Target Healthcare REIT

Investing in care. Delivering returns.

Target Healthcare REIT Limited
Report and Financial Statements for the period from incorporation on 22 January 2013 to 30 June 2014

Target Healthcare REIT Limited ('the Company') is a Jersey registered closed-ended property investment company which was listed in March 2013.

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

Highlights 2014

- As at 30 June 2014, the Company had raised £95.7 million from a combination of institutional investors, wealth managers and private investors.
- The Net Asset Value ('NAV') per share as at 30 June 2014 was 94.7 pence.
- Share price of 104.75 pence as at 30 June 2014 represented a 10.6 per cent. premium to the NAV.
- As at 30 June 2014 the Group had invested capital in a portfolio of 17 care homes with a market value of £83.2 million and had cash balances of £17.1 million.
- On 23 June 2014, the Group secured a new 5 year £30.0 million committed term loan and revolving credit facility, of which £12.3 million was drawn-down at the period end.
- Since the period end the Group has acquired a further 6 care homes, for approximately £31.5 million (including acquisition costs).

Operating profit
£0.6m

Rent roll
£6.4m

Dividends declared
8.0p per share

Portfolio value
£83.2m

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About Us

Focused on Behaving Ethically

The Group's investment objective is to provide shareholders with an attractive level of income together with the potential for capital and income growth.

Corporate Summary

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. Subsequent to its launch, the Company entered the REIT regime for the purposes of UK taxation.

The Report and Financial Statements of the Company also consolidate the results of its subsidiary undertakings, which collectively are referred to throughout this document as the 'Group', details of which are contained in note 11 to the financial statements.

At 30 June 2014 Group total assets less current liabilities were £102.0 million and Group shareholders' funds were £90.2 million.

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 Policy

The Group pursues its objective by investing in a portfolio of care homes, predominantly in the UK, that are let to care home operators on full repairing and insuring leases that are subject to annual uplifts based on increases in the UK retail prices index (subject to caps and collars) or fixed uplifts. The Group is also able to generate up to 15 per cent. of its gross income, in any financial year, from non-rental revenue or profit related payments from care home operators under management contracts in addition to the rental income due under full repairing and insuring leases.

In order to spread risk and diversify its portfolio, the Group is also permitted to invest up to: (i) 10 per cent. of its gross assets, at the time of investment, in other healthcare assets, such as properties which accommodate GP practices and other healthcare related services including occupational health and physiotherapy practices, pharmacies and hospitals; and (ii) 25 per cent. of its gross assets, at the time of investment, in indirect property investment funds (including joint ventures) with a similar investment policy to that of the Group. The Directors have no current intention to acquire other healthcare assets or indirect property investment funds. The Group may also acquire or establish companies, funds or other SPVs which themselves own assets falling within the Group's investment policy.

In order to manage risk in the portfolio, at the time of investment, no single asset shall exceed in value 20 per cent. of the Group's gross asset value and, in any financial year beginning after the Group is fully invested, the rent received from a single tenant or tenants within the same group (other than from central or local government, or primary health trusts) is not expected to exceed 30 per cent. of the total income of the Group, at the time of investment.

The Group will not acquire any asset or enter into any lease or related agreement if that would result in a breach of the conditions applying to the Group's REIT status.

The Group is permitted to invest cash held for working capital purposes and awaiting investment in cash deposits, gilts and money market funds. Gearing, calculated as borrowings as a percentage of the Group's gross assets, may not exceed 35 per cent. at the time such borrowings are incurred. The Board currently intends that, as the proceeds of the Issues are invested, any further borrowings of the Group at the time of drawdown will not exceed 20 per cent. of its gross assets.

Any material change to the investment policy requires the prior approval of shareholders.

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' or 'Target'), with the Investment Adviser being responsible for the day-to-day management of the Group.

On 22 July 2014, Target became the Company's Investment Manager and was also appointed as its alternative investment fund manager (the '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.

Company Website:

www.targethealthcarereit.co.uk

Changing Demographic of Frail Elderly People

Report by: Professor June Andrews who is a director of the Dementia Services Development Centre at the University of Stirling, and is a world renowned dementia specialist.

The increase in numbers of older people in the UK is well documented. About a quarter of today's 16 year olds will live to be a hundred. People who are now in their sixties will live longer than their grandparents, and people in what is now called the 'Fourth Age' – over the age of 85 – are the subject of new research.

Even those older people who have poor health because of dementia or other chronic conditions are often able to live at home until near the end of life. Older people often have higher accumulated personal savings per head than younger people and the largest area of expenditure for older people in many countries is health care, but in the UK health care costs are mainly carried by the state.

However, social security and pension systems are now paying a price for their failure to anticipate the increased life span of their beneficiaries. Twenty or thirty years ago frail older people might have spent a long time, even years, in an NHS hospital towards the end of life. Those hospital beds have now been closed to all but the most complex cases. There are over 425,000 residents in care settings, whether private, third sector or operated by the statutory sector, and this is funded either by local authorities or from the individual's personal wealth.

Successive governments have attempted to bridge the gap between health and social care, but the hospital system still precipitates older and frail patients out of hospital – not back to their homes, but onward to a care home. People often say they would like to stay at home, and they dread having to go to a care home. Almost half of care home places are funded by the local authority who have frozen rates at such a low level that it is hard to see how attractive good quality care can be provided there. Families who have the means will choose a provider that offers more.

With this background there is a clear market for high quality care home places. The majority of care home admissions happen after a hospital stay or a crisis, such as the death of a spouse, but families are learning to plan ahead. The length of time an older person spends in a care home has been declining for years, and is now mainly less than two years unless the choice to move was a lifestyle decision, taken at leisure by someone who can afford to relax and be looked after.

Implications for provision of facilities

Providers are now being asked to create an environment that is comfortable and reflective of what affluent families would expect. In addition care homes need to be able to offer end of life care, which can be complicated and labour intensive. Well-proportioned, single en-suite rooms and access to a garden or roof terrace, choice of menu and a range of interesting tailored activities and cultural opportunities – these are all expected, along with access to hairdressing and health care such as chiropody, dentistry and optometry. Very large facilities might not be able to offer a high quality personalised environment, and be unable to attract a sufficient number of 'self-paying' clients in their geographical location to maintain profitability. If that means they are dependent on attracting a higher ratio of state-funded residents, the quality will be affected by the low rate of income from those clients.

Care homes that exclusively provide for state-funded residents are extremely sensitive to the cost cutting of local authorities, and their situation is made even more difficult whenever legislation increases the basic minimum wage for staff. There has been financial pressure on these homes to encourage families to 'top-up' and to pay additional amounts over and above what the local authority will pay for the resident. These top-ups were always questionable and families are becoming increasingly aware that they are not obligatory because the local authority has a duty to cover the cost of care. The net effect is that care homes at the more inexpensive level of the market are having a difficult time. As local authorities find themselves covering the drop in top-ups, it could reduce the total number of local residents they are able to fund.

Best and worst providers and the role of the regulators

The best and the worst providers can be measured in a variety of ways. A good proxy measure is whether their financial position is secure; there is a waiting list for their home, with low staff turnover and positive feedback from relatives and families. The formal measure of performance by the regulators in each of the four countries of the UK results in reports that are openly displayed on their websites. Families rely on those reports, but providers have raised issues about inconsistency between the individual regulators who visit their homes, citing personal bias and lack of specific knowledge and understanding of how a care home works. In England the regulator has been quite open about the difficulties they face in undertaking their role.

Changing Demographic of Frail Elderly People
(continued)

The quality of care in a care home depends largely on who is in charge. A well-organised and motivated manager with the right experience is essential for good care for residents. In larger care home groups, those managers need the support of the top office. Not least the experienced manager will gain the trust and respect of the regulation and inspection staff, and that mutual understanding helps the formal inspection process to work well. A change of the manager can make a big difference, positively or negatively.

To make a sound judgement on quality of care you need a lot of experience in operating care homes. The finances, location of the home, and quality of the building – everything needs to be taken into account. The whole business has to be seen from the point of view of the customer, which means both the resident and their family. There are brand names in the care home business that are little known but which provide exemplary care. The positive publicity and brand reputation that is attached to a big name care home group may mask unattractive variation in provision across the homes across the country that are part of that group. It needs expertise and understanding, and a lot of gathered intelligence to be able to make a reliable judgement about how any provider is doing.

Role of central government versus private sector

Central government policy is all in favour of keeping people at home and out of care homes for as long as possible. There are two reasons for this. One is that it is what people say they want, and the other is that for state funded care packages, home is often less expensive. The increase in numbers of residents is evidence that people often eventually reach a stage where they do want to be in a care home for comfort and safety, and reassurance for their families. The quality of home care packages is so openly shocking in many places that the state sector will have to spend more on them, which makes care settings less expensive by comparison. Even with a healthier population, time in a care home is likely for very many of us.

In May 2014 Royal Assent was giving to the Care Act, new central government legislation that will be implemented in 2016. It relates to England, and will influence the operation of care homes, including raising the upper capital limit for eligibility for local authority funding of residential care from £23,250 to £118,000. Many more people, if they are assessed as having eligible needs, will be able to ask for local authority support. If you have £118,000 the local authority will provide a care home place (if they judge that you need one), but you could use any of the rest of your resources to 'top up' your care. This could help private sector providers, depending on consumer behaviour. The question remains as to where the bar will be set by local authorities for the funding of eligible needs. This means that even if your personal wealth is less than £118,000, you still may not get state-funded care because the local authority raised the bar for individual eligibility to cope with increasing financial pressures.

It is known that state operated care homes spend almost twice as much per head, compared with private sector providers. They are bound to historical staff terms and conditions that are more generous than the private sector, but there is also a degree of resistance to business improvement and a legacy of old building stock. This explains the alacrity with which local authorities are leaving this market, even though the political fall out from reducing council jobs is difficult for elected representatives. In Northern Ireland the health minister announced the closure of state operated homes in 2013, only to reverse his decision in response to public dismay. Now it is expected that they will fall apart over time, because no new residents will be placed there. This of course offers opportunities for the private sector.

Implications for investors in future-proofing assets

Investors should be aware of recent research showing that even in care homes not designated for dementia up to 90 per cent. of residents have dementias. This has implications for the design of care home buildings. Undertaking care of people with dementia can be made less stressful, more comfortable and effectively less expensive in a 'dementia-friendly' building, because of the reduction in avoidable incidents and pressure on staff. These well designed buildings are also aesthetically pleasing and will appeal to potential residents and families alike, as well as other funders. Research evidence on this design is widely available for example on the website of the University of Stirling*.

It is a growing market, with growth in bed numbers currently being masked by the providers who are leaving the market, because their buildings are no longer currently fit for purpose or economically viable. Investors need to be very careful and only commit funds to acquiring first class care homes run by operators who show a strong focus on the care of the customer. It's a good policy to invest in care homes whose operators typically have a variety of income, both from local authorities, private pay and from the National Health Service. If these homes are profitable, the rents that they can afford are turned into a dividend for the investor.

To future proof your investment, you need to be sure that not only are the bricks and mortar sound, but the operator is committed to the high quality, individualised care that clients demand.

Professor June Andrews
Director

7 October 2014

* http://dementia.stir.ac.uk/design/virtual-environments/virtual-care-home

Chairman's Statement
Malcolm Naish

I am pleased to report that having grown the portfolio to 17 properties let to 5 separate care operators on long-term full repairing and insuring ('FRI') leases we remain well on-track to deliver the Group's objectives.

Introduction
When we established Target Healthcare REIT Limited in early 2013 we did so with the intention of delivering stable, long-term returns to investors, backed by modern, purpose-built care home assets and supporting established operators whose focus is on the provision of quality care.

I am pleased to report that having grown the portfolio to 17 properties let to 5 separate care operators on long-term full repairing and insuring ('FRI') leases we remain on-track to deliver these objectives. As a result of our investment discipline, the Group has performed well, creating a portfolio of quality purpose-built care homes at sustainable valuations and providing investors with dividends equating to 6 per cent. per annum, in line with expectations.

I am therefore delighted to present the Group's first annual report for the period from incorporation on 22 January 2013 to 30 June 2014.

Group Performance
Rental income in the reporting period was £6.3 million and the Group has benefitted from the first of the annual RPI-linked rental uplifts. The annual rent roll at 30 June 2014 was £6.4 million and we expect this to grow as we add further quality assets to the portfolio and as additional annual rental uplifts occur, coinciding with the anniversary of the operational leases.

Chairman's Statement
(continued)

The Group generated an operating profit of £0.6 million, comprising a capital loss of £2.2 million primarily relating to the purchase costs on the care home assets and a revenue profit of £2.8 million. The earnings per share for the period were 1.1 pence. Total acquisition costs represented 5.2 per cent. of the gross acquisition price and remained below the Group's budgeted costs of 5.8 per cent. This is in part due to the Investment Manager sourcing transactions on behalf of the Group without employing the use of third party agents or advisers.

As at 30 June 2014, the Group had cash balances of £17.1 million and an audited net asset value per share of 94.7 pence.

Portfolio

At the balance sheet date, the Group had successfully acquired 17 care home assets (excluding one property on which the Group had exchanged, but not yet completed) located in the North of England, the Midlands and Scotland. The properties are fully occupied, let to 5 established, quality care operators each on long-term FRI leases. With an average capital-weighted unexpired lease term in excess of 30 years, the Group should be able to benefit from a sustained level of rental income over the longer-term.

The portfolio valuation across the 17 properties as at 30 June 2014 was £83.2 million and in the first two quarters of 2014 the Group benefitted from its first property valuation uplifts, primarily due to two factors: firstly, the portfolio benefitted from a small amount of yield tightening across individual assets as the underlying trading performance matured; and secondly, as a result of the first annual RPI-linked rental uplifts. The net initial yield on acquisition across the portfolio remains ahead of the 7.0 per cent. blended initial yield modelled pre-launch, supporting the Company's stated dividend policy.

Funding

Following the listing on 7 March 2013 at which point gross proceeds of £45.7 million were raised, the Company successfully secured additional funds of £50.0 million via two fundraisings: £4.6 million was raised via an equity issue announced on 12 June 2013; and a further £45.4 million via a further equity issue announced on 25 October 2013. I am particularly pleased to report that the share issue in October 2013 was over-subscribed and I would like to thank the shareholders for their support.

On 23 June 2014, the Group secured a new 5 year £30.0 million committed term loan and revolving credit facility with The Royal Bank of Scotland plc. This facility allows the Group to make further acquisitions after investment of its equity capital, and allows the Group to lower its overall cost of capital.

Interest payable under the facility is at a floating rate equal to 3 month LIBOR plus a margin of 2.0 per cent. per annum; however, the Group's intention remains to fix a proportion of the interest through a forward interest rate swap in order to manage debt costs over the longer-term. Whilst the debt facility is within the Group's stated gearing limit of 35 per cent. of gross assets, it remains the Board's intention that as the proceeds of further capital raisings are invested, any further borrowings will not exceed 20 per cent. of the Group's gross assets at the time of drawdown.

Dividends

A stated intention of the Company at launch was to deliver to shareholders a sustainable dividend of 6 per cent. per annum and I am pleased to report this has been achieved, with a total dividend of 8 pence per share declared and paid in respect of the reporting period.

The Board's dividend policy is to target a fully covered dividend and once fully invested we continue to forecast achieving this objective.

Regulatory & Board Changes

As a result of changes in the regulatory environment in which the Company operates, during July 2014 the Company appointed Target Advisers LLP ('Target') as its alternative investment manager to comply with the terms of the Alternative Investment Fund Managers Directive ('AIFMD').

We also recently added two new non-executive directors to the Board, Mrs Hilary Jones and Mr Graeme Ross, and may I take this opportunity formally to welcome them.

Outlook

In the first 18 months since incorporation the Group has made significant progress in establishing itself as a credible, long-term investor in the UK elderly healthcare market.

Drawing on the well-established relationships that our Investment Manager has formed with regional and national operators and agents alike, I am pleased to report the Group maintains a robust investment pipeline. As a result of this, the Board looks forward to adding further high quality assets located in existing and new geographies as well as welcoming new tenants to the portfolio.

Since the end of June 2014, the Group has added a further 6 purpose-built care facilities to the portfolio for a total consideration (including acquisition costs) of approximately £31.5 million. In September 2014 the Group also announced it had exchanged contracts to acquire a new purpose-built care home in Hastings, East Sussex, for approximately £8.0 million (including acquisition costs). In addition, we have a number of investment opportunities both under negotiation and at advanced non-binding heads of terms stage which the Group intends to conclude during the coming months, subject to the availability of additional funding.

In September 2014, the Company raised gross proceeds of £17.4 million following the issue of a further 17.2 million ordinary shares.

Under the 12 month placing programme the Board expects to issue further ordinary shares to fund further acquisition opportunities as they arise.

As I look ahead to the second half of 2014 and beyond, my Board colleagues and I look forward to securing further high quality investments at sustainable valuations enabling the Group to continue to deliver on its core investment objectives for the benefit of its shareholders.

Mr Malcolm Naish
Chairman

7 October 2014

Strategic Report

The Directors present their strategic report on the Group for the period ended 30 June 2014.

Business Model & Strategic Objectives

The Group seeks to execute its investment policy, to fulfil its overall objective of providing shareholders with an attractive income return with the potential for growth in that income return and invested capital. The Group's key objectives, therefore, are:

1. To pay a 6 per cent. dividend yield, with annual uplifts linked to RPI with caps and collars, which will be fully covered when the Group is fully invested.
2. To acquire a diversified portfolio of high quality modern care homes that are able to provide excellent accommodation standards for residents.
3. To let such assets to high quality care providers on terms which provide secure long term and sustainable rental income to the Group which will grow annually.
4. To fund its investments primarily using shareholder equity whilst enhancing returns through modest use of leverage within pre-determined risk levels.
5. To deliver total returns to shareholders through a combination of dividend payments and asset value appreciation.

The Group's success is dependent on the acquisition of assets which meet the investment criteria, and the letting of these assets to tenant operators with the ability to provide quality care alongside meeting their rental commitments to the Group.

The Investment Manager applies its specialist healthcare asset and fund management expertise to identify target investments which are likely to benefit from the following:

- Changing UK demographics resulting in higher numbers of the elderly;
- Resident choice, expectations as to the quality of care homes and the expectation of growth in the private pay market;
- The forecast rise in acute chronic illness and dementia.

The Investment Manager's approach to specific investment analysis and appraisal focuses on:

- Geographical regions and local markets with acceptable economic fundamentals;
- A demand/supply imbalance for 'best in class' care homes;
- Support from both the state and self-pay markets.

The Group's investments can include: single care homes; portfolios of care homes; pre-let development funding for care homes; and, other healthcare assets where a robust investment opportunity exists.

Market Overview

We have long since maintained that the UK's elderly healthcare sector represents an attractive investment opportunity. The compelling population demographic dynamics are clear, as too is the paucity of quality care home stock across the UK and the subsequent requirement for substantial investment over the short/medium-term. Traditional occupational leases in the sector are long-term, without breaks and with annual rental uplifts linked to inflation (with a cap and collar). These factors combine to offer investors the opportunity to benefit from stable, long-term income returns by way of dividend yield with the potential for additional capital growth.

Attracted by these fundamentals, over the course of the last 18 months we have witnessed several new entrants to the market. These include both domestic investors, such as institutional funds, private equity and venture capital firms, and pension funds, as well as investors from overseas, including North American REITs and Middle Eastern investors.

An interesting development has been the increase in the prevalence of generalist commercial property investors entering the market seeking to benefit from the attractive yields available, competing directly against the new and existing specialist healthcare property investors. Whilst the number of new investors entering the market appears to be slowing, it is also evident that those investors who already have a presence intend to stay, ensuring the market remains competitive in the short-term at least.

Earlier this year, we commented on the fact that we were observing early indications that investment yields in the sector may be hardening, albeit at that stage it was difficult to ascertain whether these were isolated instances or represented a wider trend. Six months on, we believe that there is evidence of modest yield compression across the sector with some very keen yields having been paid for the strongest quality covenants.

We believe that best value may often be realised at the single asset and smaller portfolio level, likely involving regional operators with smaller balance sheets but who nevertheless deliver robust operational and trading performances, often as a result of a strong care culture.

It is in this context that we believe a specialist investment vehicle such as Target Healthcare REIT is best able to thrive, but only when a robust and rigorous investment discipline is applied. This investment discipline extends beyond simple analysis of tenant covenant and property location, but also includes population demographics and

Strategic Report
(continued)

competitive landscape analysis of the individual asset; the ability of the home to attract residents backed by several sources of income; an emphasis on setting sustainable rent levels over the long-term with appropriate rent covers; and, importantly, a strong care culture which is focused on delivering quality care standards.

We are pleased to report that the investment pipeline in this regard remains robust and with the underlying market dynamics remaining strong there should be further investment opportunities available for the Group. By ensuring these investment appraisal fundamentals remain at the forefront of our deliberations, we remain confident of being able to add further quality assets to the portfolio which will deliver long-term, sustainable returns for investors despite the strong levels of external competition for assets.

Business Review

The results as described in the Chairman's Statement on pages 5 to 6 have been driven by the following activities of the Group in its first period from incorporation to 30 June 2014.

Group financing

The Group's successful investment activity during the period has been made possible by its equally successful financing activity, with the completion of three equity issues and entry into a debt facility.

Share issues

The Company successfully raised gross proceeds of £45.7 million through the issue of 45.7 million shares in an initial public offering on 7 March 2013.

A further small issue of 4.6 million shares was then completed in June 2013 for gross proceeds of £4.6 million. This issue was undertaken at a discount of 3 per cent. to the share price immediately prior to the issue and at a premium to NAV as at 31 March 2013 of 7 per cent.

In October 2013 the Company raised £45.4 million in an over-subscribed issue of 45.0 million shares. The issue price was a discount to the share price immediately before issue of 2 per cent. and at a premium to the 30 September 2013 NAV of 7 per cent.

The October share issue provided the opportunity for a number of new institutional shareholders to join the Company's register to complement the initial shareholders in diversifying and strengthening the Company's supportive shareholder base.

Debt financing

In June 2014 the Group entered into a facility agreement with its bankers, The Royal Bank of Scotland plc, which provides a £30.0 million five year debt facility comprising a term loan facility of £18.0 million and a revolving credit facility of £12.0 million.

The proceeds of the facility have been used to add to the Group's portfolio of care homes, with £12.2 million having been drawn as at 30 June 2014 and subsequent drawdowns to the date of this report taking the total to £27.0 million.

Properties acquired

The Group has undertaken significant investment activity during the period, please see pages 12 to 15 for details of property acquisitions and the current portfolio.

Dividends

The Company paid a total of 6.5 pence per share in dividends during the period. 1.5 pence per share in relation to the final quarter of the period from April to June 2014, was paid during August 2014, therefore dividends relating to the Group's operations during the period to 30 June 2014 have totalled 8.0 pence per share.

These dividends were split as follows:

	Pence per share
Property income distribution	0.73
Ordinary dividend	7.27
Total	**8.00**

Given that the aggregate net initial rental yield on acquisition across the portfolio remains ahead of the 7 per cent. blended initial yield modelled pre-launch, and the impact of the inflation-linked annual rental uplifts which are upwards only, the Directors intend to increase the quarterly dividends in respect of the year to 30 June 2015 by 2 per cent. to 1.53 pence per share, in the absence of unforeseen circumstances.

Key Performance Indicators

The Board monitors Group performance relative to the strategic objectives detailed on page 7 through the use of the following KPIs:

	Metric	Performance
Objective 1 To pay covered quarterly dividends with growth potential.	– Dividend rates. – Growth in rental income. – Control of operating costs.	– Dividends paid as per prospectus. – Modelling suggests strong potential for growth, and cover once fully invested. – Ongoing charges figure <2 per cent.
Objective 2 To increase property assets under management.	– Acquisitions completed.	– 17 assets to value of £83.2 million acquired during the period.
Objective 3 To generate long term secure rental income.	– Rent roll increase. – Number of tenants. – Weighted average unexpired lease term ('WAULT'). – Rental increases.	– 100 per cent. of properties fully let at rent roll of £6.4 million. – 5 tenant operators. – WAULT of 30.9 years. – Annual rental reviews completed during the period resulted in 2.8 per cent. increases.
Objective 4 Implement efficient and effective capital structure.	– Manage debt/equity at appropriate balance to generate leveraged returns within agreed risk threshold levels.	– Debt facility secured to set gearing level as at 30 June at target and within allowable threshold. – Gross equity of £95.7 million raised during period.
Objective 5 To maximise total returns to shareholders from the Group's performance.	– Portfolio performance relative to Investment Property Databank ('IPD') Healthcare index benchmark. – Asset revaluations.	– Full period portfolio total return (excluding acquisition costs) as calculated by IPD of 14.2 per cent. – Asset revaluations of £2.0 million.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review.

Compliance with regulation, legal and ethical standards is a high priority for the Group and the Investment Manager takes on an important role in this regard. The Audit Committee is responsible for satisfying itself as to the effectiveness of the risk management and internal control procedures.

The Group has developed a framework for identifying risks and their potential impact on the Group's assets. This process is risk based and will identify emerging risks as well as monitor existing risks.

Strategic Report
(continued)

The principal risks arise from: financing availability; the healthcare property market; the taxation environment; and operations, as further noted below.

Risks and Uncertainties	Impact	Mitigation
Group financing		
1. Lack of equity capital	The Group may be unable to acquire newly identified assets meeting its investment criteria and be unable to invest in its existing portfolio to maintain values and income if required. This will restrict its ability to fulfil growth objectives.	– The Group maintains regular communication with investors, and, with the assistance of its Placing Agent and Sponsor, regularly monitors the Group's capital requirements and investment pipeline alongside opportunities to raise equity. – Liquidity available from income, equity and debt is kept under constant review to ensure the Group can meet any forward commitments as they fall due.
2. Debt facility covenants	The Group is at risk of penalties or potential default should it fail to meet covenant tests as agreed with its lender.	– The Group monitors covenant levels on an ongoing basis to ensure compliance, and has the ability to provide early warning of potential issues. The Group has headroom in its current facility and has flexibility on which of its assets are used as security.
3. Interest rate risk	The Group's debt facility carries a floating rate of interest. An increase in interest rates would adversely impact cashflow and profitability.	– The Group intends to hedge a proportion of this exposure through entering into a fixed rate Interest Rate Swap arrangement.
Healthcare Property Market risk		
4. Healthcare property valuations	Property values could fall, reducing shareholder capital returns and reducing the borrowing capacity available to the Group.	– The Board seeks to mitigate this risk through a detailed and considered investment appraisal process prior to asset acquisition, allied with subsequent monitoring of asset quality and performance by the Investment Manager. – The portfolio is 100 per cent. let with sustainable rental levels and upwards-only annual rental reviews which support asset values.
5. Lack of available properties or inability to invest on acceptable terms	The Group may not be able to acquire suitable properties which would allow continued growth.	– The Investment Manager develops and maintains a network of relationships with property owners and developers which it is expected will provide the Group with the best possible opportunity to acquire suitable properties. – Demographics are such that many new homes require to be built to satisfy demand. The Group is well-positioned to participate in acquiring a share of these.
6. Government or local authority policies or funding of elderly care change	The Group's strategy may become inappropriate and its objectives unachievable through a downturn in demand for its properties.	– Government policy is monitored by the Group so as to increase ability to anticipate changes. – Tenants typically have a multiplicity of income sources, thereby not being totally dependent on government pay. – The Group's properties are let on long-term leases at sustainable rent levels, providing security of income.
Taxation risk		
7. Breach of REIT regime regulations	Failure to meet requirements may result in loss of REIT status and access to associated taxation advantages.	– The Group's activities are monitored to ensure that all conditions are adhered to. The REIT rules are considered during investment appraisal and transactions structured to ensure conditions are met.
Operational risks		
8. Performance of third party advisers	The Group has no employees and relies on third parties to manage effectively operations. Termination of the investment management agreement (the 'IMA') with, or poor performance by, Target Advisers LLP could adversely affect Group performance.	– The IMA has a notice period and key man provision relating to the Investment Manager. – Investment Manager remuneration is linked to Group performance, including a performance fee. – Third Party service providers are continually monitored and reviewed by the Board.

Social, community, employee responsibility & environmental policy

The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company.

The Investment Manager acquires and manages properties on behalf of the Company. It is recognised that these activities have both direct and indirect environmental impacts. These assets are modern purpose-built care homes and are therefore expected to be effective in minimising those impacts.

The Investment Manager takes into account the broader social, ethical and environmental issues of investing in properties that are let to care home operators, acknowledging that tenants failing to manage these issues adequately run a long term risk to the sustainability of their businesses. More specifically, they expect tenants to demonstrate ethical conduct, effective management of their stakeholder relationships, responsible management and mitigation of social and environmental impacts, as well as due regard for wider societal issues.

As an investment trust with its current structure the Company has no direct social, community, employee or environmental responsibilities of its own.

The Company has no greenhouse gas emissions to report from its operations for the period ended 30 June 2014, nor does it have responsibility for any other emissions producing sources.

At 30 June 2014 there was one female Director and three male Directors. Since the period end the Company has appointed a further female Director and a further male Director. The Company has no employees so does not require to report further on gender diversity.

On behalf of the Board

Mr Malcolm Naish
Chairman
7 October 2014

Our Portfolio

Purpose Built, Best-in-Class Facilities

As at 30 June 2014 our portfolio is comprised of 17 assets let to 5 tenants. All of the 1,100 bedrooms in the portfolio are in purpose built, best-in-class facilities with single occupancy and en-suite facilities.

Portfolio details

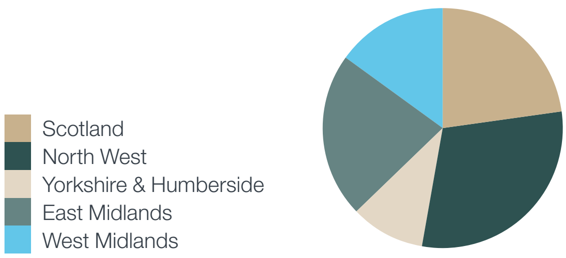
During the period the Group has acquired 17 care home assets across the UK in transactions representing £85.5 million inclusive of acquisition costs. Transactions have been executed as a combination of both single asset acquisitions and small portfolio deals.

Consistent with the Group's strategy of investing in 'best-in-class' properties each of the homes within the portfolio are modern purpose-built care facilities. They provide a combination of residential and nursing care, and benefit from excellent resident facilities and specifications. All of the 1,100 bedrooms across the portfolio are single occupancy rooms and enjoy en-suite facilities, including wet room showers. There are additional on-site facilities for the residents' benefit, including separate lounge and dining areas, hairdressing salons, libraries, cinemas and 'quiet' rooms. Each of the properties is less than 6 years old, with the majority having been constructed in 2012 and 2013.

The properties are let to 5 tenants each of which is an established operator in the UK elderly care sector with a demonstrable focus on resident care. Each of the Group's tenants is subject to detailed due diligence prior to investment, analysing amongst other things trading performance, operational effectiveness and care culture.

The tenant balance across the portfolio is currently weighted towards Ideal Carehomes, although as the Group grows we expect this to be rebalanced. Each of the properties, which are fully let, are located across the North of England, the Midlands and Scotland. As the Group seeks to expand, we continue to add both new tenants and geographies further diversifying the risk profile of the portfolio.

Geographic split by property valuation
(% of portfolio as at 30 June 2014)

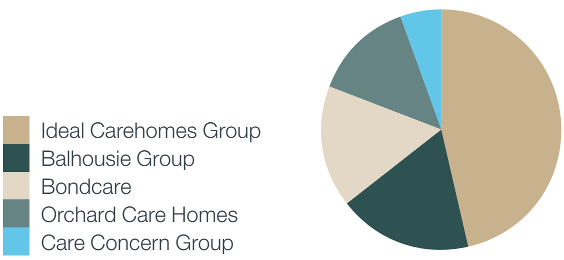


After the period end, the Group has acquired a further 6 care homes for approximately £31.5 million (including acquisition costs), increasing the portfolio to 23. In September 2014 the Group also announced it had exchanged contracts to acquire a new purpose-built care home in Hastings, East Sussex, for approximately £8.0 million (including acquisition costs). These additional acquisitions have resulted in the equity raised up to the balance sheet date having been fully invested together with substantially all of the debt facility. In the course of these acquisitions, the Group has further strengthened its position with existing tenants as well as broadening the Group's tenant and geographic reach.

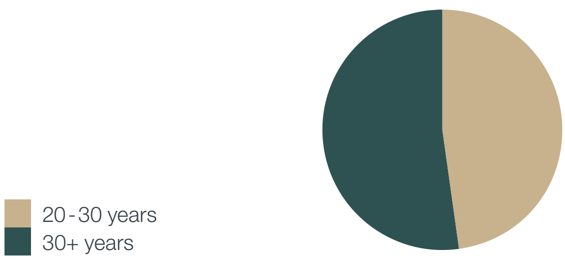
The Group's total annual rent roll as at 30 June 2014 is £6.4 million, generating an aggregate net initial yield in excess of the 7 per cent. blended initial yield modelled pre-launch.

The rents are subject to rental reviews largely in line with RPI, subject to a cap and collar, and during the first half of 2014 the Group benefitted from the first of these rental uplifts, averaging 2.8 per cent. The average capital-weighted unexpired lease term as at 30 June 2014 was 30.9 years and the rent has been collected in full across the portfolio during the reporting period.

Tenant split by passing rent
(% of portfolio as at 30 June 2014)



Capital-weighted unexpired lease term
(% of portfolio as at 30 June 2014)



Valuation

The property portfolio was externally valued as at 30 June 2014 at a market value of £83.2 million as defined by the Royal Institution of Chartered Surveyors by Colliers International Property Consultants Limited.

The valuation represents a 2.5 per cent. increase from the time of acquisition, net of acquisition costs, and is in line with the Group's expectations. The increase in valuations to date is as a result of two factors: firstly, a small amount of yield tightening across individual assets as the underlying trading performance matures; and secondly, as a result of the first annual RPI-linked rental uplifts. As the portfolio further matures, combined with the impact of annual upward-only rental reviews, we anticipate that there will be further valuation uplifts in the future.

The total property portfolio return over the period was 14.2 per cent. This excludes acquisition costs and has been calculated by the IPD.

Portfolio management

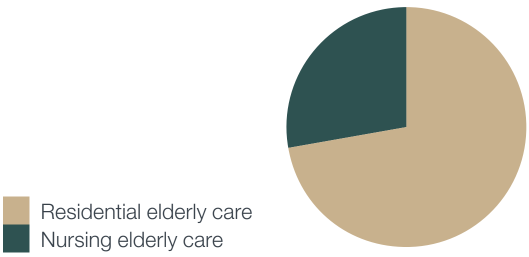
As an actively engaged landlord, the Group takes an ongoing interest in its tenants' operations post-completion, sharing the benefit of its experience where appropriate.

As part of this continuing due diligence the Investment Manager, on the Group's behalf, monitors aspects such as: market fundamentals, yield movements, rental growth, supply and demand, rent cover, tenant profitability, fee rates, changes in legislation, portfolio activity, investment activity, performance, corporate actions and valuation.

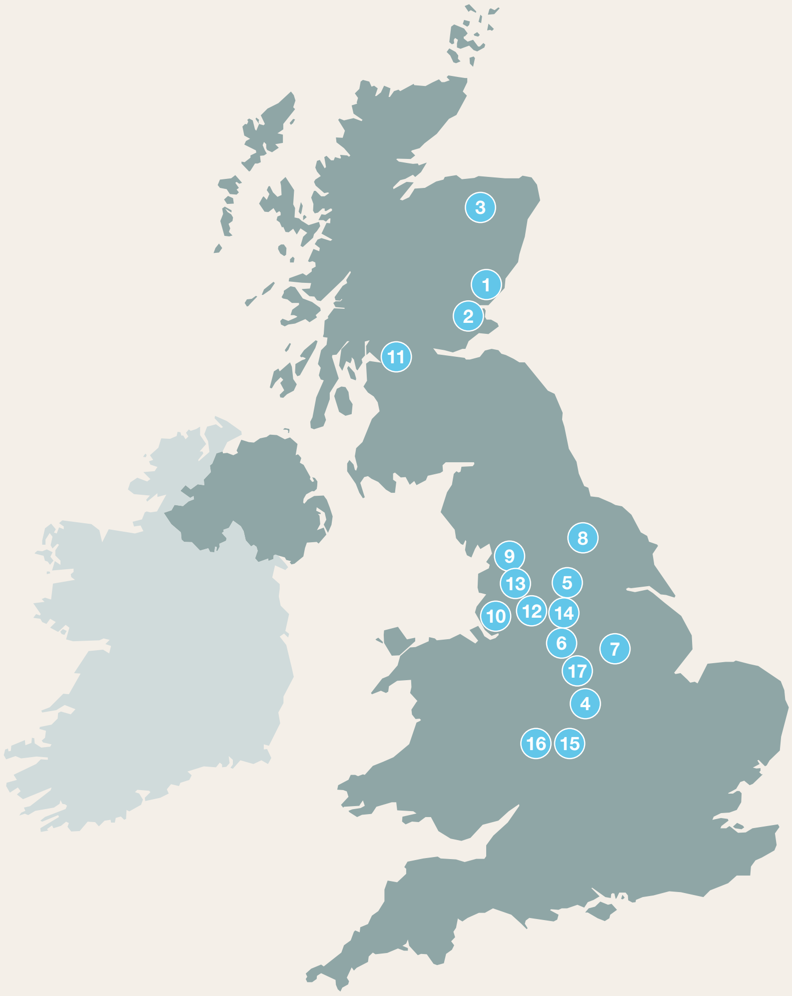
Through its bi-annual inspections, and often in conjunction with external building surveyors, the Investment Manager assesses the ongoing requirement for maintenance capital expenditure across the portfolio which the tenants are contractually obliged to adhere to under the terms of the FRI leases. Given the relative ages of the properties within the portfolio, maintenance requirements have been relatively light during the period, however we expect this to increase as the portfolio matures.

With regards to more comprehensive capital expenditure projects across the portfolio such as extensions and major refurbishments, there are no such projects currently planned. The Investment Manager does, however, continue to monitor and assess opportunities as they arise.

Residential, nursing and specialist care
(% of portfolio as at 30 June 2014)



Map of Our Properties



Refer to pages 14 and 15 for more information about each property.

1. Arbroath
2. Dundee
3. Huntly
4. Leicester
5. Castleford
6. Nottingham
7. Newark
8. Thirsk
9. Longridge
10. St. Helens
11. Glasgow
12. Manchester
13. Wigan
14. Stockport
15. Coventry
16. Birmingham
17. Nottingham

Our Portfolio
(continued)

Our Properties

1. Arbroath
Monkbarns Care Home

The home is set in an attractive residential location and being a coastal site is afforded with views over the North Sea. Built in two phases during 2011/12, the property comprises 65 bedrooms all of which are single occupancy and include en-suite facilities with wet room showers.

2. Dundee
St. Ronan's Care Home

The property is located in a mature residential area of Dundee and enjoys spectacular views over the Tay Estuary and Tay Bridge. Set in a prominent location, this modern purpose-built care home comprises of 66 bedrooms, each with full en-suite facilities.

3. Huntly
Huntly Care Home

Completed in late 2012, the home is situated on a prominent site in the popular market town of Huntly, approximately 40 miles north west of Aberdeen. The property comprises of a two-storey building with 60 single occupancy bedrooms with en-suite wet room shower facilities in each.

4. Leicester
Beaumont Hall

Situated in a prominent location, this modern purpose-built home includes 60 state-of-the-art bedrooms all with full en-suite facilities. Constructed in 2012, the home is built using the well-researched three storey design which has been employed by Ideal Carehomes in several other successful homes.

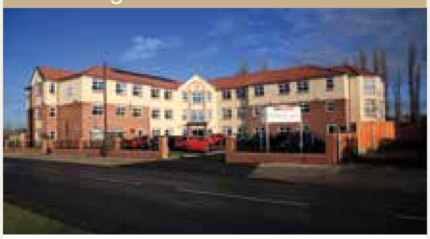
5. Castleford
Newfield Lodge

Completed in late 2012, the home is an attractive building situated in a quiet and mature residential setting. Built over two storeys, the 64-bed care home benefits from two open courtyard areas which have been pleasantly landscaped and include covered pergolas and raised-bed gardens.

6. Nottingham
Coppice Lodge

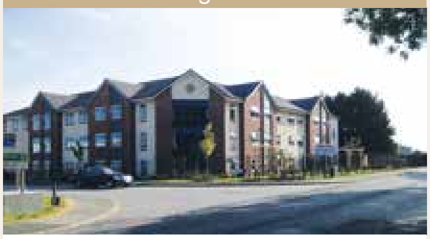
The property is situated in a mature residential area within the affluent suburb of Arnold, to the north east of Nottingham. Each of the property's 64 single occupancy bedrooms are generously proportioned and include full en-suite facilities.

7. Newark
Bowbridge Court



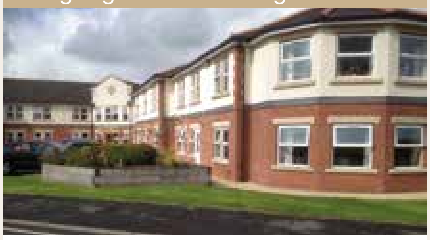
Completed in late 2012, the home is situated on a prominent site adjacent to the modern local hospital in the market town of Newark-on-Trent. The three-storey property, comprising 54 single occupancy en-suite bedrooms, is set in attractive landscaped gardens.

8. Thirsk
Hambleton Grange



Completed in July 2013, the property is situated on a prominent site on the western edge of Thirsk and enjoys glimpses of the famous racecourse. A three-storey care home, comprising 50 single occupancy bedrooms, all of which are generously proportioned and benefit from en-suite facilities with wet room showers.

9. Longridge
Longridge Hall and Lodge



The home is located in the small town of Longridge, approximately eight miles north east of Preston, Lancashire. An 'L'-shaped two-storey building, comprising 60 en-suite bedrooms with wet room showers, the home was built in 2008.

10. St. Helens
St. Helens Hall and Lodge

Located in a residential suburb of St. Helens, Merseyside, the home was constructed in 2008. A substantial two-storey building, the property is of a modern design with a striking steel-formed roof and a feature glass wall at the reception area. The 94 en-suite bedrooms are divided across two dedicated units, one catering for residential care and the other for dementia.

11. Glasgow
Mossvale Care Home

Completed in 2011, the property occupies a large site overlooking a country park within a densely populated residential area to the north east of Glasgow. Each of the 61 well-appointed single occupancy bedrooms have full en-suite facilities, including wet room showers.

12. Manchester
De Brook Lodge

The property is an attractive care home located in Flixton, a village in the metropolitan borough of Trafford, Greater Manchester. The 52 single occupancy bedroom home is situated in a residential area close to the local primary school. The property benefits from an excellent range of facilities, including large resident lounge/diners, hairdressing salon and attractive landscaped gardens.

13. Wigan
Ash Tree House

Completed in 2013, the home is situated in a residential area within the town of Hindley, close to Wigan. The home is built over three storeys and comprises 60 large, single occupancy bedrooms each with en-suite facilities including wet room showers.

14. Stockport
Brinnington Hall

Situated on a prominent thoroughfare in a suburb of Stockport, the home is sited in a predominantly residential area adjacent to the local NHS health centre. The property was constructed in 2011 and contains 67 bedrooms over three floors each including full en-suite facilities. The public spaces include various resident lounge/dining areas and ‘quiet’ rooms.

15. Coventry
Herald Lodge

Completed in 2012, the home is situated in Canley, close to Coventry in the West Midlands. As well as 42 single occupancy bedrooms with full en-suite facilities, residents are able to use the various lounge/dining areas, ‘quiet’ rooms, café area and hairdressing salon.

16. Birmingham
Bromford Lane

Constructed in 2010, the property is located approximately three miles north east of Birmingham city centre between the suburbs of Hodge End and Bromford. The property is split into two distinct wings designed to accommodate nursing and high dependency use with a total of 76 and 40 beds respectively. Outdoor space is well accommodated at the property with several covered outdoor terraces complementing the well-maintained garden.

17. Nottingham
Beechdale Manor

Located in a suburban setting, the property is bordered on two sides by schools and to the rear by playing fields. Completed in 2011, the home is a horseshoe design with a terrace and grass area in the centre. Built over three storeys, the 65 single occupancy bedrooms each have large en-suite facilities including wet room showers.

Board of Directors

Malcolm Naish

Independent Non-Executive Chairman

Date of appointment

30 January 2013

Country of residence

UK

Experience

Mr Naish was a director of Real Estate at Scottish Widows Investment Partnership ('SWIP') until 2012, with responsibility for a portfolio of commercial property assets spanning the UK, Continental Europe and North America, and for SWIP's real estate investment management business. Mr Naish has over 40 years' experience of working in the real estate industry and qualified as a Chartered Surveyor in 1976. Immediately prior to joining SWIP he was director and head of DTZ Investment Management, where he also led new business development in the UK and international markets. He was a founding partner of Jones Lang Wootton Fund Management, and UK Managing Director of LaSalle Investment Management. In 2002, he co-founded Fountain Capital Partners, a pan-European real estate investment manager and adviser. Mr Naish was also Chairman of the Scottish Property Federation for 2010/2011.

All other public company directorships:

GCP Student Living Plc
Ground Rents Income Fund Plc

Professor June Andrews

Independent Non-Executive Director

Date of appointment

30 January 2013

Country of residence

UK

Experience

Professor Andrews is a director of the Dementia Services Development Centre at the University of Stirling and is a world renowned dementia specialist. She has been recognised with the Founders Award of the British American Project of which she is a Fellow, and was awarded the Robert Tiffany Award by the Nursing Standard for her international work. She has considerable experience in management of change in health services, having set up and directed for three years the Centre for Change and Innovation in the Scottish Executive Health Department. In her current role she is applying those skills across sectors in the care of people with dementia including the health, social services, private and voluntary bodies who provide care. Professor Andrews is a former trade union leader, NHS manager and senior civil servant.

All other public company directorships:

None

Gordon C. Coull

Independent Non-Executive Director and Chairman of Audit Committee

Date of appointment

30 January 2013

Country of residence

UK

Experience

Mr Coull was, until June 2011, a partner at Ernst & Young LLP where he specialised in investment trusts and property. He has served as an audit committee member at the Universities Superannuation Scheme since April 2012.

All other public company directorships:

None

Thomas J. Hutchison III

Independent Non-Executive Director and Senior Independent Director

30 January 2013

United States of America

Mr Hutchison has more than 40 years of experience focused in the lodging, hospitality, real estate development, seniors' housing and financial services industries. He is the principal founder of Legacy Hotel Advisors, LLC and Legacy Healthcare Properties, LLC where he served as the Chairman of both companies. In January 2000, he joined CNL Financial Group, Inc. where he held several key executive positions over an eight year period: CEO of each of CNL Retirement Properties, Inc., CNL Hotels & Resorts, Inc., CNL Real Estate Group, Inc., CNL Realty and Development, Inc. and CNL Income Properties, Inc. Mr Hutchison is currently a director for KSL Capital Partners LLC, ClubCorp, Inc., US Chamber of Commerce, Hersha Hospitality Trust and Trinity Forum Europe. He is also a member of The Real Estate Roundtable, Leadership Council for Communities in Schools and the Advisory Council of the Erickson School of Aging Studies. Additionally, he serves as a senior advisor to various service industry public companies. He is a former Director of Zapata Corporation, General Development Corporation, Vision360 and Trinity Forum.

None

Hilary Jones

Independent Non-Executive Director

22 July 2014

Jersey

Mrs Jones joined Rawlinson & Hunter's ('R&H') fund administration business in Jersey in 1999 and was promoted to the role of Principal Manager in 2005. Since 2009 she has been a director of R&H Jersey and leads a team responsible for a wide range of corporate services, in particular for property funds. Mrs Jones is a fellow of the Association of Chartered Certified Accountants and a past member of the Legal & Technical Committee of the Jersey Funds Association, she also sat on the Authorisation Users panel which liaised with the JFSC on behalf of the funds industry regarding specific matters relating to the authorisation of funds.

None

Graeme Ross

Independent Non-Executive Director

22 July 2014

Jersey

Mr Ross is a Chartered Accountant and has over 25 years experience of the offshore funds sector. He joined R&H's fund administration business in Jersey in 1986 and became a partner in 1995. In 2010 Mr Ross was appointed as Senior Partner of R&H in Jersey with responsibility for the firm's overall business strategy.

BDP Limited
Camber International Equity Growth Fund Limited
ETFS Commodity Securities Australia Limited
ETFS Commodity Securities Limited
ETFS Equity Securities Limited
ETFS Foreign Exchange Limited
ETFS Hedged Commodity Securities Limited
ETFS Hedged Metal Securities Limited
ETFS Industrial Metal Securities Limited
ETFS Metal Securities Limited
ETFS Oil Securities Limited
Geiger Counter Limited
Gold Bullion Securities Limited
New City Energy Limited
New City High Yield Fund Limited
Red Fort Partnership Limited
Swiss Commodity Securities Limited

Investment Manager

The Investment Manager

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

From 19 March 2013 to 22 June 2014, R&H Fund Services (UK) Limited was the investment manager of the Company. R&H Fund Services (UK) Limited had entered into the Investment Manager's Delegation Agreement with Target, pursuant to which the day-to-day management of the Company was delegated to Target.

Alternative Investment Fund Managers Directive ('AIFMD')

The Board has appointed Target as the Company's AIFM and Target has received FCA approval to act as AIFM of the Company; your Company is therefore fully compliant with the AIFMD. An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the property transactions and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed Augentius Depositary Company Limited to act as the Company's depositary.

Key personnel of the Investment Manager

The key healthcare investment professionals who are responsible for managing the portfolio are:

Kenneth MacKenzie

Kenneth MacKenzie is founder and managing partner of Target. He is an experienced entrepreneur and healthcare operator. He purchased, developed and operated one of Scotland's largest domiciliary care businesses, Independent Living Services (ILS) Limited, and successfully sold his equity in 2006. Kenneth has over 30 years' experience leading entrepreneurial start ups and acquisitions and securing exits for shareholders. Kenneth knows many of the operators, agents, private equity players, and developers in the healthcare sector via a well developed network. Kenneth will continue to network widely, visiting key players in the sector inspecting potential acquisitions, and will be instrumental in key negotiations.

John Flannelly

John Flannelly is investment partner of Target. He qualified as a Chartered Accountant with Arthur Andersen and has extensive investment experience in the healthcare, leisure and real estate sectors from his five years at Bank of Scotland Joint Ventures where he managed a portfolio of approximately £500 million of risk capital. John represented Bank of Scotland on numerous investee company boards including the parent company of the Caring Homes Group, one of the largest owner operators of care homes in the UK, which underwent a material growth phase during the period of his involvement. Prior to this, also at Bank of Scotland, he spent three years structuring debt packages for private equity backed management buy outs and two years in a business development role where he developed his network. John has more than 10 years' relevant experience in corporate finance, banking and private equity in investment appraisal, debt structuring, acquisitions, divestments and exits.

Andrew Brown

Andrew Brown is healthcare partner of Target. He is a healthcare professional with wide experience of elderly care through leading and managing the development of Auchlochan, one of the unique continuing care retirement communities in the UK, based in Scotland. Andrew has 25 years' experience of the senior care sector, negotiating with planners, bankers, care commission, health boards, local authorities and clients.

Rob Scholes

Rob Scholes is investment director at Target. He has over 10 years' investment and corporate finance experience having worked in the private equity division of Bank of Scotland and at mid-market private equity firm Caird Capital. Rob's responsibilities include the appraisal and execution of new investment opportunities as well as reporting on the development of the funds and the assets managed by the Investment Manager.

Gordon Bland

In addition to the healthcare investment professionals:

Gordon Bland is finance director at Target. He is a Chartered Accountant and has extensive experience of financial reporting and control in the asset management industry. Prior to joining Target, he worked within the audit and assurance group at PricewaterhouseCoopers for almost ten years, including two years in their Toronto office, working with clients such as SWIP, Scottish Widows, Lloyds Banking Group, Gartmore, Baillie Gifford and Schroders.

Directors' Report

The Directors present their report and financial statements of the Group for the period from incorporation on 22 January 2013 to 30 June 2014.

Results and Dividends

The results for the period are set out in the attached financial statements.

The Group paid interim dividends during the period ended 30 June 2014 as follows:

	Dividend rate (pence per share)	£'000
First interim dividend paid on 30 August 2013	**2.00**	**1,005**
Second interim dividend paid on 29 November 2013	**1.50**	**753**
Third interim dividend paid on 28 February 2014	**0.44**	**221**
Fourth interim dividend paid on 28 February 2014	**1.06**	**1,009**
Fifth interim dividend paid on 30 May 2014	**1.50**	**1,428**
Total	**6.50**	**4,416**

It is the policy of the Directors to declare and pay dividends as interim dividends. The Directors do not therefore recommend a final dividend. The last interim dividend in respect of the period ended 30 June 2014, of 1.5 pence per share, was paid on 29 August 2014 to shareholders on the register on 8 August 2014. It is the intention of the Directors that the Group will continue to pay dividends quarterly.

Going Concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. They have considered the current cash position of the Group, forecast rental income and other forecast cash flows. The Group has agreements relating to its borrowing facilities with which it has complied during the year. Based on this information the Directors believe that the Group has the ability to meet its financial obligations as they fall due for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Directors

Biographical details of the Directors, all of whom are non-executive, can be found on pages 16 and 17. As explained in more detail under the Corporate Governance Statement on pages 21 to 22, all new appointments by the Board are subject to election by shareholders at the next Annual General Meeting ('AGM') thereafter the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election. Accordingly, Mr Naish, Professor Andrews, Mr Coull and Mr Hutchison were all elected to the Board at the first AGM of the Company on 15 May 2014 and Mrs Jones and Mr Ross will be subject to election at the AGM on 12 November 2014. Having considered the knowledge and experience of both Mrs Jones and Mr Ross the Board has no hesitation to recommending their election to shareholders.

The Directors believe that the Board has an appropriate balance of skills, experience, independence and knowledge of the Group to enable it to provide effective strategic leadership and proper guidance of the Group. The Board confirms that, following the evaluation process set out in the Corporate Governance Statement on pages 21 to 22, the performance of each of the Directors continues to be effective and demonstrates commitment to the role. There are no service contracts in existence between the Company and any Directors but each of the Directors has been issued with, and accepted, the terms of a letter of appointment that sets out the main terms of his or her appointment. Amongst other things, the letter includes confirmation that the Directors have a sufficient understanding of the Group and the sector in which it operates, and sufficient time available to discharge their duties effectively taking into account their other commitments. These letters are available for inspection upon request at the Company's registered office.

Annual General Meeting

In accordance with the Companies (Jersey) Law 1991 (as amended) the Company was required to convene an annual general meeting by no later than 18 months following its incorporation. The first annual general meeting was held on 15 May 2014. The Notice of the Annual General Meeting, amongst other things to receive and adopt the Annual Report and Financial Statements, to be held on 12 November 2014 is set out on page 47.

Authority to issue shares on a non pre-emptive basis

In accordance with the provisions of the Company's articles of association and the Listing Rules, the directors of an overseas premium listed company are not permitted to allot new shares (or grant rights over shares) for cash without first offering them to existing shareholders in proportion to their existing holdings. Resolution 7 which is a special resolution therefore seeks to provide the Directors with the authority to issue shares or sell shares held in treasury on a non-pre-emptive basis for cash (i.e. without first offering such shares to existing shareholders pro-rata to their existing holdings) up to an aggregate nominal amount of £11,246,622 (representing 10 per cent. of the issued ordinary share capital of the Company as at 7 October 2014).

This authority will expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, unless it is previously renewed, varied or revoked. It is expected that the Company will seek this authority on an annual basis.

This authority will only be used to issue shares at a premium to net asset value and only when the Directors believe that it would be in the best interests of the Company to do so.

Directors' Report
(continued)

Authority to make market purchases of ordinary shares

Given the Company is currently in a investment phase, it is unlikely that the Directors will buy back any ordinary shares in the short term. Thereafter any buy back of ordinary shares will be subject to the Companies (Jersey) Law 1991 (as amended), the Listing Rules and within guidelines established by the Board from time to time (which take into account the income and cashflow requirements of the Company).

Resolution 8 will be proposed as a special resolution and seeks to provide the Directors with the authority to purchase up to 16,858,687 ordinary shares or if less the number representing approximately 14.99 per cent. of the Company's ordinary shares in issue at the date of the passing of resolution 8.

This authority will expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution unless it is previously renewed, varied or revoked.

Directors' remuneration reports

The Directors' remuneration policy and annual report, which can be found on pages 26 and 27, provides detailed information on the remuneration arrangements for Directors of the Company. Included is the Directors' Remuneration Policy which shareholders will be asked to approve at the Annual General Meeting (resolution 2). Shareholders will also be asked to approve the Directors' Annual Report on Remuneration (resolution 3).

Auditor

The Independent Auditors' Report can be found on pages 29 and 30. Ernst & Young ('EY') was appointed by the Board in the first accounting period of the Company. EY has indicated its willingness to continue in office with the Company and a resolution will be proposed at the Annual General Meeting to appoint it and for the Directors to determine its remuneration (resolution 6).

Statement Regarding Annual Report and Financial Statements

Following a detailed review of the Annual Report and Financial Statements by the Audit Committee, the Directors consider that taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Financial Statements would have a reasonable level of knowledge of the investment industry in general and in investments in this sector of the market in particular.

Recommendation

The Directors consider the passing of the resolutions to be proposed at the Annual General Meeting to be in the best interest of the Company and its shareholders as a whole and likely to promote the success of the Company for the benefit of its shareholders as a whole. Accordingly, the Directors unanimously recommend that shareholders should vote in favour of the resolutions, as they intend to in respect of their own beneficial shareholders amounting to 120,000 ordinary shares.

On behalf of the Board

Mr Malcolm Naish
Chairman

7 October 2014

Corporate Governance Statement

Introduction

The Board has considered the principles set out in the UK Corporate Governance Code ('the UK Code') and the AIC Code of Corporate Governance (the 'AIC Code')*. The Company is a member of the AIC. The Board believes that during the period under review the Company has complied with the provisions of the UK Code, in so far as they relate to the Company's business. The Board is also adhering to the principles and recommendations of the AIC Code.

The Board

The Board is responsible for the effective stewardship of the Company's affairs and reviews the schedule of matters reserved for its decision, which are categorised under various headings. These include investment strategy, investment policy, finance, risk, investment restrictions, performance, marketing, adviser appointments and the constitution of the Board. It has responsibility for all corporate strategic issues, dividend policy, share buyback policy and corporate governance matters which are all reviewed regularly.

In order to enable them to discharge their responsibilities, all Directors have full and timely access to relevant information. At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objectives and is responsible for setting investment and gearing limits within which the Investment Manager has discretion to act, and thus supervises the management of the investment portfolio which is contractually delegated to the Investment Manager.

The table below sets out the number of scheduled Board and Committee meetings held during the year and the number of meetings attended by each Director. The Board held a strategy meeting in November 2013 to consider strategic issues. In addition to these scheduled meetings, there were a further 7 Board Committee meetings held during the period.

Each of the above Directors has signed a letter of appointment with the Company, in each case including twelve months' notice of termination by either party. Both Mrs Jones', and Mr Ross's letters of appointment include no notice period on termination by either party. These are available for inspection at the Company's registered office during normal business hours and are also available at annual general meetings.

Individual Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.

The Company maintains appropriate directors' and officers' liability insurance. The Board has direct access to company secretarial advice and services. The Company Secretary is responsible for ensuring that Board and Committee procedures are followed and applicable regulations are complied with.

Investment Management

Target provide investment management and other services to the Group. Details of the arrangements between the Group and the Investment Manager in respect of management services are provided in the financial statements. The Board keeps the appropriateness of the Investment Manager's appointment under review. In doing so the Board reviews performance quarterly and considers the past investment performance of the Group and the capability and resources of the Investment Manager to deliver satisfactory investment performance in the future. It also reviews the length of the notice period of the investment management agreement and the fees payable to the Investment Manager, together with the standard of the other services provided.

The Directors are satisfied with the Investment Manager's ability to deliver satisfactory investment performance and the quality of other services provided. It is therefore their opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of shareholders as a whole.

Appointments, Diversity and Succession Planning

Directors may be appointed by the Company by ordinary resolution or by the Board. All new appointments by the Board are subject to election by shareholders at the next AGM following their appointment. The Company's Articles of Incorporation require all Directors to retire by rotation at least every three years. However, in accordance with the recommendations of the AIC Code and the UK Corporate Governance Code the Board has agreed that all Directors will retire annually and, if appropriate, seek re-election.

The Board believes in the benefits of having a diverse range of skills and backgrounds, including gender and length of service, on its board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets. The Board's policy on tenure is that continuity and experience are considered to add significantly to the strength of the Board and, as such, no limit on the overall length of service of any of the Company's Directors, including the Chairman, has been imposed.

	Board		Audit Committee		Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
M Naish	11	11	2	2	1	1
J Andrews	11	7	2	2	1	1
G Coull	11	11	2	2	1	1
T Hutchison	11	9	2	2	1	1

* Copies of both codes may be found on the respective websites: www.frc.org.uk and www.theaic.co.uk.

Corporate Governance Statement
(continued)

Removal of Directors
The Company may by special resolution remove any Director before the expiration of his period of office and may by ordinary resolution appoint another person who is willing to act to be a Director in his place.

Independence of Directors
The Board, which is composed solely of independent non-executive Directors, regularly reviews the independence of its members. Mr Hutchison performs the role of Senior Independent Director. All the Directors have been assessed by the Board as remaining independent of the Investment Manager and of the Company itself; none has a past or current connection with the Investment Manager and each remains independent in character and judgement with no relationships or circumstances relating to the Company that are likely to affect that judgement.

The basis on which the Company aims to generate value over the longer term is set out in its objective and investment policy as contained on page 2. A management agreement between the Company and Target sets out the matters over which the Investment Managers have authority and the limits beyond which Board approval must be sought. All other matters, including investment and dividend policies, corporate strategy, gearing, corporate governance procedures and risk management, are reserved for the approval of the Board of Directors. The Board meets at least quarterly and receives full information on the Group's investment performance, assets, liabilities and other relevant information in advance of Board meetings. Throughout the year a number of committees have been in place. The committees operate within clearly defined terms of reference which are available for inspection at the Company's registered office during normal business hours.

Audit Committee
The Board has established an Audit Committee, the role and responsibilities of which are set out in the report on page 23.

Management Engagement Committee
The Committee reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof on a regular basis. It also reviews the terms and quality of service received from other service providers on a regular basis.

Nomination Committee
The Nomination Committee comprises all of the Directors and is chaired by Mr Naish. The Board considers that, given its size, it would be unnecessarily burdensome to establish a separate nomination committee which did not include the entire Board and believes that this enables all Directors to be kept fully informed of any issues that arise. The Committee is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. During the year the performance of the Board, Committees and individual Directors was evaluated through an assessment process led by the Chairman. This process involved the completion of questionnaires tailored to suit the nature of the Company, discussions with individual Directors and individual feedback from the Chairman to each of the Directors. The evaluation of the Chairman was led by the Senior Independent Director in consultation with all the other Directors.

Whenever there are new appointments, these Directors receive an induction from the Investment Manager and Company Secretary on joining the Board. All Directors receive other relevant training, collectively or individually, as necessary.

All of the Nomination Committee's responsibilities have been carried out over the period of review.

The Investment and Property Valuation Committee
The Investment and Property Valuation Committee comprises all of the Directors and is chaired by Mr Naish. The Committee will be responsible for authorising all purchases and sales within the Group's portfolio and for reviewing the quarterly independent property valuation reports produced by Colliers International Property Consultants, prior to their submission to the Board.

Attendance at Committee meetings is shown on page 21.

Relations with Shareholders
The Company proactively seeks the views of its shareholders and places great importance on communication with them. The Board receives regular reports from the Investment Manager and Placing Agent on the views of shareholders, and the Chairman and other Directors make themselves available to meet shareholders when required to discuss any significant issues that have arisen and address shareholder concerns and queries. The Notice of Annual General Meeting to be held on 12 November 2014 is set out on pages 47 and 48. It is hoped that this will provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and the Investment Manager. The Annual Report and Notice of Annual General Meeting are posted to shareholders at least 21 clear days before the Annual General Meeting.

On behalf of the Board

Mr Malcolm Naish
Chairman

7 October 2014

Report of the Audit Committee

Composition of the Audit Committee

An Audit Committee comprised of all of the Directors has been established with written terms of reference which are reviewed at each meeting and are available on request.

Role of the Audit Committee

The Committee's responsibilities are shown in the table below together with a description of how they have been discharged. More detailed information on certain aspects of the Committee's work is given in the subsequent text.

Responsibilities of the Audit Committee	How they have been discharged
Consideration of the half-year and annual financial statements, the appropriateness of the accounting policies applied and any financial reporting judgements and key assumptions.	The Committee has met three times to date and has reviewed the contents of the interim, half-yearly and annual report. The Investment Manager and Administrator attended all meetings and the Auditor attended the meetings at which the annual report was discussed. Significant matters considered by the Group are listed on page 10.
Evaluation of the effectiveness of the risk management and internal control procedures.	The Investment Manager maintains a risk matrix which summarises the Group's key risks and an internal control matrix which shows the Group's key controls over its principal financial systems (including the relevant procedures operated by the Administrator). From a review of these matrices, a review of regular management information and discussion with the Investment Manager the Committee has satisfied itself on the effectiveness of the risk and control procedures.
Consideration of the narrative elements of the annual financial report, including whether the annual financial report taken as a whole is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's business model, strategy and performance.	The Committee has reviewed the content and presentation of the annual financial report and discussed how well it achieves the three criteria opposite.
Evaluation of reports received from the Auditor with respect to the annual financial statements.	The Auditor's planning board report and related timetable were discussed with the Auditor in advance of work commencing, together with the area of audit focus. At the conclusion of the audit the Committee discussed the audit results report with the Auditor, Administrator and Investment Manager.
Monitoring developments in accounting and reporting requirements that impact on the Group's compliance with relevant statutory and listing requirements.	The Company ensures through its Legal Adviser, Administrator, Investment Manager and Auditor, that any developments impacting on its responsibilities are tabled for discussion at Committee or Board meetings.
Management of the relationship with the external Auditor, including their appointment and the evaluation of scope, effectiveness, independence and objectivity of their audit.	The Auditor has attended two meetings of the Committee and at the second meeting met the Committee without the Investment Manager or Administrator being present. The scope of the audit was discussed at the planning stage along with the staffing and timing of audit procedures to ensure that an effective audit could be undertaken. The Committee has also reviewed the independence and objectivity of the Auditor and has considered the effectiveness of the audit.

Report of the Audit Committee
(continued)

Risk Management and Internal Controls

Risks

The principal risks faced by the Group together with the procedures employed to manage them are described in the Strategic Report on pages 7 to 11.

Internal Controls

The Board is responsible for the internal financial control systems of the Group and for reviewing their effectiveness. It has contractually delegated to external agencies the services the Group requires, but the Directors are fully informed of the internal control framework established by the Investment Manager and the Administrator to provide reasonable assurance on the effectiveness of internal financial control in the following areas:

- income flows, including rental income;
- expenditure, including operating and finance costs;
- capital expenditure, including pre acquisition diligence and authorisation procedures;
- dividend payments, including the calculation of Property Income Distributions;
- data security;
- the maintenance of proper accounting records; and
- the reliability of the financial information upon which business decisions are made and which is used for publication, whether to report Net Asset Values or used as the basis for the annual report.

As the Group has evolved, the Investment Manager has developed a system of internal controls covering the processes listed above which it has subsequently presented in the form of a controls matrix and which it has discussed with the Committee.

Committee members receive and consider quarterly reports from the Investment Manager, giving full details of the portfolio and all transactions and of all aspects of the financial position of the Group. Additional ad hoc reports are received as required and Directors have access at all times to the advice and services of the Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

The Investment Manager reports in writing to the Board on operations and compliance issues prior to each meeting, and otherwise as necessary. The Investment Manager reports directly to the Audit Committee concerning the internal controls applicable to the Investment Manager's investment and general office procedures.

In addition, the Board keeps under its own direct control, through the Investment and Property Valuation Committee, all property transactions.

The review procedures detailed above have been put in place during the period as the related income and expenditure streams have arisen and the Board is satisfied with their effectiveness. The procedures are designed to manage rather than eliminate risk and, by their nature, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board has reviewed the need for an internal audit function. It has decided that the systems and procedures employed by the Investment Manager and the Administrator, and the work carried out by the Group's external Auditor, provide sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary.

The Auditor

As part of the review of auditor independence and effectiveness, EY has confirmed that they are independent of the Group and have complied with relevant auditing standards. In evaluating EY's performance, the Audit Committee has taken into consideration the standing, skills and experience of the firm and of the audit team. The Committee assessed the effectiveness of the audit process through the quality of the formal reports it received from EY at the planning and conclusion of the audit, together with the contribution which EY made to the discussion of any matters raised in these reports or by Committee members. The Committee also took into account any relevant observations made by the Investment Manager and the Administrator. The Committee is satisfied that EY provides an effective independent challenge in carrying out its responsibilities.

Following professional guidelines, the audit principal rotates after five years. The current audit principal is in the first year of her appointment. On this basis and having considered the effectiveness of the audit the Audit Committee has recommended the continuing appointment of EY to the Board. EY's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

In relation to the provision of non-audit services by the auditor, it has been agreed that all non-audit work to be carried out by the auditor must be approved in advance by the Audit Committee and any special projects must also be approved in advance so as not to endanger the independence of EY as auditor. In this respect it considers that the provision of the non-audit services shown in the table below do not constitute such a threat.

Service provided	Fee (£'000)
Statutory audit	37
Review of interim financial information	10
Tax compliance	38
Tax advice on REIT matters	48
Tax advice on property transactions	8
Assurance on accounting and tax information in prospectuses	53
Total	**194**

Annual Report and Financial Statements

The Board of Directors is responsible for preparing the Annual Report and financial statements. The Audit Committee advises the Board on the form and content of the Annual Report and financial statements, any issues which may arise and any specific areas which require judgement. The Audit Committee considered certain significant issues during the period. These are noted in the table below.

Matter	Audit Committee action
Valuation and Existence of the Investment Property Portfolio The Group's property portfolio accounted for 78 per cent. of its total assets as at 30 June 2014. Although valued by an independent firm of valuers, Colliers International Property Consultants Limited ('Colliers'), the valuation of the investment property portfolio is inherently subjective, requiring significant judgement by the valuers. Errors in the valuation could have a material impact on the Group's net asset value. Further information about the property portfolio and inputs to the valuations are set out in note 9 to the financial statements.	The Investment Manager liaises with the valuers on a regular basis and meets with them prior to the production of each quarterly valuation. The Audit Committee reviewed the results of the valuation process throughout the period and discussed the detail of each of the quarterly valuations with the Investment Manager. The Committee discussed the June valuation with Colliers to ensure that it understood the assumptions underlying the valuation and the sensitivities inherent in the valuation and any significant area of judgement. The Committee also discussed with the Auditor the work performed to confirm the valuation of the properties in the portfolio.
Income Recognition Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share, its level of dividend cover and compliance with REIT regulations.	The Audit Committee reviewed the Investment Manager's processes and controls around the recording of investment income. It also compared the final level of income received for the period to forecasts. The Audit Committee assessed the appropriateness of the accounting treatment of the fixed rental uplifts and how this impacted the Property Income component of dividends paid or payable by the Company.
Calculation and payment of management and performance fees Incorrect interpretation of the relevant provisions in the Investment Management Agreement ('IMA') and/or incorrect calculation of the fees payable to the Investment Manager could result in an error in the financial statements and an incorrect payment to the Investment Manager.	The Committee has discussed the provisions in the IMA relating to both components of the fee and the controls over fee payments. It has also reviewed in detail the period end estimate for the performance fee accrued in the financial statements and satisfied itself that the underlying calculations and assumptions which lie behind it are in accordance with the IMA, as is the proposed timing of payment.

Conclusion with respect to the Annual Report and Financial Statements

The Audit Committee has concluded that the report and financial statements for the period ended 30 June 2014, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's business model, strategy and performance.

The Audit Committee has reported its conclusions to the Board of Directors. The Audit Committee reached this conclusion through a process of review of the document and enquiries of the various parties involved in the preparation of the report and financial statements.

Mr Gordon C Coull
Chairman of the Audit Committee

7 October 2014

Directors' Remuneration Report

The Board comprises only independent non-executive Directors. The Company has no executive Directors or employees. For these reasons, it is not considered appropriate to have a separate Remuneration Committee. The full Board determines the level of Directors' fees.

Statement by the Chairman

Full details of the Group's policy with regards to Directors' fees, and fees paid during the period ended 30 June 2014, are shown below and are based on the levels disclosed in the prospectus at launch. No major decisions or substantial changes relating to Directors' remuneration were made during the period.

This section provides details on the remuneration policy for the Directors of the Group, which shareholders will be asked to approve at the forthcoming Annual General Meeting. If the resolution is passed, the policy provisions will apply until they are next put to shareholders for approval, which must be at intervals of not less than three years.

The Board considers the level of Directors' fees at least annually.

Remuneration policy

The Group's policy is that the remuneration of the Directors should reflect the experience of the Board as a whole, the time commitment required, and be fair and comparable with that of other similar companies. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee the Group properly and to reflect its specific circumstances. There were no changes to the policy during the period and it is intended that this policy will apply following the Annual General Meeting and continue for the three year period ending 30 June 2017.

The fees for the Directors are determined within the limit set out in the Company's Articles of Incorporation. The present limit is an aggregate of £200,000 per annum and may not be changed without seeking shareholder approval at a general meeting. The fees are fixed and are payable in cash, quarterly in arrears. Directors are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other benefits.

It is the Board's policy that Directors do not have service contracts, but each new Director is provided with a letter of appointment. The Directors' letters of appointment are available on request at the Company's registered office during business hours and will be available for 15 minutes prior to and during the forthcoming Annual General Meeting. The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. However, in accordance with the recommendations of the UK Corporate Governance Code, the Board has agreed that all Directors will retire annually.

Annual Report on Directors' Remuneration

Directors' Emoluments for the Period

The Directors who served during the period received the following emoluments in the form of fees:

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Mr Naish (Chairman)	**30**
Mr Coull (Audit Committee Chairman)	**20**
Professor Andrews	**16**
Mr Hutchison	**16**
Total	**82**

Future Policy Report

During the period, an independent firm of consultants, FWB, was engaged to review and provide guidance on the level of Directors' remuneration. FWB has no other connection with the Company.

Following a review of Director's fees by the Remuneration Committee in July 2014, it was decided by the Board that directors' remuneration for the forthcoming financial year will be as follows:

	Year ending 30 June 2014 £'000
Mr Naish (Chairman)	**30**
Mr Coull (Audit Committee Chairman)	**25**
Professor Andrews	**20**
Mr Hutchison	**20**
Mrs Jones*	**10**
Mr Ross*	**10**
Total	**115**

* Fees paid to R&H Fund Services (Jersey) Limited.

The Board has not received any direct communications from the Company's Shareholders in respect of the levels of Directors' remuneration.

Voting at Annual General Meeting

An ordinary resolution for the approval of this Directors' Remuneration Policy will be put to shareholders at the forthcoming Annual General Meeting.

Relative Importance of Spend on Pay

As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distribution to shareholders.

Directors' Shareholdings

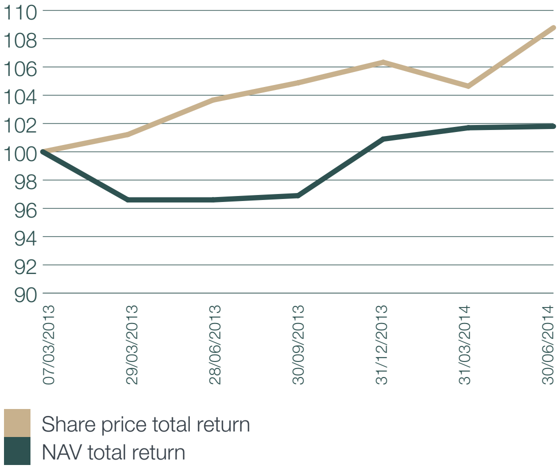
The Directors who held office at the period-end and their interests (all beneficial) in the ordinary shares of the Company as at 30 June 2014 and as at 7 October 2014 were as follows:

	Ordinary shares 7 October 2014	Ordinary shares 30 June 2014
Mr M Naish	**30,000**	**15,000**
Professor J Andrews	**–**	**–**
Mr G Coull	**30,000**	**11,000**
Mr T Hutchison	**60,000**	**30,000**
Mrs H Jones	**–**	**–**
Mr G Ross	**–**	**–**
Total	**120,000**	**56,000**

Group Performance

The Board is responsible for the Group's investment strategy and performance, although the management of the Group's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to on page 18.

The graph below compares, from launch to 30 June 2014, the share price total return (assuming all dividends are reinvested) to ordinary shareholders compared to the NAV total return.



Source: R&H Fund Services Limited/Datastream.

Voting at Annual General Meeting

An ordinary resolution for the approval of this Annual Report on Directors' Remuneration will be put to shareholders at the forthcoming Annual General Meeting.

On behalf of the Board

Mr Malcolm Naish
Chairman

7 October 2014

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Financial Statements, in accordance with applicable Jersey law and International Financial Reporting Standards ('IFRS') as adopted by the EU.

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the profit and loss of the Group for that period. In addition the Directors must not approve the financial statements unless they are satisfied that they present a fair, balanced and understandable report and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

Under Jersey law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its financial statements comply with the Companies (Jersey) Law 1991, where applicable. They are responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Statement of Corporate Governance that complies with that law and those regulations.

As far as each of the Directors is aware, there is no relevant audit information of which the Auditor is unaware and each Director confirms that they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Auditor is aware of that information.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Annual Report and Financial Statements taken as a whole, is fair, balanced and understandable and it provides the information necessary to assess the Group's performance, business model and strategy; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that the Group faces.

On behalf of the Board

Mr Malcolm Naish
Chairman

7 October 2014

The financial statements are published on **www.targethealthcarereit.com** which is a website maintained by the Company's Investment Manager. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report
To the Members of Target Healthcare REIT Limited

We have audited the financial statements of Target Healthcare REIT Limited for the period ended 30 June 2014 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 28, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2014 and of the profit for the period then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Our assessment of risks of material misstatement

We identified the following risks of material misstatement that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- valuation of the Group's investment properties;
- recognition of rental income; and
- calculation of performance fees.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and of uncorrected misstatements, if any, on the financial statements in forming our audit opinion.

We determined materiality for the Group to be £900,000 which is 1 per cent. of net assets. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that the overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 50 per cent. of materiality, namely £450,000. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our planning materiality level.

We have agreed with the Audit Committee to report any audit differences in excess of £50,000, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds.

Independent Auditor's Report
(continued)

An overview of the scope of our audit

100 per cent. of the Group's profit before tax and 100 per cent. of the Group's net assets were subject to a full scope audit by the Group audit team. Our response to the risks identified above was as follows.

We addressed the risk of valuation of the Group's investment properties by:

- reading third party valuation reports to assess the appropriateness and suitability of the reported values;
- assessing the independence and qualifications of the valuers; and
- challenging the valuation of a sample of properties by assessing the reasonableness of the valuation methodologies used and the key inputs and assumptions by reference to published market data and comparable transaction evidence.

We addressed the risk of recognition of rental income by:

- agreeing tenancy rates used in the calculation of rental income to the underlying rental agreements; and
- assessing the appropriateness of the accounting treatment for rental agreements with rental patterns not on a straight line basis.

We addressed the risk of calculation of performance fees by:

- agreeing the key inputs to the performance fee calculation to the relevant supporting data; and
- reading the investment management agreement and comparing the terms of the agreement to the methodology used in the calculation of the performance fee.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Susan Dawe
for and on behalf of Ernst & Young LLP
(Statutory Auditor)
Edinburgh
7 October 2014

Consolidated Statement of Comprehensive Income
For the period from incorporation on 22 January 2013 to 30 June 2014

	Notes	Revenue £'000	Capital £'000	Total £'000
Revenue				
Rental income		**4,517**	**1,824**	**6,341**
Total revenue		**4,517**	**1,824**	**6,341**
Losses on revaluation of investment properties	9	**–**	**(4,076)**	**(4,076)**
Total income		**4,517**	**(2,252)**	**2,265**
Expenditure				
Investment management fee	2	**(974)**	**–**	**(974)**
Performance fee	2	**(150)**	**–**	**(150)**
Other expenses	3	**(552)**	**–**	**(552)**
Total expenditure		**(1,676)**	**–**	**(1,676)**
Profit/(loss) before finance costs and taxation		**2,841**	**(2,252)**	**589**
Net finance costs				
Interest receivable	4	**221**	**–**	**221**
Interest payable and similar charges	5	**(11)**	**–**	**(11)**
Profit/(loss) before taxation		**3,051**	**(2,252)**	**799**
Taxation	6	**(14)**	**–**	**(14)**
Profit/(loss) for the period		**3,037**	**(2,252)**	**785**
Total comprehensive profit/(loss) for the period		**3,037**	**(2,252)**	**785**
Earnings/(loss) per share (pence)	8	**4.19**	**(3.11)**	**1.08**

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

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

No operations were discontinued in the period.

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

Consolidated Balance Sheet
As at 30 June 2014

	Notes	Total £'000
Non-current assets		
Investment properties	9	**81,422**
		81,422
Current assets		
Trade and other receivables	10	**6,524**
Cash and cash equivalents	12	**17,125**
		23,649
Total assets		**105,071**
Non-current liabilities		
Bank loan	13	**(11,764)**
		(11,764)
Current liabilities		
Trade and other payables	14	**(3,089)**
Total liabilities		**(14,853)**
Net assets		**90,218**
Stated capital and reserves		
Stated capital account	16	**91,516**
Capital reserve		**(2,252)**
Revenue reserve		**954**
Equity shareholders' funds		**90,218**
Net asset value per ordinary share (pence)	15	**94.7**

The financial statements on pages 31 to 45 were approved by the Board of Directors and authorised for issue on 7 October 2014 and were signed on its behalf by:

Mr Malcolm Naish
Chairman

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

Consolidated Statement of Changes in Equity

For the period from incorporation on 22 January 2013 to 30 June 2014

	Notes	Stated capital account £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 22 January 2013		–	–	–	–
Total comprehensive (loss)/profit for the period:		–	(2,252)	3,037	785
Transactions with owners recognised in equity:					
Dividends paid		(2,333)	–	(2,083)	(4,416)
Issue of ordinary shares	16	95,740	–	–	95,740
Expenses of issue		(1,891)	–	–	(1,891)
At 30 June 2014		**91,516**	**(2,252)**	**954**	**90,218**

Consolidated Cash Flow Statement

For the period from incorporation on 22 January 2013 to 30 June 2014

	Notes	Total £'000
Cash flows from operating activities		
Profit before tax		**799**
Adjustments for:		
Interest receivable		**(221)**
Interest payable		**11**
Revaluation losses on property portfolio		**2,252**
(Increase) in trade and other receivables		**(565)**
Increase in trade and other payables		**2,032**
		4,308
Interest paid		**–**
Interest received		**181**
Tax paid		**–**
		181
Net cash inflow from operating activities		**4,489**
Cash flows from investing activities		
Purchase of investment properties		**(85,498)**
Net cash outflow from investing activities		**(85,498)**
Cash flows from financing activities		
Issue of ordinary share capital		**95,740**
Expenses of issue paid		**(1,888)**
Drawdown of bank loan facility		**11,946**
Development loan		**(3,300)**
Dividends paid		**(4,364)**
Net cash inflow from financing activities		**98,134**
Net increase in cash and cash equivalents		**17,125**
Opening cash and cash equivalents		**–**
Closing cash and cash equivalents	12	**17,125**

Notes to the Consolidated Financial Statements

1. Accounting policies

(a) Basis of Preparation

The financial information covers the period from the date of the incorporation of the Company on 22 January 2013 to 30 June 2014. A summary of the principal accounting policies, all of which have been applied consistently throughout the period, is set out below.

Basis of Accounting

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

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

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

The following new standards have been issued but are not effective for this accounting period and have not been adopted early:

- In May 2011, the IASB issued IFRS 10 'Consolidated Financial Statements'. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- In May 2011, the IASB issued IFRS 12 'Disclosure of Involvement with Other Entities'. IFRS 12 includes all the disclosures which were previously required by IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- As a consequence of the new IFRS 10 and IFRS 12 above, what remains of IAS 27 'Separate Financial Statements (2011)' is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment will not have an impact on the Group.
- In October 2012, the IASB issued amendments to IFRS 10 'Consolidated Financial Statement', IFRS 12 'Disclosure of Interest' and IAS 27 'Separate Financial Statements'. These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.
- In December 2011, the IASB issued an amendment to IAS 32 'Offsetting Financial Assets and Financial Liabilities'. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting.
- In October 2010 the IASB issued amendments to IFRS 7 'Financial Instruments: Disclosures' as part of its comprehensive review of off balance sheet activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.
- In May 2014 the IASB issued IFRS 15, 'Revenue from Contracts with Customers'. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

The Group does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented except for changes to disclosures.

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.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries drawn up to 30 June 2014. Subsidiaries are those entities, including special purpose entities, controlled by the Company and are detailed in note 11. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes to the Consolidated Financial Statements
(continued)

1. Accounting policies (continued)

(c) Revenue Recognition

Rental Income

Rental income arising on investment properties is accounted for in the Statement of Comprehensive Income on a straight-line basis over the lease term of ongoing loans as adjusted for the following:

- any rental income from fixed and minimum guaranteed rent reviews uplifts is recognised on a straight line basis over the shorter of the term to lease expiry or to the first tenant break option;
- lease incentives are spread evenly over the lease term, even if payments are not made on such a basis. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

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

Interest Income

Interest income is accounted for on an accruals basis.

Service Charges and Expenses Recoverable from Tenants

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

(d) Expenses

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

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

(e) Dividends

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

(f) Taxation

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

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

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

Entry to UK-REIT Regime

The Company's conversion to UK-REIT status was effective from 1 June 2013. With effect from 11 April 2014, the Company withdrew from the single company REIT regime and entered into the Group REIT regime.

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

Target Healthcare REIT (Mossvale) Limited joined the Group REIT regime with effect from 12 April 2014. THR Number One PLC and THR Number Two Limited entered the Group REIT regime when they both commenced trading on 17 June 2014.

(g) Investment Properties

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

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

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

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

On derecognition, gains and losses on disposals of investment properties are recognised in the Statement of Comprehensive Income and transferred to the Capital Reserve. Recognition and derecognition occurs on the completion of a sale between a willing buyer and a willing seller.

(h) Cash and Cash Equivalents

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

(i) Rent and Other Receivables

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

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

Loans receivable have fixed or determinable payments and are recognised at cost plus any interest accrued.

(j) Property Acquisitions

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

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

(k) Interest-bearing Bank Loans and Borrowings

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

(l) Reserves

The Company is able to pay a dividend out of the Stated Capital Account in accordance with the requirements of the Companies (Jersey) Law 1991.

Capital Reserve

The following are accounted for in the capital reserve:

- gains and losses on the disposal of investment properties;
- increases and decreases in the fair value of investment properties held at the period end; and
- rent adjustments which represent the effect of spreading uplifts and incentives.

Revenue Reserve

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

2. Fees paid to Target Advisers LLP:

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Base management fee	**974**
Performance fee	**150**
Total	**1,124**

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 (the '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 will be measured over a rolling three year period, commencing from the acquisition of the first property, being 8 March 2013. The first performance fee will be 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 shall be limited to 1.25 per cent. of the average net assets of the Group over that year. At the period-end an accrual of £150,000 has been made based on the Group's portfolio performance and available Index data.

Notes to the Consolidated Financial Statements
(continued)

2. Fees paid to Target Advisers LLP: (continued)

The Investment Management Agreement can be terminated by either party on six months' written notice subject to an initial minimum period of notice of three years from Admission. The Investment Management Agreement may be terminated immediately if: the Investment Manager is in material breach of the agreement; guilty of negligence, wilful default or fraud; is the subject of insolvency proceedings; or there occurs a change of Key Managers to which the Board has not given its prior consent.

3. Other expenses

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Administration fee	**104**
Valuation and other professional fees	**102**
Directors' fees	**82**
Auditor's remuneration for:	
– statutory audit	**37**
– assurance related services	**10**
– other services related to taxation	**86**
Listing & registrar fees	**55**
Public relations	**25**
Other	**51**
Total	**552**

The valuers of the investment properties, Colliers International Property Consultants Limited, have agreed to provide valuation services in respect of the property portfolio. The valuation agreement states that annual fees will be payable quarterly based on rates of 0.05 per cent. of the aggregate value of the property portfolio up to £30 million, 0.04 per cent. up to £60 million and 0.035 per cent. greater than £60 million.

The Company paid a further £53,000 to EY as non-audit fees in relation to expenses of issue and these are included in note 16. In addition, a further £8,000 was paid to EY in relation to tax advice on property transactions and this is included within acquisition costs in note 9.

4. Interest receivable

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Deposit interest	**182**
Development loan interest	**39**
Total	**221**

5. Interest payable and similar charges

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Bank loan	**11**
Total	**11**

6. Taxation

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Current tax	**14**
Total tax charge	**14**

A reconciliation of the income tax charge applicable to the results at the statutory income tax rate to the charge for the period is as follows:

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Profit before taxation	**799**
UK tax at a rate of 22.7 per cent	**181**
Effects of:	
REIT exempt income and gains	**(617)**
Other non-taxable income	**511**
Capital allowances claimed	**(61)**
Total tax charge	**14**

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

Prior to gaining UK-REIT status on 1 June 2013, the Company was liable to United Kingdom taxation on all of its income or gains under standard corporation tax regulations.

From 1 June 2013, 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.

7. Dividends

Amounts paid as distributions to equity holders during the period.

	Dividend rate (pence per share)	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
First interim dividend paid on 30 August 2013	**2.00**	**1,005**
Second interim dividend paid on 29 November 2013	**1.50**	**753**
Third interim dividend paid on 28 February 2014	**0.44**	**221**
Fourth interim dividend paid on 28 February 2014	**1.06**	**1,009**
Fifth interim dividend paid on 30 May 2014	**1.50**	**1,428**
Total	**6.50**	**4,416**

A sixth interim dividend has been declared for the period of 1.50 pence per share, amounting to £1,428,000.

8. Earnings/(loss) per share

The Group's revenue earnings per ordinary share of 4.19 pence per share are based on the net revenue for the period of £3,037,000 and on 72,313,773 ordinary shares, being the weighted average number of shares in issue during the period.

The Group's capital loss per ordinary share of 3.11 pence per share are based on the capital loss for the period of £2,252,000 and on 72,313,773 ordinary shares, being the weighted average number of shares in issue during the period.

The Group's total earnings per ordinary share of 1.08 pence per share is based on the profit for the period of £785,000 and on 72,313,773 ordinary shares, being the weighted average number of shares in issue during the period.

9. Investments

Freehold and leasehold properties

	As at 30 June 2014 £'000
Opening carrying value	**–**
Purchases	**85,498**
Sales – proceeds	**–**
– gain/(loss) on sale	**–**
Capital expenditure	**–**
Acquisition costs	**(4,281)**
Revaluation movement	**2,029**
Closing market value	**83,246**
Movement in fixed or guaranteed rent reviews	**(1,824)**
Closing carrying value	**81,422**

Notes to the Consolidated Financial Statements
(continued)

9. Investments (continued)

Changes in the valuation of investment properties

	For the period from incorporation on 22 January 2013 to 30 June 2014 £'000
Net revaluation movement	**(2,252)**
Movement in fixed or guaranteed rent reviews	**(1,824)**
Losses on revaluation of investment properties	**(4,076)**

The properties were valued at £83,246,000 by Colliers International Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation – Professional Standards, incorporating the International Valuation Standards January 2014 ('the Red Book') issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Market Value represents the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion. The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews was £81,422,000.

All leasehold properties are carried at fair value rather than amortised over the term of the lease. The same valuation criteria are therefore applied to leasehold as freehold properties. All leasehold properties have more than 990 years remaining on the lease term.

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

- Level 1 – unadjusted quoted prices in active markets;
- Level 2 – observable inputs other than quoted prices included within level 1;
- Level 3 – unobservable inputs.

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

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

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

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

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield on these assets is ahead of the blended 7 per cent. modelled at the time of launch. The Directors believe that the yield on individual assets is not materially different from this average. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels. A reconciliation of movement in the level 3 investments in the period is presented below:

	As at 30 June 2014 £'000
Opening market value	**–**
Market value of purchases	**83,246**
Closing market value	**83,246**
Movement in fixed or guaranteed rent reviews	**(1,824)**
Closing carrying value	**81,422**

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

Estimated rental value ('ERV'): The rent at which space could be let in the market conditions prevailing at the date of valuation; and

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

The ERV for the total portfolio is materially the same as the passing rent which is disclosed on page 5.

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 estimate rental value will increase the fair value of an asset and increase the Group's income.

A decrease in the investment yield applied to the portfolio by 0.25 per cent. will increase the fair value of the portfolio by £2.9 million, and consequently increase the Group's reported income from unrealised gains on investments. An increase in yield by 0.25 per cent. will decrease the fair value of the portfolio by £2.9 million and reduce the Group's income.

10. Trade and other receivables

	As at 30 June 2014 £'000
Development loan	**3,339**
Fixed rent reviews	**1,824**
Cash held for tenants	**796**
Cash deposits held in escrow for property purchases	**300**
Other debtors and prepayments	**265**
Total	**6,524**

At the period end trade and other receivables include a fixed rent review debtor of £1,824,000 which represents the effect of recognising guaranteed rental uplifts on a straight line basis, in accordance with the Group's accounting policies spreading uplifts and incentives over the lease term.

On 16 April 2014, the Group entered into a secured loan facility agreement with Ideal Carehomes (Three) Limited ('Ideal') which is one of the Group's tenants. The Company has agreed to provide Ideal with a loan of £3,338,892 for the purposes of carrying out the development of a property. The full loan was drawndown at the period end. This loan bears interest at a rate of 7 per cent. and is repayable at the earlier of completion of the development and 30 September 2014. During August 2014 the Group announced that the development had been completed and this loan has been repaid.

11. Investment in subsidiary undertakings

The Company owns 100 per cent. of the issued ordinary share capital of Target Healthcare REIT (Mossvale) Limited ('THRM'), a company registered in Scotland. The principal activity of Target Healthcare REIT (Mossvale) Limited is that of an investment and property company.

The Company provided a capital contribution of £4.0 million to THRM during the period.

The Company owns 100 per cent. of the issued ordinary share capital of THR Number One PLC ('THR1'), a company registered in England & Wales. The principal activity of THR1 is that of an investment and property company.

THR1 owns 100 per cent. of the share capital of THR Number Two Limited ('THR2'), a company registered in England & Wales. The principal activity of THR2 is that of an investment and property company.

In addition to its investment in the shares of THR1, the Company has lent £4.6 million to THR1 as at 30 June 2014. Interest is payable at a fixed rate of 2.5 per cent. per annum. The loan was repaid by THR1 on 9 July 2014.

THR1 has lent £3.1 million to THR2 as at 30 June 2014. Interest is payable at a fixed rate of 2.5 per cent. per annum. The loan was repaid by THR2 on 9 July 2014.

12. Cash and cash equivalents

All cash balances at the year end were held in cash, current accounts or deposit accounts.

	As at 30 June 2014 £'000
Cash and cash equivalents	**17,125**
Cash held at 30 June 2014	**17,125**

13. Bank loan

	As at 30 June 2014 £'000
Principal amount outstanding	**12,261**
Set-up costs	**(499)**
Amortisation of set-up costs	**2**
Total	**11,764**

The Group has a £30 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc which is repayable on 23 June 2019. Interest accrues on the bank loan at a variable rate, based on 3 month LIBOR plus margin and mandatory lending costs, and is payable quarterly. The margin is 2 per cent. per annum for the duration of the loan.

This bank loan is secured by way of a fixed and floating charge over the whole of the assets of THR Number One PLC ('THR 1'). Under the bank covenants related to this loan, the Company is to ensure that for THR 1:

- 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.

THR 1 has complied with all the bank loan covenants during the period.

Notes to the Consolidated Financial Statements
(continued)

14. Trade and other payables

	As at 30 June 2014 £'000
Rental income received in advance	**1,349**
Rental deposits	**796**
Investment Manager's fees payable including performance fees	**394**
Income tax payable	**14**
Other payables	**536**
Total	**3,089**

The Group's payment policy is to ensure settlement of supplier invoices in accordance with stated terms.

15. Net Asset Value

The Group's net asset value per ordinary share of 94.7 pence is based on equity shareholders' funds of £90,218,000 and on 95,221,629 ordinary shares, being the number of shares in issue at the period end.

16. Stated Capital Movements

	As at 30 June 2014 Number of shares	As at 30 June 2014 £'000
Allotted, called-up and fully paid		
Issue of 45,656,029 ordinary shares of no par value	**45,656,029**	**45,656**
Issue of 4,565,600 ordinary shares of no par value	**4,565,600**	**4,634**
Issue of 45,000,000 ordinary shares of no par value	**45,000,000**	**45,450**
		95,740
Expenses of issue		**(1,891)**
		93,849
Dividends allocated to capital		**(2,333)**
Balance as at 30 June 2014	**95,221,629**	**91,516**

Under the Company's Articles of Incorporation, the Company may issue an unlimited number of ordinary shares.

Capital management

The Company's capital is represented by the stated capital account, capital reserve and revenue reserve. The Company is not subject to any externally-imposed capital requirements.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective. The Company is able to pay a dividend out of the Stated Capital Account in accordance with the requirements of the Companies (Jersey) Law 1991.

Capital risk management

The objective of the Group is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital 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.

The Board has responsibility for ensuring the Group's ability to continue as a going concern. This involves the ability to borrow monies in the short and long term; and pay dividends out of reserves, all of which are considered and approved by the Board on a regular basis.

To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company did not repurchase any ordinary shares during the period. At 30 June 2014, the Company did not hold any ordinary shares in treasury.

No changes were made in the objectives, policies or processes during the period.

17. Financial instruments

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

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

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

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group. At the reporting date, the Group's financial assets exposed to credit risk amounted to £20.8 million.

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

There were no financial assets which were either past due or considered impaired at 30 June 2014.

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

During the period, due to the quantum of cash balances held, counterparty risk was spread by placing cash across two different financial institutions and at the period-end the Group held £12.9 million with The Royal Bank of Scotland plc and £4.2 million with Lloyds Bank plc.

Liquidity risk

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

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

At the reporting date, the maturity of the financial assets was:

Financial assets as at 30 June 2014

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Cash	17,125	–	–	17,125
Development loan	3,339	–	–	3,339
Cash held for tenants	–	–	796	796
Other debtors and prepayments	565	–	–	565
Total	**21,029**	**–**	**796**	**21,825**

At the reporting date, the maturity of the financial liabilities was:

Financial liabilities as at 30 June 2014

	Three months or less £'000	More than three months but less than one year £'000	More than one year £'000	Total £'000
Bank loan	169	500	32,665	33,334
Rental income received in advance	1,349	–	–	1,349
Rental deposits	–	–	796	796
Other payables	944	–	–	944
Total	**2,462**	**500**	**33,461**	**36,423**

The total amount due to RBS under the interest-bearing £30 million bank facility includes the expected interest payments due based on the rate of 3 month LIBOR as at 30 June 2014. This assumes the facility is fully drawn down from 1 July 2014 and for the full period until expiry on 23 June 2019.

Notes to the Consolidated Financial Statements
(continued)

17. Financial instruments (continued)

Interest rate risk

Some of the Company's financial instruments are interest-bearing.

The Group's policy is to hold cash in variable rate or short term fixed rate bank accounts. Interest is received on cash at fixed rates of 0.50 per cent. and 0.65 per cent. and earns interest at these fixed rates for six months. Exposure varies throughout the period as a consequence of changes in the composition of the net assets of the Group arising out of the investment and risk management policies. These balances expose the Group to cash flow interest rate risk as the Group's income and operating cash flows will be affected by movements in the market rate of interest.

The Group has a £30 million committed term loan and revolving capital facility which is charged interest at a rate of 3 month LIBOR plus a margin of 2 per cent. per annum and at the period end £12.3 million was drawn-down. The bank borrowings are carried at amortised cost and the Group considers this to be a close approximation to fair value. The fair value of the bank borrowings is affected by changes in the market interest rate. The Group intends to hedge a proportion of this exposure through entering into a fixed rate Interest Rate Swap.

The following table sets out the carrying amount of the Group's financial instruments that are exposed to interest rate risk:

	Fixed rate £'000	Variable rate £'000
Cash and cash equivalents	**17,125**	**–**
Development loan	**3,300**	**–**
Bank loan	**–**	**11,764**

An increase of 0.25 per cent. in interest rates would have increased the reported profit for the period and the net assets at the period end by £108,000, a decrease in interest rates would have an equal and opposite effect. These movements are calculated as at 30 June 2014 and may not be reflective of actual future conditions.

Market price risk

The management of market price risk is part of the investment management process and is typical of a property investment company. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers. The basis of valuation of the property portfolio is set out in detail in the accounting policies and note 9.

Any changes in market conditions will directly affect the profit and loss reported through the Statement of Comprehensive Income. Details of the Group's investment property portfolio held at the balance sheet date are disclosed in note 9. A 10 per cent. increase in the value of the investment properties held as at 30 June 2014 would have increased net assets available to shareholders and increased the net income for the year by £8.1 million; an equal and opposite movement would have decreased net assets and decreased the net income by an equivalent amount.

The calculations are based on the investment property valuations at the respective balance sheet date and are not representative of the period as a whole, nor reflective of future market conditions.

18. Capital commitments

The Group had no capital commitments.

19. Lease length

The Group leases out its investment properties under operating leases.

The minimum lease payments based on the unexpired lessor lease length at the period end was as follows (based on annual rentals):

	As at 30 June 2014 £'000
Less than one year	**6,487**
Between two and five years	**27,341**
Over five years	**249,962**
Total	**283,790**

The largest single tenant at the period end accounted for 45.7 per cent. of the current annual rental income.

There were no unoccupied properties at the period end.

The Group has entered into commercial property leases on its investment property portfolio. These properties, held under operating leases, are measured under the fair value model as the properties are held to earn rentals. All leases are non-cancellable leases with lease terms of between 25 and 35 years.

20. 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 are disclosed in note 3.

The Directors of the Company received fees for their services. Total fees for the period were £82,000 of which £9,550 remained payable at the period end.

Target Advisers LLP received £1,124,000 during the period of which £49,000 related to the expenses of issue and £394,000 (inclusive of VAT) remained payable at the period end.

21. 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 to assess the Group's performance is the total return on the Group's net asset value. As the total return on the Group's net asset value is calculated based on the net asset value per share calculated under IFRS as shown at the foot of the Balance Sheet, assuming dividends are re-invested, the key performance measure is that prepared under IFRS. Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the financial statements.

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.
- the management of the portfolio is ultimately delegated to a single property manager, Target.

22. Contingent asset and liability

Three properties within the portfolio are subject to deferred consideration clauses within the purchase agreements if certain performance measures are met and these measures are audited.

The performance, as reported to the Group by the tenant, requires formal verification and approval prior to any payment being made. The Group will receive an increase in rental income from the property commencing at the date any deferred payment is made. All other things being equal, this will result in an uplift in the market value of the property to a value equivalent to the deferred payment made.

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.

23. Post balance sheet events

In July 2014, the Group acquired three purpose-built care homes and four specialist care bungalows in Norfolk and Northern Ireland for approximately £20.4 million including acquisition costs, and has acquired another care home in Leicestershire for approximately £6.0 million including acquisition costs.

In April 2014, the Group announced it had exchanged contracts to acquire a modern, purpose-built care home in York. The care home was under construction and was due to be completed in summer 2014. In August 2014, having now reached practical completion, the Group confirmed it had acquired the property for a total consideration of approximately £5.1 million including acquisition costs. As part of the transaction, the Group had provided a short-term loan facility to Ideal Carehomes Group to fund the completion of the property and this was repaid from the consideration proceeds of the sale.

In September 2014 the Group also announced it had exchanged contracts to acquire a new purpose – built care home in Hastings, East Sussex, for approximately £8.0 million (including acquisition costs).

In September 2014, the Company raised gross proceeds of £17.4 million following the issue of a further 17.2 million ordinary shares.

Glossary of Terms and Definitions

Actual Gearing	Total assets (as below) less all cash divided by shareholders' funds.
Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Discount/Premium	The amount by which the market price per share of an investment trust is lower or higher than the net asset value per share. The discount or premium is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Net Asset Value or NAV	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. To calculate the net asset value per ordinary share the net asset value is divided by the number of shares in issue.
Ongoing Charges Ratio	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.
Potential Gearing	Total assets (as below) divided by shareholders' funds.
Prior Charges	The name given to all borrowings including debentures, long and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Total Assets	Total assets less current liabilities (excluding prior charges as defined above).
Total Return	Total return involves reinvesting the net dividend in the month that the share price goes xd. The NAV total return involves investing the same net dividend in the NAV of the Group on the date to which that dividend was earned, e.g. quarter end, half year or year end date.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the second annual general meeting of Target Healthcare REIT Limited (the 'Company') will be held on Wednesday 12 November 2014 at 4pm at the offices of Dickson Minto W.S., Broadgate Tower, 20 Primrose Street, London EC2A 2EW for the following purposes:

Ordinary Business

To consider and if thought fit to pass the following resolutions as ordinary resolutions:

1. To receive and adopt the Directors' report and financial statements of the Company for the period from incorporation on 22 January 2013 to 30 June 2014, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report.
4. To elect Mrs H Jones as a Director.
5. To elect Mr G Ross as a Director.
6. That Ernst & Young LLP, be re-appointed as Auditor and that the Directors be authorised to determine their remuneration.

To consider and, if thought fit, to pass resolutions 7 and 8 as special resolutions:

7. That the Directors be and are hereby empowered to allot and issue equity securities for cash as if the pre-emption rights contained in Article 10(B) of the Company's articles of association and the Listing Rules did not apply to any such allotment, provided that this power:
   (a) expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or on the expiry of 15 months from the passing of this resolution, whichever is the earlier, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired; and
   (b) shall be limited to the allotment of equity securities up to an aggregate nominal value of £11,246,622 or if less the number representing approximately 10 per cent. of the nominal value of the issued share capital of the Company, as at 7 October 2014.
8. That the Company be authorised in accordance with the Companies (Jersey) Law 1991 as amended (the 'Law'), to make market purchases pursuant to Article 57 of the Law of ordinary shares ('Shares') (either for retention as treasury shares for future resale or transfer, or cancellation), provided that:
   (a) the maximum number of Shares hereby authorised to be purchased shall be equal to 14.99 per cent. of the Company's issued share capital on the date on which this resolution is passed;
   (b) the minimum price (excluding expenses) which may be paid for each ordinary share is 1 pence;
   (c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than the higher of:
      (i) 5 per cent. above the average closing price on the London Stock Exchange of an ordinary share over the five business days immediately preceding the date of purchase; and
      (ii) the higher of the last Independent trade and the highest current independent bid on the London Stock Exchange; and
   (d) unless previously varied, revoked or renewed by the Company in a general meeting, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting to be held in respect of the year ending 30 June 2015, save that the Company may, prior to such expiry, enter into a contract to purchase ordinary shares under such authority which will or might be completed or executed wholly or partly after the expiration of such authority and may make a purchase of ordinary shares pursuant to any such contract.

By order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

7 October 2014

Registered Office

Ordnance House
31 Pier Road
St. Helier
Jersey JE4 8PW

Refer to Notes on the following page.

Notice of Annual General Meeting
(continued)

Notes:

1. As a member you are entitled to appoint a proxy or proxies to exercise all or any of your rights to attend, speak and vote at the general meeting. A proxy need not be a member of the Company but must attend the general meeting to represent you. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form. You may not use any electronic address provided either in this notice or any related documents (including the circular and proxy form) to communicate with the Company for any purpose other than those expressly stated.
2. To be valid any proxy form or other instrument appointing a proxy, together with any power of attorney or other authority under which it is signed or a certified copy thereof, must be received by post or (during normal business hours only) by hand at Computershare Investor Services (Jersey) Limited, Queensway House, Hilgrove Street, St. Helier, Jersey, JE1 1ES no later than 48 hours before the time of the meeting or any adjourned meeting.
3. The return of a completed proxy form or other instrument of proxy will not prevent you attending the general meeting and voting in person if you wish.
4. The Company specifies that only those shareholders registered in the register of members of the Company at 12 noon on 10 November 2014 (or, if the meeting is adjourned, 48 hours (excluding non-working days) before the time fixed for the adjourned meeting) shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at that time. In each case, changes to entries on the register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. As at 7 October 2014 (being the last business day prior to the publication of this notice) the Company's issued share capital consisted of 112,446,226 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at 7 October 2014 were 112,446,226 votes.
6. Any person holding 3 per cent. or more of the total voting rights of the Company who appoints a person other than the chairman of the meeting as his proxy will need to ensure that both he and his proxy complies with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
7. Information regarding the general meeting is available from the Company's webpage at www.targethealthcarereit.co.uk

Corporate Information

Directors
Mr Malcolm Naish (Chairman)
Professor June Andrews
Mr Gordon C Coull*
Mr Thomas J Hutchison III**
Mrs Hilary P Jones
Mr Graeme D Ross

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* Chairman of Audit Committee
** Senior Independent Director

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