TARGET HEALTHCARE REIT LIMITED

INTERIM REPORT AND ACCOUNTS

For the six months ended 31 December 2014

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INVESTMENT WEEK
INVESTMENT COMPANY OF THE YEAR AWARDS 2014
WINNER
BEST NEW ISSUE JOINT WINNERS

Key Performance Figures

For the six months ended 31 December 2014

Sustained growth during the period

- Gross equity proceeds raised of £22.3 million and the debt facility increased by £5.0 million.
- Ten modern care homes acquired for a total consideration of £52.7 million (including acquisition costs) and a forward commitment to acquire a purpose-built care home in Tonbridge, Kent.
- 63.0 per cent. increase in portfolio value to £135.6 million, 2.7 per cent. on a like-for-like basis.
- 64.1 per cent. increase in total annual rent roll to £10.5 million.

Increase in underlying profit and net asset value

- Net asset value ('NAV') per share as at 31 December 2014 of 95.5 pence, an increase of 0.8 per cent. during the period.
- Share price continues to represent a premium to NAV.
- Revenue earnings increased from 1.67 pence per share to 3.20 pence per share, an increase of 91.6 per cent. over the same six month period.

Uplift in dividend

- Two interim dividends declared in respect of the period of 1.53 pence per share each, representing an increase of 2.0 per cent on previous quarterly dividend rates.
- During the periods when the Company has been fully invested, the dividend has been fully covered.

Strong market fundamentals

- Underlying fundamentals of population demographics and supply / demand imbalance of UK care home stock remain favourable.
- Attractive asset pricing and lease characteristics with annual uplifts in line with inflation.
- Focused on setting sustainable rental levels based on local property knowledge.

Positive outlook

- Average capital-weighted unexpired lease term of 30.2 years as at 31 December 2014.
- During January 2015 acquired a further care home for £4.5 million (including acquisition costs).
- Strong pipeline of suitable investment opportunities.
- Open prospectus to issue a further 77.7 million shares to support sustained growth.
- Placing of up to 25.0 million shares announced on 11 February 2015, with a closing date expected to be 3 March 2015.

Chairman's Statement

Group Performance

The Board is pleased to report that in the six months ended 31 December 2014 the Group generated rental income across the portfolio of £4.5 million.

Having established a portfolio of twenty-seven modern, fully-let care home properties the Group's annual rent roll as at 31 December 2014 stood at £10.5 million, almost three times what it was as at the same date last year and an increase of 64.1 per cent. over the reporting period. We expect the annual rent roll to continue to grow as we add further assets to the portfolio and as additional annual rental uplifts occur, coinciding with the anniversaries of the operational leases.

During the reporting period, the Group successfully acquired ten care home assets for a total consideration of £52.7 million including acquisition costs. This brings the market value of the portfolio as at 31 December 2014 to £135.6 million, representing an increase in value of 63.0 per cent. in actual terms over the reporting period, 2.7 per cent. on a like-for-like basis. In addition, the Group entered into a forward commitment to acquire a purpose-built care home in Tonbridge, Kent for £12.5 million including acquisition costs.

The Group generated an operating profit of £3.4 million, comprising a capital loss of £0.3 million and a revenue profit of £3.7 million. The capital loss comprised of acquisition costs of £2.1 million for the ten care home assets acquired during the period and an uplift in valuations of £1.8 million. The total earnings per share for the period were 3.20 pence.

The Group incurred acquisition costs during the period of 4.7 per cent. of the total gross acquisition price, remaining below the Group's budgeted costs of 5.8 per cent. This is in part due to the Investment Manager continuing to successfully source transactions on behalf of the Group without the use of third party agents or advisers.

As at 31 December 2014, the Group had cash balances of approximately £5.9 million and a NAV per share of 95.5 pence. This represented an increase of 0.8 per cent. on the NAV per share as at 30 June 2014. The Group's share price as at 31 December 2014 of 100.8 pence per share represented a 5.5 per cent. premium to the NAV per share as at the same date and maintains the trend of the share price consistently trading at a premium to NAV since launch.

Funding

On 5 September 2014 the Company published a prospectus in connection with an initial placing and offer for subscription and 12 month placing programme of up to 100 million ordinary shares. The first placing of shares under this programme occurred in September 2014, raising gross proceeds of £17.4 million. A second allotment of shares was made on 26 November 2014, raising further gross proceeds of £4.9 million and taking the aggregate raised to date under the placing programme to £22.3 million.

The Group also increased its five year £30.0 million committed term loan and revolving credit facility to £35.0 million. As at 31 December 2014, the drawn balance was £27.0 million and further drawdowns will be made against the facility to coincide with completion of property acquisitions. As at 31 December 2014, the loan-to-value ratio of the Group was 19.9 per cent. and it remains the Board's intention that the long-term average loan-to-value ratio will be approximately 20.0 per cent.

Dividends

During the period, the Company paid its first interim dividend for the year to 30 June 2015 (reflecting the period from 1 July 2014 to 30 September 2014) of 1.53 pence per share on 28 November 2014. This represented an increase of 2.0 per cent. on the quarterly dividend rates from the previous period, reflecting an annualised payment of 6.12 pence per share.

In February 2015, the Company declared its second interim dividend for the year to 30 June 2015 (reflecting the period from 1 October 2014 to 31 December 2014) of 1.53 pence per share.

During the periods when the Company has been fully invested, the dividend has been fully covered.

Outlook

During January 2015 the Group acquired a further care home asset in Swaffham, Norfolk for approximately £4.5 million (including acquisition costs). The home is a modern property and is leased to Norfolk Care Homes, further diversifying the Group's tenant base.

The Group also maintains a strong investment pipeline of both single and multi-asset acquisitions and the Board remains confident of being able to add additional high quality assets to the portfolio.

Malcolm Naish
Chairman

20 February 2015

Investment Manager's Report

Portfolio

As at 31 December 2014 the Group's portfolio comprised twenty-seven modern, purpose-built care homes. Each of the properties in the portfolio is less than nine years old, with the majority of the homes having been constructed in 2011 and 2012. They are built to excellent specifications and each benefits from generously proportioned bedrooms and include large areas of communal space. All of the 1,772 bedrooms across the portfolio have en-suite facilities, almost all with wet-room showers, 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 occupied and let to seven quality care home operators. The tenant balance across the portfolio is currently weighted towards Ideal Carehomes with this tenant representing 32.5 per cent. of the portfolio as at 31 December 2014 by passing rent. As the Group grows, however, we expect this to be rebalanced.

The leases are each long-term Full Repairing and Insuring leases and include annual rental increases, either linked to RPI or through fixed rental uplifts. At the period end the total annual rent roll across the portfolio was £10.5 million and the weighted unexpired lease term across the portfolio was 30.2 years. The net initial yield on acquisitions across the portfolio remains ahead of the 7.0 per cent. blended initial yield modelled pre-launch, supporting the Company's stated dividend policy.

Continuing the Group's investment ethos of being an actively engaged landlord, we have undertaken at least bi-annual inspections of each of the care homes during the period on behalf of the Group. The experience of the Target 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 2014
North West	22.0%
East Midlands	18.3%
Yorkshire & The Humber	16.0%
Scotland	14.5%
Northern Ireland	10.2%
West Midlands	9.2%
South East	5.6%
Eastern	4.2%

Valuation

The property portfolio was externally valued as at 31 December 2014 at a market value of £135.6 million by Colliers International Property Consultants Limited.

The valuation as at 31 December 2014 represents an increase in value of 2.7 per cent. during the reporting period on a like-for-like basis. The valuation uplift is due to two factors: firstly, the portfolio benefitted from a small amount of yield tightening across individual assets as the underlying trading performance maturing; and secondly, as a result of the annual rental uplifts.

UK Healthcare Investment Market

Investment activity within the UK elderly healthcare sector during the reporting period has remained strong, notwithstanding the expected seasonal lull in the weeks preceding Christmas. The fiercest competition in the real estate segment continues to be seen for transactions which offer investors scale through portfolio acquisitions; access to a perceived strong tenant covenant; and / or geographically are located in the south east of England. Strong competition inevitably brings the hardening of yields and to this end we have continued to witness sub 6.0 per cent. yields being offered, and paid, for investment opportunities which evidence these characteristics. The principal parties in these transactions primarily remain large institutional investors, such as pension funds and wealth managers.

In the Group's core regional mid-market, competition for assets, often outside of a portfolio, has remained less pronounced and has typically included smaller, niche investment firms and private investors, or operators willing to acquire both the operations as well as the real estate of the care home business. In this segment of the market, whilst there has been a compression of yields, principally as a result of what is happening elsewhere, we have continued to place money either around or in excess of the Group's targeted net initial yield of 7.0 per cent.

Pipeline

We continue to draw on our well-established relationship with regional and national operators and agents alike to source a variety of care home investment opportunities for the Group.

We have in place a strong pipeline of additional investment opportunities valued at over £100 million across single and multi-asset acquisitions located across the UK, therefore enabling the Group to diversify both in terms of geographic reach and tenant spread.

Target Advisers LLP
Investment Manager

20 February 2015

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2014

		Six months ended 31 December 2014 (unaudited)			Six months ended 31 December 2013 (unaudited)		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		4,495	1,887	6,382	1,591	583	2,174
Total revenue		**4,495**	**1,887**	**6,382**	**1,591**	**583**	**2,174**
Losses on revaluation of investment properties		–	(2,226)	(2,226)	–	(1,382)	(1,382)
Total income		**4,495**	**(339)**	**4,156**	**1,591**	**(799)**	**792**
Expenditure							
Investment management fee	2	(488)	–	(488)	(332)	–	(332)
Performance fee	2	–	–	–	–	–	–
VAT refund on management fees		82	–	82	–	–	–
Other expenses		(382)	–	(382)	(228)	–	(228)
Total expenditure		**(788)**	**–**	**(788)**	**(560)**	**–**	**(560)**
Profit / (loss) before finance costs and taxation		**3,707**	**(339)**	**3,368**	**1,031**	**(799)**	**232**
Net finance costs							
Interest receivable		52	–	52	73	–	73
Interest payable and similar charges		(393)	–	(393)	–	–	–
Profit / (loss) before taxation		**3,366**	**(339)**	**3,027**	**1,104**	**(799)**	**305**
Taxation		–	–	–	(4)	–	(4)
Profit / (loss) for the period		**3,366**	**(339)**	**3,027**	**1,100**	**(799)**	**301**
Total comprehensive profit / (loss) for the period		**3,366**	**(339)**	**3,027**	**1,100**	**(799)**	**301**
Earnings / (loss) per share (pence)	3	**3.20**	**(0.32)**	**2.88**	**1.67**	**(1.21)**	**0.46**

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 acquired or discontinued in the period.

Condensed Consolidated Balance Sheet

As at 31 December 2014

	Notes	As at 31 December 2014 (unaudited) £'000	As at 30 June 2014 (audited) £'000
Non-current assets			
Investment properties	5	131,936	81,422
		131,936	**81,422**
Current assets			
Trade and other receivables		6,206	6,524
Cash and cash equivalents		5,897	17,125
		12,103	23,649
Total assets		**144,039**	**105,071**
Non-current liabilities			
Bank loan	6	(26,428)	(11,764)
		(26,428)	**(11,764)**
Current liabilities			
Trade and other payables		(5,643)	(3,089)
Total liabilities		**(32,071)**	**(14,853)**
Net assets		**111,968**	**90,218**
Stated capital and reserves			
Stated capital account	8	110,864	91,516
Capital reserve		(2,591)	(2,252)
Revenue reserve		3,695	954
Equity shareholders' funds		**111,968**	**90,218**
Net asset value per ordinary share (pence)	7	**95.5p**	**94.7p**

The condensed consolidated financial statements on pages 6 to 13 were approved by the Board of Directors on 20 February 2015 and were signed on its behalf by:

M Naish, Chairman

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2014 (unaudited)

	Stated capital account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 July 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	(2,524)	–	(625)	(3,149)
Issue of ordinary shares	22,302	–	–	22,302
Expenses of issue	(430)	–	–	(430)
As at 31 December 2014	**110,864**	**(2,591)**	**3,695**	**111,968**

For the six months ended 31 December 2013 (unaudited)

	Stated capital account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 1 July 2013	49,331	(1,566)	462	48,227
Total comprehensive (loss) / profit for the period:	–	(799)	1,100	301
Transactions with owners recognised in equity:				
Dividends paid	(864)	–	(894)	(1,758)
Issue of ordinary shares	45,450	–	–	45,450
Expenses of issue	(925)	–	–	(925)
As at 31 December 2013	**92,992**	**(2,365)**	**668**	**91,295**

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2014

	Six months ended 31 December 2014 (unaudited) £'000	Six months ended 31 December 2013 (unaudited) £'000
Cash flows from operating activities		
Profit before tax	3,027	305
Adjustments for:		
Interest receivable	(52)	(73)
Interest payable	393	–
Revaluation losses on property portfolio	339	799
Decrease / (increase) in trade and other receivables	350	(433)
Decrease in trade and other payables	852	609
	4,909	1,207
Interest paid	(195)	–
Interest received	52	73
Tax paid	–	–
Net cash inflow from operating activities	**4,766**	**1,280**
Purchase of investment properties	(52,740)	(15,625)
Net cash outflow from investing activities	**(52,740)**	**(15,625)**
Cash flows from financing activities		
Issue of ordinary share capital	22,302	45,450
Expenses of issue paid	(415)	(923)
Drawdown of bank loan facility	14,613	–
Development loan repayment	3,300	–
Dividends paid	(3,054)	(1,711)
Net cash inflow from financing activities	**36,746**	**42,816**
Net (decrease) / increase in cash and cash equivalents	**(11,228)**	**28,471**
Opening cash and cash equivalents	17,125	16,883
Closing cash and cash equivalents	**5,897**	**45,354**

Notes to the Condensed Consolidated Financial Statements

1. Interim results

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting', and the accounting policies set out in the statutory accounts of the Group for the period ended 30 June 2014. The condensed consolidated financial statements do not include all of the information required for a complete set of International Financing Reporting Standards ('IFRS') financial statements and should be read in conjunction with the consolidated financial statements of the Group for the period ended 30 June 2014, which were prepared under full IFRS requirements.

2. Investment management fee

	For the six months ended 31 December 2014 £'000	**For the six months ended 31 December 2013 £'000**
Base management fee	488	332
Performance fee	–	–
Total	**488**	**332**

Between 19 March 2013 and 21 July 2014, the Company's Investment Manager was R&H Fund Services (UK) Limited. During this period, the property management arrangements of the Company were delegated by R&H Fund Services (UK) Limited, with the approval of the Company, to Target Advisers LLP (the 'Investment Adviser' or 'Target'), with the Investment Adviser being responsible for the day-to-day management of the Company.

On 22 July 2014, Target became the Company's Investment Manager and was also appointed as its Alternative Investment Fund Manager ('AIFM'). Target is entitled to an annual base management fee of 0.90 per cent. of the net assets of the Group, provided that the fee shall be 0.85 per cent. if the net assets of the Group are below £60 million, 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 performance fee is measured over a rolling three year period, commencing from the acquisition of the first property, being 8 March 2013.

The first performance fee was paid in respect of the financial period to 30 June 2014, subject to clawback over the following two financial years.

The maximum amount of total fees payable by the Group to the Investment Manager is 1.25 per cent. of the average net assets of the Group over a financial year.

As at 31 December 2014 there was no accrual for performance fees. The fee is capped at 0.35 per cent. of the average net assets of the Group and will be calculated once the IPD UK Annual Healthcare Index figures for the year to 31 December 2014 are available.

3. Earnings / (loss) per share

The Group's revenue earnings per ordinary share of 3.20 pence per share (31 December 2013: 1.67 pence) is based on the net revenue for the period of £3,366,000 (31 December 2013: £1,100,000) and on 105,231,661 ordinary shares (31 December 2013: 65,959,334), being the weighted average number of shares in issue during the period.

The Group's capital loss per ordinary share of 0.32 pence per share (31 December 2013: 1.21 pence) is based on the capital loss for the period of £339,000 (31 December 2013: £799,000) and on 105,231,661 ordinary shares (31 December 2013: 65,959,334), being the weighted average number of shares in issue during the period.

The Group's total earnings per ordinary share of 2.88 pence per share (31 December 2013: 0.46 pence) is based on the profit for the period of £3,027,000 (31 December 2013: £301,000) and on 105,231,661 ordinary shares (31 December 2013: 65,959,334), being the weighted average number of shares in issue during the period.

Earnings for the six months ended 31 December 2014 should not be taken as a guide to the results for the year to 30 June 2015.

4. Dividends

Dividends paid as distribution to equity shareholders during the period.

	For the six months ended 31 December 2014		For the six months ended 31 December 2013	
	Pence	£'000	Pence	£'000
Sixth interim dividend	1.50	1,428	–	–
First interim dividend	1.53	1,721	2.00	1,005
Second interim dividend	--	–	1.50	753
Total	**3.03**	**3,149**	**3.50**	**1,758**

A second interim dividend for the year to 30 June 2015, of 1.53 pence per share, will be paid on 27 February 2015 to shareholders on the register on 13 February 2015.

5. Investments

Freehold Properties

	As at 31 December 2014 £'000	As at 30 June 2014 £'000
Opening market value at beginning of the period	**83,246**	**–**
Purchases	52,740	85,498
Acquisition costs	(2,139)	(4,281)
Revaluation movement	1,800	2,029
Closing market value	**135,647**	**83,246**
Opening carrying value at beginning of the period	**81,422**	**–**
Purchases	52,740	85,498
Acquisition costs written off	(2,139)	(4,281)
Revaluation movement	1,800	2,029
Fixed or guaranteed rent reviews movement	(1,887)	(1,824)
Closing carrying value	**131,936**	**81,422**
Opening fixed or guaranteed rent reviews at beginning of the period	**(1,824)**	**–**
Fixed or guaranteed rent reviews movement	(1,887)	(1,824)
Closing fixed or guaranteed rent reviews	**(3,711)**	**(1,824)**

Changes in the valuation of investment properties

	As at 31 December 2014 £'000	As at 30 June 2014 £'000
Revaluation movement	(339)	(2,252)
Movement in fixed or guaranteed rent reviews	(1,887)	(1,824)
Losses on revaluation of investment properties	**(2,226)**	**(4,076)**

The properties were valued at £135.6 million as at 31 December 2014 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 fixed or guaranteed rent reviews was £131.9 million.

6. Bank loan

	As at 31 December 2014 £'000	As at 30 June 2014 £'000
Principal amounts outstanding	27,009	12,261
Set-up costs	(634)	(499)
Amortisation of set-up costs	53	2
Total	**26,428**	**11,764**

As at 31 December 2014 the Group had a £35 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 certain of the Group's properties for which the following covenants apply:

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

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

7. Net asset value

The Group's net asset value per ordinary share of 95.5 pence (30 June 2014: 94.7 pence) is based on equity shareholders' funds of £111,968,000 (30 June 2014: £90,218,000) and on 117,298,226 (30 June 2014: 95,221,629) ordinary shares, being the number of shares in issue at the period end.

8. 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 2014	**95,221,629**	**91,516**
Issue on 25 September 2014	17,244,597	17,417
Issue on 26 November 2014	4,832,000	4,885
Expenses of issue		(430)
Dividend allocated to capital		(2,524)
Balance as at 31 December 2014	117,298,226	110,864

9. Related party transactions and fees paid to Target Advisers LLP

The Board of Directors is considered to be a related party. 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 £51,000 (31 December 2013: £31,000).

The Directors of the Company received fees for their services. Total fees for the period were £56,000 (31 December 2013: £51,000) of which £10,000 (30 June 2014: £9,550) remained payable at the period end.

Target Advisers LLP received £488,000 (31 December 2013: £332,000) during the period of which £nil (31 December 2013: £49,000) related to the expenses of issue and £280,000 (inclusive of VAT) (30 June 2014: £394,000) remained payable at the period end.

10. Commitments

In December 2014 the Company 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 yet to be built, with the development expected to reach practical completion in summer 2016, at which point payment will become due.

11. Contingent assets and liabilities

Three properties within the portfolio are subject to deferred consideration clauses within the purchase agreements if certain performance measures are met. For one of the properties, subsequent to the disclosures made in the Group's report for the period to 30 June 2014, the Group has been notified by a vendor that contracted performance conditions have been met which would trigger a deferred payment of £0.5 million. The reported performance figures are currently subject to verification by an independent reporting accountant. If verified, and formal approval is granted by the Board, payment is expected to be made in March 2015. The Group will become entitled to receive an uplift in rental income from the property commencing at the date the deferred payment is made. All other things being equal, this will result in an increase in the market value of the property to a value equivalent to the deferred payment made. Based on latest available information the performance conditions on the other two properties 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.

12. Transactions involving the Investment Manager

The property subject to forward commitment noted above in Note 10 is being developed and sold by an unrelated company which Target Advisers LLP acts as investment and property adviser to.

13. Post balance sheet events

In January 2015, the Group acquired a purpose-built care home in Norfolk for approximately £4.5 million including acquisition costs.

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 contained within the Report and Financial Statements for the period from incorporation on 22 January 2013 to 30 June 2014. In the opinion of the Directors 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 rest 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 consolidated 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 consolidated 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

20 February 2015

Independent Review Report to Target Healthcare REIT Limited

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the Interim Report and Accounts for the six months ended 31 December 2014 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the Condensed Consolidated Notes to the 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 financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the 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 financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed consolidated set of 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 consolidated set of 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 consolidated set of financial statements in the interim report and accounts for the six months ended 31 December 2014 and is not prepared, in all material respects, in accordance with IAS 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 February 2015

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 is 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.

The Interim Report and Accounts of the Company also consolidates the results of its subsidiary undertakings, which collectively are referred to throughout this document as the 'Group'.

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.

Investment Manager

Between 19 March 2013 and 21 July 2014, the Group's Investment Manager was R&H Fund Services (UK) Limited. During this period, the property management arrangements of the Group were delegated by R&H Fund Services (UK) Limited, with the approval of the Group, to Target Advisers LLP (the 'Investment Adviser'), with the Investment Adviser being responsible for the day-to-day management of the Group. On 22 July 2014, Target became the Group's Investment Manager and was also appointed as its AIFM. Target 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 its portfolio.

Dividend Policy

Subject to market conditions and the Group'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 a dividend of 6.12p per share in respect of the year to 30 June 2015 (which equates to a gross dividend yield of 6.2 per cent. per annum based on the current share price of 100.63 pence). 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 Group'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 1.53p per ordinary share in respect of the year to 30 June 2015 on 28 November 2014. The Company has declared a second interim dividend of 1.53p per ordinary share for the year to 30 June 2015 and this will be paid on 27 February 2015.

Shareholders' Funds

£112.0 million at 31 December 2014.

aic
The Association of Investment Companies

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.

Corporate Information

Directors	Mr Robert Malcolm Naish (Chairman) Prof. 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
Investment Manager	Target Advisers LLP Springfield 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 15-19 York Place Edinburgh EH1 3EB
UK Legal Adviser	Dickson Minto W.S. Broadgate Tower 20 Primrose Street London EC2A 2EW
Broker	Oriel Securities Limited 150 Cheapside London EC2V 6ET
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
Depositary	Augentius Depositary Company Limited Two London Bridge London SE1 9RA
Registrars	Computershare Investor Services (Jersey) Limited Queensway House, Hilgrove Street St. Helier, Jersey JE1 1ES
Website	www.targethealthcarereit.co.uk

* Chairman of audit committee

** Senior Independent Director