TARGET HEALTHCARE REIT PLC

INTERIM REPORT AND FINANCIAL STATEMENTS

For the six months ended 31 December 2019

About Us

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

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

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

Corporate Summary

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

The listed parent company of the Group was, until 7 August 2019, Target Healthcare REIT Limited, a Jersey-incorporated company. Following a scheme of arrangement, with shareholders receiving one new share in Target Healthcare REIT plc for every share previously held in Target Healthcare REIT Limited, Target Healthcare REIT plc became the ultimate parent company of the Group during the period. Therefore, continuation accounting has been applied in preparing this Interim Report.

Investment Objective

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

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Key Performance Indicators

For the six months ended 31 December 2019

Highlights

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

Strategic objective	Key Performance Indicators (KPIs) for the period
1. Dividend – To pay a progressive dividend fully covered when capital is fully invested and geared	• Dividends declared increased by 1.5% to 3.34 pence in respect of the period (2018: 3.2895 pence) • Group specific adjusted EPRA earnings[1], increased by 1.1% to 2.72 pence per share (2018: 2.69 pence) • Dividends in respect of the period 75% covered by adjusted earnings[1] (2018: 80%), in advance of the deployment of the significant equity issuance in the period
2. Total returns – To complement dividends with capital growth from disciplined asset management	• NAV total return[2] of 3.8% (2018: 4.2%) • Share price total return of 3.3% (2018: -0.3%) • Portfolio like-for-like valuation gain in period of 1.5% (2018: 2.8%)
3. Business funding – To source and effectively use modest leverage	• £80 million (gross) equity capital raised in September 2019 • Group loan-to-value (LTV), based on net debt, of a conservative 17.5% (2019: 16.2%) • Increase in term of debt facilities with a £50 million 12-year term loan with a large insurer secured post period end, combined with a one-year extension to the existing £80 million facility with HSBC, increasing the weighted average term to expiry on the Group's debt facilities from 1.6 years to 4.5 years
4. Long-term secure rental income – Diversified and sustainable	• Contractual rent increased by 16.8% to £37.6 million per annum (2019: £32.2 million) • Like-for-like increase in portfolio contractual rent of 1.1% with the assets that were subject to rent review in the period delivering an average increase of 2.9% • Weighted Average Unexpired Lease Term ('WAULT') of 29.2 years (2019: 29.1 years) • Post period-end successful re-tenanting of six homes previously leased to Orchard Care to two existing tenants
5. Grow portfolio – To assemble a diversified portfolio of modern care homes of suitable standard for 2020 and beyond	• Agreements, including post period-end, to acquire 13 assets (inclusive of a block of retirement apartments adjacent to an existing Group property), a mix of operational homes and forward fund developments, for a total commitment of £116.7 million (including costs). Two properties were sold. • 27 current tenants, following Orchard Care re-tenanting • 71 properties with total value of £590 million

[1] For the details of adjusted earnings refer to note 5 to the Condensed Consolidated Financial Statements.

[2] Based on EPRA NAV movement and dividends paid.

Unless otherwise stated in the above table, references to 2018 mean the comparative six month period to 31 December 2018 and references to 2019 mean 30 June 2019, being the start of the period under review.

The Group uses Alternative Performance Measures ('APMs'). These are defined on page 25.

Portfolio Highlights

As at 31 December 2019

Properties

+12.7%

31 Dec 2019: 71
30 Jun 2019: 63

Portfolio value

+17.8%

31 Dec 2019: £590m
30 Jun 2019: £501m

Tenants

+16.7%

31 Dec 2019: 28(1)
30 Jun 2019: 24

Contractual rent

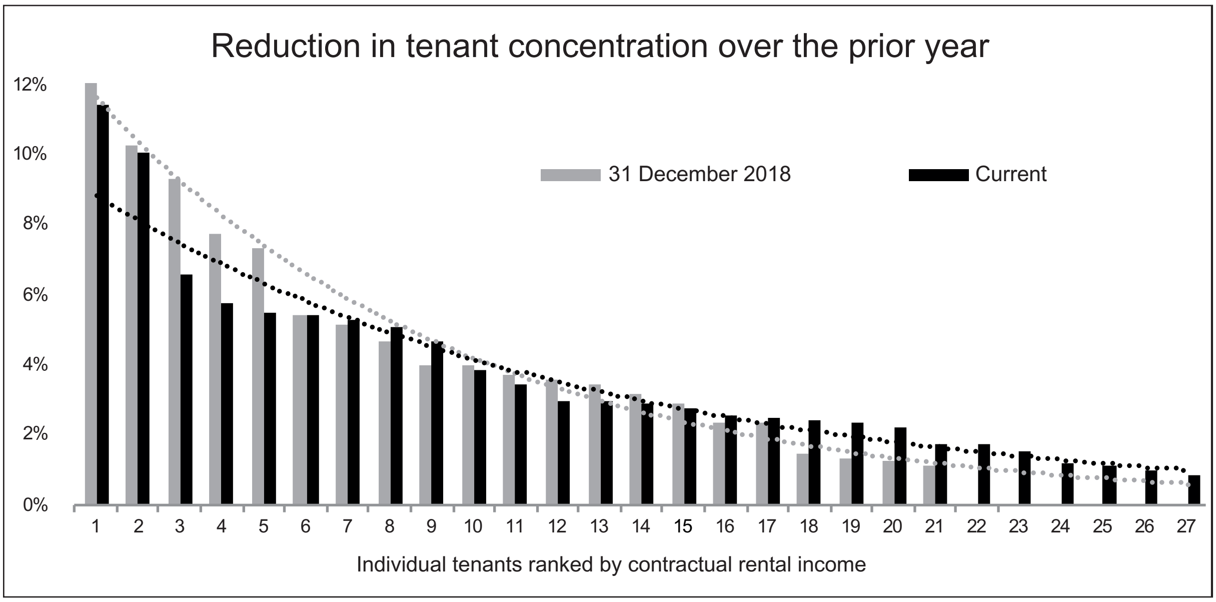
+16.8%

31 Dec 2019: £37.6m
30 Jun 2019: £32.2m

Weighted Average Unexpired Lease Term

+0.3%

31 Dec 2019: 29.2 years
30 Jun 2019: 29.1 years



European Public Real Estate Association ("EPRA") Summary

	At 31 Dec 2019	At 30 Jun 2019	Movement
EPRA NAV per Share (pence)	108.1	107.5	+0.6%
EPRA NNNAV per Share (pence)(2)	108.0	107.3	+0.7%
EPRA "topped-up" NIY (per cent)	6.07	6.26	-19bps
EPRA NIY (per cent)	5.73	5.93	-20bps

	Six months to 31 Dec 2019	Six months to 31 Dec 2018	Movement
Adjusted EPRA EPS (pence)	2.72	2.69	+1.1%
EPRA EPS (pence)	3.50	3.29	+6.4%
Adjusted EPRA Cost Ratio	22.8	22.6	+20bps
EPRA Cost Ratio	19.2	19.6	-40bps

1 Reduces to 27 tenants after Orchard Care re-tenanting in January 2020.

2 The EPRA NNNAV per Share is the same as the IFRS NAV. Refer to page 14.

The Group uses Alternative Performance Measures ('APMs'). These are defined on page 25.

Chairman's Statement

Our strategy is to deliver long term, sustainable returns to shareholders through investment into a diversified portfolio of high quality, purpose-built care homes with supportive fundamentals which are managed by operators who match our deep-rooted care ethos. During the first half of the year we have continued to successfully manage our portfolio of care home assets, making strong progress towards our stated objectives, and have enjoyed the support of a growing shareholder register, including through the oversubscribed £80 million equity issuance completed in September 2019. This capital raise further strengthened our balance sheet, while through the subsequent efficient deployment of capital we continued to enhance the portfolio as a platform to provide continued stable returns for shareholders. We remain grateful to shareholders for their continuing support.

Testament to the Group's diversified tenant pool and future-proofed real estate, underpinned by favourable local supply and demand fundamentals, we are pleased to have announced in January 2020 the continuation of care services to residents at six care homes following an operator's decision in October last year to cease provision of services. The physical standards of our real estate, as well as the local market conditions and sustainable rental levels, made these attractive to alternative operators, who we were able to identify, and agree contracts with, at acceptable terms.

Post period-end, the Group also entered into a new long-term debt facility which increases the security and longevity of the Group's borrowings while fixing interest costs at a competitive rate of interest for the 12-year duration of the loan.

Coronavirus / COVID-19

The current pandemic presents a significant challenge for the care home sector and potentially for some of our tenants. The safety and wellbeing of the residents in our homes, and the healthcare professionals who provide their care, is paramount. We derive some comfort from noting that infection control protocols many of us are now becoming familiar with, form a routine part of operations for care homes. The current enhancements to these, such as restricting access to essential visitors only, can only help. We would also note that the modern, purpose-built homes in our portfolio, via their en-suite wet-rooms, generous bedroom size, and wide corridors, will assist in effective implementation of the Government's advice on isolation in residential care settings.

We are therefore confident that our tenants are well placed to provide the best quality care to their residents given the circumstances. The Manager is engaged with our tenants and is supporting their infection control processes by postponing scheduled home visits for the time being. Close asset monitoring will continue remotely, through established reporting channels for key metrics and regular discussions at both a senior management and individual home level. Anecdotally, we are already hearing from some tenants of requests for beds from local authorities seeking to move patients to care home settings rather than hospitals.

Group performance & dividend

Underlying profits, measured by adjusted EPRA earnings, have increased by 21% to £11.5 million (2018: £9.5 million), being 2.72 pence (2018: 2.69 pence) on an Earnings per Share basis. The Manager reports on the portfolio in more detail on page 5, which continues to deliver rental and valuation growth, and provide beds for 4,901[(1)] residents to be cared for by our 28[(2)] tenants and their many thousands of nurses, carers and other staff.

We have increased quarterly dividends by 1.5% to 1.67 pence per share, with the first interim dividend for the year having been paid in November 2019 in respect of the quarter to September 2019. Dividend cover[(3)] for the six months was 75%, as September 2019's oversubscribed equity issuance resulted in increased dividend amounts in advance of the corresponding increase in earnings from capital deployment. A total of £92 million has now been invested since the equity issuance with the vast majority of deployment coming towards the end of the period and subsequent to the period-end. Rental income from these new assets should drive earnings growth and generate stronger dividend cover in the second half of the Group's financial year, when excluding the non-recurring costs of the refinancing undertaken to lengthen the Group's debt facilities. We are targeting future dividends to be fully covered when the Group is fully invested in operational assets on a geared basis.

Chairman's Statement (continued)

Portfolio & financing

The Group's portfolio continues to deliver strong performance. Comprising 71 properties valued at £590 million, inclusive of properties held for sale, it has again returned both rental and valuation growth on a like-for-like basis, at 1.1% and 1.5% respectively, from both annual rental uplifts and yield compression. The performance of the underlying operators of the care homes has also been positive over the last six months with rent cover on the mature care homes in the portfolio currently at 1.6x.

The Board was pleased and encouraged by the support from both existing shareholders and new investors for the oversubscribed £80 million equity issuance completed in September 2019, as well as the subsequent acquisitions in line with the Group's strict investment criteria. The decision to increase the size of the equity raise allowed the Manager to identify additional pipeline assets which are currently in the due diligence phase. These may complete at an appropriate time, further enhancing the scale and diversification of the portfolio, but in the meantime provide additional funds to further strengthen the Group's balance sheet during volatile market conditions.

We also added a new lender, ReAssure Limited, through the 12-year £50 million facility entered into in January 2020 which refinanced a shorter duration bank facility. Following the extension in March 2020 of the HSBC facility, the Group's weighted average term to expiry of its debt lengthens to 4.5 years. The weighted average cost of drawn debt is 2.95%.

Market opportunity & outlook

Over the Group's seven years of careful investment, we have witnessed further change across the UK care home investment market with participants entering and exiting, costs of care rising and successive governments failing to get to grips with the funding challenges and capacity issues that have made many headlines in the national press. The Government's newly introduced points-based immigration programme seems likely to further challenge the sector's ability to attract appropriate numbers of care staff, particularly into the poorer quality working environments offered by the prevailing older real estate. Social care's drop down the list of national government priorities is evidenced through the long-awaited policy paper being delayed until at least the end of 2020. We remain cognisant of the critical need for investment in this sector and are proud to be driving up the standards of care environments through our careful investment in modern, purpose-built care home real estate at sustainable rental levels.

The Group's net asset value performance since IPO, delivering a 67% total return, and the portfolio management agility allowed by the underlying quality of the assets, has so far justified our conviction that our long-term investment horizon, focussing on sustainable rental levels remains the most suitable approach for UK care home investment. We are pleased with both the performance and growth of the Company to date and continue to be focused both on portfolio performance and engaging effectively with our tenants. The Manager's identified pipeline of investment opportunities will continue to be considered, being mindful of the current market uncertainties due to the coronavirus pandemic. Consistent with our objective to provide sustainable and stable returns, we believe the Group's established and diversified portfolio, allied with its strong balance sheet and conservative leverage, provide a platform to weather short-term dips in returns which may arise.

Malcolm Naish
Chairman

17 March 2020

(1) 4,753 beds at 31 December, 4,901 beds at date of report following acquisitions post period-end
(2) 28 at 31 December 2019, 27 at date of report following Orchard Care re-tenanting
(3) Based on adjusted earnings, please refer to note 5 of the Condensed Consolidated Financial Statements

Investment Manager's Report

The Group's portfolio of 71 assets was valued at £590 million at 31 December 2019. The 69 operational homes were let to 28[(4)] tenants, providing 4,753 beds for residents, and generating a contractual rent of £37.6 million per annum. The EPRA topped-up net initial yield was 6.07% and the EPRA net initial yield was 5.73%.

The portfolio value has increased by 17.8% in the period. Of this 16.3% is due to net capital deployment (i.e. new acquisitions and further investment into developments, offset by disposals), with a positive like-for-like movement in the operational portfolio of 1.5% which primarily reflects both the impact of inflation-linked rent reviews and market yield shift.

The contractual rent roll has increased by 16.8% in the period, comprising a 15.7% increase from 11 investments, net of disposals, and two development completions, as well as a 1.1% like-for-like increase from the Group's upwards only annual rent reviews.

Despite the passage of time, the WAULT has increased slightly to 29.2 years as the effect of new assets subject to the Group's typical lease term of 30/35 years counteracts the passage of time on the existing portfolio.

The portfolio total return[(5)] for the period was 4.7% (9.2% for the 2019 calendar year), maintaining its stable performance since IPO.

In the six months to 31 December 2019, the Group acquired nine new trading assets, one new development site and the freehold of 31 retirement flats for aggregate consideration of £109.6 million, including transaction costs and future development works. In addition, two of the existing development sites reached practical completion and two assets were sold with capital being recycled to acquire new assets to better diversify the portfolio.

During the period the Group was notified that Orchard Care Homes, a prominent tenant, intended to exit its lease commitments on six care homes. Although such a situation is always disappointing, we swiftly applied our specialist sector knowledge and extensive network of sector relationships to deliver an appropriate transfer of the services provided at the care homes to new tenants, with continuity of care and employment for the residents and staff respectively, essential components to a successful outcome. Subsequent to the period-end, the transfer of the six care homes to two of the Group's existing operators was completed, with care levels undisturbed. The re-tenanting resulted in no material change in the contracted rental income over the remainder of the leases on an aggregate basis, with the Group's independent valuer anticipating a small valuation uplift compared with the 31 December 2019 values, highlighting the potential for further uplifts in value.

The Group's investment and portfolio management activities provide a larger and more diverse portfolio. Following the re-tenanting, and the two acquisitions following the end of the period, the top five tenants now account for less than 40% of the contracted portfolio rent compared to over 50% at 31 December 2018. This reduction in tenant concentration is illustrated in more detail on page 2.

Overall, the portfolio continues to perform well with over 97% of the care homes having maintained or increased in value over the period. However, as with any portfolio of scale, there is the potential for challenges to arise in relation to individual assets or underlying tenants. The Manager is highly engaged with all occupiers while continually monitoring asset performance and, supported by the expertise of our team and our collective track record in the sector, is well-placed to address these challenges with due care and investment proficiency as they arise.

[(4)] 28 at 31 December 2019, 27 at date of report following Orchard Care re-tenanting

[(5)] Accounting basis, operational assets held for the period, annualised

Investment Manager's Report (continued)

UK care home investment market

The longer-term appetite for healthcare property is expected to remain buoyant, based on high levels of activity and interest in the sector experienced prior to the current market volatility. Valuation yields on modern, purpose-built care homes continued their modest compression as their inherent and unmistakeable advantages over the many inadequately equipped older care homes became increasingly clear.

In what appeared to be an ongoing "lower for longer" economic environment, care home investment yields maintained their relative attractiveness compared to the more traditional property sectors, adding to demand. We would continue to caution that, in the care home sector in particular, deep sector knowledge and relationships are required to carefully assess the real estate, operator ethos and capabilities, as well as the local market fundamentals of a care home to support a considered long-term sustainable investment.

Health and social care

2019 was a year that was dominated by change and the demand for change; Brexit, the general election, and the wider global debate around climate change. Domestically, and some would say the biggest debate in the public's mind after Brexit, was and is social care, not least the question around how it is funded into the future. For that reason, social care featured prominently in each of the political party manifestos in the run up to the recent general election. The Conservative Party of course were acutely aware of the impact of their manifesto for the 2017 election, where Theresa May's well-intentioned social care funding plans were labelled by Labour as a 'dementia tax'.

The Conservatives achieved a sweeping election victory, giving the party broad scope to push through both Brexit and social care funding plans; the latter unfortunately now seemingly less urgent in their plans - not least due to the increasing challenges presented by the coronavirus pandemic at the time of writing. Sadly, post-election announcements on this matter range from suggestions of seeking a cross party consensus, which will likely be challenging to achieve, to public comments from within Government that it is doubtful that the public purse will ever be able to afford the full cost of 'free care'.

The case and need for change is pressing: with around 700,000 older people denied help with their care last year according to Age UK; more than 1,000 dementia patients a day admitted to hospital via A&E; the number of cases admitted to hospital as emergencies up by a third in five years; and nearly twice as many very elderly people in England - those aged over 85 - expected to require 24 hour care within 20 years according to the Newcastle University Institute for Ageing.

Care homes, in all this, coronavirus aside, report 'business as usual'; they are in many cases the key to clearing the hospital bed log jam, albeit unfortunately the vast majority of the UK care home stock is ageing and not fit for purpose. Delays in political decision making and poor public funding will likely stymie the development of new care home provision, particularly in areas offering less attractive demographic profiles. Sadly, nobody will be able to use the excuse it was unexpected. The modern, purpose-built homes that we invest into will continue to be, and increasingly become, an essential part of future provision.

Target Fund Managers Limited
Investment Manager

17 March 2020

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2019

		Six months ended 31 December 2019 (unaudited)			Six months ended 31 December 2018 (unaudited)		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		**16,973**	**3,855**	**20,828**	13,277	2,903	16,180
Other income		**10**	**–**	**10**	–	–	–
Total revenue		**16,983**	**3,855**	**20,838**	13,277	2,903	16,180
(Losses)/gains on revaluation of investment properties	7	**–**	**(343)**	**(343)**	–	3,346	3,346
Gains on investment properties realised	7	**–**	**642**	**642**	–	–	–
Gains on revaluation of properties held for sale	8	**–**	**1,505**	**1,505**	–	–	–
Total income		**16,983**	**5,659**	**22,642**	13,277	6,249	19,526
Expenditure							
Investment management fee	2	**(2,525)**	**–**	**(2,525)**	(2,396)	–	(2,396)
Other expenses	3	**(1,486)**	**(47)**	**(1,533)**	(770)	–	(770)
Total expenditure		**(4,011)**	**(47)**	**(4,058)**	(3,166)	–	(3,166)
Profit before finance costs and taxation		**12,972**	**5,612**	**18,584**	10,111	6,249	16,360
Net finance costs							
Interest receivable		**62**	**–**	**62**	55	–	55
Interest payable and similar charges		**(2,090)**	**–**	**(2,090)**	(1,471)	–	(1,471)
Profit before taxation		**10,944**	**5,612**	**16,556**	8,695	6,249	14,944
Taxation	4	**3**	**–**	**3**	–	–	–
Profit for the period		**10,947**	**5,612**	**16,559**	8,695	6,249	14,944
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in valuation of interest rate swaps		**–**	**17**	**17**	–	1	1
Total comprehensive income for the period		**10,947**	**5,629**	**16,576**	8,695	6,250	14,945
Earnings per share (pence)	5	**2.58**	**1.33**	**3.91**	2.47	1.77	4.24

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

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

No operations were discontinued in the period.

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	As at 31 December 2019 (unaudited) £'000	As at 30 June 2019 (audited) £'000
Non-current assets			
Investment properties	7	**547,877**	469,596
Trade and other receivables	9	**40,972**	37,573
		588,849	507,169
Current assets			
Trade and other receivables	9	**19,457**	4,264
Cash and cash equivalents		**31,762**	26,946
		51,219	31,210
Properties held for sale	8	**7,500**	–
		58,719	31,210
Total assets		**647,568**	538,379
Non-current liabilities			
Bank loans	11	**(133,284)**	(106,420)
Interest rate swaps	11	**(690)**	(707)
Trade and other payables		**(6,551)**	(6,361)
		(140,525)	(113,488)
Current liabilities			
Trade and other payables		**(13,176)**	(11,802)
Total liabilities		**(153,701)**	(125,290)
Net assets		**493,867**	413,089
Stated capital and reserves			
Stated capital account	12	**–**	372,685
Share capital	12	**4,575**	–
Share premium		**77,452**	–
Merger reserve		**47,751**	–
Distributable reserve		**312,050**	–
Hedging reserve		**(690)**	(707)
Capital reserve		**41,775**	36,163
Revenue reserve		**10,954**	4,948
Equity shareholders' funds		**493,867**	413,089
Net asset value per ordinary share (pence)	5	**108.0**	107.3

The condensed consolidated financial statements on pages 7 to 22 were approved by the Board of Directors on 17 March 2020 and were signed on its behalf by:

Malcolm Naish, Chairman

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2019 (unaudited)

	Notes	Stated capital account £'000	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 June 2019		372,685	–	–	–	–	(707)	36,163	4,948	413,089
Total comprehensive income for the period:		–	–	–	–	–	17	5,612	10,947	16,576
Transactions with owners recognised in equity:										
Group reconstruction	17	(371,292)	385,090	–	47,751	(61,549)	–	–	–	–
Reduction of share capital	17	–	(381,239)	–	–	381,239	–	–	–	–
Dividends paid	6	(1,393)	–	–	–	(7,640)	–	–	(4,941)	(13,974)
Issue of ordinary shares	12	–	724	79,276	–	–	–	–		80,000
Expenses of issue		–	–	(1,824)	–	–	–	–	–	(1,824)
As at 31 December 2019		–	4,575	77,452	47,751	312,050	(690)	41,775	10,954	493,867

For the six months ended 31 December 2018 (unaudited)

	Notes	Stated capital account £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 June 2018		330,436	(115)	24,383	3,903	358,607
Total comprehensive income for the period:		–	1	6,249	8,695	14,945
Transactions with owners recognised in equity:						
Dividends paid	6	(2,728)	–	–	(8,321)	(11,049)
Issue of ordinary shares	12	50,000	–	–	–	50,000
Expenses of issue		(1,081)	–	–	–	(1,081)
As at 31 December 2018		376,627	(114)	30,632	4,277	411,422

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2019

	Notes	**Six months ended 31 December 2019 (unaudited) £'000**	Six months ended 31 December 2018 (unaudited) £'000
Cash flows from operating activities			
Profit before tax		**16,556**	14,944
Adjustments for:			
Interest receivable		**(62)**	(55)
Interest payable		**2,090**	1,471
Revaluation gains on properties held for sale	8	**(1,505)**	–
Revaluation gains on investment properties and movements in lease incentives, net of acquisition costs written off		**(4,471)**	(6,249)
Increase in trade and other receivables		**(16,314)**	(1,963)
Increase in trade and other payables		**2,133**	200
		(1,573)	8,348
Interest paid		**(1,524)**	(1,073)
Interest received		**62**	55
Tax (paid)/refunded		**(73)**	14
		(1,535)	(1,004)
Net cash (outflow)/inflow from operating activities		**(3,108)**	7,344
Cash flows from investing activities			
Disposal of investment properties	7	**14,402**	–
Purchase of investment properties and properties held for sale, including acquisition costs		**(97,700)**	(62,938)
Net cash outflow from investing activities		**(83,298)**	(62,938)
Cash flows from financing activities			
Issue of ordinary share capital	12	**80,000**	50,000
Expenses of issue paid		**(1,824)**	(951)
Bank loans drawn down	11	**87,000**	38,500
Costs of arranging bank loan facility		**(117)**	–
Bank loans repaid	11	**(60,000)**	(33,500)
Dividends paid		**(13,837)**	(11,041)
Net cash inflow from financing activities		**91,222**	43,008
Net increase/(decrease) in cash and cash equivalents		**4,816**	(12,586)
Opening cash and cash equivalents		**26,946**	41,400
Closing cash and cash equivalents		**31,762**	28,814
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		**4,255**	2,881

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

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory financial statements of the Group for the year ended 30 June 2019, except for:

- the adoption of IFRS 16 'Leases', which has not had a material impact on these condensed consolidated financial statements for the reasons explained in the consolidated financial statements of the Group for the year ended 30 June 2019; and
- the adoption of additional policies in relation to the Group reconstruction and properties held for sale as set out below.

The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2019, which were prepared under full IFRS requirements.

Group Reconstruction

The Group undertook a reconstruction in the period, as a result of which the Company became the parent company of the Group (see note 17). Given the shareholders in the Company are the same as the shareholders in the previous parent, continuation accounting has been applied in these consolidated accounts. The comparative information presented in this interim report represents the results of the group for the six months ended 31 December 2018, as reported by the previous parent company, Target Healthcare REIT Limited.

Additional Reserves

The following additional reserves have been established:

Share capital: The nominal value of the shares in issue. See notes 12 and 17 for further details.

Share premium: the difference between the issue price of shares and their nominal value arising on new share issuance (excluding those issued as part of the Group reconstruction). This reserve is non-distributable.

Merger reserve: the difference between the nominal value of the shares allotted by the Company, in exchange for the shares of Target Healthcare REIT Limited and their fair value. Further details are included in note 17. This reserve is non-distributable.

Distributable reserve: the balance arising following the reduction of the nominal value of the shares issued as part of the Group reconstruction from £1.00 per share to £0.01 per share, as approved by the High Court in September 2019.

The distributable reserve has been reduced by the difference between the fair value of the shares allotted by the Company, in exchange for the shares of Target Healthcare REIT Limited, and the stated capital of Target Healthcare REIT Limited immediately prior to the transaction. Further details are included in note 17.

This reserve is distributable. Any dividends paid in excess of the balance of the parent company's revenue reserve will be charged to this reserve.

Properties Held for Sale

Properties held for sale consist of properties whose carrying value is expected to be recovered principally through a sale transaction rather than continuing use and which are available for immediate sale in their present condition. They are initially recognised at cost, being the fair value of consideration given, and subsequently measured at fair value, with gains and losses recognised in the Statement of Comprehensive Income. Fair value is based on the open market valuation, as provided by Colliers International Healthcare Property Consultants Limited, in their capacity as external valuers, at the balance sheet date using recognised valuation techniques.

Going concern

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

2. Investment Management Fee

	For the six month period ended 31 December 2019 £'000	For the six month period ended 31 December 2018 £'000
Investment management fee	**2,525**	2,396

The Group's Investment Manager and Alternative Investment Fund Manager ('AIFM') is Target Fund Managers Limited. The Investment Manager is entitled to an annual management fee on a tiered basis based on the net assets of the Group as set out below. Where applicable, VAT is payable in addition.

Net assets of the Group	Management fee percentage
Up to and including £500 million	1.05
Above £500 million and up to and including £750 million	0.95
Above £750 million and up to and including £1 billion	0.85
Above £1 billion and up to and including £1.5 billion	0.75
Above £1.5 billion	0.65

The Investment Management Agreement can be terminated by either party on twelve months' written notice. Should the Company terminate the Investment Management Agreement earlier then compensation in lieu of notice will be payable to the Investment Manager. The Investment Management Agreement may be terminated immediately without compensation if: the Investment Manager is in material breach of the agreement; guilty of negligence, wilful default or fraud; is the subject of insolvency proceedings; or there occurs a change of Key Managers to which the Board has not given its prior consent.

3. Other expenses

	For the six month period ended 31 December 2019 £'000	For the six month period ended 31 December 2018 £'000
Provision for bad debts	**520**	–
Valuation and other professional fees	**516**	396
Secretarial and administration fees	**86**	101
Directors' fees	**80**	89
Capital costs relating to Group reconstruction	**47**	–
Other	**284**	184
Total	**1,533**	770

4. Taxation

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

The Group has entered the REIT regime for the purposes of UK taxation. Subject to continuing relevant UK-REIT criteria being met, the profits from the Group's property rental business, arising from both income and capital gains, are exempt from corporation tax.

5. Earnings per share and Net Asset Value per share

Earnings per share

	For the six month period ended 31 December 2019 £'000	For the six month period ended 31 December 2019 Pence per share	For the six month period ended 31 December 2018 £'000	For the six month period ended 31 December 2018 Pence per share
Revenue earnings	**10,947**	**2.58**	8,695	2.47
Capital earnings	**5,612**	**1.33**	6,249	1.77
Total earnings	**16,559**	**3.91**	14,944	4.24
Average number of shares in issue		**423,255,886**		352,680,194

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

The EPRA earnings are arrived at by adjusting for the revaluation movements on investment properties and other items of a capital nature and represents the revenue earned by the Group.

The Group's specific adjusted EPRA earnings adjusts the EPRA earnings for the performance fee and for development interest in respect of forward fund agreements. The Board believes that that Group's specific adjusted EPRA earnings represents the underlying performance measure appropriate for the Group's business model as it illustrates the underlying revenue stream and costs generated by the Group's property portfolio. The reconciliations are provided in the table below:

	For the six month period ended 31 December 2019 £'000	For the six month period ended 31 December 2018 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	**16,559**	14,944
Adjusted for gains on investment properties	**(299)**	(3,346)
Adjusted for gains on properties held for sale	**(1,505)**	–
Adjusted for cost of corporate acquisitions and other capital items	**47**	–
EPRA earnings	**14,802**	11,598
Adjusted for rental income arising from recognising guaranteed rent review uplifts	**(3,855)**	(2,903)
Adjusted for development interest under forward fund agreements	**577**	777
Group specific adjusted EPRA earnings	**11,524**	9,472
Earnings per share ('EPS') (pence per share)		
EPS per IFRS Consolidated Statement of Comprehensive Income	**3.91**	4.24
EPRA EPS	**3.50**	3.29
Group specific adjusted EPRA EPS	**2.72**	2.69

Earnings for the period ended 31 December 2019 should not be taken as a guide to the results for the year to 30 June 2020.

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

Net Asset Value per share

The Group's net asset value per ordinary share of 108.0 pence (30 June 2019: 107.3 pence) is based on equity shareholders' funds of £493,867,000 (30 June 2019: £413,089,000) and on 457,487,640 (30 June 2019: 385,089,448) ordinary shares, being the number of shares in issue at the period end.

The EPRA Net Asset Value ('EPRA NAV') per share is arrived at by adjusting the net asset value ('NAV') calculated under International Financial Reporting Standards ('IFRS'). The EPRA NAV provides a measure of the fair value of a company on a long-term basis. The only adjustment required to the NAV is that the EPRA NAV excludes the fair value of the Group's interest rate swaps which were, in aggregate, recognised as a liability of £690,000 under IFRS as at 31 December 2019 (30 June 2019: liability of £707,000).

	As at 31 December 2019 Pence per share	As at 30 June 2019 Pence per share
NAV per financial statements (pence per share)	**108.0**	107.3
Valuation of interest rate swaps	**0.1**	0.2
EPRA NAV (pence per share)	**108.1**	107.5

EPRA guidance also recognises an EPRA NNNAV (Triple Net Asset Value), the objective of which is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV. At 31 December 2019, the Group held all its material balance sheet items at fair value, or at a value considered to be a close approximation to fair value, in its financial statements and therefore the EPRA NNNAV is the same as the IFRS NAV per financial statements set out above (30 June 2019: same).

6. Dividends

Dividends paid as distributions to equity shareholders during the period.

	For the six month period ended 31 December 2019		For the six month period ended 31 December 2018	
	Pence	**£'000**	Pence	£'000
Fourth interim dividend for prior year	**1.64475**	**6,334**	1.61250	5,470
First interim dividend	**1.67000**	**7,640**	1.64475	5,579
Total	**3.31475**	**13,974**	3.25725	11,049

During the period to 31 December 2019, the previous parent company of the Group paid a dividend of 1.64475 pence per share on 2 August 2019. The Company paid a first interim dividend of 1.67 pence per share on 29 November 2019.

A second interim dividend for the year to 30 June 2020, of 1.67 pence per share, was paid on 28 February 2020 to shareholders on the register on 14 February 2020.

7. Investment properties

Freehold and Leasehold Properties	**As at 31 December 2019 £'000**	As at 30 June 2019 £'000
Opening market value	**500,884**	385,542
Opening fixed or guaranteed rent reviews and lease incentives	**(31,288)**	(22,624)
Opening carrying value	**469,596**	362,918
Disposals – proceeds	**(14,402)**	–
– loss on sale	**(948)**	–
Purchases	**87,694**	97,956
Acquisition costs capitalised	**3,386**	2,567
Acquisition costs written off	**(3,386)**	(2,567)
Unrealised gain realised during the period	**1,590**	–
Revaluation movement - gains	**9,929**	22,202
Revaluation movement - losses	**(2,315)**	(4,816)
Movement in market value	**81,548**	115,342
Fixed or guaranteed rent reviews and lease incentives on disposal	**1,304**	–
Movement in fixed or guaranteed rent reviews and lease incentives	**(4,571)**	(8,664)
Movement in carrying value	**78,281**	106,678
Closing market value	**582,432**	500,884
Closing fixed or guaranteed rent reviews and lease incentives	**(34,555)**	(31,288)
Closing carrying value	**547,877**	469,596

The investment properties can be analysed as follows:

Standing assets	**574,632**	482,084
Developments under forward fund agreements	**7,800**	18,800
Closing market value	**582,432**	500,884

Changes in the valuation of investment properties

	For the six month period ended 31 December 2019 £'000	For the six month period ended 31 December 2018 £'000
Loss on sale of investment properties	**(948)**	–
Unrealised gains realised during the period	**1,590**	–
Gains on sale of investment properties realised	**642**	–
Revaluation movement	**7,614**	8,209
Acquisition costs written off	**(3,386)**	(1,982)
Movement in lease incentives	**(715)**	22
Movement in fixed or guaranteed rent reviews	**(3,856)**	(2,903)
Gains on revaluation of investment properties	**299**	3,346

The investment properties were valued at £582,432,000 (30 June 2019: £500,884,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation - Professional Standards, incorporating the International Valuation Standards, September 2017 ('the Red Book') issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Market Value represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

7. Investment properties (continued)

The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £547,877,000 (30 June 2019: £469,596,000). The adjustment consisted of £30,403,000 (30 June 2019: £27,535,000) relating to fixed or guaranteed rent reviews and £4,152,000 (30 June 2019: £3,753,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the financial statements as non-current and current assets within 'trade and other receivables'.

The Group is required to classify fair value measurements of its investment properties using a fair value hierarchy, in accordance with IFRS 13 'Fair Value Measurement'. This hierarchy reflects the subjectivity of the inputs used, and has the following levels:

— Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

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

— Level 3: use of inputs that are not based on observable market data.

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

In determining what level of the fair value hierarchy to classify the Group's investments within, the Directors have considered the content and conclusion of the position paper on IFRS 13 prepared by the European Public Real Estate Association ('EPRA'), the representative body of the publicly listed real estate industry in Europe. This paper concludes that, even in the most transparent and liquid markets, it is likely that valuers of investment property will use one or more significant unobservable inputs or make at least one significant adjustment to an observable input, resulting in the vast majority of investment properties being classified as level 3.

Observable market data is considered to be that which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. In arriving at the valuation Colliers make adjustments to observable data of similar properties and transactions to determine the fair value of a property and this involves the use of considerable judgement.

Considering the Group's specific valuation process, industry guidance, and the level of judgement required in the valuation process, the Directors believe it appropriate to classify the Group's investment properties within level 3 of the fair value hierarchy.

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield ('NIY') on these assets, as measured by the EPRA topped-up net initial yield, is 6.1%. The yield on the majority of the individual assets ranges from 5.0 per cent to 7.3 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

The key unobservable inputs made in determining the fair values are:

- Estimated rental value ('ERV'): The rent at which space could be let in the market conditions prevailing at the date of valuation; and
- Yield: The net initial yield is defined as the initial net income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.

7. Investment properties (continued)

The ERV and Yield are not directly correlated although they may be influenced by similar factors. Rent is set at a long-term, supportable level and is likely to be influenced by property-specific matters. The yield also reflects market sentiment and the strength of the covenant provided by the tenant, with a stronger covenant attracting a lower yield.

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

A decrease of 0.25 per cent in the net initial yield applied to the property portfolio, including properties held for sale, will increase the fair value of the portfolio by £25.0 million (30 June 2019: £20.8 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £23.0 million (30 June 2019: £19.2 million) and reduce the Group's income.

8. Properties held for sale

	As at 31 December 2019 £'000	As at 30 June 2019 £'000
Purchases	**5,695**	–
Acquisition costs capitalised	**300**	–
Acquisition costs written off	**(300)**	–
Revaluation movement - gains	**1,805**	–
Closing fair value	**7,500**	–

The properties held for sale were valued at £7,500,000 (30 June 2019: £nil) by Colliers International Healthcare Property Consultants Limited ('Colliers'). The properties held for sale consist of a block of apartments adjacent to an existing property holding which were acquired to consolidate ownership of the overall retirement village. The intention is to sell the leasehold on the individual apartments.

9. Trade and other receivables

Non-current trade and other receivables	**As at 31 December 2019 £'000**	As at 30 June 2019 £'000
Fixed rent reviews	**30,403**	27,535
Rental deposits held in escrow for tenants	**6,551**	6,361
Lease incentives	**4,018**	3,677
Total	**40,972**	37,573

Current trade and other receivables	**As at 31 December 2019 £'000**	As at 30 June 2019 £'000
Cash held in escrow for property purchases	**17,000**	663
Lease incentives	**134**	76
VAT recoverable	**211**	1,204
Accrued income – rent receivable	**792**	602
Accrued development interest under forward fund agreements	**598**	1,378
Other debtors and prepayments	**722**	341
Total	**19,457**	4,264

10. Investment in subsidiary undertakings

The Group included 45 subsidiary companies as at 31 December 2019. All subsidiary companies were wholly owned, either directly or indirectly, by the Company and, from the date of acquisition onwards, the principal activity of each company within the Group was to act as an investment and property company. Other than one subsidiary incorporated in Jersey, two subsidiaries which are incorporated in Gibraltar and two subsidiaries which are incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

During the period, as well as establishing the new parent company (see note 17), the Group acquired seven new active property holding companies. These acquisitions were accounted for as Investment Property acquisitions. As part of these acquisitions, the Group acquired eight further companies which are currently dormant and which are expected to be liquidated shortly.

11. Bank Loans

	As at 31 December 2019 £'000	As at 30 June 2019 £'000
Principal amounts outstanding	**135,000**	108,000
Set-up costs	**(3,577)**	(3,040)
Amortisation of set-up costs	**1,861**	1,460
Total	**133,284**	106,420

The Group has a £50.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ('RBS') which is repayable on 1 September 2021, with the option of two further one-year extensions thereafter subject to the consent of RBS. Interest accrues on the bank loan at a variable rate, based on three-month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.5 per cent per annum for the duration of the loan. A non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2019, the Group had drawn £50.0 million under this facility (30 June 2019: £50.0 million).

The Group has a £80.0 million revolving credit facility with HSBC Bank plc ('HSBC') which, inclusive of the one-year extension agreed in March 2020 as detailed in note 18, is repayable on 29 January 2022, with the option of a further one-year extension thereafter subject to the consent of HSBC. Interest accrues on the bank loan at a variable rate, based on three-month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 1.70 per cent per annum for the duration of the loan and a non-utilisation fee of 0.75 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2019, the Group had drawn £45.0 million under this facility (30 June 2019: £22.0 million).

The Group had a £40.0 million committed term loan facility with First Commercial Bank, Limited ('FCB') which was repayable on 30 August 2022. Interest accrued on the bank loan at a variable rate, based on three-month LIBOR plus margin and mandatory lending costs, and was payable quarterly. The margin was 1.65 per cent per annum for the duration of the loan. The undrawn element of the facility did not incur a non-utilisation fee. As at 31 December 2019, the Group had drawn £40.0 million under this facility (30 June 2019: £36.0 million). Subsequent to the period end, the Group entered into a 12-year committed term loan with ReAssure Limited which was used to repay the FCB facility. The interest rate swap entered into to hedge this facility was also closed out (see note 18).

The Group has entered into the following interest rate swaps:

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

11. Bank Loans (continued)

At 31 December 2019, inclusive of all interest rate swaps, the interest rate on £66.0 million of the Group's borrowings had been fixed, including the amortisation of arrangement costs, at an all-in rate of 3.08 per cent per annum until at least 1 September 2021. The remaining £104.0 million of debt, of which £69.0 million was drawn at 31 December 2019, would, if fully drawn, carry interest at a variable rate equal to three-month LIBOR plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.31 per cent per annum.

The fair value of the interest rate swaps at 31 December 2019 was an aggregate liability of £690,000 (30 June 2019: liability of £707,000) and all interest rate swaps are categorised as level 2 in the fair value hierarchy (see note 7).

The RBS loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number One plc Group ('THR1 Group') which consists of THR1 and its three subsidiaries. The HSBC loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 15 plc Group ('THR15 Group') which consists of THR15 and its subsidiaries. The FCB loan was secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consisted of THR12 and its three subsidiaries.

Under the bank covenants related to the loans, the Group is to ensure that:

– the loan to value percentage for THR1 Group and THR15 Group does not exceed 50 per cent;

– the loan to value percentage for THR12 Group does not exceed 60 per cent; and

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

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

12. Share Capital

Allotted, called-up and fully paid ordinary shares	Number of shares	£'000
Target Healthcare REIT Limited		
Opening balance	385,089,448	372,685
Dividend allocated to capital		(1,393)
Shares in issue of THRL at date of Group reconstruction	385,089,448	371,292
Target Healthcare REIT plc		
Shares of £1 each in issue	1	–
Shares of £1 each issued as part of Group reconstruction	385,089,448	385,090
Reduction of nominal value to £0.01 each	–	(381,239)
Issued on 25 September 2019	72,398,191	724
Balance as at 31 December 2019	**457,487,640**	**4,575**

Under a scheme of arrangement, the parent company of the Group changed from Target Healthcare REIT Limited to Target Healthcare REIT plc on 7 August 2019. Under this scheme of arrangement, each shareholder received one share in Target Healthcare REIT plc for every one share previously held in Target Healthcare REIT Limited. See note 17 for further details.

During the period to 31 December 2019, the Company issued a further 72,398,191 ordinary shares raising gross proceeds of £80,000,000 (period to 31 December 2018: 45,871,559 ordinary shares raising gross proceeds of £50,000,000). The Company did not buyback or resell any ordinary shares (period to 31 December 2018: nil).

At 31 December 2019, the Company did not hold any shares in treasury (30 June 2019: nil).

13. Commitments

The Group had capital commitments as follows:

	As at 31 December 2019 £'000	As at 30 June 2019 £'000
Amounts due to complete forward fund developments	**8,912**	12,263
Other capital expenditure commitments	**1,900**	2,233
Total	**10,812**	14,496

14. Contingent Assets and Liabilities

As at 31 December 2019, ten properties (30 June 2019: nine properties) within the Group's investment property portfolio contained deferred consideration clauses meaning that, subject to contracted performance conditions being met, deferred payments totalling £19.5 million (30 June 2019: £18.75 million) may be payable by the Group to the vendors/tenants of these properties.

Having assessed each clause on an individual basis, the Company has determined that none of these deferred consideration clauses are more likely than not to become payable in the future and therefore an amount of £nil has been recognised as a liability at 31 December 2019 (30 June 2019: £nil).

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

15. Related Party Transactions

The Directors are considered to be related parties to the Company. No Director has an interest in any transactions which are, or were, unusual in their nature or significant to the nature of the Company.

The Directors of the Company received fees for their services. Total fees for the period were £80,000 (six months ended 31 December 2018: £89,000) of which £12,000 (31 December 2018: £21,000) remained payable at the period end.

The Investment Manager received £2,525,000 (six months ended 31 December 2018: £2,396,000) during the period. Of these amounts £1,382,000 (inclusive of estimated irrecoverable VAT) remained payable at the period end (31 December 2018: £1,241,000).

16. Operating Segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board is the EPRA NAV. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NAV is detailed in note 5.

The view that the Group is engaged in a single segment of business is based on the following considerations:

- One of the key financial indicators received and reviewed by the Board is the total return from the property portfolio taken as a whole;
- There is no active allocation of resources to particular types or groups of properties in order to try to match the asset allocation of the benchmark; and
- The management of the portfolio is ultimately delegated to a single property manager, Target.

17. Significant Events: Corporate Reconstruction

On 21 June 2019, Target Healthcare REIT Limited ("Original THRL") announced proposals to change the Group's corporate structure by establishing Target Healthcare REIT plc ("New THRL" or "the Company") a new English-incorporated parent company (registration number: 11990238), at the head of the Group. The Board believed that moving the Group's ultimate parent company to a UK domicile would align the Group with its UK tax jurisdiction, maintain and enhance its important relationships with UK local authorities and health services and help to reduce some of the Group's administration costs and regulatory complexities, which arose due to the requirement to operate in both Jersey and the UK.

The proposal, which required the approval of the Original THRL's existing shareholders and the Royal Court of Jersey, was effected by way of a scheme of arrangement under article 125 of the Companies (Jersey) Law 1991 (the "Scheme") pursuant to which the Company acquired Original THRL and became its ultimate parent company. The Company replicates all of the existing arrangements and structure of Original THRL. It has, for example, the same management, depositary and corporate governance arrangements alongside having the same investment, gearing and dividend policies. The Company is also a REIT for the purposes of UK taxation.

The Scheme was approved by shareholders at meetings held on 18 July 2019 and, following the agreement of the Royal Court of Jersey, became effective on 7 August 2019. Original THRL's existing shareholders received one new share in New THRL for every share they held in Original THRL at close on 6 August 2019. The Ordinary Shares of the Company were admitted to the premium segment of the Official List and to trading on the main market of the London Stock Exchange on 7 August 2019.

The scheme of arrangement gave rise to the issuance of 385,089,448 Ordinary Shares in the Company with a nominal value of £1 each. The shares were issued at a deemed fair value of 112.4 pence per share, which was the market price of the shares of Original THRL quoted on the London Stock Exchange immediately prior to the completion of the scheme. The difference between the aggregate fair value and the aggregate nominal value, which constitutes the amount eligible for merger relief under section 612 of the Companies Act 2006, has been credited to the merger reserve.

The difference between the fair value of the shares issued and the stated capital account of Original THRL immediately prior to the completion of the scheme has been offset against the distributable reserve.

After completion of the scheme of arrangement, the Company undertook a capital reduction. On 24 September 2019, the High Court confirmed the reduction of the nominal value of each of the 385,089,449 shares in issue from £1.00 to £0.01, creating a distributable reserve of £381,239,000.

A breakdown of the merger and distributable reserves at 31 December 2019 are shown below:

	£'000
Fair value of shares issued under the Scheme	432,841
Nominal value of shares of £1.00 each issued under the Scheme	(385,090)
Merger reserve at 31 December 2019	**47,751**

	£'000
Stated capital account of Original THRL immediately prior to Scheme	371,292
Fair value of shares issued	(432,841)
	(61,549)
Reduction of nominal value from £1.00 per share to £0.01 per share	381,239
Dividends subsequently charged to the distributable reserve	(7,640)
Distributable reserve at 31 December 2019	**312,050**

18. Post Balance Sheet Events

Debt facilities

During January 2020, the Group entered into a new long-term £50 million committed term loan facility (the "Facility") with ReAssure. The Facility carries an aggregate fixed rate of interest of 3.28% per annum for its 12-year term, maturing in January 2032.

The Facility has been used to repay the Group's existing £40 million term loan with FCB. The Group has also closed-out the interest rate swap used to hedge the FCB facility, at a cost similar to the liability reflected in the balance sheet at 31 December 2019.

On 6 March 2020, the Group exercised its option, with the consent of HSBC, to extend the term of the HSBC facility by one year. The facility now expires on 29 January 2022.

Property transactions

Subsequent to 31 December 2019, the Group has completed the acquisition of two care homes in Yorkshire; one is located in the North Yorkshire town of Scarborough and opened in August 2019, and the second is located in the market town of Pudsey in West Yorkshire. The homes are leased to an existing tenant on 35-year leases. A rent-free period covering the early trading stage has been agreed on both properties.

The Group has also successfully re-tenanted six care homes previously leased to Orchard Care Homes to two of the Group's existing operators. This followed the notification received in September 2019 of the previous tenant's intention to exit its leasehold homes and has resulted in the former Orchard homes being split by geography into two sub-portfolios (the North West and Yorkshire). The Group has continued to receive the contracted rental income throughout the re-tenanting process and, whilst new rental incentives have been offered in relation to some of the properties, these are offset by Orchard's rent deposits that will be retained by the Group. On a consolidated basis, there will be no material change in the contracted rental income that the Group will receive from these six properties once the rental incentives expire.

The Group's independent valuer has reviewed the re-tenanting terms and advised that the successful completion of the re-tenanting will result in a small valuation uplift for the portfolio compared with the value as at 31 December 2019.

Coronavirus/COVID-19

The current pandemic has introduced significant market volatility and the Company's share price at close on 17 March 2020 was 82.2 pence per share. Further details are provided in the Chairman's Statement and Manager's Review on pages 3 to 6.

19. Interim Report Statement

These are not full statutory accounts in terms of Section 434 of the Companies Act 2006 and are unaudited. Statutory accounts for the Company for the period ended 30 June 2019, which received an unqualified audit report and which did not contain a statement under Section 498 of the Companies Act 2006, have been lodged with the Registrar of Companies. Statutory accounts for the Group for the year ended 30 June 2019, which received an unqualified audit report, were prepared by the previous parent company, Target Healthcare REIT Limited, a Jersey-incorporated company, and have been lodged with the Jersey Financial Services Commission Companies Registry. No full statutory accounts, for either the Company or Group, in respect of any period after 30 June 2019 have been reported on by the Company's auditor or delivered to the Registrar of Companies.

The Interim Report and Condensed Consolidated Financial Statements for the six months ended 31 December 2019 will be made available on the website: www.targethealthcarereit.co.uk. Copies may also be obtained from the Company Secretary, Target Fund Managers Limited, Laurel House, Laurelhill Business Park, Stirling FK7 9JQ.

Directors' Statement of Principal Risks and Uncertainties

The risks, and the way in which they are managed, are described in more detail in the Strategic Report within the Annual Report and Financial Statements for the year to 30 June 2019. Other than as disclosed in the Chairman's Statement and Investment Manager's Report, the references to the Group's principal risks and uncertainties have not changed materially since the date of the report and are not expected to change materially for the remainder of the Group's financial year.

Statement of Directors' Responsibilities in Respect of the Interim Report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' and gives a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Chairman's Statement and Investment Manager's Report (together constituting the Interim Management Report) include a fair review of the information required by the Disclosure Guidance and Transparency Rules ('DTR') 4.2.7R, being an indication of important events that have occurred during the period and their impact on the financial statements;
- the Statement of Principal Risks and Uncertainties referred to above is a fair review of the information required by DTR 4.2.7R; and
- the condensed set of financial statements includes a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the period and that have materially affected the financial position or performance of the Group during the period.

On behalf of the Board

Malcolm Naish
Chairman

17 March 2020

Independent Review Report to Target Healthcare REIT plc

Introduction

We have been engaged by Target Healthcare REIT plc ('the Group') to review the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2019 which comprises the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related explanatory notes to the Condensed Consolidated Financial Statements. We have read the other information contained in the Interim Report and Financial Statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

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

Directors' Responsibilities

The Interim Report and Financial Statements are the responsibility of, and have been approved by, the Directors. The Directors are responsible for preparing the Interim Report and Financial Statements in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Our Responsibility

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

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP,
Edinburgh

17 March 2020

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The APMs used by the Company are set out below and the method of calculation of the significant APMs are disclosed on pages 67 and 68 of the Group's Annual Report 2019.

Contractual Rent	The annual rental income receivable on a property as at the balance sheet date, adjusted for the inclusion of rent currently subject to a rent free period.
Discount/ Premium	The amount by which the market price per share of a Closed-end Investment Company is lower or higher than the net asset value per share. The discount or premium is expressed as a percentage of the net asset value per share.
Dividend Cover	The absolute value of Group specific adjusted EPRA Earnings divided by the absolute value of dividends relating to the period of calculation.
Dividend Yield	The annual Dividend expressed as a percentage of the share price at the date of calculation.
EPRA Cost Ratio	Reflects the relevant overhead and operating costs of the business. It is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income.
EPRA Group specific adjusted Cost Ratio	The EPRA Cost Ratio adjusted for items thought appropriate for the Group's specific business model. The adjustments made are consistent with those made to the Group specific adjusted EPRA earnings as detailed in note 5.
EPRA Earnings per Share	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. A reconciliation of the earnings per IFRS and the EPRA earnings, including any items specific to the Group, is contained in note 5.
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. Makes adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. A reconciliation of the NAV per IFRS and the EPRA NAV is contained in note 5.
EPRA Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. EPRA's purpose is to provide a comparable measure around Europe for portfolio valuations.
EPRA Topped-up Net Initial Yield	Incorporates an adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives).
Loan-to-Value ('LTV')	A measure of the Group's Gearing level. Gross LTV is calculated as total gross debt as a proportion of gross property value. Net LTV is calculated as total gross debt less cash as a proportion of gross property value.
Portfolio or Passing Rent	The annual rental income currently receivable on a property as at the balance sheet date, excluding rental income where a rent free period is in operation. The gross rent payable by a tenant at a point in time.
Total Return	The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.
WAULT	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

Corporate Information

Directors	Malcolm Naish (Chairman) June Andrews OBE Gordon C Coull * Thomas J Hutchison III **
Registered office	Level 13 Broadgate Tower, 20 Primrose Street London EC2A 2EW
Investment Manager, Company Secretary and Administrator	Target Fund Managers Limited Laurel House Laurelhill Business Park Stirling FK7 9JQ
UK Legal Adviser	Dickson Minto W.S. Broadgate Tower, 20 Primrose Street London EC2A 2EW
Broker	Stifel Nicolaus Europe Limited 150 Cheapside London EC2V 6ET
Valuers	Colliers International Healthcare Property Consultants Limited 50 George Street London W1U 7GA
Auditors	Ernst & Young LLP Atria One, 144 Morrison Street Edinburgh, EH3 8EX
Tax Adviser	Deloitte LLP Athene Place, 66 Shoe Lane London EC4A 3BQ
Depositary	IQ EQ Depositary Company (UK) Limited Two London Bridge London SE1 9RA
Registrars	Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS13 8AE
Website	www.targethealthcarereit.co.uk

aic
The Association of
Investment Companies

* Chairman of Audit Committee
** Senior Independent Director

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 plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

Certain statements in this report are forward looking statements. By their nature, forward looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or event to differ materially from those expressed or implied by those statements. Statements regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Accordingly, undue reliance should not be placed on forward looking statements.