annual rent roll was £18.2m (June 2016: £15.5m). This represents an increase of 17.6% during the period: acquisitions have added 15.3%; like-for-like rent review increases 0.4%; and completion of an asset renovation adding 1.9%. The weighted average unexpired lease term across the portfolio remains the longest in the sector at 29.4 years (June 2016: 28.6 years). The net initial yield on acquisitions across the portfolio remains ahead of the 7.0% blended initial yield modelled at the launch of the Group, supporting the Company's stated dividend policy.

Additions

In the six months to 31 December 2016, four new care homes were acquired and one development asset was completed for a total value of £36.3m (including costs). These assets are located in Dundee, Derbyshire, Tonbridge, Camberley, and Sheffield.

In addition to suitable standing assets, we work with our tenants and other market participants to acquire assets through forward commitments, forward funding agreements, or refurbishment programmes for secondary stock to enhance such assets to the Group's high specification standards in line with the Group's investment policy. Strong relationships held with our tenants and others are key in identifying and successfully delivering these types of transactions.

Continuing the Group's investment ethos of being an actively engaged landlord, we continue to undertake, at minimum, bi-annual inspections of each of the care homes on behalf of the Group. The experience of the investment management team in the elderly care sector, in relation to funding and in the direct provision of care services, is invaluable during this process.

Geographic Split by Property Valuation

The Group continues to diversify the portfolio in terms of geographic spread, with the South East region now representing the largest share of the portfolio by capital value.

IPD region	% of portfolio as at 31 December 2016
South East	16.8%
North West	15.9%
Yorkshire & Humber	14.7%
East Midlands	13.3%
Scotland	11.7%
Northern Ireland	8.7%
West Midlands	6.6%
North East	4.9%
Eastern	4.2%
South West	3.2%

Valuation

The property portfolio was externally valued as at 31 December 2016 at £253.1m. This valuation represents a total increase of 20.1% during the reporting period with additions contributing 16.6%, a like-for-like increase of 3.1%, and the forward commitment contributing 0.4%.

The valuation uplift is due to three factors: a general market yield shift, yield tightening across individual assets which display improved trading performance, and the annual rental uplifts included in the lease agreements. The external valuation was performed by Colliers International Property Consultants Limited.

UK Healthcare Investment Market

The adult and social care sector continues to face challenges largely due to funding pressures with the tail end of 2016 seeing increased scrutiny from the public and the media. The homes impacted the most are those that are reliant on Local Authority funding versus homes with high proportions of private pay residents. Increases in the national living wage, staff shortages particularly in nursing staff, government austerity measures tightening LA budgetary constraints, and the Local Government Association's report highlighting a £2.6bn funding gap in social care by 2020, are a few of the key headwinds facing the sector in the short to medium term. Additionally, the Competitions and Market Authority is conducting a review into the sector with the report due by December 2017.

However, despite these challenges, opportunities exist for investors who back efficient tenants providing a high standard of care in modern, future proof homes. With secondary stock home closures leading to a net decrease in care home beds coupled with the demographic changes across the country, demand for modern, purpose built care facilities operated by high quality care providers remains high.

Pipeline

We continue to draw on our well-established relationships with regional and national operators and agents alike to source a variety of care home investment opportunities for the Group. These have contributed to a good pipeline of additional investment opportunities consisting of single and multi-asset acquisitions located across the UK.

Target Advisers LLP
Investment Manager

24 February 2017

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2016

		Six months ended 31 December 2016 (unaudited)			Six months ended 31 December 2015 (unaudited)		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**8,231**	**2,420**	**10,651**	5,846	2,021	7,867
Other income		**195**	**–**	**195**	35	–	35
Total revenue		**8,426**	**2,420**	**10,846**	5,881	2,021	7,902
Gains on revaluation of investment properties	6	**–**	**3,985**	**3,985**	–	2,574	2,574
Cost of corporate acquisitions	7	**–**	**(582)**	**(582)**	–	(135)	(135)
Total income		**8,426**	**5,823**	**14,249**	5,881	4,460	10,341
Expenditure							
Investment management fee	2	**(1,351)**	**–**	**(1,351)**	(804)	–	(804)
Performance fee	2	**(345)**	**–**	**(345)**	(110)	–	(110)
Other expenses		**(568)**	**–**	**(568)**	(458)	–	(458)
Total expenditure		**(2,264)**	**–**	**(2,264)**	(1,372)	–	(1,372)
Profit before finance costs and taxation		**6,162**	**5,823**	**11,985**	4,509	4,460	8,969
Net finance costs							
Interest receivable		**98**	**–**	**98**	70	–	70
Interest payable and similar charges		**(447)**	**–**	**(447)**	(590)	–	(590)
Profit before taxation		**5,813**	**5,823**	**11,636**	3,989	4,460	8,449
Taxation	3	**(1)**	**(532)**	**(533)**	–	–	–
Profit for the period		**5,812**	**5,291**	**11,103**	3,989	4,460	8,449
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swaps		**–**	**223**	**223**	–	–	–
Total comprehensive income for the period		**5,812**	**5,514**	**11,326**	3,989	4,460	8,449
Earnings per share (pence)	4	**2.30**	**2.10**	**4.40**	2.68	2.99	5.67

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

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

No operations were discontinued in the period.

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	As at 31 December 2016 (unaudited) £'000	As at 30 June 2016 (audited) £'000
Non-current assets			
Investment properties	6	**240,444**	200,720
Trade and other receivables		**3,763**	3,742
		244,207	204,462
Current assets			
Trade and other receivables		**16,474**	13,222
Cash and cash equivalents		**26,681**	65,107
		43,155	78,329
Total assets		**287,362**	282,791
Non-current liabilities			
Bank loan	8	**(20,256)**	(20,449)
Interest rate swaps	8	**(93)**	(316)
Trade and other payables		**(3,763)**	(3,742)
		(24,112)	(24,507)
Current liabilities			
Trade and other payables		**(6,497)**	(5,002)
Total liabilities		**(30,609)**	(29,509)
Net assets		**256,753**	253,282
Stated capital and reserves			
Stated capital account	9	**243,617**	246,533
Hedging reserve		**(93)**	(316)
Capital reserve		**9,989**	4,698
Revenue reserve		**3,240**	2,367
Equity shareholders' funds		**256,753**	253,282
Net asset value per ordinary share (pence)	4	**101.8**	100.4

The condensed consolidated financial statements on pages 6 to 18 were approved by the Board of Directors on 24 February 2017 and were signed on its behalf by:

M 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 2016 (unaudited)

	Notes	Stated capital account £'000	Hedging Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
As at 30 June 2016		**246,533**	**(316)**	**4,698**	**2,367**	**253,282**
Total comprehensive income for the period:		–	223	5,291	5,812	11,326
Transactions with owners recognised in equity:						
Dividends paid	5	(2,916)	–	–	(4,939)	(7,855)
As at 31 December 2016		**243,617**	**(93)**	**9,989**	**3,240**	**256,753**

For the six months ended 31 December 2015 (unaudited)

	Notes	Stated capital account £'000	Treasury Shares Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
As at 30 June 2015		136,846	–	495	1,951	139,292
Total comprehensive income for the period:		–	–	4,460	3,989	8,449
Transactions with owners recognised in equity:						
Dividends paid	5	(418)	–	–	(3,958)	(4,376)
Issue of ordinary shares	9	30,438	–	–	–	30,438
Buy back of shares into treasury	9	–	(14,159)	–	–	(14,159)
Resale of shares from treasury	9	–	14,159	640	–	14,799
Expenses of issue		(829)	–	–	–	(829)
As at 31 December 2015		**166,037**	**–**	**5,595**	**1,982**	**173,614**

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2016

	Notes	**Six months ended 31 December 2016 (unaudited) £'000**	Six months ended 31 December 2015 (unaudited) £'000
Cash flows from operating activities			
Profit before tax		**11,636**	8,449
Adjustments for:			
Interest receivable		**(98)**	(70)
Interest payable		**447**	590
Revaluation gains on property portfolio and movements in lease incentives, net of acquisition costs written off		**(6,405)**	(4,595)
Cost of corporate acquisitions		**582**	135
(Increase)/decrease in trade and other receivables		**(931)**	431
Increase in trade and other payables		**19**	408
		5,250	5,348
Interest paid		**(236)**	(385)
Interest received		**98**	70
Tax (paid)/refunded		**(25)**	5
		(163)	(310)
Net cash inflow from operating activities		**5,087**	5,038
Cash flows from investing activities			
Purchase of investment properties, including acquisition costs	6	**(10,149)**	(12,820)
Acquisition of subsidiaries including acquisition costs, net of cash acquired		**(25,508)**	(6,183)
Net cash outflow from investing activities		**(35,657)**	(19,003)
Cash flows from financing activities			
Issue of ordinary share capital		**–**	31,078
Expenses of issue paid		**–**	(829)
Costs of amendment of bank loan facility		**(260)**	(24)
Dividends paid		**(7,596)**	(4,270)
Net cash (outflow)/inflow from financing activities		**(7,856)**	25,955
Net (decrease)/increase in cash and cash equivalents		**(38,426)**	11,990
Opening cash and cash equivalents		**65,107**	29,159
Closing cash and cash equivalents		**26,681**	41,149
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		**2,723**	2,021

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 International Financial Reporting Standards ('IFRS'), 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 2016. 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 2016, 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 2016 £'000	For the six month period ended 31 December 2015 £'000
Base management fee	**1,351**	804
Performance fee	**345**	110
Total	**1,696**	914

All amounts are inclusive of irrecoverable VAT.

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') is Target Advisers LLP (the 'Investment Manager' or 'Target'). Target is 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 MSCI UK Annual Healthcare Index ('the Index'). The maximum amount of total fees payable by the Group to the Investment Manager is limited to 1.25 per cent. of the average net assets of the Group over a financial year.

Performance fee periods are annually to 31 December, in line with the Index. Portfolio performance is measured over three cumulative rolling performance periods, whereby any performance fees paid to the Investment Manager are subject to clawback if cumulative performance underperforms the index.

At 30 June 2016 a performance fee of £345,000 (inclusive of estimated irrecoverable VAT) had been accrued based on the Group's portfolio performance and available Index data. An additional £345,000 was accrued for the six month period ended 31 December 2016 (2015: £110,000) resulting in a total accrual for the performance period for the year ended 31 December 2016 of £690,000 (2015: accrual of £220,000). The final performance fee payable for the year ended 31 December 2015 was £636,000. The final performance fee for the year ended 31 December 2016 will be calculated once the Index figures for the year ended 31 December 2016 are available.

The Investment Management Agreement can be terminated by either party on twelve months' written notice provided that such notice shall not expire earlier than 30 September 2019. Should the Company terminate the Investment Management Agreement earlier than 30 September 2019 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.

Both the base management fee and the performance fee are charged to revenue.

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.

The taxation charge for the period principally relates to the taxation of a capital gain arising in connection with the acquisition of a subsidiary company. The Group's previous tax adviser failed to identify this liability as part of the Company's diligence procedures and the Directors are seeking full redress for this loss. As no acceptable compensation amount has yet been agreed, none has been recognised in these financial statements.

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 on the following page.

	For the six month period ended 31 December 2016		For the six month period ended 31 December 2015	
	£'000	**Pence per share**	£'000	Pence per share
Revenue earnings	**5,812**	**2.30**	3,989	2.68
Capital earnings	**5,291**	**2.10**	4,460	2.99
Total earnings	**11,103**	**4.40**	8,449	5.67
Average number of shares in issue		**252,180,851**		148,956,854

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

The EPRA earnings are arrived at by adjusting 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.

The reconciliations are provided in the table below:

	For the six month period ended 31 December 2016 £'000	For the six month period ended 31 December 2015 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**11,103**	8,449
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives	**(2,420)**	(2,021)
Adjusted for revaluations of investment properties	**(3,985)**	(2,574)
Adjusted for cost of corporate acquisitions	**582**	135
Taxation of a capital nature	**532**	–
EPRA earnings	**5,812**	3,989
Adjusted for performance fee	**345**	110
Group specific adjusted EPRA earnings	**6,157**	4,099
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**4.40**	5.67
EPRA EPS	**2.30**	2.68
Group specific adjusted EPRA EPS	**2.44**	2.75

Earnings for the period ended 31 December 2016 should not be taken as a guide to the results for the year to 30 June 2017.

Net Asset Value per share

The Group's net asset value per ordinary share of 101.8 pence (30 June 2016: 100.4 pence) is based on equity shareholders' funds of £256,753,000 (30 June 2016: £253,282,000) and on 252,180,851 (30 June 2016: 252,180,851) 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 adjustments required to the NAV is that the EPRA NAV excludes the fair value of the Group's interest rate swaps which are, in aggregate, recognised as a liability of £93,000 under IFRS as at 31 December 2016 (30 June 2016: £316,000).

	As at 31 December 2016 Pence per share	As at 30 June 2016 Pence per share
NAV per financial statements (pence per share)	**101.8**	100.4
Valuation of interest rate swaps	**–**	0.2
EPRA NAV (pence per share)	**101.8**	100.6

5. Dividends

Dividends paid as distributions to equity shareholders during the period.

	For the six month period ended 31 December 2016 Pence	For the six month period ended 31 December 2016 £'000	For the six month period ended 31 December 2015 Pence	For the six month period ended 31 December 2015 £'000
Fourth interim dividend for prior year	**1.545**	**3,896**	1.530	2,177
First interim dividend	**1.570**	**3,959**	1.545	2,199
Total	**3.115**	**7,855**	3.075	4,376

A second interim dividend for the year to 30 June 2017, of 1.570 pence per share, was paid on 24 February 2017 to shareholders on the register on 3 February 2017.

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 2016 £'000**	As at 30 June 2016 £'000
Opening market value	**210,666**	143,748
Opening fixed or guaranteed rent reviews and lease incentives	**(9,946)**	(5,584)
Opening carrying value	**200,720**	138,164
Purchases	**9,604**	32,912
Purchase of property through a business combination	**25,590**	27,298
Acquisition costs capitalised	**545**	1,921
Acquisition costs written off	**(545)**	(1,921)
Revaluation movement - gains	**9,053**	7,724
Revaluation movement - losses	**(1,800)**	(1,016)
Movement in market value	**42,447**	66,918
Movement in fixed or guaranteed rent reviews and lease incentives	**(2,723)**	(4,362)
Movement in carrying value	**39,724**	62,556
Closing market value	**253,113**	210,666
Closing fixed or guaranteed rent reviews and lease incentives	**(12,669)**	(9,946)
Closing carrying value	**240,444**	200,720

Changes in the carrying value of investment properties

	For the six month period ended 31 December 2016 £'000	For the six month period ended 31 December 2015 £'000
Revaluation movement	**7,253**	5,247
Acquisition costs written off	**(545)**	(652)
Movement in lease incentives	**(303)**	–
	6,405	4,595
Movement in fixed or guaranteed rent reviews	**(2,420)**	(2,021)
Gains on revaluation of investment properties	**3,985**	2,574

6. Investments (continued)

The properties were valued at £253,113,000 (30 June 2016: £210,666,000) by Colliers International 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, January 2014 (‘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 £240,444,000 (30 June 2016: £200,720,000). The adjustment consisted of £12,139,000 (30 June 2016: £9,719,000) relating to fixed or guaranteed rent reviews and £530,000 (30 June 2016: £227,000) 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 current assets within ‘trade and other receivables’.

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 will have to make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this will involve 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 assets 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 on these assets is ahead of the blended 7 per cent modelled at the time of launch. The yield on individual assets ranges from 6.0 per cent to 8.0 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

6. Investments (continued)

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 equivalent yield is defined as the internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review, but with no further rental growth.

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 in the investment yield applied to the portfolio by 0.25 per cent will increase the fair value of the portfolio by £8.1 million (30 June 2016: £7.8 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase in yield by 0.25 per cent will decrease the fair value of the portfolio by £7.5 million (30 June 2016: £7.3 million) and reduce the Group's income.

7. Investment in subsidiary undertakings

Acquisition of THR Number 7 Limited ('THR7') and THR Number 8 Limited ('THR8')

On 26 August 2016, the Company acquired 100 per cent of the voting shares of Blatent Limited and Vingo Properties Limited, both being companies registered in Gibraltar. It is intended that the names of these companies be changed to THR Number 7 Limited and THR Number 8 Limited respectively. Prior to acquisition, each company owned an individual care home. As part of the transaction, the care homes continued to be leased to the existing tenants. The companies are investment and property companies.

Acquisition of THR Number 9 Limited ('THR9')

On 24 October 2016, the Company acquired 100 per cent of the voting shares of THCM (Tonbridge) Limited, a company registered in England & Wales. It is intended that the name of the company be changed to THR Number 9 Limited. Prior to acquisition, the company's principal activity was to purchase and develop care homes across the UK and had constructed a single property in Tonbridge, having originally entered into a forward sale agreement for the property with the Group. The principal activity of the company following acquisition is that of a property and investment company.

Acquisition of THR Number 10 Limited ('THR10')

On 14 December 2016, the Company acquired 100 per cent of the voting shares of DMWSL 844 Limited, a newly established company registered in England & Wales. Subsequent to the period end, the name of the company was changed to THR Number 10 Limited. The company has been established to purchase the land and fund the development of a care home property.

Fair value recognised on acquisition

The fair values of the identifiable assets and liabilities of the subsidiaries acquired by the Company during the period ended 31 December 2016 were:

	THR7 £'000	THR8 £'000	THR9 £'000
Investment property	8,050	5,650	11,890
Cash and cash equivalents	–	–	192
Trade and other receivables	2	1	73
Total assets	**8,052**	**5,651**	**12,155**
Trade and other payables	(26)	(4)	(710)
Total liabilities	**(26)**	**(4)**	**(710)**
Total identified net assets at fair value	**8,026**	**5,647**	**11,445**
Purchase consideration transferred	**8,026**	**5,647**	**11,598**

7. Investment in subsidiary undertakings (continued)

Cash flow on acquisition

	THR7 £'000	THR8 £'000	THR9 £'000
Net cash acquired with the subsidiary	–	–	192
Cash paid	(8,026)	(5,647)	(11,598)
Net cash flow on acquisition	(8,026)	(5,647)	(11,406)
Cost of corporate acquisitions (including goodwill)	**140**	**140**	**279**

In addition to the cost of corporate acquisitions stated above, there were costs of £23,000 charged to the Income Statement which related to acquisitions which completed in the prior year.

The Company sought independent valuations by Colliers of the investment property held within each of the companies at the time of acquisition. From the date of acquisition, the profit and total comprehensive income of each company included within the Consolidated Statement of Comprehensive Income for the six months ended 31 December 2016 were as follows:

	THR7 £'000	THR8 £'000	THR9 £'000
Revenue	193	134	132
Capital	(182)	(130)	990
Total	**11**	**4**	**1,122**

8. Bank Loan

	As at 31 December 2016 £'000	As at 30 June 2016 £'000
Principal amounts outstanding	**21,000**	21,000
Set-up costs	**(1,097)**	(836)
Amortisation of set-up costs	**353**	285
Total	**20,256**	20,449

The Group has a £50.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which was repayable on 23 June 2019. On 1 September 2016, the Group extended the loan facility to 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 (30 June 2016: 2.0 per cent). A non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility.

The Group has hedged the interest rate by entering into interest rate swaps for a notional value of £21.0 million. Under the terms of the interest rate swaps, the Group will pay quarterly a fixed rate of interest of 0.85 per cent per annum and will receive 3-month LIBOR for the period to 23 June 2019. For the period from 24 June 2019 to 1 September 2021, the Group will pay quarterly a fixed rate of interest of 0.70 per cent per annum and will receive 3-month LIBOR. The fair value of the interest rate swaps at 31 December 2016 was a liability of £93,000 (30 June 2016: £316,000).

Inclusive of both the interest rate swaps, the interest rate on the Group's £21.0 million of drawn down borrowings has therefore been fixed at an all-in rate of 2.35 per cent per annum until 23 June 2019 and 2.20 per cent per annum from 24 June 2019 to 1 September 2021.

The bank loan is secured by way of a fixed and floating charge over the whole of the assets of the THR Number One PLC Group ('THR1 Group') which consists of THR1 and its two directly held subsidiaries, THR Number Two Limited and THR Number 3 Limited. Under the bank covenants related to this loan, the Group is to ensure that for THR1 Group:

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

THR1 Group has complied with all the bank loan covenants during the period.

9. Stated Capital Movements

Allotted, called-up and fully paid ordinary shares of no par value	Number of shares	£'000
Opening balance as at 1 July 2016	**252,180,851**	**246,533**
Dividend allocated to capital		(2,916)
Balance as at 31 December 2016	**252,180,851**	**243,617**

During the period to 31 December 2016, the Company did not issue, buyback or resell any ordinary shares (period to 31 December 2015: the Company issued 29,882,625 ordinary shares raising gross proceeds of £30,438,000, repurchased 14,229,822 ordinary shares to be held in treasury at a cost of £14,159,000 and resold 14,229,822 ordinary shares from treasury raising gross proceeds of £14,799,000).

At 31 December 2016, the Company did not hold any shares in treasury (30 June 2016: nil).

10. Commitments

At 31 December 2016, the Group had entered into contractual arrangements as follows:

- In June 2016, the Company exchanged contracts to acquire a purpose-built care home in the village of Kirby Cross near Frinton-on-Sea, Essex. The home will be acquired for approximately £9.2 million, including acquisition costs, once works have been undertaken to complete the home to the Group's specification. Completion of the transaction is expected in March 2017, at which point payment will become due.
- In November 2016, the Company exchanged contracts to acquire a purpose-built care home located in the town of Sutton-in-Ashfield, Nottinghamshire. The home will be acquired for approximately £5.6 million including acquisition costs. The transaction is expected to conclude by April 2017 once the build has been completed and the home has been fitted out to the Group and Operator's specifications.

Update on commitments previously reported:

- In February 2016, the Company exchanged contracts to acquire a 12-bed specialist care home in Bricket Wood, St Albans for approximately £2.3 million including acquisition costs. As part of the agreed terms, the Group provided a short-term loan facility to HSN Care, the tenant operator who holds the lease on the property, in order to fund the land acquisition and refurbishment of the property. The loan facility attracted an accrued coupon of 8.85 per cent per annum and the loan capital and accrued interest was expected to be repayable from the consideration proceeds once the acquisition completed. This loan was included in trade and other receivables at 31 December 2016. HSN subsequently notified the Company that they did not wish to complete this transaction. The loan was repaid in full, including accrued interest, on 14 February 2017 and the Company discharged its security over the company and property and released HSN of their obligations under the forward sale contract.

11. 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.

Mr G Ross, who retired as a Director following the Annual General Meeting on 10 November 2016, was a director of the Company Secretary and the Administrator, R&H Fund Services (Jersey) Limited and R&H Fund Services Limited, which receive fees from the Company. Mr I Webster, who was appointed as a Director of the Company with effect from 11 November 2016, is an employee of the Company Secretary, R&H Fund Services (Jersey) Limited. Mrs H Jones is a director of the Company Secretary, R&H Fund Services (Jersey) Limited. Secretarial and administration fees for the period were £98,000 (six months ended 31 December 2015: £71,000).

The Directors of the Company received fees for their services. Total fees for the period were £83,000 (six months ended 31 December 2015: £56,000) of which £18,000 (31 December 2015: £16,000) remained payable at the period end.

Target Advisers LLP received £1,696,000 (six months ended 31 December 2015: £914,000) during the period of which £345,000 related to the performance fee (six months ended 31 December 2015: £110,000). Of these amounts £1,346,000 (inclusive of estimated irrecoverable VAT) remained payable at the period end (31 December 2015: £634,000).

12. 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.

13. Contingent Assets and Liabilities

Update on contingent assets/ liabilities reported in previous Annual Report

At 30 June 2016, one property within the portfolio had met contracted performance conditions and this triggered a deferred payment of £2.0 million to the vendor, which was subsequently paid during the period to 31 December 2016. The Group received an uplift in rental income consistent with the net initial yield of the original acquisition commencing from the date the deferred payment was made.

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 2016. 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 Review (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

M Naish
Chairman

24 February 2017

Independent Review Report to Target Healthcare REIT Limited

Introduction

We have been engaged by the Company to review the condensed set of consolidated financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2016 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 set of consolidated financial statements.

This report is made solely to the Company 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 Company, 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 Interim Report and Financial Statements in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual consolidated financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of consolidated 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 Company a conclusion on the condensed set of consolidated 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 Ireland) 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 set of consolidated financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP,
Edinburgh

24 February 2017

We are Target Healthcare REIT Limited, a specialist investor in high quality, modern, purpose-built UK care homes and other healthcare assets.

Using the specialist healthcare asset and fund management expertise of our Investment Manager, Target Advisers LLP, we source, invest in and actively manage properties which meet our investment operating criteria.

About us

Target Healthcare REIT Limited aims to provide shareholders with an attractive level of income with the potential for moderate capital and income growth through investing in best-in-class care home assets with robust financial characteristics. The Group acquires modern, purpose-built properties fully equipped with ensuite wet rooms, operated by a diverse group of tenants leased at sustainable rental levels and rental covers over the long-term. The Group focuses on locations underpinned by favourable dynamics (population demographics and social grade, supply / demand) and seeks to support high quality tenants who demonstrate excellent operational capabilities and a strong care ethos.

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.

Alternative Investment Fund Manager ('AIFM')

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

Shareholders' Funds

£256.8 million at 31 December 2016.

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 Limited, 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 events 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	Mr Malcolm Naish (Chairman) Professor June Andrews OBE Mr Gordon C Coull * Mr Thomas J Hutchison III ** Mrs Hilary Jones Mr Ian Webster
Registered office	Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW
Investment Manager	Target Advisers LLP 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	R&H Fund Services 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 Property Consultants Limited 50 George Street London W1U 7GA
Auditors	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
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