TARGET HEALTHCARE REIT LIMITED

INTERIM REPORT AND ACCOUNTS

For the six months ended 31 December 2015

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Key Performance Indicators

For the six months ended 31 December 2015

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% to 3.09 pence in respect of the period (2014: 3.06 pence) • EPRA Earnings, a measure of underlying/operational profit, of £4.0 million being EPRA EPS of 2.7 pence (2014: £3.4 million and 3.2 pence) • Dividends in respect of the period 82% covered by underlying earnings. 91% excluding the effect of the dividend to be paid on new shares issued in November. • 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	• 3.0% increase in EPRA NAV per share to 100.8 pence (2015: 97.9 pence) • NAV total return of 6.3% (2014: 4.0%) • Like-for-like portfolio valuation gains of 3.6% (2014: 2.7%)
3. Funding – To fund the business through shareholder equity enhanced by modest leverage within pre-determined risk thresholds	• Group loan-to-value (LTV) of 18.8% (excluding effect of cash held) (2015: 21.9%) • Cash and cash equivalents held at the period end of £41.1 million (2015: £29.2 million) • Gross equity of £31.1 million raised during the period.
4. Long-term secure rental income – To have high quality care providers as tenants providing secure, sustainable rental income and predictable long-term growth	• Like-for-like increase in rent roll of 0.9% to £12.5 million per annum (2015: £11.0 million) • Two additional new tenants in the period, increasing diversification to 10 tenant operators. • Weighted Average Unexpired Lease Term ('WAULT') of 29.2 years (2015: 29.5 years)
5. Grow portfolio – To acquire a diversified portfolio of high quality modern care homes providing excellent accommodation standards for residents	• 31 properties with total value of £167.2 million (2015: 28 properties, £143.7 million) • 3 new properties with total value of £18.9 million (including costs) acquired during the period. • Completion of the acquisition of a further two assets for a total of £17.9 million (including costs), and contracts exchanged for the acquisition of a further property for £2.3 million, since 31 December 2015.

Unless otherwise stated in the above table, references to 2014 mean the comparative six month period to 31 December 2014 and references to 2015 mean 30 June 2015, being the start of the period under review.

Chairman's Statement

I am pleased to report on a period of further growth for the Group. We have invested in additional modern, purpose-built care homes and welcomed new tenants to the portfolio. We raised fresh equity of £31.1 million, gross of costs, which will allow us to pursue our strategy of growing the Group in a disciplined manner through the careful acquisition of best-in-class assets.

Performance

The Group's performance in the period reflects the growth strategy in action. Underlying profits, measured by EPRA earnings, have increased by 19% to £4.0 million, representing an EPRA earnings per share of 2.7 pence. These profits made a significant contribution towards the continued provision of an attractive level of dividend, which totalled 3.09 pence per share in respect of the period. If we exclude the effect of November's newly issued shares on the second interim dividend, dividend cover for the period was 91%. At times when the Group has been operating in a fully invested position, dividends have been fully covered by EPRA earnings.

The combined effects of the portfolio's capital and underlying performance has seen an improvement in NAV total return, the increase in NAV per share plus dividends received during the six month period, to 6.3% compared with 4.0% for the comparative period to 31 December 2014. The EPRA NAV per share has increased by 3.0% since 30 June 2015, ending the period at 100.8 pence.

The growth in underlying profits is consistent with the 178% growth in IFRS profit to £8.4 million which is inclusive of the effects of property revaluations and the costs associated with investment in new properties. Valuation increases on the properties held throughout the period of 3.6% (£5.2 million) were the significant contributor.

The Group's share price as at 22 February 2016 of 110.88 pence per share represented a 10.0% premium to the NAV per share as at the same date maintaining the share price premium to NAV which has existed since launch.

Subsequent Events

Since 31 December 2015, the Group has completed the acquisition of a further two assets for a total of £17.9 million (including acquisition costs). This included the acquisition of a purpose-built care home in the south east of England for £14 million and a care home in Sheffield, which will be substantially redesigned and refurbished, for a total price of £3.9 million; with the refurbishment works expected to be completed by September 2016. The Group has also exchanged contracts to acquire a specialist care home in Bricket Wood, St Albans for approximately £2.3 million.

In addition to these completed transactions, the Investment Manager has identified further opportunities for the Group to acquire high quality assets being pre-let assets financed by forward funding arrangements. As the Company's Investment Policy is silent on forward funding arrangements the Board will write to shareholders to clarify its planned approach and if required seek approval for any changes to the investment policy to permit some limited exposure to these investments within an appropriate and conservative risk framework.

Outlook

The fundamentals of the investment market in UK care home stock remain compelling. The combination of a growing elderly population and both the declining number of beds in the sector and the poor quality of the many older existing homes gives rise to a supply/demand imbalance in modern, purpose built homes. We look forward to being able to contribute further to the provision of best-in-class homes to the sector.

Our Investment Manager discusses the Group's portfolio and the investment market in more detail on pages 4 and 5. The Board is pleased to be able to report that we continue to see a good pipeline of investment opportunities which are being worked on by the Investment Manager.

Malcolm Naish
Chairman

22 February 2016

Investment Manager's Report

Portfolio

As at 31 December 2015, the Group's portfolio comprised 31 modern, purpose-built care homes with a market value of £167.2 million (June 2015: £143.7 million), the majority of which were constructed in 2011 and 2012 and all of which are under 10 years old. Each home meets our high specification criteria with generously proportioned bedrooms and large areas of communal space. All of the 2,099 bedrooms within the portfolio have en-suite facilities, almost all with wet rooms, and the homes also include additional on-site facilities such as hair dressing salons, libraries, cinemas and spa facilities.

Each of the properties is fully let to high-quality care home operators. Two new operators were added in the period, bringing the total to ten and adding to the diversification of the Group's tenant base.

The leases are all long-term Full Repairing and Insuring leases and include upwards-only annual rental increases, either linked to RPI or through fixed-rate uplifts. At the period end, the total annual rent roll across the portfolio was £12.5m, a like-for-like increase over the six months of 0.9% (June 2015: £11.0m), and the weighted average unexpired lease term across the portfolio was 29.2 years. The net initial yield on acquisitions across the portfolio remains ahead of the 7.0 per cent blended initial yield modelled at the launch of the Group, supporting the Company's stated dividend policy.

In the six months to 31 December 2015, three new care homes with a total value of £18.9m (including costs) were acquired. These assets included two homes in Tyneside and a home in Hull.

Continuing the Group's investment ethos of being an actively engaged landlord, we continue to undertake at least 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

Location	% of portfolio as at 31 December 2015
North West	19.7%
Yorkshire & The Humber	17.1%
East Midlands	15.2%
Scotland	13.1%
Northern Ireland	9.0%
West Midlands	7.7%
North East	7.3%
Eastern	6.0%
South East	4.9%

Valuation

The property portfolio was externally valued as at 31 December 2015 at £167.2m. This valuation represents a like-for-like increase of 3.7% during the reporting period. The valuation uplift is due to two factors: first, the portfolio benefitted from a small amount of yield tightening across individual assets as the underlying trading performance improved; and second, as a result of the rental uplifts discussed above. The external valuation was performed by Colliers International Property Consultants Limited.

UK Healthcare Investment Market

The second half of 2015 was impacted by some overseas and other investors having less appetite for transactions in the UK, following some recognition of the vagaries of UK fiscal policy, as exemplified by the July decision of the UK government on the National Living Wage ("NLW"). Our tenants have a good balance between private and public pay, and so paying the NLW is perfectly practicable. Private equity deals for the poorer quality stock were also impacted and either delayed or aborted.

Laing and Buisson, the leading source of healthcare market intelligence in the UK, also reported for the first time in many years a net reduction of total beds in the sector, which augurs well for longer term investors who are invested in the appropriate stock and set their expectations accordingly. There is some evidence that all this has moderated price expectations for assets, and also raised awareness of the need to invest well in new stock, and we see continued opportunity to invest across the sector in single and smaller units of assets across the country.

Pipeline

Since the period end, the Group has completed the acquisition of a further two properties for a total consideration of £17.9 million (including costs) and has exchanged contracts to acquire another property for approximately £2.3 million, further diversifying the portfolio by tenant and geographic exposure.

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

22 February 2016

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2015

		Six months ended 31 December 2015 (unaudited)			Six months ended 31 December 2014 (unaudited)		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**5,846**	**2,021**	**7,867**	4,495	1,887	6,382
Other income		**35**	**–**	**35**	–	–	–
Total revenue		**5,881**	**2,021**	**7,902**	4,495	1,887	6,382
Gains/(losses) on revaluation of investment properties	6	**–**	**2,574**	**2,574**	–	(2,226)	(2,226)
Acquisition of business cost	7	**–**	**(135)**	**(135)**	–	–	–
Total income		**5,881**	**4,460**	**10,341**	4,495	(339)	4,156
Expenditure							
Investment management fee	2	**(804)**	**–**	**(804)**	(488)	–	(488)
Performance fee	2	**(110)**	**–**	**(110)**	–	–	–
VAT refund on management fees		**–**	**–**	**–**	82	–	82
Other expenses		**(458)**	**–**	**(458)**	(382)	–	(382)
Total expenditure		**(1,372)**	**–**	**(1,372)**	(788)	–	(788)
Profit / (loss) before finance costs and taxation		**4,509**	**4,460**	**8,969**	3,707	(339)	3,368
Net finance costs							
Interest receivable		**70**	**–**	**70**	52	–	52
Interest payable and similar charges		**(590)**	**–**	**(590)**	(393)	–	(393)
Profit / (loss) before taxation		**3,989**	**4,460**	**8,449**	3,366	(339)	3,027
Taxation	3	**–**	**–**	**–**	–	–	–
Profit / (loss) for the period		**3,989**	**4,460**	**8,449**	3,366	(339)	3,027
Total comprehensive profit / (loss) for the period		**3,989**	**4,460**	**8,449**	3,366	(339)	3,027
Earnings / (loss) per share (pence)	4	**2.68**	**2.99**	**5.67**	3.20	(0.32)	2.88

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 2015

	Notes	As at 31 December 2015 (unaudited) £'000	As at 30 June 2015 (audited) £'000
Non-current assets			
Investment properties	6	**159,606**	138,164
Trade and other receivables		**3,598**	2,530
		163,204	140,694
Current assets			
Trade and other receivables		**8,046**	6,457
Cash and cash equivalents		**41,149**	29,159
		49,195	35,616
Total assets		**212,399**	176,310
Non-current liabilities			
Bank loan	8	**(31,010)**	(30,865)
Trade and other payables		**(3,598)**	(2,530)
		(34,608)	(33,395)
Current liabilities			
Trade and other payables		**(4,177)**	(3,623)
Total liabilities		**(38,785)**	(37,018)
Net assets		**173,614**	139,292
Stated capital and reserves			
Stated capital account	9	**166,037**	136,846
Capital reserve		**5,595**	495
Revenue reserve		**1,982**	1,951
Equity shareholders' funds		**173,614**	139,292
Net asset value per ordinary share (pence)	10	**100.8**	97.9

The condensed consolidated financial statements on pages 6 to 17 were approved by the Board of Directors on 22 February 2016 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 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 profit 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	9	(829)	–	–	–	(829)
As at 31 December 2015		**166,037**	**–**	**5,595**	**1,982**	**173,614**

For the six months ended 31 December 2014 (unaudited)

	Notes	Stated capital account £'000	Treasury Shares Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
As at 30 June 2014		91,516	–	(2,252)	954	90,218
Total comprehensive (loss) / profit for the period:		–	–	(339)	3,366	3,027
Transactions with owners recognised in equity:						
Dividends paid	5	(625)	–	–	(2,524)	(3,149)
Issue of ordinary shares	9	22,302	–	–	–	22,302
Expenses of issue	9	(430)	–	–	–	(430)
As at 31 December 2014		**112,763**	**–**	**(2,591)**	**1,796**	**111,968**

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2015

	Notes	**Six months ended 31 December 2015 (unaudited) £'000**	Six months ended 31 December 2014 (unaudited) £'000
Cash flows from operating activities			
Profit before tax		**8,449**	3,027
Adjustments for:			
Interest receivable		**(70)**	(52)
Interest payable		**590**	393
Revaluation (gains)/losses on property portfolio, net of acquisition costs written off		**(4,595)**	339
Decrease in trade and other receivables		**431**	350
Increase in trade and other payables		**408**	852
		5,213	4,909
Interest paid		**(385)**	(195)
Interest received		**70**	52
Tax refund		**5**	–
		(310)	(143)
Net cash inflow from operating activities		**4,903**	4,766
Cash flows from investing activities			
Purchase of investment properties, including acquisition costs	6	**(12,820)**	(46,895)
Acquisition of subsidiary, net of cash acquired	7	**(6,048)**	(5,845)
Net cash outflow from investing activities		**(18,868)**	(52,740)
Cash flows from financing activities			
Issue of ordinary share capital		**31,078**	22,302
Expenses of issue paid		**(829)**	(415)
Drawdown of bank loan facility, net of costs		**(24)**	14,613
Development loan		**–**	3,300
Dividends paid		**(4,270)**	(3,054)
Net cash inflow from financing activities		**25,955**	36,746
Net increase/(decrease) in cash and cash equivalents		**11,990**	(11,228)
Opening cash and cash equivalents		**29,159**	17,125
Closing cash and cash equivalents		**41,149**	5,897
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews		**2,021**	1,887

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 accounts of the Group for the year ended 30 June 2015. 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 2015, 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 2015 £'000	For the six month period ended 31 December 2014 £'000
Base management fee	**804**	488
Performance fee	**110**	–
Total	**914**	488

All amounts are inclusive of irrecoverable VAT.

The Company'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 IPD UK Annual Healthcare Index ('the Index').

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.

A performance fee in respect of the period from launch until 31 December 2014 totalling £506,000 was paid in the year to 30 June 2015. At 30 June 2015 a performance fee of £110,000 (inclusive of estimated irrecoverable VAT) had been accrued based on the Group's portfolio performance and available Index data. An additional £110,000 was accrued for the six month period ended 31 December 2015 resulting in a total accrual for the performance period of £220,000. The final performance fee for the year to 31 December 2015 will be calculated once the Index figures for the year to 31 December 2015 are available.

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. The Investment Management Agreement can be terminated by either party on six months' written notice subject to an initial minimum period of notice of three years from Admission. The Investment Management Agreement may be terminated immediately 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.

4. Earnings / (Loss) per Share

	For the six month period ended 31 December 2015		For the six month period ended 31 December 2014	
	£'000	**Pence per share**	£'000	Pence per share
Revenue earnings	**3,989**	**2.68**	3,366	3.20
Capital earnings/(loss)	**4,460**	**2.99**	(339)	(0.32)
Total earnings	**8,449**	**5.67**	3,027	2.88
Average number of shares in issue	**148,956,854**	**148,956,854**	105,231,661	105,231,661

EPRA is an industry body which issues best practice reporting guidelines and the Group report an EPRA NAV quarterly. EPRA has issued best practice recommendations for the calculation of certain figures which are included below.

The EPRA earnings are arrived at by adjusting the revaluation movements on investment properties and represent the revenue earned by the Group. The Group's specific adjusted EPRA earnings adjust the EPRA earnings for the performance fee.

The reconciliations are provided in the table below:

	For the six month period ended 31 December 2015 £'000	For the six month period ended 31 December 2014 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**8,449**	3,027
Adjusted for revaluations of investment properties	**(4,460)**	339
EPRA earnings	**3,989**	3,366
Adjusted for performance fee	**110**	–
Group specific adjusted EPRA earnings	**4,099**	3,366
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**5.67**	2.88
EPRA EPS	**2.68**	3.20
Group specific adjusted EPRA EPS	**2.75**	3.20

Earnings for the period ended 31 December 2015 should not be taken as a guide to the results for the year to 30 June 2016.

5. Dividends

Dividends paid as distributions to equity shareholders during the period.

	For the six month period ended 31 December 2015		For the six month period ended 31 December 2014	
	Pence	**£'000**	Pence	£'000
Fourth/sixth interim dividend	**1.530**	**2,177**	1.50	1,428
First interim dividend	**1.545**	**2,199**	1.53	1,721
Total	**3.075**	**4,376**	3.03	3,149

A second interim dividend for the year to 30 June 2016, of 1.545 pence per share, will be paid on 26 February 2016 to shareholders on the register on 12 February 2016.

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 2015 £'000	As at 30 June 2015 £'000
Opening market value	**143,748**	83,246
Opening fixed or guaranteed rent reviews	**(5,584)**	(1,824)
Opening carrying value	**138,164**	81,422
Purchases	**12,168**	49,424
Purchase of property through a business combination	**6,048**	5,845
Acquisition costs capitalised	**652**	2,312
Acquisition costs written off	**(652)**	(2,312)
Revaluation movement	**5,247**	5,233
Movement in market value	**23,463**	60,502
Fixed or guaranteed rent reviews movement	**(2,021)**	(3,760)
Movement in carrying value	**21,442**	56,742
Closing market value	**167,211**	143,748
Closing fixed or guaranteed rent reviews	**(7,605)**	(5,584)
Closing carrying value	**159,606**	138,164

Changes in the carrying value of investment properties

	For the six month period ended 31 December 2015 £'000	For the six month period ended 31 December 2014 £'000
Revaluation movement	**5,247**	1,800
Acquisition costs written off	**(652)**	(2,139)
Movement in fixed or guaranteed rent reviews	**(2,021)**	(1,887)
Gains/(losses) on revaluation of investment properties	**2,574**	(2,226)

6. Investments (continued)

The properties were valued at £167,211,000 (30 June 2015: £143,748,000) 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 was £159,606,000 (30 June 2015: £138,164,000). Included within fixed rent reviews is £9,000 relating to lease incentives (30 June 2015: £7,000).

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. 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 6.5 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.

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.

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.

6. Investments (continued)

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 £6.1 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 £5.7 million and reduce the Group's income.

7. Acquisition of THR Number 4 Limited

On 6 October 2015, the Company acquired 100 per cent of the voting shares of Prestige Care (Humberside) Limited, a company registered in England & Wales, and the name of the company was changed to THR Number 4 Limited. The principal activity of the company prior to purchase was the management of a care home. The principal activity of the company following acquisition is that of a property and investment company.

The fair value of the identifiable assets and liabilities of THR Number 4 Limited at the date of acquisition by the Company was:

Fair value recognised on acquisition

	£'000
Investment property	6,048
Cash and cash equivalents	28
Trade and other receivables	–
Total assets	**6,076**
Trade and other payables	–
Total liabilities	**–**
Total identified net assets at fair value	**6,076**
Purchase consideration transferred	**6,076**

Cash flow on acquisition

	£'000
Net cash acquired with the subsidiary	28
Cash paid	(6,076)
Net cash flow on acquisition	**(6,048)**

The Company obtained an independent valuation by Colliers of the investment property held by THR Number 4 Limited at the time of acquisition.

The cost of acquiring THR Number 4 Limited was £135,000.

From the date of acquisition of THR Number 4 Limited on 6 October 2015, the profit and total comprehensive income of THR Number 4 Limited included within the Consolidated Statement of Comprehensive Income for the six months ended 31 December 2015 totalled £127,000 (revenue profit of £125,000, capital profit of £2,000).

8. Bank Loan

	As at 31 December 2015 £'000	As at 30 June 2015 £'000
Principal amounts outstanding	**31,510**	31,510
Set-up costs	**(732)**	(708)
Amortisation of set-up costs	**232**	63
Total	**31,010**	30,865

The Group has a £35.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc which is repayable on 23 June 2019. 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 2 per cent. per annum for the duration of the loan.

This 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 2015	**142,298,226**	**136,846**
Issue on 27 August 2015	14,229,822	14,159
Buyback into treasury on 2 September 2015	(14,229,822)	(14,159)
Issue on 20 November 2015	15,652,803	16,279
Resale from treasury on 20 November 2015	14,229,822	14,159
Expenses of issue		(829)
Dividend allocated to capital		(418)
Balance as at 31 December 2015	**172,180,851**	**166,037**

On 27 August 2015, the Company issued 14,229,822 ordinary shares at a price of 99.5 pence per share. Following admission to trading on 2 September 2015, the Company immediately repurchased these same shares, at the same price, to be held in treasury.

On 20 November 2015, the Company resold the 14,229,822 ordinary shares held in treasury at a price of 104.0 pence per share, raising gross proceeds of £14,799,000. Of the gross proceeds raised, £14,159,000 was credited to the Company's stated capital and £640,000 (being the difference between the proceeds raised and the cost at which the shares were originally purchased into treasury) was credited to the Company's capital reserve.

Also on 20 November 2015, the Company issued a further 15,652,803 ordinary shares at a price of 104.0 pence per share, raising gross proceeds of £16,279,000 (six months ended 31 December 2014: the Company issued 22,076,597 ordinary shares, raising gross proceeds of £22,302,000). The total expenses of issue were £829,000 (six months ended 31 December 2014: £430,000).

At 31 December 2015, the Company did not hold any shares in treasury (31 December 2014: nil).

10. Net Asset Value

The Group's net asset value per ordinary share of 100.8 pence (30 June 2015: 97.9 pence) is based on equity shareholders' funds of £173,614,000 (30 June 2015: £139,292,000) and on 172,180,851 (30 June 2015: 142,298,226) 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 calculated under International Reporting Standards ('IFRS NAV'). The EPRA NAV provides a measure of the fair value of a company on a long-term basis. There were no adjustments required at 31 December 2015, or comparative periods, and the IFRS NAV is consistent with the EPRA NAV.

	As at 31 December 2015 Pence per share	As at 30 June 2015 Pence per share
Net Asset Value per financial statements	**100.8**	97.9
EPRA NAV	**100.8**	97.9

11. Commitments

At 31 December 2015, the Group had entered into contractual arrangements as follows:

- In December 2014 the Group entered into a forward commitment agreement to acquire a purpose-built care home in Tonbridge, Kent, for a consideration of £12.5 million including acquisition costs. The property is currently being built with the development expected to reach practical completion in summer 2016, at which point payment will become due.
- In December 2015 the Group exchanged contracts to acquire a care home in Sheffield which will be substantially redesigned and refurbished. The overall price for the acquisition and subsequent renovation of the home is £3.9 million including costs. The acquisition subsequently completed during January 2016, with the refurbishment works expected to be completed by September 2016. The amounts paid to date total £1.3 million.

12. Related Party Transactions and fees paid to Target Advisers LLP

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 is 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. Mrs H Jones is a director of the Company Secretary, R&H Fund Services (Jersey) Limited. Secretarial and administration fees for the period were £71,000 (six months ended 31 December 2014: £51,000).

The Directors of the Company received fees for their services. Total fees for the period were £56,000 (six months ended 31 December 2014: £56,000) of which £16,000 (31 December 2014: £10,000) remained payable at the period end.

Target Advisers LLP received £914,000 (six months ended 31 December 2014: £488,000) during the period of which £110,000 related to the performance fee (six months ended 31 December 2014: £nil). Of these amounts £634,000 (inclusive of estimated irrecoverable VAT) remained payable at the period end (31 December 2014: £280,000).

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. As disclosed in note 10 there was no difference between the IFRS NAV and EPRA NAV at either 30 June 2015 or 31 December 2015.

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. Contingent Assets and Liabilities

Two properties within the portfolio are subject to deferred consideration clauses within the purchase agreements if certain conditions are met. One of these deferred consideration clauses expired in January 2016 and the Group is awaiting information to assess the position. The conditions which may give rise to the payment of the deferred consideration on the other clause, which expires in June 2016, have not yet been met. As the net effect on the Group's financial position and income is expected to be immaterial, no post-balance sheet adjustment has been made for either deferred consideration clause.

In relation to the purchase of THR Number 4 Limited, the Group is expecting a tax liability to arise on the deemed transfer of the property into the Group's property rental business. No provision has been made in the interim results for this liability as a reliable estimate of the net amount payable cannot yet be made. However, the net amount is expected to be immaterial to the consolidated financial position of the Group.

15. Post Balance Sheet Events

The Group completed the acquisition of a care home in Sheffield in January 2016. For full details refer to note 11.

On 4 February 2016, the Group completed the acquisition of THR Number 5 Limited for £14 million (including transaction costs). THR Number 5 Limited owns a single property asset, being a premium, purpose-built care home in the south east of England, with a 30-year lease. The rent payable under the lease comprises a base rent subject to RPI-linked uplifts and incorporating a cap and collar, as well as a share in the profits of the care home. The rental income to the Group will therefore be variable but is forecast to represent a net initial yield approaching 7% based upon current run rate trading.

On 10 February 2016, the Group exchanged contracts to acquire a 12-bed specialist care home in Bricket Wood, St Albans for approximately £2.3 million including acquisition costs. Upon expiry of the planning judicial review period in March, the Group will acquire the care home which will be leased for a period of 50 years. The transaction represents a net initial yield in excess of 7% and the rent payable under the lease is subject to upwards-only annual uplifts in line with the retail prices index, subject to a cap and collar. As part of the agreed terms, the Group is to provide a short-term loan facility, at an accrued coupon of 8.85% per annum and repayable on completion, to the operator in order to fund the land acquisition and refurbishment of the property.

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 2015. 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 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

22 February 2016

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 Accounts for the six months ended 31 December 2015 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 Accounts 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 Accounts are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing Interim Report and Accounts 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 Accounts 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 Accounts 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 Accounts for the six months ended 31 December 2015 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

22 February 2016

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 and its subsidiaries ('the Group') aims to provide investors with an attractive level of income with the potential for capital and income growth from investing in best-in-class care home assets with attractive financial characteristics.

The Group invests in modern, purpose built properties in locations underpinned by favourable dynamics (population demographics and supply/demand). These are leased at sustainable rental levels and strong rental covers over the long-term to quality tenants who demonstrate excellent operational capabilities and 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

£173.6 million at 31 December 2015.

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 Mr Gordon C Coull * Mr Thomas J Hutchison III ** Mrs Hilary Jones Mr Graeme Ross
Registered office	Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW
AIFM	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	Ernst & Young LLP Ten George Street Edinburgh EH2 2DZ
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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Investment Companies