Target Healthcare REIT plc

(Registered number 11990238)

INTERIM ACCOUNTS

in accordance with section 838 Companies Act 2006

For the period from 1 July 2019 to 30 September 2019

Target Healthcare REIT plc

Statement of Directors' responsibilities in respect of the interim accounts

Company law requires the Directors to prepare interim accounts prior to making any distribution where the distribution would be found to contravene the relevant section of the Companies Act 2006 if reference were made only to the Company's last annual accounts. These accounts are required to be properly prepared under section 838 of the Companies Act 2006 and must consist of:

- A balance sheet which gives a true and fair view of the state of the Company's affairs as at the balance sheet date; and
- A profit and loss account which gives a true and fair view of the Company's profit or loss for the period. This requirement is met by the presentation of the total column in the Statement of Comprehensive Income.

In preparing these accounts the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the interim accounts; and
- Prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained, which enable them to ensure that the interim accounts comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The financial statements have been prepared on a going concern basis.

By Order of the Board

Gordon C Coull

Mr Gordon Coull
Director
6 November 2019

Statement of Comprehensive Income
For the period to 30 September 2019

	Notes	Period from 1 July 2019 to 30 September 2019 Revenue £'000	Capital £'000	Total £'000	Period from incorporation on 10 May 2019 to 30 June 2019 Revenue £'000	Capital £'000	Total £'000
Loss on revaluation of subsidiary	5	-	(18,045)	(18,045)	-	-	-
Total income		-	(18,045)	(18,045)	-	-	-
Expenditure							
Investment management fee	2	(132)	-	(132)	-	-	-
Other expenses	3	(175)	-	(175)	-	-	-
Total expenditure		(307)	-	(307)	-	-	-
Loss before finance costs and taxation		(307)	(18,045)	(18,352)	-	-	-
Net finance costs							
Interest receivable		3	-	3	-	-	-
Interest payable		-	-	-	-	-	-
Loss before taxation		(304)	(18,045)	(18,349)	-	-	-
Taxation	4	-	-	-	-	-	-
Loss for the period		(304)	(18,045)	(18,349)	-	-	-

The total column of this statement represents the Company's profit and loss account, prepared in accordance with IFRSs. The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

There are no recognised gains or losses other than those shown in the Statement of Comprehensive Income.

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

No operations were discontinued in the year.

The notes on pages 4 to 8 are an integral part of these financial statements.

Target Healthcare REIT plc

Statement of Financial Position
As at 30 September 2019

	Notes	30 September 2019 £'000	30 June 2019 £'000
Non-current assets			
Investment in subsidiary	5	**414,796**	-
		414,796	-
Current assets			
Trade and other receivables	6	**78,790**	50
Cash and cash equivalents		**-**	-
Total assets		**493,586**	50
Non-current liabilities			
Redeemable preference shares	7	**(50)**	(50)
		(50)	(50)
Current liabilities			
Trade and other payables		**(848)**	-
Total liabilities		**(898)**	(50)
Net assets		**492,688**	-
Share capital and reserves			
Share capital	8	**4,575**	-
Share premium	9	**77,473**	-
Distributable reserve	10	**380,934**	-
Merger reserve	10	**47,751**	-
Capital reserve - unrealised	10	**(18,045)**	-
Revenue reserve	10	**-**	-
Equity shareholders' funds		**492,688**	-

Company number: 11990238

The financial statements were approved by the Board and authorised for issue on 6 November 2019 and were signed on its behalf by:

Gordon C Coull

Mr Gordon Coull, Director

The notes on pages 4 to 8 are an integral part of these financial statements.

Notes to the Financial Statements

1. Accounting policies

(a) Basis of Preparation
A summary of the principal accounting policies is set out below. These policies have been applied consistently throughout the period.

Basis of Accounting
These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The disclosures within these financial statements have been limited to those required to meet the statutory requirements of s838 Companies Act 2006, requisite in respect of interim accounts prepared for a proposed distribution by a public company.

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

Significant Estimates and Judgements
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 subsidiary held.

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

(b) Revenue Recognition
Interest Receivable
Interest receivable is accounted for on an accruals basis.

Dividends Receivable
Dividends receivable are recognised as income when the Company's right to receive payment is established.

(c) Expenses
Expenses are accounted for on an accruals basis and are inclusive of irrecoverable VAT.

(d) Dividends payable
Dividends payable by the Company are accounted for in the period in which they are paid.

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

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

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

1. Accounting policies (continued)

Entry to UK-REIT Regime
The Company entered the UK REIT regime with effect from Scheme Admission and from that date is required to satisfy certain conditions. Entry to the regime results in, subject to continuing relevant UK-REIT criteria being met, the profits of the Company's property rental business, comprising both income and capital gains, being exempt from UK taxation.

(f) Investments
Investments in subsidiary undertakings are initially recorded at the fair value of the consideration given plus, where applicable, any costs directly attributable to the acquisition.

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

(h) Rent and Other Receivables
Loans receivable have fixed or determinable payments and are recognised at amortised cost less provision for impairment as calculated through the expected credit loss method in accordance with IFRS 9.

(i) Redeemable preference shares
Where redeemable preference shares carry a contractual obligation to pay a fixed coupon rate and to be redeemed in cash prior to a specified date without granting the holder any additional rights to share in the residual assets of the Company, then, regardless of their legal form, they are classified in the financial statements as financial liabilities. Such redeemable preference shares are initially recognised at cost, being fair value of the consideration received net of related arrangement costs. After initial recognition, such redeemable preference shares are subsequently measured at amortised cost using the effective interest method.

(j) Reserves
Share Premium
The surplus of net proceeds received from the issuance of new shares over their par value is credited to this account and the related issue costs are deducted from this account.

Distributable reserve
This reserve was credited with the balance arising following the reduction by the High Court of England and Wales of the nominal value of the Ordinary Shares in issue on 24 September 2019 from £1.00 to £0.01 per Ordinary Share. This reserve is available for the payment of dividends or the buy back of shares. Any dividends paid in excess of the level of the available revenue reserve will be deducted from this reserve.

Merger reserve
This reserve arose from the difference between the nominal value of the Ordinary Shares issued by the Company in relation to the Scheme of Arrangement, which became effective on 7 August 2019, and the fair value of the Ordinary Shares issued. This reserve is non-distributable.

Capital Reserve
The following are accounted for in the capital reserve:
- increases and decreases in the fair value of the subsidiaries held at the period end;
- 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 Statement of Comprehensive Income is added to or deducted from this reserve which is available for paying dividends, with any deficit transferred from the Distributable Reserve.

2. Investment management fee

	For the period ended 30 September 2019 £'000	For the period ended 30 June 2019 £'000
Investment management fee	132	-
Total	**132**	**-**

The Company's Investment Manager is Target Fund Managers Limited (the 'Investment Manager' or 'Target') and is responsible for the day-to-day management of the Company. The Investment Manager is entitled to an annual base management fee on a tiered basis based on the net assets of the Company as set out below:

Net assets	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 12 months' written notice. Should the Company terminate the Investment Management Agreement earlier then compensation in lieu of notice will be payable to the Investment Manager. The Investment Management Agreement may be terminated immediately without compensation if the Investment Manager: is in material breach of the agreement; is 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 ended 30 September 2019 £'000	For the period ended 30 June 2019 £'000
Audit fee – statutory audit	16	-
Other	159	
Total	**175**	**-**

4. Taxation

	For the period ended 30 September 2019 £'000	For the period ended 30 June 2019 £'000
Current tax	-	-
Total tax charge	**-**	**-**

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

	For the period ended 30 September 2019 £'000	For the period ended 30 June 2019 £'000
Loss before taxation	(18,349)	-
UK tax at a rate of 19.0%	(3,486)	-
Non-taxable loss on subsidiary	3,428	-
Excess management expenses	58	-
Total tax charge	**-**	**-**

The Company entered the UK REIT regime with effect from Scheme Admission and from that date is required to satisfy certain conditions. Subject to continuing relevant UK-REIT criteria being met, the profits from the Company's property rental business, arising from both income and capital gains, will be exempt from corporation tax.

5. Investment in Subsidiary

Name	Principal Activity	Country of incorporation	Investment at cost £'000
Target Healthcare REIT Limited	Investment and property company	Jersey	432,841

	As at 30 September 2019 £'000	As at 30 June 2019 £'000
Acquisition	432,841	-
Movement in fair value	(18,045)	-
Closing fair value of subsidiary	**414,796**	**-**

6. Trade and other receivables

Current trade and other receivables	As at 30 September 2019 £'000	As at 30 June 2019 £'000
Intercompany balance due from subsidiary	78,738	-
Amounts due from Target Fund Managers Limited	50	50
Other debtor	2	-
Total	**78,790**	**50**

The intercompany balance due from Target Healthcare REIT Limited is unsecured and interest is payable at a fixed rate of 1.5 per cent per annum or such other interest rate that may be agreed from time to time between the Company and the counterparty. The loan is repayable on demand.

7. Non-current liabilities

	Number of shares	As at 30 June 2019 £'000
Redeemable preference shares of £1 each	50,000	50
Total	**50,000**	**50**

The redeemable preference shares pay a fixed cumulative preferential dividend of 0.0001 per cent per annum on their nominal value and do not carry any right to attend or vote at any general meeting of the Company. The Company had the ability to redeem the shares, based on the amount of capital paid up thereon, at any time and in any event no later than 31 December 2020.

The redeemable preference shares were redeemed on 6 November 2019

8. Share capital

	Number of shares	£'000
Allotted, called-up and fully paid ordinary shares		
Ordinary shares of £1.00 in issue at 30 June 2019	1	-
Issue of Ordinary Shares of £1.00 each under Scheme of Arrangement	385,089,448	385,089
Court reduction of nominal value of shares	-	(381,238)
Issue of Ordinary Shares under Placing	72,398,191	724
Closing balance as at 30 September 2019	**457,487,640**	**4,575**

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

Scheme of Arrangement
During the period a scheme of arrangement under article 125 of the Companies (Jersey) Law 1991 (the "Scheme") became effective, pursuant to which the Company acquired Target Healthcare REIT Limited and became its ultimate parent company. Under the Scheme, the shareholders in Target Healthcare REIT Limited received one new share in the Company for every share they held in Target Healthcare REIT Limited at close on 6 August 2019. The Shares were issued at fair value, deemed to be 112.4 pence per Ordinary Share which was the closing share price of the Ordinary Shares of Target Healthcare REIT Limited on the London Stock Exchange on 6 August 2019. The difference between the nominal value of the Ordinary Shares issued under the Scheme and their fair value was taken to the Merger Reserve.

8. Share capital (continued)

The Ordinary Shares issued by the Company were admitted to the premium segment of the Official List and to trading on the main market of the London Stock Exchange on 7 August 2019.

Subsequent to the completion of the Scheme, the Company applied to the High Court of England and Wales (the "Court") to reduce the nominal value of its ordinary shares from £1.00 to £0.01 per Ordinary Share (the "Reduction"). The Court confirmed the Reduction and the Court's order was registered by the Registrar of Companies on 24 September 2019. The balance of £381,238,000 arising from the Reduction was credited to the Company's Distributable Reserve (see note 10).

9. Share premium account

	£'000
Issue of Ordinary Shares under Placing	79,276
Costs of Scheme, Prospectus and Placing	(1,803)
Closing balance as at 30 September 2019	**77,473**

On 25 September 2019, the Company allotted 72,398,191 Ordinary Shares of £0.01 each at a price of 110.50 pence per Ordinary Share. The difference between the nominal value and the issue price was credited to the Company's share premium account. The related issue costs, and the direct issue costs of the shares issued under the Scheme, have been deducted from this account. The share premium account is non-distributable.

10. Reserves

Distributable Reserve	**£'000**
Court reduction of nominal value of ordinary shares	381,238
Transfer to revenue reserve	(304)
Closing balance as at 30 September 2019	**380,934**

The Distributable Reserve arose from the reduction in the nominal value of Company's ordinary shares from £1.00 to £0.01 per Ordinary Share which was approved by the Court and registered by the Registrar of Companies on 24 September 2019 (see note 8). The Distributable Reserve is available for paying dividends or buying back shares.

Merger Reserve	**£'000**
Issue of Ordinary Shares of £1.00 each under Scheme of Arrangement	47,751
Closing balance as at 30 September 2019	**47,751**

The Merger Reserve arose from the difference between the nominal value of the Ordinary Shares issued under the Scheme of Arrangement which become effective on 7 August 2019 and their deemed fair value at the date of issuance of 112.4 pence per share. This reserve is non-distributable

Capital Reserve - unrealised	**£'000**
Movement in fair value of subsidiary during the period	(18,045)
Closing balance as at 30 September 2019	**(18,045)**

Revenue Reserve	**£'000**
Transfer from revenue column of the Statement of Comprehensive Income	(304)
Transfer from distributable reserve	304
Closing balance as at 30 September 2019	**-**