

Investing in care delivering returns

Target Healthcare REIT plc
Interim Report and Financial Statements 2020

We are Target
Healthcare REIT



Our purpose

To accelerate the improvement in the physical standards of UK care homes through long-term, responsible investment in modern real estate which delivers our return objectives to shareholders.

We are advocates of the benefits that intelligently designed, purpose-built care homes can bring and we want more residents, care professionals and local communities to benefit from their positive social impact.

How we invest in care and deliver returns

- UK-listed real estate investment trust (REIT).
- Robust, diversified portfolio of scale, patiently assembled over seven years.
- Specialist Investment Manager with over 10 years dedicated experience of investing in the UK care home sector.
- Quarterly dividend focus.

Contents

Key Performance Indicators	3
Chairman's Statement	4
Investment Manager's Report	6
Condensed Consolidated Statement of Comprehensive Income	8
Condensed Consolidated Statement of Financial Position	9
Condensed Consolidated Statement of Changes in Equity	10
Condensed Consolidated Cash Flow Statement	11
Notes to the Condensed Consolidated Financial Statements	12
Directors' Statement of Principal Risks and Uncertainties	23
Statement of Directors' Responsibilities in Respect of the Interim Report	23
Independent Review Report	24
Glossary of Terms and Definitions	25
Alternative Performance Measures	26
Corporate Information	29

At a Glance

Portfolio Highlights



PROPERTIES

76 homes



PORTFOLIO VALUE

£647.7m



WEIGHTED AVERAGE UNEXPIRED LEASE TERM

28.7 years



CONTRACTUAL RENT

£40.6m



TENANTS

27

Financial Highlights

EPRA NAV PER SHARE (PENCE)

108.2 +0.1%

NAV TOTAL RETURN (PER CENT)¹

3.3

DIVIDEND PER SHARE (PENCE)

3.36 +0.6%

IFRS PROFIT (£ MILLION)

15.8 -4.5%

DIVIDEND COVER (PER CENT)²

79

European Public Real Estate Association ('EPRA') Summary

	At 31 December 2020	At 30 June 2020
EPRA NAV per share (pence)	108.2	108.1
EPRA NNNNAV per share (pence)	107.6	107.7
EPRA 'topped-up' Net Initial Yield (per cent)	5.97	6.04
EPRA Net Initial Yield (per cent)	5.80	5.69

	Six months to 31 December 2020	Six months to 31 December 2019
Adjusted EPRA EPS (pence)	2.66	2.72
EPRA EPS (pence)	3.61	3.50
Adjusted EPRA Cost Ratio (per cent)	29.2	22.8
EPRA Cost Ratio (per cent)	24.1	19.2

¹ Based on EPRA NAV movement and dividends paid.

² Based on adjusted EPRA earnings. Refer to note 6 to the Condensed Consolidated Financial Statements

The Group uses Alternative Performance Measures ('APMs'). These are defined on pages 26 and 27.

Key Performance Indicators and Corporate Activity

For the six months ended 31 December 2020.

Highlights

Robust portfolio performance with resilient rental collection and valuation growth. Selective resumption of investment activity, using flexible and lengthened debt capacity.

Strategic Objective



Growing a robust portfolio

Creating a portfolio of scale with focus on real estate quality, diversification, and sustainability of returns.



Specialist, engaged manager

Utilise the Manager's skills, experience and insight to navigate a complex sector: protecting returns; promoting the contribution of our tenants; and advocating improvements in real estate standards.



Dividend focus

Leverage financial strength and disciplined cost control to provide covered dividend when fully invested at prudent gearing levels.



Our purpose and responsible investment

In addition to reporting on financial returns to shareholders, we want to be able to measure and report our wider environmental, social and governance (ESG) principles and impact.

Activity & Key Performance Indicators (KPIs) for the period

- Portfolio growth of £30 million by value. Like-for-like valuation growth of 1.3%
- EPRA Topped-up Net Initial Yield ('NIY') of 5.97%, EPRA NIY 5.80%
- Contractual rent increased by 4.2% to £40.6 million per annum (2020: £39.0 million)
- Like-for-like increase in portfolio contractual rent of 0.3% with the assets that were subject to rent review in the period delivering an average increase of 1.7%
- Weighted Average Unexpired Lease Term ('WAULT') of 28.7 years (2020: 29.0 years)
- Equity issuance post period end of £60 million
- Portfolio total returns of 4.1% (2019: 4.7%)
- Real estate standards:
 - 95% beds have full en suite wet-room facilities
 - 87% homes are ≤10 years old
- Relationships:
 - positive endorsement of the Manager's approach through results of a tenant survey completed in the period
 - since March 2020, the Manager has held over 1,000 telephone discussions with care homes and operators within the portfolio
- Complexity of sector & end-user focus: Ongoing supportive dialogue with tenants through crisis; landlord flexibility providing assurance and allowing focus on care provision for residents
- Earnings: Group specific adjusted EPRA EPS¹ 2.66 pence per share (2019: 2.72 pence)
- Cost control: Adjusted EPRA cost ratio 29.2%
- Financial strength: Average cost of drawn debt 2.81%, average term to maturity 5.34 years, net LTV 22.2%
- Dividends declared increased by 0.6% to 3.36 pence in respect of the period (2019: 3.34 pence)
- Dividend yield of 5.9% based on 31 December 2020 closing share price of 114.0 pence
- Dividend cover 79%, fully covered based on EPRA EPS
- Total returns on EPRA NAV² of 3.3% (2019: 3.8%)
- Share price total return of 6.8% (2019: 3.3%)
- A third-party ESG principles specialist was engaged to analyse the Group's positioning, including a review of stakeholders' opinions and engagement. The feedback from all stakeholders was positive
- The Manager is formulating an appropriate strategy which balances value for shareholders with the ability to effectively measure and report progress in relevant areas, with an intention to align reporting with the Stewardship Code 2020 and the UN Principles for Responsible Investment
- Continued social purpose from advocacy of minimum real estate standards across the sector, with committed investment in three new-build homes which will provide 204 fully fit-for-purpose beds for residents
- Portfolio EPC ratings: 100% A-C ratings³

Unless otherwise stated in the above table, references to 2019 mean the comparative six month period to 31 December 2019 and references to 2020 mean 30 June 2020, being the start of the period under review.

¹ For the details of adjusted EPRA earnings refer to note 6 to the Condensed Consolidated Financial Statements.

² Based on EPRA NAV movement and dividends paid.

³ English homes only.

The Group uses Alternative Performance Measures ('APMs'). These are defined on pages 26 and 27.

Chairman's Statement

We have now been living with the COVID-19 pandemic for over a year. Throughout this time, we have heard powerful first-hand accounts from our homes detailing the extent of the challenges faced, and the impact on residents, families and their care workers. We are grateful to all those working in our homes for their devoted service.

Introduction and COVID-19

The extensive feedback we have received throughout the period from care home managers and their teams has confirmed that the standards of our modern, purpose-built real estate have been vital to their efforts to provide dignified care for residents – we shall continue to advocate for these as the minimum real estate standards anyone should be willing to accept for frail older people.

The urgent roll-out of vaccinations to residents and carers in all our homes has been a success. The protection provided is a massive relief to residents, their friends and families, and care staff. This also delivers the first significant commercial assurance this year to our tenants. We are pleased to hear reports from our tenants of significant levels of enquiries from prospective residents and expect occupancy to recover as new admissions can now occur more safely and residents are able to interact with visitors and their local communities more regularly.

While our outlook for our homes and the sector is optimistic, we recognise that trading conditions may remain challenging for a period for some homes as we continue to emerge from the worst of the pandemic. Positive relationships with our tenants are fundamental to our business model and we remain a highly engaged and supportive landlord.

Group performance

Despite the unparalleled difficulties of the past year, underlying profits, measured by adjusted EPRA earnings, have increased by 6% to £12.2 million (2019: £11.5 million), being 2.66 pence per share (2019: 2.72 pence). The Group's portfolio, on which the Investment Manager reports in more detail on pages 6 and 7, now comprises beds for up to 5,071 residents to be cared for by our 27 tenants and their many thousands of nurses, carers and other essential staff.



The Group continues to provide attractive total returns (3.3% accounting total return for the period¹), driven primarily by the rental and valuation growth of the underlying portfolio. Valuation yields have tightened (EPRA topped-up Net Initial Yield: 5.97%) with a number of market participants providing competition for the sustainable rental cashflows and relatively low volatility provided by the type of homes in which we invest.

We have all faced necessary restrictions that have prevented us taking our preferred actions, and this has extended to our management of the portfolio. We prudently paused investment activity at the height of the uncertainty a year ago, and the implementation of initiatives to address performance concerns relating to a small number of our assets were delayed. While these restrictions on our normal course of business unsurprisingly impacted on our ability to deliver maximum earnings and dividend cover, the impact was slight. Moreover, the evidence of the robust performance of our portfolio, with 94% of rent collected for the COVID-affected period² and market demand and competition for assets reflected in the aforementioned tightening of valuation yields, provides a solid basis to resume acquisitions and we have progressed initiatives on the underperforming assets. These actions should contribute positively to further earnings growth in the near-term.

Portfolio & balance sheet strength

At 31 December 2020, the Group's portfolio has grown to 76 properties valued at £647.7 million. Our 27 tenants provide diversity of income, with rental and valuation growth delivered on a like-for-like basis at 0.3% and 1.3% respectively from both rental uplifts and yield compression.

Underlying trading performance at the homes has proven remarkably resilient – notably, rent cover for the mature homes in the portfolio of 1.5 times³ has been achieved over the period largely affected by COVID-19.

Gearing remains low, despite having increased from 19% to 22% over the six month period as we have moved closer to a fully invested and fully geared balance sheet. Management of our investment pipeline, development programme and capital structure is also becoming more efficient with scale and with the agreement of enhanced debt arrangements. The £40 million of additional debt capacity and maturity extensions during the period have further strengthened the balance sheet and provide increased certainty of funding. Our weighted average term to maturity on our debt facilities now exceeds five years at a weighted interest rate of 2.8%.

We have been delighted by the support from both existing shareholders and new investors for the oversubscribed £60 million equity issuance completed this month. We carefully considered the immediate prospects for the portfolio and the sector, as well as the medium to longer term, and firmly believe shareholders can benefit from the further scale and tenant diversity that investment of the funds raised will add to our underlying investment portfolio. The Manager has identified an attractive pipeline of investment opportunities and also reports significant interest in the type of real estate we hold, with some evidence that the 'flight to quality' within the sector is accelerating. We look forward to deploying the capital raised and continuing to grow our portfolio on accretive terms whilst remaining highly selective with our approach to acquisition opportunities.

Dividend and outlook

We have maintained our progressive dividend policy having increased quarterly dividends by 0.6% to 1.68 pence per share. While dividend cover over this COVID-affected six-month period was 79%⁴, we have a clear path to full cover from the increased earnings which are already being generated by recent capital deployment, and from the improved rental collection expected on completion of our portfolio management initiatives.

Our Manager's specialist understanding of the sector and deep-seated relationships help identify assets that meet our strict criteria and, more crucially, set rental levels which are sustainable for operationally astute care home operators. This approach has delivered annualised accounting total returns⁵ since launch of 7.7% and, despite the unprecedented conditions since the outbreak of the pandemic, returned 6.5% for the 2020 calendar year.

Our business model provides stable, non-cyclical returns from long-term, committed investment in UK care homes. Real estate standards across the sector remain generally poor – 74%⁵ of the UK's existing care home bedrooms are in need of modernisation to effectively allow dignity and privacy in care, as well as enhancements to infection control. This significant undersupply of quality, and the increasing numbers of people over 85 years of age, allows us to invest with confidence for the long-term.

Malcolm Naish

Chairman

22 March 2021

1 Based on EPRA NAV movement plus dividends paid.

2 For the period from 11 March 2020 (when COVID-19 was declared a global pandemic by the World Health Organisation) to 31 December 2020.

3 Twelve month rolling average to 31 December 2020.

4 Based on adjusted earnings, please refer to note 6 to the Condensed Consolidated Financial Statements.

5 Carterwood – 2020.

Investment Manager's Report

Overview

The Group's portfolio of 76 assets, comprising 73 operational homes and three pre-let development sites, was valued at £647.7 million at 31 December 2020. The operational homes were let to 27 tenants, providing 5,071 beds for residents, and generating a contractual rent of £40.6 million per annum. The EPRA topped-up net initial yield was 5.97% and the EPRA net initial yield was 5.80%.

The portfolio value has increased by 4.9% in the period. Of this, 3.6% is due to net capital deployment in one new acquisition and further investment into developments (two new commitments, one existing), with a positive like-for-like movement in the operational portfolio of 1.3%, which primarily reflects the impact of both inflation-linked rent reviews and yield compression.

The contractual rent roll has increased by 4.2% in the period, including an increase of 3.9% from an acquisition and a completed development site. The Group's upwards-only rent reviews contributed a like-for-like increase of 0.7%, though we report a net increase of 0.3% following a prudent reduction in estimated rent from the portfolio's sole variable rental lease agreement, where the affected property has seen a weaker trading performance due to COVID-19. The WAULT has shortened slightly to 28.7 years.

The portfolio total return for the six-month period was 4.1% (8.2% for the 2020 calendar year), maintaining its stable performance since IPO.

COVID-19

As at 18 March 2021 there were confirmed COVID-19 cases in less than 0.6% of total portfolio beds across nine homes, down from the April 2020 peak of 3.2% suspected or confirmed cases across 32 homes. Vaccinations had been made available to residents and staff in all of the Group's care homes by 1 February 2021, with substantial uptake across both groups. The roll-out of second dose vaccinations has commenced and is expected to complete in the coming weeks.

The pandemic has had a significant impact on underlying occupancy across the portfolio, with a decrease of 10% since the pandemic began, consistent with the trend seen across the sector, as admissions of new residents slowed. Home trading performance has remained resilient, with average rent cover as at 31 December 2020 of 1.5 times on a last twelve months' basis.¹ These results reflect the positive effects of (i) government support (ii) local authority fee increases arriving promptly; and (iii) reduced agency staff usage.

The progress towards normality which appears likely as a result of vaccinations is, of course, welcomed. We look forward to recommencing our regular visiting programme, when safe to do so, and experiencing the vibrant and caring environments our homes provide their residents, visitors and local communities.

Asset management initiatives

As at 22 March 2021, the Group had collected 93 per cent of the rent that was due and payable in respect of the current quarter. The Investment Manager has ongoing engagement with the Group's tenants to proactively assist and monitor performance. Two tenants, operating four homes in aggregate and comprising approximately eight per cent of the Group's total rent, have contributed to the majority of recent and ongoing rent arrears. The market value of these properties as reported at 31 December 2020 is at a reduced level which reflects the sustained underperformance to date. Whilst the restrictions and interruptions of the COVID-19 pandemic have limited our ability to implement initiatives to address the underperformance, positive progress has been made recently. An agreement has been reached with one tenant for partial settlement of outstanding rent and consensual re-tenanting of their two homes. At the other two homes, operated by a different tenant, resident occupancy and trading is improving towards the levels anticipated by the investment case, with one home having recently started paying its rent in full. The other home is making slower progress in part due to restrictions put in place throughout the COVID-19 pandemic.



¹ All occupancy and rent cover figures quoted relate to mature homes within the portfolio.

We have also continued to progress other asset management activities to secure long-term rental income.

Investment market

The investment market for high quality, modern, fit-for-purpose assets which meet the Group's investment criteria remains very competitive. There is sustained strong investor appetite, with the best properties and sites transacting at pre-COVID-19 pandemic pricing.

Yields continue to tighten and, based on the reliable cash-flows generated, competition levels we are witnessing from a number of participants, and the resilient performance through the pandemic, we anticipate modest tightening to continue. We are not seeing distressed sales, as one may expect, rather the opposite as the requirement for the sector's real estate to modernise, and the resultant flight to quality of limited supply, becomes more pronounced.

Our pipeline of potential portfolio additions is healthy, with opportunities to: add homes which are market-leading in their local areas; support care providers in their growth aspirations; and to enhance our portfolio's diversification through new tenants. We expect to complete diligence procedures and announce acquisitions in the coming months.

Sectoral

In the aftermath of COVID-19, there is a continued strong political commitment to improving the relationship between health and social care across the UK, to avoid medically fit older patients occupying urgently needed hospital beds. This offers further opportunities

for the social care sector by caring for this population, as has been demonstrated during the pandemic. Other positive areas of opportunity for joint working with the NHS include intermediate care for people who are not yet well enough to return home from hospital, and rapid response care beds for people who require rehabilitation which can be delivered in the care home to avoid hospital admission altogether.

Policy makers continue to discuss how the public funded element of elder care is to be settled, with new ideas being considered after the shelving of the Dilnot proposals on long term care funding. There are no proposals for structural reform of social care, though discussion about funding through personal taxation or insurance schemes is live. The Department of Health and Social Care has released a White Paper called 'Integration and Innovation', described as a 'shift away from the old legislative focus on competition between health care organisations towards a new model of collaboration, partnership and integration'. Proposals to look at joined up thinking across whole communities may ultimately be beneficial to all.

Plans for a new 'National Care Service' in Scotland seek to draw together the NHS and social care, but the sector is content that the government commissioned Independent Review of Adult Social Care has comprehensively vetoed the idea of nationalising the independent sector on financial grounds. In addition, the Scottish Care Inspectorate is due to publish an update of design guidance for care homes reinforcing the opportunities for those providing fit-for-purpose buildings.

The Department of Health Northern Ireland has announced its intention to simplify and standardise NHS payment of 'Continuing Healthcare' which will be progressive, clarifying formerly contentious issues of NHS funding for residents within care homes, making it easier to access much needed care that this sector can provide.

The last year has seen the staff who work in care homes held up in proper respect alongside their colleagues in the NHS, with acknowledgement of their heroic efforts. Recognition of the value of the sector as a whole is reflected in these policy developments.

Target Fund Managers Limited

22 March 2021

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2020

	Notes	Six months ended 31 December 2020 (unaudited)			Six months ended 31 December 2019 (unaudited)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Revenue							
Rental income		20,308	4,554	24,862	16,973	3,855	20,828
Other income		6	–	6	10	–	10
Total revenue		20,314	4,554	24,868	16,983	3,855	20,838
Gains on investment properties	8	–	307	307	–	299	299
(Losses)/gains on properties held for sale	9	–	(92)	(92)	–	1,505	1,505
Total income		20,314	4,769	25,083	16,983	5,659	22,642
Expenditure							
Investment management fee	2	(2,821)	–	(2,821)	(2,525)	–	(2,525)
Other expenses	3	(3,170)	–	(3,170)	(1,486)	(47)	(1,533)
Total expenditure		(5,991)	–	(5,991)	(4,011)	(47)	(4,058)
Profit before finance costs and taxation		14,323	4,769	19,092	12,972	5,612	18,584
Net finance costs							
Interest receivable		18	–	18	62	–	62
Interest payable and similar charges	4	(2,389)	(913)	(3,302)	(2,090)	–	(2,090)
Profit before taxation		11,952	3,856	15,808	10,944	5,612	16,556
Taxation	5	12	–	12	3	–	3
Profit for the period		11,964	3,856	15,820	10,947	5,612	16,559
Other comprehensive income:							
Items that are or may be reclassified subsequently to profit or loss							
Movement in fair value of interest rate swaps		–	(141)	(141)	–	17	17
Reclassification to profit and loss on discontinuation of interest rate swaps		–	180	180	–	–	–
Total comprehensive income for the period		11,964	3,895	15,859	10,947	5,629	16,576
Earnings per share (pence)	6	2.62	0.84	3.46	2.58	1.33	3.91

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

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

No operations were discontinued in the period.

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2020

	Notes	As at 31 December 2020 (unaudited) £'000	As at 30 June 2020 (audited) £'000
Non-current assets			
Investment properties	8	595,090	570,086
Trade and other receivables	10	51,968	46,044
		647,058	616,130
Current assets			
Trade and other receivables	10	2,627	3,702
Cash and cash equivalents		18,324	36,440
		20,951	40,142
Properties held for sale	9	7,320	7,500
		28,271	47,642
Total assets		675,329	663,772
Non-current liabilities			
Bank loans	12	(159,683)	(150,135)
Interest rate swaps	12	(188)	(227)
Trade and other payables	13	(6,821)	(6,183)
		(166,692)	(156,545)
Current liabilities			
Trade and other payables	13	(13,991)	(13,114)
Total liabilities		(180,683)	(169,659)
Net assets		494,646	494,113
Share capital and reserves			
Share capital	14	4,575	4,575
Share premium		77,452	77,452
Merger reserve		47,751	47,751
Distributable reserve		281,444	296,770
Hedging reserve		(188)	(227)
Capital reserve		49,392	45,536
Revenue reserve		34,220	22,256
Equity shareholders' funds		494,646	494,113
Net asset value per ordinary share (pence)	6	108.1	108.0

The condensed consolidated financial statements on pages 8 to 22 were approved by the Board of Directors on 22 March 2021 and were signed on its behalf by:

Malcolm Naish
Chairman

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2020
(unaudited)

	Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 June 2020		4,575	77,452	47,751	296,770	(227)	45,536	22,256	494,113
Total comprehensive income for the period		–	–	–	–	39	3,856	11,964	15,859
Transactions with owners recognised in equity:									
Dividends paid	7	–	–	–	(15,326)	–	–	–	(15,326)
As at 31 December 2020		4,575	77,452	47,751	281,444	(188)	49,392	34,220	494,646

For the six months ended 31 December 2019 (unaudited)

	Notes	Stated capital account £'000	Share capital £'000	Share premium £'000	Merger reserve £'000	Distributable reserve £'000	Hedging reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
As at 30 June 2019		372,685	–	–	–	–	(707)	36,163	4,948	413,089
Total comprehensive income for the period		–	–	–	–	–	17	5,612	10,947	16,576
Transactions with owners recognised in equity:										
Group reconstruction		(371,292)	385,090	–	47,751	(61,549)	–	–	–	–
Reduction of share capital		–	(381,239)	–	–	381,239	–	–	–	–
Dividends paid	7	(1,393)	–	–	–	(7,640)	–	–	(4,941)	(13,974)
Issue of ordinary shares	14	–	724	79,276	–	–	–	–	–	80,000
Expenses of issue		–	–	(1,824)	–	–	–	–	–	(1,824)
As at 31 December 2019		–	4,575	77,452	47,751	312,050	(690)	41,775	10,954	493,867

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

Condensed Consolidated Cash Flow Statement

For the six months ended 31 December 2020

	Notes	Six months ended 31 December 2020 (unaudited) £'000	Six months ended 31 December 2019 (unaudited) £'000
Cash flows from operating activities			
Profit before tax		15,808	16,556
Adjustments for:			
Interest receivable		(18)	(62)
Interest payable		3,302	2,090
Revaluation losses/(gains) on properties held for sale		92	(1,505)
Revaluation gains on investment properties and movements in lease incentives, net of acquisition costs written off		(4,861)	(4,471)
Increase in trade and other receivables		(348)	(16,314)
Increase in trade and other payables		498	2,133
		14,473	(1,573)
Interest paid		(2,158)	(1,524)
Interest received		18	62
Tax paid		–	(73)
		(2,140)	(1,535)
Net cash inflow/(outflow) from operating activities		12,333	(3,108)
Cash flows from investing activities			
Disposal of investment properties		–	14,402
Disposal of properties held for sale	9	388	–
Purchase of investment properties and properties held for sale, including acquisition costs		(24,013)	(97,700)
Net cash outflow from investing activities		(23,625)	(83,298)
Cash flows from financing activities			
Issue of ordinary share capital	14	–	80,000
Expenses of issue paid		–	(1,824)
Bank loans drawn down	12	112,000	87,000
Costs of arranging bank loan facilities		(1,449)	(117)
Bank loans repaid	12	(102,000)	(60,000)
Dividends paid		(15,375)	(13,837)
Net cash (outflow)/inflow from financing activities		(6,824)	91,222
Net (decrease)/increase in cash and cash equivalents		(18,116)	4,816
Opening cash and cash equivalents		36,440	26,946
Closing cash and cash equivalents		18,324	31,762
Transactions which do not require the use of cash			
Movement in fixed or guaranteed rent reviews and lease incentives		5,311	4,255

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

Notes to the Condensed Consolidated Financial Statements

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and the accounting policies set out in the statutory financial statements of the Group for the year ended 30 June 2020.

The condensed consolidated financial statements do not include all of the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2020, which were prepared under full IFRS requirements.

Going concern

The condensed consolidated financial statements have been prepared on the going concern basis. In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. Given the potentially significant impact of COVID-19 on the economic conditions in which the Group is operating, the Directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the financial statements for the period ended 31 December 2020.

The Group's going concern assessment particularly considered that:

- The value of the Group's portfolio of assets significantly exceeds the value of its liabilities, with the valuation yield applied to the portfolio having tightened marginally since the start of the pandemic;
- The Group is contractually entitled to receive rental income which significantly exceeds its forecast expenses and loan interest; and
- The Group remains within its loan covenants, with its finance facilities having been extended and increased during the period, resulting in a weighted average term to maturity of 5.3 years at 31 December 2020 and an earliest repayment date of November 2023.

The Group has a significant balance of cash and undrawn debt available and the Group's current policy is to prudently retain a proportion of this to ensure it can continue to pay the Group's expenses and loan interest in the unlikely scenario that the level of rental income received deteriorates significantly. The proportion retained will be kept under review dependent on portfolio performance and market conditions.

Based on these considerations, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and at least the next twelve months from the date of issuance of this report. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

2. Investment Management Fee

	For the six month period ended 31 December 2020 £'000	For the six month period ended 31 December 2019 £'000
Investment management fee	2,821	2,525

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

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

The Investment Management Agreement can be terminated by either party on 24 months' written notice, provided that the earliest that notice could be served is 30 April 2021. Should the Company terminate the Investment Management Agreement earlier then compensation in lieu of notice will be payable to the Investment Manager. The Investment Management Agreement may be terminated immediately without compensation if: the Investment Manager is in material breach of the agreement; guilty of negligence, wilful default or fraud; is the subject of insolvency proceedings; or there occurs a change of Key Managers to which the Board has not given its prior consent.

3. Other expenses

	For the six month period ended 31 December 2020 £'000	For the six month period ended 31 December 2019 £'000
Credit loss allowance and bad debts written off	1,940	520
Valuation and other professional fees	853	516
Secretarial and administration fees	88	86
Directors' fees	91	80
Capital costs relating to Group reconstruction	–	47
Other	198	284
Total	3,170	1,533

4. Interest payable and similar charges

	For the six month period ended 31 December 2020 £'000	For the six month period ended 31 December 2019 £'000
Interest paid on bank loans	2,056	1,689
Amortisation of loan costs	333	401
Cost of early redemption	913	–
Total	3,302	2,090

During the period ended 31 December 2020, the Group amended its existing £50.0 million term loan and revolving credit facility with RBS and closed out the interest rate swaps used to hedge the previous facility. The Group also amended its existing £80.0 million revolving credit facility with HSBC. The costs of early redemption, including the release of the unamortised loan costs remaining at the time of restatement of both the RBS and HSBC loans and the crystallisation of a loss of £180,000 on the early termination of the interest rate swaps that had previously been recognised through other comprehensive income, totalled £913,000 and have been charged to capital. Further detail on the amended and restated loans is provided in note 12.

5. Taxation

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

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

Notes to the Condensed Consolidated Financial Statements (continued)

6. Earnings per share and Net Asset Value per share

Earnings per share

	For the six month period ended 31 December 2020		For the six month period ended 31 December 2019	
	£'000	Pence per share	£'000	Pence per share
Revenue earnings	11,964	2.62	10,947	2.58
Capital earnings	3,856	0.84	5,612	1.33
Total earnings	15,820	3.46	16,559	3.91
Average number of shares in issue	457,487,640		423,255,886	

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

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

The Group's specific adjusted EPRA earnings adjusts the EPRA earnings for rental income arising from recognising guaranteed rental review uplifts and for development interest received from developers in relation to monies advanced under forward fund agreements which, in the Group's IFRS financial statements, is required to be offset against the book cost of the property under development. The Board believes that the Group's specific adjusted EPRA earnings represents the underlying performance measure appropriate for the Group's business model as it illustrates the underlying revenue stream and costs generated by the Group's property portfolio. The reconciliations are provided in the table below:

	For the six month period ended 31 December 2020 £'000	For the six month period ended 31 December 2019 £'000
Earnings per IFRS Consolidated Statement of Comprehensive Income	15,820	16,559
Adjusted for gains on investment properties	(307)	(299)
Adjusted for losses/(gains) on properties held for sale	92	(1,505)
Adjusted for cost of debt refinancing and other capital items	913	47
EPRA earnings	16,518	14,802
Adjusted for rental income arising from recognising guaranteed rent review uplifts	(4,554)	(3,855)
Adjusted for development interest under forward fund agreements	212	577
Group specific adjusted EPRA earnings	12,176	11,524
Earnings per share ('EPS') pence per share		
EPS per IFRS Consolidated Statement of Comprehensive Income	3.46	3.91
EPRA EPS	3.61	3.50
Group specific adjusted EPRA EPS	2.66	2.72

Earnings for the period ended 31 December 2020 should not be taken as a guide to the results for the year to 30 June 2021.

Net Asset Value per share

The Group's net asset value per ordinary share of 108.1 pence (30 June 2020: 108.0 pence) is based on equity shareholders' funds of £494,646,000 (30 June 2020: £494,113,000) and on 457,487,640 (30 June 2020: 457,487,640) ordinary shares, being the number of shares in issue at the period end.

The EPRA Net Asset Value ('EPRA NAV') per share is arrived at by adjusting the net asset value ('NAV') calculated under International Financial Reporting Standards ('IFRS'). The EPRA NAV provides a measure of the fair value of a company on a long-term basis. The only adjustment required to the NAV is that the EPRA NAV excludes the fair value of the Group's interest rate swaps which was recognised as a liability of £188,000 under IFRS as at 31 December 2020 (30 June 2020: liability of £227,000). EPRA believes that, under normal circumstances, the financial derivatives which property investment companies use to provide an economic hedge are held until maturity and so the theoretical gain or loss at the balance sheet date will not crystallise.

	As at 31 December 2020 Pence per share	As at 30 June 2020 Pence per share
NAV per financial statements (pence per share)	108.1	108.0
Valuation of interest rate swaps	0.1	0.1
EPRA NAV (pence per share)	108.2	108.1
Fair value adjustment for fixed-rate loan facilities and interest rate swaps	(0.6)	(0.4)
EPRA NNNAV (pence per share)	107.6	107.7

EPRA guidance also recognises an EPRA NNNAV (Triple Net Asset Value), the objective of which is to report net asset value including fair value adjustments in respect of all material balance sheet items which are not reported at their fair value as part of the EPRA NAV. At 31 December 2020, the Group held all its material balance sheet items at fair value, or at a value considered to be a close approximation to fair value, in its financial statements apart from its fixed-rate debt facility where the fair value of the liability is estimated to be £2,579,000 higher than the nominal value at 31 December 2020 (30 June 2020: £1,511,000).

7. Dividends

Dividends paid as distributions to equity shareholders during the period.

	For the six month period ended 31 December 2020		For the six month period ended 31 December 2019	
	Pence	£'000	Pence	£'000
Fourth interim dividend for prior year	1.67	7,640	1.64	6,334
First interim dividend	1.68	7,686	1.67	7,640
Total	3.35	15,326	3.31	13,974

A second interim dividend for the year to 30 June 2021, of 1.68 pence per share, was paid on 26 February 2021 to shareholders on the register on 12 February 2021.

Notes to the Condensed Consolidated Financial Statements

(continued)

8. Investment properties

	As at 31 December 2020 £'000
Freehold and Leasehold Properties	
Opening market value	610,084
Opening fixed or guaranteed rent reviews and lease incentives	(39,998)
Opening carrying value	570,086
Purchases	23,718
Acquisition costs capitalised	979
Acquisition costs written off	(979)
Revaluation movement – gains	9,741
Revaluation movement – losses	(3,144)
Movement in market value	30,315
Movement in fixed or guaranteed rent reviews and lease incentives	(5,311)
Movement in carrying value	25,004
Closing market value	640,399
Closing fixed or guaranteed rent reviews and lease incentives	(45,309)
Closing carrying value	595,090

The investment properties can be analysed as follows:

	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Standing assets	629,939	597,484
Developments under forward fund agreements	10,460	12,600
Closing market value	640,399	610,084

Changes in the valuation of investment properties

	For the six month period ended 31 December 2020 £'000	For the six month period ended 31 December 2019 £'000
Loss on sale of investment properties	–	(948)
Unrealised gains realised during the period	–	1,590
Gains on sale of investment properties realised	–	642
Revaluation movement	6,597	7,614
Acquisition costs written off	(979)	(3,386)
Movement in lease incentives	(757)	(715)
Movement in fixed or guaranteed rent reviews	(4,554)	(3,856)
Gains on revaluation of investment properties	307	299

The investment properties were valued at £640,399,000 (30 June 2020: £610,084,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'), in their capacity as external valuers. The valuation was undertaken in accordance with the RICS Valuation – Professional Standards, incorporating the International Valuation Standards, ('the Red Book Global', 31 January 2020) issued by the Royal Institution of Chartered Surveyors ('RICS') on the basis of Market Value, supported by reference to market evidence of transaction prices for similar properties. Market Value represents the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The fair value of the properties after adjusting for the movement in the fixed or guaranteed rent reviews and lease incentives was £595,090,000 (30 June 2020: £570,086,000). The adjustment consisted of £39,320,000 (30 June 2020: £34,766,000) relating to fixed or guaranteed rent reviews and £5,989,000 (30 June 2020: £5,232,000) of accrued income relating to the recognition of rental income over rent free periods subsequently amortised over the life of the lease, which are both separately recorded in the financial statements as non-current and current assets within 'trade and other receivables'.

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

- Level 1: unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: observable inputs other than quoted prices included within level 1;
- Level 3: use of inputs that are not based on observable market data.

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

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

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

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

The Group's investment properties, which are all care homes, are considered to be a single class of assets. The weighted average net initial yield ('NIY') on these assets, as measured by the EPRA topped-up net initial yield, is 6.0%. The yield on the majority of the individual assets ranges from 5.0 per cent to 8.0 per cent. There have been no changes to the valuation technique used through the period, nor have there been any transfers between levels.

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

- Contracted rental level: The rent payable under the lease agreement at the date of valuation or, where applicable, on expiry of the rent free period; and
- Yield: The yield is defined as the initial net income from a property at the date of valuation, expressed as a percentage of the gross purchase price including the costs of purchase.

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

The lease agreements on the properties held within the Group's property portfolio generally allow for annual increases in the contracted rental level in line with inflation, within a cap and a collar. An increase of 1.0 per cent in the contracted rental level will increase the fair value of the portfolio, and consequently the Group's reported income from unrealised gains on investments, by £6.4 million (30 June 2020: £6.1 million); an equal and opposite movement would have decreased net assets and decreased the Group's income by the same amount.

A decrease of 0.25 per cent in the net initial yield applied to the property portfolio, including properties held for sale, will increase the fair value of the portfolio by £27.9 million (30 June 2020: £26.3 million), and consequently increase the Group's reported income from unrealised gains on investments. An increase of 0.25 per cent in the net initial yield will decrease the fair value of the portfolio by £25.7 million (30 June 2020: £24.3 million) and reduce the Group's income.

Notes to the Condensed Consolidated Financial Statements (continued)

9. Properties held for sale

	As at 31 December 2020 £'000
Opening fair value	7,500
Purchases	300
Disposals – proceeds	(388)
– gain on sale	34
Unrealised gain realised during the period	(126)
Closing fair value	7,320

The properties held for sale were valued at £7,320,000 (30 June 2020: £7,500,000) by Colliers International Healthcare Property Consultants Limited ('Colliers'). The properties held for sale consist of two blocks of apartments adjacent to an existing property holding which were acquired to consolidate ownership of the overall retirement village. The intention is to sell the leasehold on the individual apartments.

10. Trade and other receivables

	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Non-current trade and other receivables		
Fixed rent reviews	39,320	34,766
Rental deposits held in escrow for tenants	6,821	6,183
Lease incentives	5,827	5,095
Total	51,968	46,044
	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Current trade and other receivables		
Lease incentives	162	137
VAT recoverable	505	184
Accrued income – rent receivable	1,044	1,520
Accrued development interest under forward fund agreements	304	996
Other debtors and prepayments	612	865
Total	2,627	3,702

11. Investment in subsidiary undertakings

The Group included 48 subsidiary companies as at 31 December 2020. All subsidiary companies were wholly owned, either directly or indirectly, by the Company and, from the date of acquisition onwards, the principal activity of each company within the Group was to act as an investment and property company. Other than one subsidiary incorporated in Jersey, two subsidiaries which are incorporated in Gibraltar and two subsidiaries which are incorporated in Luxembourg, all subsidiaries are incorporated within the United Kingdom.

During the period, the Group incorporated two new property holding companies; THR Number 37 Limited and THR Number 38 Limited, which are each incorporated in England & Wales.

12. Bank Loans

	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Non-current trade and other receivables		
Principal amounts outstanding	162,000	152,000
Set-up costs	(2,455)	(3,732)
Amortisation of set-up costs	138	1,867
Total	159,683	150,135

On 5 November 2020, the Group entered into an amended and restated £70.0 million committed term loan and revolving credit facility with the Royal Bank of Scotland plc ("RBS") which is repayable in November 2025. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.18 per cent per annum on £50.0m of the facility and 2.33 per cent per annum on the remaining £20.0m revolving credit facility, both for the duration of the loan. A non-utilisation fee of 1.13 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2020, the Group had drawn £50.0 million under this facility (30 June 2020: £50.0 million).

On 5 November 2020, the Group entered into an amended and restated £100.0 million revolving credit facility with HSBC Bank plc ("HSBC") which is repayable in November 2023, with the option of two one-year extensions thereafter subject to the consent of HSBC. Interest accrues on the bank loan at a variable rate, based on SONIA plus margin and mandatory lending costs, and is payable quarterly. The margin is 2.17 per cent per annum for the duration of the loan and a non-utilisation fee of 0.92 per cent per annum is payable on any undrawn element of the facility. As at 31 December 2020, the Group had drawn £62.0 million under this facility (30 June 2020: £52.0 million).

The Group has a £50.0 million committed term loan facility with ReAssure which is repayable on 12 January 2032. Interest accrues on the loan at an aggregate fixed rate of interest of 3.28 per cent per annum and is payable quarterly. As at 31 December 2020, the Group had drawn £50.0 million under this facility (30 June 2020: £50.0 million).

The following interest rate swaps were in place during the period ended 31 December 2020:

Notional Value	Starting Date	Ending Date	Interest paid	Interest received	Counterparty
21,000,000	24 June 2019	1 September 2021*	0.70%	3-month LIBOR	RBS
9,000,000	7 April 2017	1 September 2021*	0.86%	3-month LIBOR	RBS
30,000,000	5 November 2020	5 November 2025	0.30%	Daily compounded SONIA (floor at -0.08%)	RBS

* These interest rate swaps were closed out in November 2020 at the time of amendment of the related loan. The cost of such early redemption was recognised in capital as described in note 4.

At 31 December 2020, inclusive of all interest rate swaps, the interest rate on £80.0 million of the Group's borrowings had been fixed, including the amortisation of arrangement costs, at an all-in rate of 3.19 per cent per annum until at least November 2025. The remaining £140.0 million of debt, of which £82.0 million was drawn at 31 December 2020, would, if fully drawn, carry interest at a variable rate equal to daily compounded SONIA plus a weighted average lending margin, inclusive of the amortisation of arrangement costs, of 2.44 per cent per annum.

The fair value of the interest rate swap at 31 December 2020 was a liability of £188,000 (30 June 2020: an aggregate liability of £227,000) and all interest rate swaps are categorised as level 2 in the fair value hierarchy (see note 8).

At 31 December 2020, the nominal value of the Group's loans equated to £162,000,000 (30 June 2020: £152,000,000). Excluding the interest rate swap referred to above, the fair value of these loans, based on a discounted cashflow using the market rate on the relevant treasury plus an estimated margin based on market conditions at 31 December 2020, totalled, in aggregate, £164,579,000 (30 June 2020: £153,511,000). The payment required to redeem the loans in full, incorporating the terms of the Spens clause in relation to the ReAssure facility, would have been £175,315,000 (30 June 2020: £165,974,000). The loans are categorised as level 3 in the fair value hierarchy.

Notes to the Condensed Consolidated Financial Statements

(continued)

12. Bank Loans continued

The RBS loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number One plc Group ('THR1 Group') which consists of THR1 and its two subsidiaries. The ReAssure loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 12 plc Group ('THR12 Group') which consists of THR12 and its four subsidiaries. The HSBC loan is secured by way of a fixed and floating charge over the majority of the assets of the THR Number 15 plc Group ('THR15 Group') which consists of THR15 and its 18 subsidiaries (excluding those subsidiaries which are currently dormant). In aggregate, the Group has granted a fixed charge over properties with a market value of £503 million as at 31 December 2020 (30 June 2020: £496 million).

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

- the loan to value percentage for THR1 Group and THR15 Group does not exceed 50 per cent;
- the loan to value percentage for THR12 Group does not exceed 60 per cent; and
- the interest cover for each of THR 1 Group, THR 12 Group and THR 15 Group is greater than c.300 per cent on any calculation date.

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

13. Trade and other payables

	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Non-current trade and other payables		
Rental deposits	6,821	6,183
Total	6,821	6,183
	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Current trade and other payables		
Rental income received in advance	6,281	5,835
Property acquisition and development costs accrued	3,722	3,430
Investment Manager's fees payable	1,401	1,364
Interest payable	858	779
Other payables	1,729	1,706
Total	13,991	13,114

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

14. Share Capital

Allotted, called-up and fully paid ordinary shares	Number of shares	£'000
Balance as at 30 June 2020 and 31 December 2020	457,487,640	4,575

During the period to 31 December 2020, the Company did not issue any ordinary shares (period to 31 December 2019: 72,398,191 ordinary shares raising gross proceeds of £80,000,000). The Company did not buyback or resell any ordinary shares (period to 31 December 2019: nil).

At 31 December 2020, the Company did not hold any shares in treasury (30 June 2020: nil).

15. Commitments

The Group had capital commitments as follows:

	As at 31 December 2020 £'000	As at 30 June 2020 £'000
Amounts due to complete standing asset acquisitions	19,600	–
Amounts due to complete forward fund developments	17,811	5,394
Other capital expenditure commitments	530	530
Total	37,941	5,924

16. Contingent Assets and Liabilities

As at 31 December 2020, eleven properties (30 June 2020: ten properties) within the Group's investment property portfolio contained deferred consideration clauses meaning that, subject to contracted performance conditions being met, deferred payments totalling £19.03 million (30 June 2020: £18.03 million) may be payable by the Group to the vendors/tenants of these properties.

Having assessed each clause on an individual basis, the Company has determined that the deferred consideration clauses that are more likely than not to become payable in the future are not, in aggregate, material to the financial statements and therefore an amount of £nil has been recognised as a liability at 31 December 2020 (30 June 2020: £nil).

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

17. Related Party Transactions

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

The Directors of the Company received fees for their services. Total fees for the period were £91,000 (six months ended 31 December 2019: £80,000) of which £12,000 (31 December 2019: £12,000) remained payable at the period end.

The Investment Manager received £2,821,000 (inclusive of estimated irrecoverable VAT) in management fees in relation to the six months ended 31 December 2020 (six months ended 31 December 2019: £2,525,000). Of this amount £1,401,000 remained payable at the period end (31 December 2019: £1,382,000).

18. Operating Segments

The Board has considered the requirements of IFRS 8 'Operating Segments'. The Board is of the view that the Group is engaged in a single segment of business, being property investment, and in one geographical area, the United Kingdom, and that therefore the Group has only a single operating segment. The Board of Directors, as a whole, has been identified as constituting the chief operating decision maker of the Group. The key measure of performance used by the Board is the EPRA NAV. The reconciliation between the NAV, as calculated under IFRS, and the EPRA NAV is detailed in note 6.

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

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

Notes to the Condensed Consolidated Financial Statements

(continued)

19. Post Balance Sheet Event

Equity issuance and establishment of placing programme

At a General Meeting held on 1 March 2021, the Company's shareholders approved proposals in respect of the issue of up to 150 million Ordinary Shares on a non pre-emptive basis. Pursuant to an initial placing, offer for subscription and intermediaries offer, the Company subsequently issued 54,054,054 Ordinary Shares, raising gross proceeds of £60,000,000.

The Company retains authority to issue up to a further 95,945,946 Ordinary Shares over the period to 12 February 2022, as per the terms of the placing programme detailed in the prospectus dated 12 February 2021. The prospectus is available on the Company's website at www.targethealthcarereit.co.uk.

20. Interim Report Statement

These are not full statutory accounts in terms of Section 434 of the Companies Act 2006 and are unaudited. Statutory accounts for the Company for the year ended 30 June 2020, which received an unqualified audit report and which did not contain a statement under Section 498 of the Companies Act 2006, have been lodged with the Registrar of Companies. No full statutory accounts, for either the Company or Group, in respect of any period after 30 June 2020 have been reported on by the Company's auditor or delivered to the Registrar of Companies.

The Interim Report and Condensed Consolidated Financial Statements for the six months ended 31 December 2020 will be posted to shareholders and made available on the website: www.targethealthcarereit.co.uk. Copies may also be obtained from the Company Secretary, Target Fund Managers Limited, Laurel House, Laurelhill Business Park, Stirling FK7 9JQ.

Directors' Statement of Principal Risks and Uncertainties

The risks, and the way in which they are managed, are described in more detail in the Strategic Report within the Annual Report and Financial Statements for the year to 30 June 2020. Other than as disclosed in the Chairman's Statement and Investment Manager's Report, the Group's principal risks and uncertainties have not changed materially since the date of the report and are not expected to change materially for the remainder of the Group's financial year.

Statement of Directors' Responsibilities in Respect of the Interim Report

We confirm that to the best of our knowledge:

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

On behalf of the Board

Malcolm Naish

Chairman

22 March 2021

Independent Review Report to Target Healthcare REIT plc

Introduction

We have been engaged to review the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2020 which comprises the Condensed Consolidated Statement of Comprehensive Income, Condensed Consolidated Statement of Financial Position, Condensed Consolidated Statement of Changes in Equity, Condensed Consolidated Cash Flow Statement and the related explanatory notes to the Condensed Consolidated Financial Statements. We have read the other information contained in the Interim Report and Financial Statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the Interim Report and Financial Statements for the six months ended 31 December 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

Edinburgh
22 March 2021

Glossary of Terms and Definitions

Contractual Rent	The annual rental income receivable on a property as at the balance sheet date, adjusted for the inclusion of rent currently subject to a rent free period.
Discount/Premium	The amount by which the market price per share of a Closed-end Investment Company is lower or higher than the net asset value per share. The discount or premium is expressed as a percentage of the net asset value per share.
Dividend Cover	The absolute value of Group specific adjusted EPRA Earnings divided by the absolute value of dividends relating to the period of calculation.
Dividend Yield	The annual Dividend expressed as a percentage of the share price at the date of calculation.
EPRA Cost Ratio	Reflects the relevant overhead and operating costs of the business. It is calculated by expressing the sum of property expenses (net of service charge recoveries and third-party asset management fees) and administration expenses (excluding exceptional items) as a percentage of gross rental income.
EPRA Group specific adjusted Cost Ratio	The EPRA Cost Ratio adjusted for items thought appropriate for the Group's specific business model. The adjustments made are consistent with those made to the Group specific adjusted EPRA earnings as detailed in note 6.
EPRA Earnings per Share	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. A reconciliation of the earnings per IFRS and the EPRA earnings, including any items specific to the Group, is contained in note 6.
EPRA NAV	Net Asset Value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model. Makes adjustments to the IFRS NAV to provide stakeholders with the most relevant information on the fair value of the assets and liabilities within a true real estate investment company with a long-term investment strategy. A reconciliation of the NAV per IFRS and the EPRA NAV is contained in note 6.
EPRA Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. EPRA's purpose is to provide a comparable measure around Europe for portfolio valuations.
EPRA Topped-up Net Initial Yield	Incorporates an adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives).
Loan-to-Value ('LTV')	A measure of the Group's Gearing level. Gross LTV is calculated as total gross debt as a proportion of gross property value. Net LTV is calculated as total gross debt less cash as a proportion of gross property value.
Mature Homes	Care homes which have been in continual operation for more than three years.
Portfolio or Passing Rent	The annual rental income currently receivable on a property as at the balance sheet date, excluding rental income where a rent free period is in operation. The gross rent payable by a tenant at a point in time.
Rent Cover	A measure of a tenant's ability to meet its rental liability from the profit generated by their underlying operations. Generally calculated as the tenant's EBITDARM (earnings before interest, taxes, depreciation, amortisation, rent and management fees) divided by the contracted rent.
Total Return	The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.
WAULT	Weighted average unexpired lease term. The average lease term remaining to expiry across the portfolio weighted by contracted rental income.

Alternative Performance Measures

The Company uses Alternative Performance Measures ('APMs'). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities. The definitions of all APMs used by the Company are highlighted in the glossary on page 25, with detailed calculations, including reconciliation to the IFRS figures where appropriate, being set out below.

Discount or Premium – the share price of an Investment Company is derived from buyers and sellers trading their shares on the stock market. This price is not identical to the NAV. If the share price is lower than the NAV per share, the shares are trading at a discount and, if the share price is higher than the NAV per share, are said to be at a premium. The figure is calculated at a point in time.

		31 December 2020 pence	30 June 2020 pence
EPRA Net Asset Value per share (see page 15)	(a)	108.2	108.1
Share price	(b)	114.0	110.0
Premium	= (b-a)/a	5.4%	1.8%

Dividend Cover – the percentage by which Group specific adjusted EPRA earnings for the period cover the dividend paid.

		2020 £'000	2019 £'000
Group-specific EPRA earnings for the period (see page 14)	(a)	12,176	11,524
First interim dividend		7,686	7,640
Second interim dividend		7,686	7,640
Dividends paid in relation to the period	(b)	15,372	15,280
Dividend cover	= (a/b)	79%	75%

EPRA Cost Ratio

The EPRA cost ratios are produced using EPRA methodology, which aims to provide a consistent base-line from which companies can provide additional information, and include all property expenses and management fees. The Group did not have any vacant properties during the periods and therefore separate measures excluding direct vacancy costs are not presented. Consistent with the Group specific adjusted EPRA earnings detailed in note 6 to the Condensed Consolidated Financial Statements, similar adjustments have been made to also present the adjusted Cost Ratio which is thought more appropriate for the Group's business model.

		Period ended 31 December 2020 £'000	Period ended 31 December 2019 £'000
Investment management fee		2,821	2,525
Credit loss allowance and bad debts written off		1,940	520
Other expenses		1,230	966
EPRA costs	(a)	5,991	4,011
Specific cost adjustments, if applicable		–	–
Group specific adjusted EPRA costs	(b)	5,991	4,011
Gross rental income per IFRS	(c)	24,868	20,838
Adjusted for rental income arising from recognising guaranteed rent review uplifts and lease incentives		(4,554)	(3,855)
Adjusted for development interest under forward fund arrangements		212	577
Group specific adjusted gross rental income	(d)	20,526	17,560
EPRA Cost Ratio (including direct vacancy costs)	= (a/c)	24.1%	19.2%
EPRA Group specific adjusted Cost Ratio (including direct vacancy costs)	= (b/d)	29.2%	22.8%

EPRA Net Initial Yield and EPRA Topped-up Net Initial Yield – EPRA Net Initial Yield is calculated as annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs. The EPRA Topped-up Net Initial Yield incorporates an adjustment in respect of the expiration of rent-free periods (or other unexpired lease incentives).

		31 December 2020 £'000	30 June 2020 £'000
Annualised passing rental income based on cash rents	(a)	39,431	36,749
Notional rent expiration of rent-free periods or other lease incentives		1,213	2,264
Topped-up net annualised rent	(b)	40,644	39,013
Standing assets including properties held for sale (see pages 16 and 18)		637,259	604,984
Allowance for estimated purchasers' costs		43,105	40,916
Grossed-up completed property portfolio valuation	(c)	680,364	645,900
EPRA Net Initial Yield	= (a/c)	5.80%	5.69%
EPRA Topped-up Net Initial Yield	= (b/c)	5.97%	6.04%

Total Return – the return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets.

		2020		2019	
		EPRA NAV (pence)	Share price (pence)	EPRA NAV (pence)	Share price (pence)
Value at start of period	(a)	108.1	110.0	107.5	115.6
Value at end of period	(b)	108.2	114.0	108.1	116.0
Change in value during the period (b-a)	(c)	0.1	4.0	0.6	0.4
Dividends paid	(d)	3.4	3.4	3.3	3.3
Additional impact of dividend reinvestment	(e)	–	0.1	0.1	0.1
Total gain in period (c+d+e)	(f)	3.5	7.5	4.0	3.8
Total return for the period	= (f/a)	3.3%	6.8%	3.8%	3.3%

Notes

Corporate Information

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

* Chairman of Audit Committee

** Senior Independent Director

Important Information

Past performance is not necessarily a guide to future performance. The value of investments and income from them may go down as well as up and are not guaranteed. Net asset value performance is not linked to share price performance and shareholders may realise returns that are lower or higher in performance.

If you have sold or otherwise transferred all of your ordinary shares in Target Healthcare REIT plc, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.

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



The outer cover of this report has been laminated with a biodegradable film. Around 20 months after composting, an additive within the film will initiate the process of oxidation.

Designed and produced by **emperor** 
Visit us at emperor.works



Target Healthcare REIT plc
Level 13 Broadgate Tower
20 Primrose Street
London EC2A 2EW

www.targethealthcarereit.co.uk