TARGET HEALTHCARE REIT LIMITED

HALF-YEAR REPORT AND ACCOUNTS

For the period from incorporation to

22 July 2013

Contents

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The Association of
Investment Companies

Corporate Summary

Target Healthcare REIT Limited ("the Company" or "Target Healthcare") is a Jersey closed-ended property investment company which was launched in March 2013. The Company has a single class of ordinary shares in issue, which are listed on the premium segment of the Official List and traded on the London Stock Exchange's Main Market. The Company has, subsequent to its launch, entered the REIT regime for the purposes of UK taxation.

Investment Policy

The Company'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.

Investment Manager/Investment Adviser

R&H Fund Services (UK) Limited has been appointed by the Company, pursuant to the Investment Management Agreement, to be the Company's Investment Manager. The Investment Manager has delegated the day-to-day management of the Company, pursuant to the Investment Manager's Delegation Agreement, to Target Advisers LLP ("Target" or the "Investment Adviser"). Target advises the Company on the acquisition of its investment portfolio and on the development, management and disposal of UK care homes and other healthcare assets in its portfolio.

Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Directors' intention to pay an attractive level of dividend income to shareholders on a quarterly basis. Whilst not forming part of its investment policy, the Company is targeting the payment of an initial dividend of approximately 8p per share in respect of its first financial period to 30 June 2014 (which equates to a gross dividend yield of 6.0 per cent. per annum on the issue price of the shares at the Company's launch). The Directors intend to set the proposed level of dividend for future financial years after taking into account the long term income return of the Company's portfolio and the diversity and covenant strength of the tenants. It is the Board's policy that in paying dividends it should target a high level of dividend cover.

The Company paid its first interim dividend of 2p per ordinary share in respect of the period from 7 March 2013 to 30 June 2013 on 30 August 2013. In the absence of any unforeseen circumstances, the Company expects to declare a second interim dividend in respect of the period from 1 July 2013 to 30 September 2013 which will be paid in November.

Shareholders' Funds

£48.3 million at 22 July 2013

Company Website:

www.targethealthcarereit.co.uk

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.

Financial Highlights

- Since listing on 7 March 2013, the Company has raised gross proceeds of £50.3m from a combination of institutional investors, wealth managers and private investors.
- The unaudited Net Asset Value ("NAV") per share as at 22 July 2013 was 96.17 pence.
- The Company's share price of 106.25 pence as at 22 July 2013 represented a 10.5% premium to the unaudited NAV per share as at the same date.
- An interim dividend of 2.0 pence per share was declared in respect of the period from the Company's launch on 7 March 2013 to 30 June 2013.
- As at 22 July 2013 the Company owned seven care homes with a market value of £32.0m and had cash balances of approximately £16.9m.
- During September 2013 the Company has acquired a further care home for approximately £4.0m (including acquisition costs) and has entered into advanced legal negotiations to acquire a further £15.0m of care home assets.
- On 20 August 2013, the Board announced its proposal to raise additional equity of up to 150% of the existing issued share capital to enable the Company to take advantage of the further attractive acquisition opportunities it has identified.

Chairman's Statement

Introduction

I am pleased to present Target Healthcare's first half-year report since its listing on 7 March 2013 covering the six months from its incorporation to 22 July 2013.

Company Performance

Since commencement of trading on 7 March 2013, the Board is pleased to report that the Company generated rental income across the seven care homes of £0.8m. As additional properties are added to the portfolio and as annual, upward-only, rental reviews are undertaken the Board expects revenue to increase.

The Company generated an operating loss for the six months to 22 July 2013 of £1.0m, comprising a capital loss of £1.5m relating to the purchase costs on the seven care home assets and a revenue account profit of £0.5m. The loss for this period was 2.18 pence per share.

As at 22 July 2013, the Company had cash balances of approximately £16.9m and an unaudited NAV per share of 96.17 pence.

Portfolio

During the period from launch to 22 July 2013, the Company has successfully acquired seven care home assets for an aggregate consideration (including acquisition costs) of £33.6m. The properties are let on long-term leases (30+ years) and have two well-established, quality care operators as tenants.

The net initial yield on acquisition across the portfolio is ahead of the 7.0% blended initial yield modelled pre-launch and the rents payable are subject to annual uplifts in line with the retail prices index, subject to a cap and collar.

The Company's portfolio was externally valued as at 30 June 2013 at £32.0m.

On 17 September 2013, the Company acquired a further care home asset in Thirsk, North Yorkshire for approximately £4.0m (including acquisition costs). In addition, the Company has entered into advanced legal negotiations to acquire a further £15.0m of care home assets located in the North of England and Scotland. If completed, these acquisitions will result in the remainder of the Company's existing available capital being fully invested, with the shortfall funded either via the proposed equity raising or through the provision of debt funding to the Company. In addition, the Company maintains a strong pipeline of investment opportunities.

Funding and Capital Value

Upon listing on 7 March 2013, the Company raised gross proceeds of £45.7m from institutional investors, wealth managers and private investors. In June 2013, the Company subsequently completed a further small issue of 4,565,600 ordinary shares at a price of 101.5 pence per share, a discount of c.3% to the then share price, raising a further £4.6m of equity for further acquisitions.

In August 2013, the Board announced that it was in discussions with its advisers regarding a proposal to raise additional equity, at a price which would not be dilutive to existing shareholders, of up to 150% of the existing issued share capital by means of a placing of new ordinary shares. The Board believes that raising additional equity capital will allow the Company to take advantage of the attractive acquisition opportunities the Investment Adviser has identified on its behalf, thus further diversifying its investment portfolio. The additional equity capital will also enable the Company to spread its fixed costs over a wider asset base and, the Board believes, to increase the market capitalisation and liquidity in the shares of the Company.

The Investment Adviser has also maintained its encouraging discussions with a number of UK financial institutions with regards to the raising of a modest level of debt funding on behalf of the Company. The Board has received indicative terms and believes that a facility on terms that would be acceptable to the Company will be made available.

Following its submission to HMRC, the Board is pleased to report that the Company has entered the REIT regime with effect from 1 June 2013.

Dividends

In line with the Prospectus dated 22 February 2013, during August 2013, the Board declared the Company's first interim dividend payment in respect of the period from its launch to 30 June 2013 of 2.0 pence per share. The 2.0 pence is composed of an interim property income distribution ("PID") of 0.38 pence and an interim ordinary dividend of 1.62 pence. The corresponding ex-dividend date was 7 August 2013 and the dividend was paid on 30 August 2013.

In the absence of unforeseen circumstances, the Company anticipates paying quarterly dividends of 1.5 pence per share in November 2013 (for the quarter to 30 September), February 2014 (for the quarter to 31 December), May 2014 (for the quarter to 31 March) and August 2014 (for the final quarter to 30 June). This would result in a gross dividend yield to shareholders of 6.0% for the period.

Dividend cover on a fully-invested basis is forecast to be in excess of 100%.

Outlook

With one further care home acquisition completed during September 2013 and a strong investment pipeline, including the Company having entered into advanced legal negotiations to acquire a further £15.0m of care home assets, the Board remains confident of being able to add additional high quality assets to the portfolio.

We anticipate the remainder of the existing available capital will be invested by the end of October 2013 and with the potential for additional capital to be raised in the near-term we believe there remains a significant opportunity for Target Healthcare to continue to grow its portfolio in line with the Company's investment parameters and provide an attractive long-term yield proposition to shareholders.

Malcolm Naish
Chairman

20 September 2013

Investment Adviser's Report

Operational Highlights

- Investment portfolio at the end of the reporting period comprised seven modern, purpose-built care homes with two well-established and quality operators as tenants.
- Total current annual rent roll of £2.5m. Next annual rental uplift will be in March 2014 to coincide with the anniversary of the first investment acquisition.
- Average capital-weighted unexpired lease term as at 30 June 2013 of 32.5 years.
- During September 2013 the Company has acquired a further care home for approximately £4.0m (including acquisition costs) and has entered into advanced legal negotiations to acquire a further £15.0m of UK care home assets.
- In addition, the Company maintains a strong pipeline of investment opportunities.

Portfolio & Asset Management

During the period to 22 July 2013, the Company has acquired seven modern, purpose-built UK care homes for an aggregate consideration (including acquisition costs) of £33.6m.

Constructed in 2012, all the properties are built to excellent specifications and each benefits from generously proportioned bedrooms and public spaces. All bedrooms across the portfolio have en-suite facilities, including wet room showers, and the public spaces are thoughtfully laid out, enabling residents and visitors to socialise and interact naturally, as well as providing optimal conditions for staff to carry out their duties. It is a combination of these factors that, we believe, means the quality of the portfolio will endure well into the future.

The care homes are leased to two care operators: the three Scottish properties to Balhousie Care Group; and the remaining portfolio to Ideal Carehomes Group. Both operators conform to the Company's investment approach of supporting established, quality operators who demonstrate a strong focus on resident care.

The seven leases entered into by the Company attract an annual rent roll of £2.5m and an aggregate net initial yield on acquisition in excess of the 7.0% blended initial yield modelled pre-launch. The rents payable are subject to rental reviews in line with the retail prices index, with a cap and collar, and the first rental review is expected in March 2014.

The average capital-weighted unexpired lease term as at 30 June 2013 was 32.5 years and rent has been collected on time and in full across the portfolio during the reporting period.

Continuing Target Healthcare's investment ethos of being an actively engaged landlord, we have undertaken bi-annual inspections of each of the care homes during the period on behalf of the Company. During, or as a result of, these visits we discuss property and operational issues with the Company's tenants to promote an effective working relationship helping to identify and, where required, mitigate potential concerns.

Geographical Analysis

Location	% of portfolio As at 22 July 2013
Scotland	44%
East Midlands	42%
Yorkshire & Humberside	14%

Asset Valuations

The property portfolio was externally valued as at 30 June 2013 at open market value by Colliers International Property Consultants Limited for £32.0m.

The £32.0m valuation ascribed to the portfolio is unchanged from the time of acquisition and given the properties were acquired as recently as March 2013 is in line with our expectations. As the properties reach mature occupancy and a sustainable level of trading performance, combined with the impact of annual upward-only rental reviews, we anticipate the portfolio valuation will increase.

UK Healthcare Investment Market

According to the latest research from Laing & Buisson (*source: Care of Elderly People UK Market Survey 2012/13*), the UK care home market at September 2012 had an estimated annual income of £15.2bn, an increase of approximately 4% on the previous year.

The increase in market income is supported by a number of factors:

- Demand volume increased by 2.4% on the previous year, the second year in succession that demand has risen having remained virtually static since 2006;
- Capacity across the market rose by 0.7% year-on-year, with private sector capacity increasing by 1.9%, offsetting a fall of 11% in capacity across local authority and NHS care facilities; and
- Compound annual growth in care home fees of 3.0%-3.5% per annum over the last five years, albeit with a growing divergence between the quantum of private and public fees.

These factors, combined with the longer-term fundamentals of an ageing UK population (over 85 year old population forecast to double in the next twenty years (*source: ONS, 2009*)) and a lack of quality care home stock, mean the UK elderly care sector continues to attract institutional investment from both within the UK and overseas. This is evidenced by the number of new fund-raisings announced during the period, including those of Target Healthcare, as well as the various healthcare-related transactions which have taken place, including those involving US healthcare property REITs and UK care operators.

We are pleased to note that the pricing of recent transactions by new entrants to the market supports the yield expectations we work towards. There is a continued need to have a cautious view on rental levels, in particular to ensure rents continue to match the long-term, sustainable trading performance of the Company's tenants, and in many cases this is more material in arriving at investment decisions than yield levels.

While vendors continue to desire some reasonably aggressive prices, in our opinion the long-term fundamentals for the sector remain attractive. With our continued ability to identify and source a range of attractive investment opportunities, both on- and off-market, we remain positive about the investment outlook for the sector and Target Healthcare.

Pipeline and Outlook

We continue to successfully source a variety of care home investment opportunities across the UK drawing on our well-established relationships with regional and national operators and agents alike.

As noted above, whilst we are experiencing growing appetite from international funds for the sector and the potential for some reasonably aggressive price expectations from vendors, our investment focus remains on employing our significant investment and operational expertise to assess the underlying, long-term sustainable trading performance of the asset and ensure the appropriate pricing of the transaction based on the long-term investment fundamentals.

In this context, and in addition to the £32.0m of assets acquired during the reporting period, we completed on behalf of the Company the acquisition of a further care home in Thirsk, North Yorkshire during September 2013 for approximately £4.0m (including acquisition costs) and have entered into advanced legal negotiations for the purchase of a further £15.0m of investment opportunities. These completed and proposed transactions are all structured at net initial yields in excess of 7.0%. In addition, we have established a strong pipeline of investment opportunities.

Target Advisers LLP
Investment Adviser

20 September 2013

Statement of Principal Risks and Uncertainties

The principal risks faced by the Company are set out below.

Risks relating to the REIT status of the Company

The Company cannot guarantee that it will maintain continued compliance with all of the REIT conditions. There is a risk that the REIT regime may cease to apply in some circumstances.

Risks relating to the taxation of the Company

Any change (including a change in interpretation) in tax legislation, in the United Kingdom, could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects or the price of the ordinary shares. Changes to tax legislation could include the imposition of new taxes or increases in tax rates in the United Kingdom or Jersey. In particular, an increase in the rates of stamp duty land tax could have a material impact on the price at which UK land can be sold, and therefore on asset values.

Risks relating to laws and regulation which may affect the Company

The Company and the Investment Adviser are both subject to laws and regulations enacted by national, regional and local governments and institutions. In particular, the Company will be required to comply with certain statutory requirements under Jersey law applicable to a Jersey company, the Listing Rules and the Disclosure and Transparency Rules. Compliance with and the monitoring of applicable regulations may be difficult, time consuming and costly. Any changes to such regulation could affect the market value of the Company's portfolio and/or the rental income of the portfolio.

Risks relating to the economic environment

Global market uncertainty and the weakened economic conditions in the United Kingdom and elsewhere and, in particular, the restricted availability of credit, may reduce the value of the Company's portfolio once it has been acquired, and may reduce liquidity in the real estate market. The performance of the Company would be adversely affected by a further downturn in the property market in terms of market value or a weakening of rental yields. Economic factors impacting on people's savings will also impact upon people's ability to pay for the services to be provided from the properties proposed to be invested in by the Company and may therefore impact on the returns of the Company.

Risks relating to property and property-related assets

The Company cannot be sure that it will be successful in obtaining suitable investments in UK care homes and other UK healthcare assets on financially attractive terms.

The Company will incur certain fixed costs on the acquisition of properties, including stamp duty land tax which will reduce the Net Asset Value per share immediately following the acquisition. There is no guarantee that the value of the properties will increase to an amount in excess of these costs.

While the Board will seek to spread risk relating to tenant concentration, there is the risk, from time to time and in particular in respect of the early stages of the Company immediately after launch, that the Company has a concentrated number of tenants and material exposure to the financial strength and the operational performance of those tenants.

Both the rental income and the market value of the properties acquired by the Company will be affected by the operational performance of the care home or the related business being carried on in the property and the general financial performance of the operator. The operational performance of a care home will be affected by local conditions such as age demographics and household incomes. Both rental income and market values may also be affected by other factors specific to the care home property market, such as competition from other care home owners and/or competition from other property funds. In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Company will suffer a rental shortfall and incur additional expenses until the property is relet. These expenses could include legal and surveyor's costs in reletting, maintenance costs, insurances, rates and marketing costs and will have a material adverse impact on the financial condition and performance of the Company and/or the level of dividend cover.

Investments in property are relatively illiquid. Such illiquidity may affect the Company's ability to vary its portfolio or dispose of or liquidate part of its portfolio in a timely fashion and at satisfactory prices in response to changes in economic, real estate market or other conditions. This could have an adverse effect on the Company's financial condition and results of operations.

As part of investment appraisal and continuing due diligence, the Investment Adviser will monitor aspects such as: market fundamentals, yield movements, rental growth, supply and demand, rent cover, tenant profitability, fee rates, changes in legislation, portfolio activity, investment activity, performance, corporate actions and valuation. The Investment Adviser prepares an investment recommendation for Board consideration and approval prior to any investment transaction. Subsequent monitoring is on an ongoing basis by the Investment Adviser, and monitored on a quarterly basis by the Board.

Risks relating to the developments and refurbishment of properties

In the event that the Company undertakes any development (including redevelopment) of property or if the Company invests in property that requires some refurbishment prior to renting the property, the risks of development or refurbishment include, but are not limited to, delays in timely completion of the project, cost overruns, poor quality workmanship, and inability to rent or inability to rent at a rental level sufficient to generate profits.

Certain of the Company's properties may be specifically suited to the particular needs of a certain type of occupant. The Company may need to incur additional capital expenditure on a property in the event that it wanted it to be suitable for other occupants which may have a material effect on the results of operations of the Company and the amount that remains available to distribute to shareholders.

As the owner of real property, the Company will be subject to environmental regulations that can impose liability for cleaning up contaminated land, watercourses or groundwater on the person causing or knowingly permitting the contamination. If the Company acquires contaminated land, it could also be liable to third parties for harm caused to them or their property as a result of the contamination. If the Company is found to be in violation of environmental regulations, it could face reputational damage, regulatory compliance penalties, reduced letting income and reduced asset valuation, which could have a material adverse effect on the Company's business, financial condition, results of operations, future prospects and/or the price of the shares.

Risks relating to valuations

The value of property and property related assets is inherently subjective due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the valuations of the properties will reflect the actual realisable sale price even where such sales occur shortly after the relevant valuation date.

The financial markets have seen significant turbulence over recent years resulting in severe liquidity shortages. The turmoil in the credit markets had an immediate effect on the real estate investment market, resulting in some transactions failing and/or prices being renegotiated downwards. This has caused a marked reduction in the volume of transactions. The negotiation of price reductions prior to the completion of transactions remains common for certain properties. Generally, there is greater volatility of pricing in the evidence generated by limited comparable transactions and in these circumstances there is a greater degree of uncertainty than that which exists in a more active and stronger market in forming an opinion of the realisation prices of property assets.

Risks relating to the reliance on key individuals

The underperformance or the departure of key skilled professionals from the Investment Adviser could have a material adverse effect on the Company's business, financial condition and results of operations.

Condensed Statement of Comprehensive Income (unaudited)

For the period from incorporation on 22 January 2013 to 22 July 2013

	Notes	Revenue £'000	Capital £'000	Total £'000
Revenue				
Rental income		845	335	1,180
Total revenue		**845**	**335**	**1,180**
Losses on revaluation of investment properties		–	(1,902)	(1,902)
Total income		**845**	**(1,567)**	**(722)**
Expenditure				
Investment management fee	2	(186)	–	(186)
Performance fee		–	–	–
Other expenses		(133)	–	(133)
Total expenditure		**(319)**	**–**	**(319)**
Profit / (loss) before finance costs and taxation		**526**	**(1,567)**	**(1,041)**
Net finance costs				
Interest receivable		25	–	25
		25	**–**	**25**
Profit / (loss) before taxation		**551**	**(1,567)**	**(1,016)**
Taxation		(14)	–	(14)
Profit / (loss) for the period		**537**	**(1,567)**	**(1,030)**
Total comprehensive profit / (loss) for the period		**537**	**(1,567)**	**(1,030)**
Profit / (loss) per share (pence)	3	**1.13p**	**(3.31)p**	**(2.18)p**

The total column of this statement represents the Company's 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 acquired or discontinued in the period.

Condensed Balance Sheet (unaudited)

As at 22 July 2013

	Notes	£'000
Non-current assets		
Investment properties	4	31,703
		31,703
Current assets		
Trade and other receivables		341
Cash and cash equivalents		16,856
		17,197
Total assets		**48,900**
Current liabilities		
Trade and other payables		(600)
Total liabilities		**(600)**
Net assets		**48,300**
Stated capital and reserves		
Stated capital account		49,330
Capital reserve		(1,567)
Revenue reserve		537
Equity shareholders' funds		**48,300**
Net asset value per ordinary share (pence)	5	**96.17p**

The condensed financial statements on pages 8 to 18 were approved by the Board of Directors on 20 September 2013 and were signed on its behalf by:

M Naish, Chairman

Condensed Statement of Changes in Equity (unaudited)

For the period from incorporation on 22 January 2013 to 22 July 2013

	Stated Capital Account £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 22 January 2013	–	–	–	–
Total comprehensive (loss) / profit for the period:	**–**	**(1,567)**	**537**	**(1,030)**
Transactions with owners recognised in equity:				
Dividends paid	–	–	–	–
Issue of ordinary shares	50,290	–	–	50,290
Expenses of issue	(960)	–	–	(960)
At 22 July 2013	**49,330**	**(1,567)**	**537**	**48,300**

Condensed Cash Flow Statement (unaudited)

For the period from incorporation on 22 January 2013 to 22 July 2013

	Notes	£'000
Cash flows from operating activities		
Loss before tax		(1,016)
Adjustments for:		
Interest receivable		(25)
Revaluation losses on property portfolio		1,567
Increase in trade and other receivables		(6)
Increase in trade and other payables		586
		1,106
Interest received		25
Tax paid		–
		25
Net cash inflow from operating activities		**1,131**
Cash flows from investing activities		
Purchase of investment properties	4	(33,605)
Net cash outflow from investing activities		**(33,605)**
Cash flows from financing activities		
Issue of ordinary share capital		50,290
Expenses of issue paid		(960)
Net cash inflow from financing activities		**49,330**
Net increase in cash and cash equivalents		**16,856**
Opening cash and cash equivalents		–
Closing cash and cash equivalents		**16,856**

Notes to the Condensed Financial Statements

1. Accounting Policies

(a) Basis of Preparation

A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

Basis of Accounting

The condensed unaudited half-year results have been prepared in accordance with *IAS 34 'Interim Financial Reporting'* as adopted by the EU and applicable requirements of Jersey law. They do not include all of the information and disclosures required for full annual financial statements. The Directors intend to prepare the annual financial statements under IFRS as adopted by the EU.

Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trust companies issued by the Association of Investment Companies ('AIC') in January 2009 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

The notes and financial statements are presented in pounds sterling (being the functional currency and presentational currency for the Company) and are rounded to the nearest thousand except where otherwise indicated.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the period. The nature of the estimation means that actual outcomes could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Significant estimates and assumptions are made in the valuation of the investment properties held. Further information on market risk and sensitivity to market changes are provided in the notes.

The following new standard has been issued but is not effective for this accounting period and has not been adopted early:

- In October 2010, the IASB issued *IFRS 9 (2010) 'Financial Instruments'* and a subsequent amendment in December 2011. This represents part of a project to replace *IAS 39 'Financial Instruments: Recognition and Measurement'*. The objective of the standard is to enhance the ability of investors and other users of financial information to understand the accounting of financial assets and to reduce complexity.

The Company does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented.

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. After making enquiries, and bearing in mind the nature of the Company's business and assets, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

(b) Revenue Recognition

Rental Income

Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income on an accruals basis.

Specifically:

– any rental income from fixed and minimum guaranteed rent reviews is recognised on a straight-line basis over the shorter of the term to lease expiry or to the first tenant break option;

– lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Where income is recognised in advance of the related cash flows, an adjustment is made to ensure that the carrying value of the relevant property including accrued rent does not exceed the external valuation.

Interest Income

Interest income is accounted for on an accruals basis.

Service Charges and Expenses Recoverable from Tenants

Income arising from expenses recharged to tenants is recognised in the period in which the compensation becomes receivable. Service charges and other such receipts are included gross of the related costs, as the Directors consider the Company acts as principal in this respect.

(c) Expenses

Expenses are accounted for on an accruals basis and are inclusive of VAT. The Company's investment management and administration fees, finance costs and all other expenses are charged through the Statement of Comprehensive Income and are charged to revenue.

Performance fees are charged through the Statement of Comprehensive Income. The annual performance fee is based on 10 per cent of the amount by which the total return of the Company's portfolio is in excess of the total return of the IPD Healthcare Index. The performance fee will be measured over a rolling three year period, commencing from the acquisition of the first property.

(d) Dividends

Dividends are accounted for in the period in which they are paid.

(e) Taxation

Taxation on the profit or loss for the period not exempt under UK-REIT regulations comprises current and deferred tax. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movements in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. In determining the expected manner of realisation of an asset the Directors consider that the Company will recover the value of investment property through sale. Deferred income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Entry to UK-REIT Regime

The Company's conversion to UK-REIT status was effective from 1 June 2013. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Company's property rental business, comprising both income and capital gains, being exempt from UK taxation.

(f) Investment Properties

Investment properties consist of land and buildings (principally care homes) which are not occupied for use by, or in the operations of, the Company, nor for sale in the ordinary course of business, but are held to earn rental income together with the potential for capital and income growth.

Investment properties are initially recognised at cost, being the fair value of consideration given, including transaction costs associated with the investment property. Any subsequent capital expenditure incurred in improving investment properties is capitalised in the period incurred and included within the book cost of the property.

After initial recognition, investment properties are measured at fair value, with gains and losses recognised in the Statement of Comprehensive Income. Fair value is based on the open market valuation provided by Colliers International Property Consultants Limited, Chartered Surveyors, at the balance sheet date using recognised valuation techniques appropriately adjusted for unamortised lease incentives, lease surrender premiums and rental adjustments.

The determination of the fair value of investment properties requires the use of estimates such as future cash flows from assets (such as lettings, tenants' profiles, future revenue streams, capital values of fixtures and fittings, plant and machinery, any environmental matters and the overall repair and condition of the property) and discount rates applicable to those assets. These estimates are based on local market conditions existing at the balance sheet date.

On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve.

Recognition and derecognition occurs on the completion of a sale between a willing buyer and a willing seller.

(g) Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand and short-term deposits in banks with an original maturity of six months or less.

(h) Rent and Other Receivables

Rents receivable, which are generally due for settlement at the relevant quarter end, are recognised and carried at the original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Reverse lease surrender premiums, other incentives provided to tenants and fixed or guaranteed rental uplifts are recognised as an asset and amortised over the period from the date of lease commencement to the earliest termination date.

(i) Property Acquisitions

Where property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred taxation arises. Otherwise, acquisitions are accounted for as business combinations.

(j) Operating Lease Contracts

The Company may enter into commercial property leases on its investment property portfolio. In these circumstances, the Company will determine, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

(k) Interest-bearing Bank Loans and Borrowings

All bank loans and borrowings are initially recognised at cost, being fair value of the consideration received net of arrangement costs associated with the borrowing. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any loan arrangement costs and any discount or premium on settlement.

(l) Reserves

Under Jersey Company Law dividends can be paid out of any capital account of the Company subject to certain solvency restrictions. It is the Company's policy however to account for revenue items and pay dividends through a separate revenue reserve.

Capital Reserve

The following are accounted for in the capital reserve:

– gains and losses on the disposal of investment properties;

– increases and decreases in the fair value of investment properties held at the period end; and

– rent adjustments which represent the effect of spreading uplifts and incentives.

Revenue Reserve

The net profit / (loss) arising in the revenue column of the income statement is added to or deducted from this reserve which is available for paying dividends.

2. Investment Management Fee

	For the period from incorporation on 22 January 2013 to 22 July 2013 £'000
Base management fee	186
Performance fee	–
Total	**186**

The Company's investment manager is R&H Fund Services (UK) Limited. The property management arrangements of the Company have been delegated by R&H Fund Services (UK) Limited, with the approval of the Company, to Target Advisers LLP (the "Investment Adviser" or "Target"). The Investment Adviser is responsible for the day-to-day management of the Company.

3. Earnings / (Loss) per Share

The Company's revenue earnings per ordinary share of 1.13 pence is based on the profit for the period of £537,000 and on 47,338,957 ordinary shares, being the weighted average number of shares in issue during the period.

The Company's capital loss per ordinary share of 3.31 pence is based on the loss for the period of £1,567,000 and on 47,338,957 ordinary shares, being the weighted average number of shares in issue during the period.

The Company's total loss per ordinary share of 2.18 pence is based on the loss for the period of £1,030,000 and on 47,338,957 ordinary shares, being the weighted average number of shares in issue during the period.

Earnings for the six months to 22 July 2013 should not be taken as a guide to the results for the period to 30 June 2014.

4. Investments

Freehold Properties

	As at 22 July 2013 £'000
Opening carrying value	–
Purchases	33,605
Sales – proceeds	–
– gain/(loss) on sale	–
Capital expenditure	–
Revaluation movement	(1,567)
Closing market value	**32,038**
Movement in fixed or guaranteed rent reviews	(335)
Closing carrying value	**31,703**

The properties were valued at £32,038,000 by Colliers International Property Consultants Limited ("Colliers"), in their capacity as external valuers. The valuation was prepared on a tiered fee basis, linked to the portfolio value. The valuation was undertaken in accordance with the RICS Valuation – Professional Standards (2012) 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 £31,703,000.

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

In determining what level of the fair value hierarchy to classify the Company's investments within, the Directors have considered the content and conclusion of the position paper 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 Company's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Company's assets within level 3 of the fair value hierarchy.

The Company's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield on these assets is 7.32%. The Directors believe that the yield on individual assets is not materially different from this average.

There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels. A reconciliation of movement in the level 3 investments in the period is presented below:

	As at 22 July 2013 £'000
Opening market value	–
Market value of purchases	32,038
Closing market value	**32,038**
Movement in fixed or guaranteed rent reviews	(335)
Closing carrying value	**31,703**

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

*EPRA position paper – *'IFRS 13 – Fair Value Measurement and Illustrative Disclosures'* – February 2013.

5. Net Asset Value

The Company's net asset value per ordinary share of 96.2p is based on equity shareholders' funds of £48,300,000 and on 50,221,629 ordinary shares, being the number of shares in issue at the period end.

6. Stated Capital Movements

	As at 22 July 2013 Number of shares	**As at 22 July 2013 £'000**
Allotted, called-up and fully paid		
Issue of 45,656,029 ordinary shares of no par value	45,656,029	45,656
Issue of 4,565,600 ordinary shares of no par value	4,565,600	4,634
Expenses of issue	–	(960)
Balance as at 22 July 2013	50,221,629	49,330

7. Related Party Transactions

The following are considered related parties: the Board of Directors (the “Board”) and Target Advisers (the “Investment Adviser”).

No Director has an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Company.

The Directors of the Company received fees for their services. Total fees for the period were £23,000 of which £8,000 remained payable at the period end.

The Investment Adviser received £235,000 during the period of which £49,000 related to the expenses of issue and £156,000 (inclusive of VAT) remained payable at the period end.

8. Operating Segments

The Board has considered the requirements of *IFRS 8 ‘Operating Segments’*. The Board is of the view that the Company is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Company 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 Company. The key measure of performance used by the Board to assess the Company’s performance is the total return on the Company’s net asset value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the condensed financial statements.

9. Financial Instruments

The Company’s investment objective is to provide ordinary 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.

Consistent with that objective, the Company holds UK care home property investments. In addition, the Company’s financial instruments comprise cash and receivables and payables that arise directly from its operations. The Company does not have exposure to any derivative instruments.

The Company is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There is no foreign currency risk as all assets and liabilities of the Company are maintained in pounds sterling.

The Board reviews and agrees policies for managing the Company’s risk exposure. These policies are summarised below and have remained unchanged for the period under review. These disclosures include, where appropriate, consideration of the Company’s investment properties which, whilst not constituting financial instruments as defined by IFRS, are considered by the Board to be integral to the Company’s overall risk exposure.

Credit Risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company.

In the event of default by a tenant if it is in financial difficulty or otherwise unable to meet its obligations under the lease, the Company will suffer a rental shortfall and incur additional expenses until the property is relet. These expenses could include legal and surveyor’s costs in reletting, maintenance costs, insurances, rates and marketing costs and will have a material adverse impact on the financial condition and performance of the Company and/or the level of dividend cover. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Managers monitor such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

There were no financial assets which were either past due or considered impaired at 22 July 2013.

All of the Company’s cash is placed with financial institutions with a long-term credit rating of A or better. Bankruptcy or insolvency of such financial institutions may cause the Company’s ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, cash holdings would be moved to another bank.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments. The Company's investments comprise UK care homes. Property and property-related assets in which the Company invests are not traded in an organised public market and may be illiquid. As a result, the Company may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Company's liquidity risk is managed on an ongoing basis by the Managers and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Company aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

Interest Rate Risk

Some of the Company's financial instruments are interest-bearing. The cash held on deposits is on call and earns interest at a fixed rate for a six month period. As a consequence, the Company is exposed to interest rate risk due to fluctuations in the prevailing market rate.

The fair value of financial assets and liabilities is not materially different from their carrying value in the financial statements.

When the Company retains cash balances, they are ordinarily held on interest-bearing deposit accounts. The Company's policy is to hold cash in variable rate or short term fixed rate bank accounts.

Interest is received on cash at a fixed rate of 0.65%. Exposure varies throughout the year as a consequence of changes in the composition of the net assets of the Company arising out of the investment and risk management policies.

Market Price Risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 4.

10. Post Balance Sheet Events

At the general meeting of the Company on 10 September 2013, a resolution was approved authorising the Directors to allot on a non pre-emptive basis, in addition to any existing authority, up to 150 per cent. of the existing issued share capital of the Company.

The Board believes that raising additional equity capital will allow the Investment Adviser to take advantage of the acquisition opportunities it has identified. The Board also believes that it is in the best interests of shareholders to increase the size of the Company to spread the fixed costs over a wider asset base and to increase the market capitalisation and liquidity in the shares of the Company.

If the Board and its advisers identify sufficient investor demand, the Company will publish a prospectus shortly.

On 17 September 2013, the Company acquired a further care home asset in Thirsk, North Yorkshire for approximately £4.0m (including acquisition costs).

Statement of Directors’ Responsibilities in respect of the Half-Year 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 Company;

- the Chairman’s Statement and Investment Advisers’ Report (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 first six months of the financial year and their impact on the financial statements;

- the Statement of Principal Risks and Uncertainties shown 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 first six months of the financial year and that have materially affected the financial position or performance of the Company during the period.

On behalf of the Board

M Naish
Chairman

20 September 2013

Independent Review Report to Target Healthcare REIT Limited

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 22 July 2013 which comprises the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the Notes to the Financial Statements. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent mis-statements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report 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 financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the 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 financial statements in the half-yearly financial report for the six months ended 22 July 2013 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

20 September 2013

Corporate Information

Directors	Mr Robert Malcolm Naish (Chairman) Prof. June Andrews Mr Gordon C Coull * Mr Thomas J Hutchison III
Registered office	Ordnance House, 31 Pier Road, St. Helier, Jersey JE4 8PW
Investment Manager	R&H Fund Services (UK) Limited 15-19 York Place Edinburgh EH1 3EB
Investment Adviser	Target Advisers LLP Springfield House Laurelhill Business Park Stirling, FK7 9JQ
Administrator and Company Secretary	R&H Fund Services Limited 15-19 York Place Edinburgh EH1 3EB
UK Legal Adviser	Dickson Minto W.S. Broadgate Tower 20 Primrose Street London EC2A 2EW
Broker	Winterflood Securities Limited The Atrium Building Cannon Bridge 25 Dowgate Hill London EC4R 2GA
Jersey Legal Adviser	Howard Law Ordnance House, 31 Pier Road St. Helier Jersey JE4 8PW
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