Vital

Healthcare
Property Trust

ANNUAL REPORT 2018

BOWEN HOSPITAL, WELLINGTON.

INVESTING IN AUSTRALASIA'S HEALTHCARE INFRASTRUCTURE

CONTENTS

VALUE OF INVESTMENT PORTFOLIO

$1.73B

8 YEAR AVERAGE OCCUPANCY ABOVE

99%

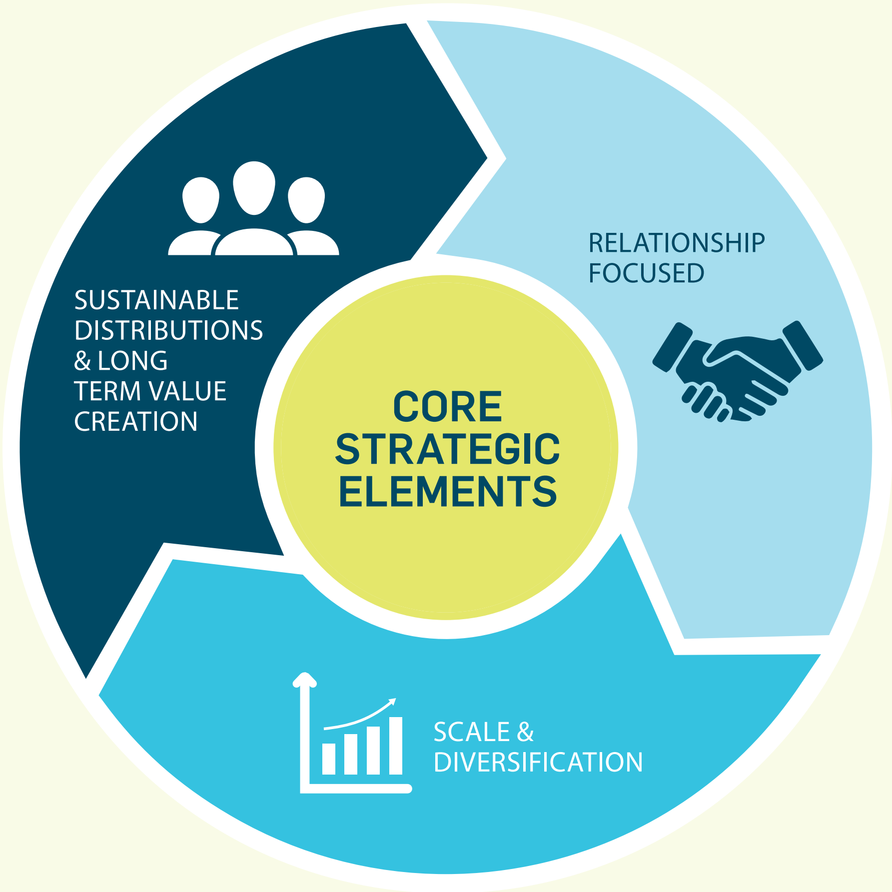
AVERAGE ANNUAL LEASE EXPIRY (BY INCOME) OVER THE NEXT 10-YEARS

1.8%

WEIGHTED AVERAGE LEASE TERM TO EXPIRY (WALE)

18.2YEARS

LONG TERM INVESTMENT IN AUSTRALASIA'S HEALTHCARE INFRASTRUCTURE



Core components driving execution of strategy

MANAGEMENT

ALIGNED / STABLE / EXPERIENCED / CREDIBLE / CAPABLE

STABILISED PORTFOLIO, STRONG UNDERLYING THEMATICS + DEVELOPMENTS (INCLUDING CAPACITY EXPANSION) + ACQUISITIONS + CAPITAL AND TREASURY = SUSTAINABLE LONG TERM EARNINGS AND VALUE CREATION

CONSISTENTLY STRONG PERFORMANCE DELIVERING ON OVERALL STRATEGY

2018 ACHIEVEMENTS

Snapshot of 2018

CONTINUED PROACTIVE ASSET MANAGEMENT SUPPORTS OPERATING RESULTS

Strong operating performance, executing to plan

The 2018 financial year was one of Vital's busiest as we grew the size of the portfolio, in accordance with our scale and diversification strategy, and delivered record revenue. The portfolio remains in excellent shape, with lease terms and occupancy at or near historical highs.

EXECUTION OF BROWNFIELD PIPELINE, ONGOING ASSESSMENT OF ADDITIONAL VALUE-ADD OPPORTUNITIES

Completed four projects, five projects committed over three years for NZ$112m

Development was completed at four projects where we invested A$28m to provide improved and expanded facilities to our operating partners. We are currently in the final stages of design at three New Zealand development projects associated with the Acurity portfolio (Wakefield, Bowen, and Royston).

STRATEGIC LONG TERM APPORACH TO OPPORTUNITIES, LEVERAGE TRACK RECORD AND GLOBAL EXPERTISE

Jointly secured an interest in ASX-listed Healthscope

In May 2018 we jointly secured an interest in ASX-listed Healthscope, Australia's second largest private hospital operator. This interest positions Vital and our manager, NorthWest, Healthcare Properties REIT, with a tactical advantage to take a generational opportunity to jointly acquire a quality portfolio of Australian hospital real estate assets.

ENHANCE EXISTING RELATIONSHIPS, FOSTER AND EXPAND ON NEW STRATEGIC PARTNERSHIPS

Purchased and leased back three properties from Acurity Health Group

Vital received OIO approval to acquire the previously announced Wakefield and Bowen Hospitals in Wellington and acquired a third asset from Acurity Health Group, Royston Hospital in Hastings, for a combined NZ$122m.

PRUDENT CAPITAL MANAGEMENT, ASSESS AND UTILISE ALL TOOLS AS REQUIRED

Extended and expanded bank facility

In June 2018, Vital extended the maturity of two tranches under its bank facility by two and three years, respectively. The Trust also added A$100m of additional capacity under the same bank facility.

DELIVER SUSTAINABLE DISTRIBUTIONS, LONG TERM VALUE CREATION

Increased cash distribution to 8.75 cents annualised per unit

Vital's Board of Directors raised guidance for the Trust's FY2019 to 8.75 cents per unit (from 8.50 cents per unit). The increase will commence from the fourth quarter FY2018 distribution and implies a 2.2% distribution increase in FY2019.

HIGHLIGHTS FOR 2018

NET DISTRIBUTABLE INCOME

$46.1m

ANNUAL CASH DISTRIBUTION

8.5625cpu

UP 0.7%

NET TANGIBLE ASSET INCREASE TO

$2.26

UP 10.2%

CONSERVATIVE NDI DISTRIBUTION PAYOUT OF

81%

COMMITTED DEVELOPMENT PIPELINE

$112m

OVER NEXT FOUR YEARS

CONSERVATIVE GEARING

38.7%

FIVE ACQUISITIONS INCLUDING HOSPITALS, REHABILITATION AND MENTAL HEALTH

$195m

TEN YEAR COMPOUND ANNUAL TOTAL RETURN

13.6%

OUTPERFORMING THE SECTOR BY 4.7%

FINANCIAL SUMMARY

All figures are in New Zealand dollars (NZD) unless otherwise stated

	2014 $000s	2015 $000s	2016 $000s	2017 $000s	2018 $000s
FINANCIAL PERFORMANCE					
Net property income	57,967	59,430	68,274	89,657	90,659
Revaluation gain/(loss) on investment properties	15,211	84,031	101,869	168,549	85,461
Profit for the year (after taxation)	37,433	96,506	117,208	217,622	100,065
Earnings per unit - (cents)	11.21	28.31	34.00	51.68	23.04
DISTRIBUTABLE INCOME					
Gross distributable income	34,928	40,950	45,038	65,347	49,672
Net distributable income	34,702	36,290	40,243	61,821	46,135
Net distributable income - cents per unit	10.40	10.64	11.67	14.68	10.62
Cash distribution to unitholders - cents per unit	7.90	8.00	8.30	8.50	8.56
Payout ratio (%)	76%	75%	71%	58%	81%
FINANCIAL POSITION					
Total assets	615,968	784,565	978,174	1,392,228	1,783,311
Borrowings	192,633	257,340	345,310	402,649	670,124
Total equity	353,520	439,756	523,719	879,821	987,976
Debt to total assets ratio	31.4%	32.9%	36.3%	29.3%	38.7%
Net tangible assets - dollars per unit	1.04	1.27	1.51	2.05	2.26

PORTFOLIO METRICS

	2014	2015	2016	2017	2018
Investment properties ($m)	613.1	781.9	951.9	1,376.2	1,731.2
Number of investment properties[1]	24	25	29	37	42
Number of tenants	105	108	114	136	142
Occupancy (%)	99.3	99.4	99.6	99.1	99.3
Weighted average lease term to expiry (years)	15.1	17.1	18.4	17.7	18.2
12 month lease expiry (% of income)	3.8	1.1	2.5	1.7	1.8

1 Excludes properties held for development

DELIVERING ON LONG TERM STRATEGY

"It is an honour to have been appointed as Independent Chair of the Board of the Manager of Vital Healthcare Property Trust (Vital), following in the footsteps of Graeme Horsley after his six years as Chairman. "

I want to take this opportunity to thank Graeme for his leadership and contribution over his 11 years as a Director of Vital's Manager. Having been an Independent Director for 7 years, I firmly believe that Vital can continue to deliver sustainable distributions, drive long-term value creation and attractive total returns for unitholders.

I am pleased to present Vital's 2018 annual report.

On 9th August 2018, Vital announced its audited 2018 full year results with a reported net profit after tax of $100.1m. Vital will pay unitholders an increased final quarter cash distribution of 2.1875 cpu, increasing the full year 2018 guidance we provided 12 months prior from 8.5000 cents per unit to 8.5625 cents per unit.

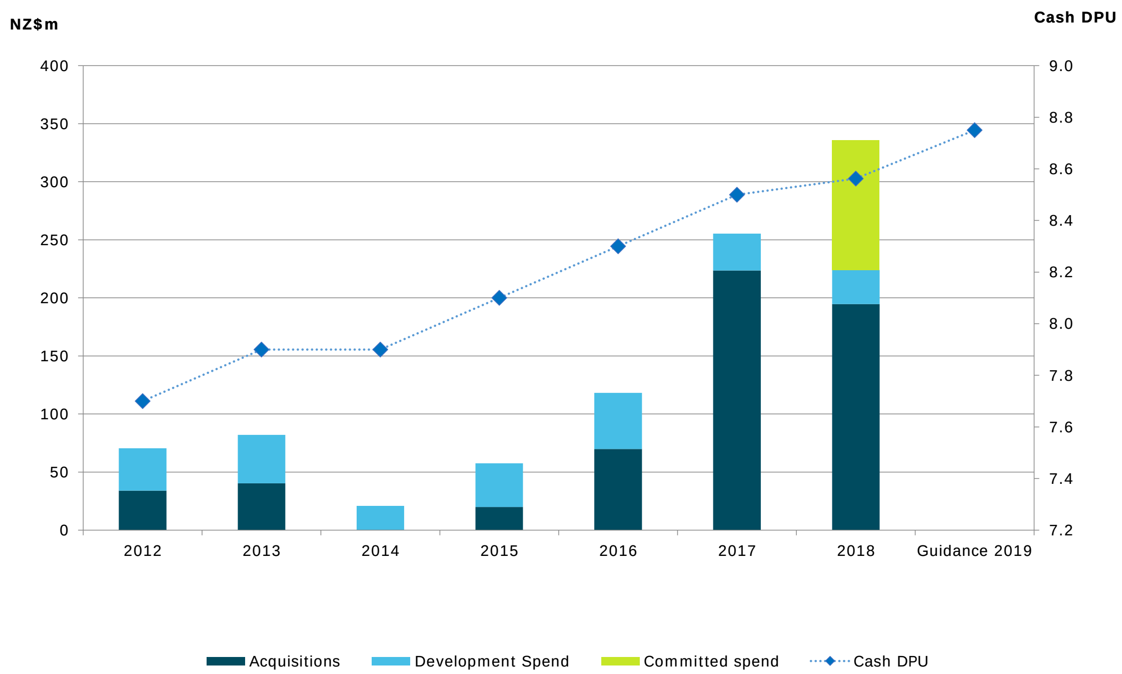
Recognising the strong position Vital is in and our stable outlook based on current market conditions, it is with pleasure that the Board also announced that its 2019 cash distribution guidance will be increased to 8.75 cents per unit. This again reflects a prudent and conservative position relative to our forecast earnings, but also allows us the flexibility to utilise retained earnings as part of our overall capital management plan.

In 2012, we set about delivering upon a focussed scale and diversification strategy and as can be seen with many of the portfolio metrics shown in the Annual Results presentation, we have stayed true and delivered on that strategic intent. For reference I note the below chart from the results presentation, which is a great representation of how this strategy has delivered tangible benefits to unitholders, in addition to having generated a 10 year compound annual growth rate of 13.6% vs the S&P NZX All Real Estate Index of 8.9%. We appreciate the ongoing support of unitholders as we continue to deliver to strategy.

GOVERNANCE

As advised to the market on 4 April 2018, the interim governance arrangements following the retirement of Mr Graeme Horsley were to be reviewed ahead of the 2018 Annual Meeting.

NorthWest Healthcare Properties Management Limited, the Manager of Vital Healthcare Property Trust has confirmed that a third Independent Director will be appointed to the Board of the Manager prior to the 2018 Annual Meeting.



The Board of the Manager has also completed a review of the Board Charter, Statement of Investment Policy and Objectives (SIPO) and Conflicts Policy. These changes do not require unitholder approval, but have the unanimous support of the Board of the Manager. The Conflicts Policy was also amended to include full Board representation and equal voting rights by independent and non-independent directors. Updated versions of the documents are available on Vital's website, www.vhpt.co.nz.

OUTLOOK AND OPPORTUNITY

During 2018, Vital continued to invest in strategic assets and brownfield developments enhancing both asset and earnings quality. We have continued to build on existing relationships to deliver value to the Australasian healthcare operators with whom we have built strategic, long term partnerships.

In addition, we were very pleased to settle the acquisition of the Acurity portfolio in New Zealand and look forward to updating investors on the proposed developments at each of these properties as they evolve.

In Australia, we continue with a number of brownfield developments and expect to announce further developments through the course of 2019. All developments continue to support our core strategic themes of being relationship focussed, supporting scale and diversification, which in turn drives sustainable distributions and long term value creation.

As announced in May, in partnership with Vital's manager and largest shareholder, NorthWest, Vital has taken a strategic interest in ASX-listed Healthscope, Australia's second largest for profit private hospital operator, with a large hospital real estate portfolio. The interest positions Vital and NorthWest with a strong tactical advantage to take a generational opportunity to jointly acquire a sizeable, quality portfolio of Australian hospital real estate assets. The Board sees this opportunity to further invest in quality healthcare infrastructure as aligning directly with Vital's stated scale and diversification strategy and core investment objectives of enhancing long term earnings and value growth for unitholders.

Finally, I would like to acknowledge the support of my fellow Directors and David Carr and his Australasian management team of 30 passionate professionals. The application of their highly regarded, market leading healthcare real estate experience has ensured delivery of the Board's stated strategy and sees Vital well placed for the future.

Claire Higgins
Independent Chair
NorthWest Healthcare Properties Management Ltd

INVESTING IN AUSTRALASIA'S HEALTHCARE INFRASTRUCTURE

Vital's stable portfolio and financial position has again delivered solid overall results. The healthcare real estate sector continues to experience rising investor demand driven by its unique defensive qualities and strong investment characteristics. Notwithstanding some industry headwinds in Australia and moderate tailwinds in New Zealand, the undeniable trends of a growing and ageing population continue to support our positive long term outlook.

FINANCIAL PERFORMANCE

Gross rental income exceeded the prior year by $1.8m or 2.0% in which it needs to be noted that the 2017 comparative included a $13.8m lease termination receipt. This revenue growth was a result of contributions from development income and acquisitions over the period. After property expenses, net income grew $1.0m or 1.1% for the year.

Finance expenses increased from the prior year by $8.5m reflecting the increase in the level of debt funding over the period and increasing interest costs on renewed bank facilities. Vital acquired investment properties during 2018 totalling $194.7m, including five private hospitals.

Other expenses were up driven primarily by management fees of $11.9m and incentive fees of $13.1m as a result of revaluation gains. The incentive fee is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over book value for the last three years. The incentive fee is payable by Vital issuing units to the Manager. Vital's Manager has confirmed that the 2018 issuance of units pursuant to the incentive fee will be managed so as not to breach Vital's PIE status. Other expenses also includes $3.6m of strategic transaction costs which represents the contribution Vital has made towards costs in acquiring an interest in ASX-listed Healthscope.

Net distributable income (NDI) for the year was $46.1m equating to 10.62 cpu and a 27.6% decrease on the prior year. The 2017 NDI included the benefit of a one-off lease termination receipt and associated tax expense.

The 2018 full year distribution of 8.5625 cpu reflects a prudent 81% NDI payout ratio on an adjusted basis.

NET TANGIBLE ASSETS (NTA) GROWTH TO $2.26

Allowing for the 2018 revaluation gains of $85.5m and the benefit of foreign exchange movements of $45.5m, Vital's NTA increased to $2.26, an increase of 10.2% on the prior year NTA of $2.05. The current NTA reflects a large diversified portfolio of high quality healthcare real estate with attractive long term characteristics.

REVALUATIONS SUMMARY

Capitalisation rate firming equated to approximately 90% of the overall revaluation increase, with the balance of the gains driven by market rent growth and development margins.

Albeit the rate of firming of capitalisation rates has moderated from previous years, they remained a core driver of the independent valuation outcome. Specifically, Vital's weighted average capitalisation rate firmed by 36bps to 5.76% and Vital's portfolio value increased to $1.73bn at 30 June 2018.

The ongoing firming of capitalisation rates have also been driven by Vital's unique property characteristics, sustained portfolio performance, and continued strong demand from investors.

TREASURY AND CAPITAL MANGEMENT

On 6 June 2018 Vital announced that it had extended and expanded its existing bank facility adding A$100m of additional capacity. Two existing tranches that were due to expire on 31 March 2019 were renewed, with Tranche A, representing A$125m, extended to March 2021 and Tranche B expanded to A$200m (from A$100m previously) and extended to July 2022.

Following the refinancing activity Vital's weighted average debt maturity increased by 1.1 years to 3.1 years.

Vital's loan to value as at 30 June 2018 as determined under the Trust Deed was 37.5% (2017: 28.9%) and remains well below the Trust Deed covenant of 50%. Under the terms of the bank facility the LVR as at 30 June 2018 was 38.7% which is below the facility covenant of 50%, with the higher level reflecting that a related party advance of A$40.0m does not form part of the banks security.

Vital's weighted average cost of debt was 4.60% as at 30 June 2018 (2017: 4.34%) and includes bank line and margin fees.

At year end Vital had a hedged interest rate position of 79.8% (2017: 79.5%). Movement in market interest rates over the period saw the unrealised marked-to-market valuation on those interest rate swaps increase by $3m.

MARKET LEADING PORTFOLIO METRICS

The management team remain focused on ensuring that Vital's core portfolio metrics remain strong, with the ninth consecutive year of occupancy above 99% (99.3% at year-end). Additionally Vital's WALE of 18.2 years was up from 12 months prior (17.7 years), and remains by far the longest WALE of any Australian or New Zealand listed REIT.

A total of 107 rent reviews were completed (approximately 81% of passing rent at 1 July 2017) in the year resulting in rental growth of 2.3% (excluding the impact of foreign exchange) of which 93% were structured reviews. Similarly, approximately 86% of total rent is subject to review through the 2019 financial year, with 98% of this income subject to structured or CPI based reviews.

Of the 1.7% of income forecast to expire in 2018, 60% was renewed pre 30 June, with the majority of the balance renewed post balance date.

Looking out to the future, just 3.9% of leases (by income) expire in FY2019, in which we have confidence in our ability to renew these tenants on the same or better terms. Over the next 10 years Vital's average annual lease expiry sits at 1.8%, which provides long term earnings visibility.

ACQUISITION AND DEVELOPMENT

Acquisitions during the year totalled $194.7m, including five private hospitals. Vital has diversified its portfolio investing further into the New Zealand market with the Acurity portfolio acquisition and the settlement of two private hospitals in Queensland and New South Wales. All these hospital acquisitions have short to medium term brownfield development projects planned or underway.

Recognising forecast ongoing healthcare demand, Vital has continued to invest in acquisitions adjacent to our existing facilities to protect and enhance long term value. Vital made four of these strategic acquisitions totalling A$9.6m in 2018 and expects to continue with this investment philosophy to support the long term growth of our partners and the underlying assets.

Vital's value-add development programme in Australia continues with projects currently underway at two hospitals (North West and Lingard) with A$8.6m to be spent prior to the end of calendar 2018.

We are currently in the final stages of design at Wakefield (Wellington) and Royston (Hastings) Hospitals which were acquired in December 2017. A small NZ$4.0m development has commenced at Bowen Hospital (Wellington) which will establish Wellington's first Radiation Oncology Centre. The project is forecast to be completed by January 2019.

The brownfield development programme remains central to Vital's strategy. Currently contracted forecast rentalised development yields of approximately 7% provide an attractive spread to Vital's current weighted average capitalisation rate of 5.76%. Brownfield development continues to clearly underpin earnings sustainability, improve asset quality and enhance long-term value.

OUTLOOK

We start 2019 with Vital's portfolio and financial position ready to withstand short term headwinds, particularly in Australia for hospital operators, balanced by a relatively positive outlook in New Zealand.

Vital's investment thesis is backed by underlying long term trends. We continue to see, and believe, in the strong demographic and technological trends driving demand for healthcare services – especially those delivered from quality healthcare infrastructure and by market leading operators, like those in Vital's portfolio.

We continue to support the growth demands of our existing partners, which enables us to drive our operating, portfolio and financial results, delivering sustainable distributions and creating long term value for investors. I look forward to updating unitholders over the course of the 2019 financial year.

David.

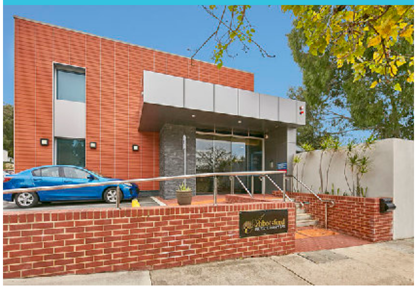
David Carr

Chief Executive Officer

NorthWest Healthcare Properties Management Ltd

AUSTRALIAN PORTFOLIO

ABBOTSFORD PRIVATE HOSPITAL
Perth / Western Australia



MARKET VALUE A$26,000,000

MARKET CAPITALISATION RATE 5.50%

WALE 23.7

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Abbotsford is situated within the inner Perth suburb of West Leederville, approximately 1km west of the major Subiaco health precinct. It is a modern 30-bed inpatient private mental health hospital with a focus on drug and alcohol rehabilitation services.

BELMONT PRIVATE HOSPITAL
Brisbane / Queensland

MARKET VALUE A$72,500,000

MARKET CAPITALISATION RATE 5.25%

WALE 17.7

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Belmont Private Hospital is a 150-bed general psychiatric hospital in Queensland, approximately 12km from Brisbane's CBD and is the largest of its type in Brisbane. Belmont Private Hospital offers a range of specialist acute mental health services catering for both inpatient and day patients.

CLOVER LEA AGED CARE
Sydney / New South Wales

MARKET VALUE A$12,700,000

MARKET CAPITALISATION RATE 7.00%

WALE 17.7

OCCUPANCY 100.00%

MAJOR TENANT Hall & Prior

Clover Lea residential aged care is located approximately 12km west of the Sydney CBD. It is a high-care, single level facility with 64 beds. Clover Lea is operated by Hall & Prior, a private Australian Commonwealth Government approved residential aged care provider.

DUBBO PRIVATE HOSPITAL
Dubbo / New South Wales

MARKET VALUE A$16,200,000

MARKET CAPITALISATION RATE 6.50%

WALE 13.6

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Dubbo Private Hospital has 52 beds and provides general surgical, obstetric, rehabilitation and neonatal intensive care. Dubbo is located in regional New South Wales, approximately six hours' drive north-west of Sydney.

EDEN REHABILITATION
Sunshine Coast / Queensland

MARKET VALUE A$23,860,000

MARKET CAPITALISATION RATE 5.75%

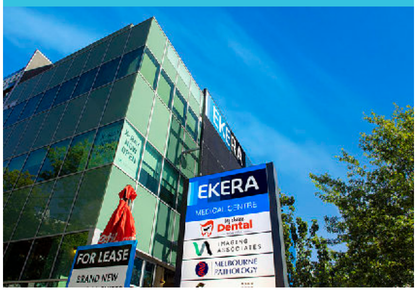
WALE 19.5

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Eden Rehab is a 48 bed private inpatient rehabilitation hospital and medical centre located in Cooroy, approximately 25 minutes inland from Noosa in Queensland. Eden has provided rehabilitation and medical care to Sunshine Coast residents for over 15 years and is the only sub-acute stand-alone private rehabilitation hospital between Brisbane and Cairns.

EKERA MEDICAL CENTRE
Melbourne / Victoria



MARKET VALUE A$28,700,000

MARKET CAPITALISATION RATE 6.00%

WALE 2.1

OCCUPANCY 94.20%

MAJOR TENANT Imaging Associates

Constructed in 2014, Ekera is a modern, multi-tenanted four level medical office building comprising a total area of 3,605 sqm with basement parking for 133 cars. Ekera's major tenant is Imaging Associates, representing approximately 40% of rental income. Other tenants include: Sonic Healthcare, Monash IVF and Sportsmed Biologic.

EPWORTH EASTERN HOSPITAL
Melbourne / Victoria

MARKET VALUE A$153,184,712

MARKET CAPITALISATION RATE 5.00%

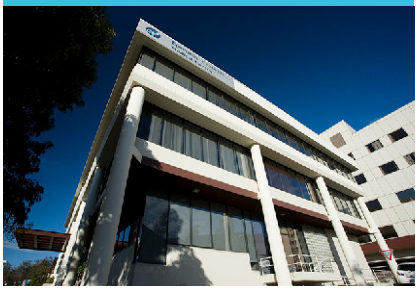
WALE 21.9

OCCUPANCY 100.00%

MAJOR TENANT Epworth Foundation

Epworth Eastern Hospital is located in Box Hill about 14km from the CBD, a significant regional hub for the middle and outer eastern suburbs. Completed in 2005, the hospital accommodates a ground-floor reception, radiology and café, ten operating theatres, 227 beds and 284 car parks.

EPWORTH EASTERN MEDICAL CENTRE
Melbourne / Victoria



MARKET VALUE A$35,000,000

MARKET CAPITALISATION RATE 5.50%

WALE 9.3

OCCUPANCY 100.00%

MAJOR TENANT Epworth Foundation

Originally built in 1986, the Epworth Eastern Medical Centre was completely refurbished in 2005. This houses 27 private consulting suites, with a separate oncology suite.

EPWORTH REHABILITATION
Melbourne / Victoria

MARKET VALUE A$24,860,000

MARKET CAPITALISATION RATE 5.75%

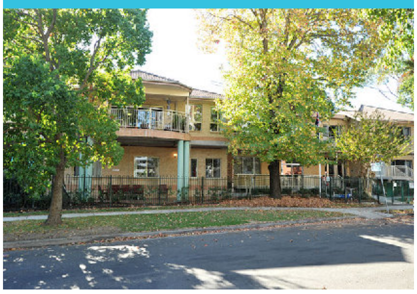
WALE 5.6

OCCUPANCY 100.00%

MAJOR TENANT Epworth Foundation

Epworth Rehabilitation is a purpose-built rehabilitation facility with a licence for 67 beds. The facility offers a comprehensive range of services, including specialised rehabilitation units for orthopaedic/musculo-skeletal, neurological and cardiac patients. The facility includes a purpose-built rehabilitation gymnasium and pool.

FAIRFIELD AGED CARE
Sydney / New South Wales



MARKET VALUE A$16,800,000

MARKET CAPITALISATION RATE 7.00%

WALE 17.7

OCCUPANCY 100.00%

MAJOR TENANT Hall & Prior

Fairfield residential aged care is located approximately 28km west of the Sydney CBD in the suburb of Fairfield. It is a two-level high-care facility with 93 beds including an 18-bed secure dementia unit. Fairfield is operated by Hall & Prior, a private Australian Commonwealth Government approved residential aged care provider.

GOLD COAST SURGERY CENTRE
Gold Coast / Queensland

MARKET VALUE A$14,000,000

MARKET CAPITALISATION RATE 7.25%

WALE 1.6

OCCUPANCY 69.17%

MAJOR TENANT South Coast Radiology

The Gold Coast Surgery Centre is a multi tenanted medical office building located in Southport, Queensland. The building comprises a three-level medical centre with podium and basement car parking. It is home to various practitioners operating in radiology, breast cancer and gynaecology.

GRAFTON AGED CARE
Sydney / New South Wales

MARKET VALUE A$10,300,000

MARKET CAPITALISATION RATE 7.50%

WALE 18.8

OCCUPANCY 100.00%

MAJOR TENANT Hall & Prior

Grafton Aged Care is a residential aged care facility located in South Grafton, NSW, approximately 70km north of Coffs Harbour. The site overlooks the Clarence River and benefits from uninterrupted views. The facility comprises 83 beds across a mix of single, double and triple rooms.

HAMERSLEY AGED CARE

Perth / Western Australia

MARKET VALUE A$11,700,000

MARKET CAPITALISATION RATE 7.25%

WALE 17.7

OCCUPANCY 100.00%

MAJOR TENANT Hall & Prior

Hamersley residential aged care is located in the suburb of Subiaco, approximately 2km west of the Perth CBD. It is a high-care, two level facility with 78 beds. Hamersley is operated by Hall & Prior, a private Australian Commonwealth Government approved residential aged care provider.

HIRONDELLE PRIVATE HOSPITAL

Sydney / New South Wales

MARKET VALUE A$25,200,000

MARKET CAPITALISATION RATE 5.50%

WALE 23.9

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Hirondelle is a 53-bed private rehabilitation hospital located within Sydney's lower north shore suburb of Chatswood, approximately 10km north-west of the CBD. The recently refurbished hospital is a modern rehabilitation facility including hydrotherapy pool.

HURSTVILLE PRIVATE HOSPITAL

Sydney / New South Wales

MARKET VALUE A$73,700,000

MARKET CAPITALISATION RATE 6.25%

WALE 23.8

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Hurstville is a 94-bed private hospital located approximately 16km south-west of the Sydney CBD specialising in surgical services and obstetrics. Vital acquired Hurstville in May 2012 and has undertaken major redevelopment work, including increased operating theatre capacity, patient accommodation and consulting rooms.

LINGARD PRIVATE HOSPITAL

Newcastle / New South Wales

MARKET VALUE A$125,350,298

MARKET CAPITALISATION RATE 5.75%

WALE 22.7

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Lingard Private Hospital is a 99-bed, 7 theatre acute medical and surgical hospital located 3km south of the Newcastle CBD. Over recent years Lingard has undergone significant redevelopment which has included a new 40-bed ward, two additional operating theatres and improved diagnostic imaging areas.

MAITLAND PRIVATE HOSPITAL

Newcastle / New South Wales

MARKET VALUE A$89,820,000

MARKET CAPITALISATION RATE 5.75%

WALE 19.5

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Maitland Private is a 156-bed private hospital located approximately 30km north-west of Newcastle in NSW and offers a comprehensive range of specialities and on-site medical, surgical, mental health, rehabilitation and allied health services, all supported by the latest technology and facilities.

MARIAN CENTRE

Perth / Western Australia

MARKET VALUE A$44,900,000

MARKET CAPITALISATION RATE 5.50%

WALE 16.1

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

The Marian Centre was acquired by Vital in August 2014. It is a 69-bed stand-alone private psychiatric hospital in the established medical precinct of Subiaco, Western Australia. The Marian Centre provides both inpatient and outpatient services along with a range of therapy programs.

MAYO PRIVATE HOSPITAL
Taree / New South Wales

MARKET VALUE A$35,800,000

MARKET CAPITALISATION RATE 6.50%

WALE 13.5

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Mayo Private Hospital is a 79 bed hospital located approximately 170km north of Newcastle and operated by Healthe Care. Mayo specialises in surgical, acute medical, post natal and rehabilitation services. Mayo has associated specialist consulting rooms and a rehabilitation centre.

MONS ROAD MEDICAL CENTRE
Sydney / New South Wales

MARKET VALUE A$32,500,000

MARKET CAPITALISATION RATE 5.75%

WALE 4.6

OCCUPANCY 96.87%

MAJOR TENANT Castlereagh

Mons Road is a modern, multi-tenanted, four-level medical office building. It is approximately 26km west of the Sydney CBD within the Westmead medical precinct, which is considered Australia's largest health services precinct.

NORTH WEST PRIVATE HOSPITAL
Burnie / Tasmania

MARKET VALUE A$20,750,000

MARKET CAPITALISATION RATE 6.25%

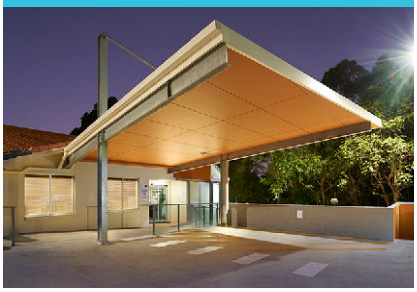
WALE 18.4

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

North West Private Hospital is a 48-bed single-storey facility providing acute medical, surgical, psychiatric and obstetric services and co-located with the Burnie Public Hospital and University of Tasmania.

PALM BEACH CURRUMBIN CLINIC
Gold Coast / Queensland



MARKET VALUE A$51,000,000

MARKET CAPITALISATION RATE 5.50%

WALE 13.6

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Palm Beach Currumbin Clinic is located 6km from Burleigh Heads, on Queensland's Gold Coast and has a catchment area that extends into New South Wales. Palm Beach is a 104 bed private hospital providing psychiatric services, including rehabilitation. In 2012, Healthe Care and Vital completed a redevelopment at the facility adding 34 beds.

ROCKINGHAM AGED CARE
Perth / Western Australia

MARKET VALUE A$6,120,000

MARKET CAPITALISATION RATE 7.50%

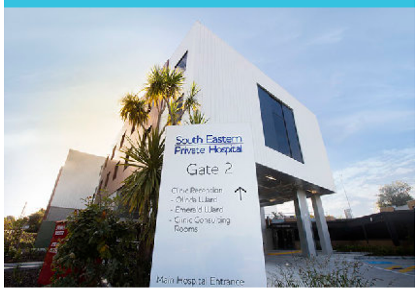
WALE 17.7

OCCUPANCY 100.00%

MAJOR TENANT Hall & Prior

Rockingham residential aged care is located in the suburb of Rockingham, approximately 50km south of the Perth CBD. It is a high-care, single level 40-bed facility. Rockingham is operated by Hall & Prior, a private Australian Commonwealth Government approved residential aged care provider.

SOUTH EASTERN PRIVATE HOSPITAL
Melbourne / Victoria



MARKET VALUE A$55,000,000

MARKET CAPITALISATION RATE 5.50%

WALE 22.7

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

South Eastern Private Hospital is located around 26km south-west of Melbourne's CBD. It is a two-storey 167 bed hospital. The hospital provides general medicine and rehabilitation services. South Eastern recently underwent a redevelopment project that added 30 rehabilitation beds, 30 mental health beds and 79 car parks.

SPORTSMED CONSULTING
Adelaide / South Australia

MARKET VALUE A$7,350,000

MARKET CAPITALISATION RATE 5.75%

WALE 17.6

OCCUPANCY 100.00%

MAJOR TENANT Sportsmed SA

Sportsmed consulting is located in the suburb of Stepney approximately 4km north-east of Adelaide's CBD, in South Australia. It is adjacent to Sportsmed SA hospital & clinics which incorporates a state of the art dedicated orthopaedic facility and is the largest of its type in Australia.

SPORTSMED HOSPITAL AND CLINICS
Adelaide / South Australia

MARKET VALUE A$53,200,000

MARKET CAPITALISATION RATE 5.75%

WALE 16.9

OCCUPANCY 100.00%

MAJOR TENANT Sportsmed SA

Sportsmed SA incorporates a state of the art dedicated orthopaedic facility, with five operating theatres and 45 private rooms. It is located in the suburb of Stepney approximately four kilometres north-east of Adelaide's CBD, in South Australia. With 13 dedicated orthopaedic surgeons.

SPORTSMED OFFICE
Adelaide / South Australia

MARKET VALUE A$3,900,000

MARKET CAPITALISATION RATE 6.50%

WALE 17.6

OCCUPANCY 100.00%

MAJOR TENANT Sportsmed SA

Sportsmed office is adjacent to Sportsmed SA hospital & Clinics. Sportsmed office houses the administration and executive offices of Sportsmed SA. It is a two storey building with medium-term redevelopment potential to support clinical growth at Sportsmed.

THE HILLS CLINIC
Sydney / New South Wales

MARKET VALUE A$31,800,000

MARKET CAPITALISATION RATE 5.50%

WALE 29.1

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Located in the suburb of Kellyville, approximately 40km north-west of the Sydney CBD, The Hills is a two-level purpose-built mental health hospital offering specialist inpatient programs. with 59 beds and a medical clinic with 8 consulting rooms and approximately 30 referring clinicians.

THE SOUTHPORT PRIVATE HOSPITAL
Gold Coast / Queensland

MARKET VALUE A$43,600,000

MARKET CAPITALISATION RATE 5.50%

WALE 19.6

OCCUPANCY 100.00%

MAJOR TENANT Ramsay Health Care

Southport Private Hospital (formerly Allamanda Private) is located in Southport on the Gold Coast. The facility provides a range of comprehensive mental health and rehabilitation services. Operated by Ramsay Health Care, the facility includes a 44 bed rehabilitation unit and a 22 bed private inpatient mental health clinic.

TORONTO PRIVATE HOSPITAL
Newcastle / New South Wales

MARKET VALUE A$35,027,299

MARKET CAPITALISATION RATE 6.00%

WALE 24.5

OCCUPANCY 100.00%

MAJOR TENANT Healthe Care

Toronto Private Hospital is an 85-bed private hospital located in Toronto (NSW) and is approximately 20 km from Newcastle. The three-level facility is located on the western side of Lake Macquarie and specialises in rehabilitation, medical, palliative care and mental health services.

NEW ZEALAND PORTFOLIO

APOLLO HEALTH & WELLNESS CENTRE
Auckland

MARKET VALUE $28,500,000

MARKET CAPITALISATION RATE 6.13%

WALE 7.0

OCCUPANCY 91.5%

MAJOR TENANT Apollo Medical Limited

Apollo is home to a diverse range of specialist healthcare tenants including audiologists, physiotherapists, laboratory and radiology providers, fertility specialists and GPs. The largest tenant is Apollo Medical, a general practice with over 15 GPs.

ASCOT CENTRAL
Auckland

MARKET VALUE $35,000,000

MARKET CAPITALISATION RATE 6.13%

WALE 2.6

OCCUPANCY 100.0%

MAJOR TENANT Fertility Associates Limited

Ascot Central is a high-quality, five-level medical office building located next to Ascot Hospital in Greenlane, Auckland. The major tenant is Fertility Associates, New Zealand's leading provider of fertility diagnosis, support and treatment.

ASCOT CENTRAL CARPARK (GROUND LEASE)
Auckland

MARKET VALUE $1,550,000

MARKET CAPITALISATION RATE 9.75%

WALE 2.1

OCCUPANCY 100.0%

MAJOR TENANT Fertility Associates Limited

176 Carparks.

ASCOT HOSPITAL
Auckland

MARKET VALUE $106,000,000

MARKET CAPITALISATION RATE 5.38%

WALE 17.6

OCCUPANCY 100.0%

MAJOR TENANT
Ascot Hospital and Clinics Limited

Ascot Hospital and Clinics is a private surgical and medical hospital with associated consulting areas.
Ascot Hospital is one of the Trust's flagship properties and is considered one of New Zealand's premier private surgical and medical facilities, with 12 operating theatres, 88 inpatient beds, and a 24-hour accident and emergency clinic.

ASCOT HOSPITAL CARPARK (GROUND LEASE)
Auckland

MARKET VALUE $1,625,000

MARKET CAPITALISATION RATE 9.50%

WALE 25.0

OCCUPANCY 100.0%

MAJOR TENANT
Ascot Hospital and Clinics Limited

273 Carparks.

BOULCOTT PRIVATE HOSPITAL
Lower Hutt

MARKET VALUE $38,400,000

MARKET CAPITALISATION RATE 5.75%

WALE 20.0

OCCUPANCY 100.0%

MAJOR TENANT Healthe Care

Boulcott is a 38-bed private surgical hospital located in Lower Hutt. It has three operating theatres and approximately 45 specialist consultants and surgeons who provide services across a range of surgical specialties, including orthopaedics, ophthalmology and urology services. It is located directly adjacent to the Hutt public hospital.

BOWEN HOSPITAL
Wellington

MARKET VALUE $44,300,000

MARKET CAPITALISATION RATE 5.50%

WALE 29.5

OCCUPANCY 100.0%

MAJOR TENANT Acurity Health Group

Bowen Hospital is a two level hospital facility and five-level specialist consulting buiding. Originally constructed in 1971, the facility has undergone a $34m development adding three operating theatres and consulting building housing consulting space, an endoscopy unit and chemotherapy clinic.

KENSINGTON HOSPITAL
Whangarei

MARKET VALUE $19,650,000

MARKET CAPITALISATION RATE 6.00%

WALE 28.0

OCCUPANCY 100.0%

MAJOR TENANT Kensington Hospital Limited

Kensington Hospital is utilised for both inpatient and day-stay surgery. The site is centrally located in the Whangarei suburb of Kensington, approximately 2.5km from the Whangarei CBD.

NAPIER HEALTH CENTRE
Napier

MARKET VALUE $10,800,000

MARKET CAPITALISATION RATE 9.00%

WALE 1.5

OCCUPANCY 100.0%

MAJOR TENANT
Hawke's Bay District Health Board

Napier Health Centre is the first comprehensive ambulatory facility in the Hawke's Bay and provides day-patient and outpatient services. These include 24-hour urgent medical, laboratory, radiology (x-ray), minor surgeries and physiotherapy.

ORMISTON HOSPITAL
Auckland

MARKET VALUE $33,700,000

MARKET CAPITALISATION RATE 6.13%

WALE 4.2

OCCUPANCY 100.0%

MAJOR TENANT
Ormiston Surgical and Endoscopy Limited

Ormiston Hospital is situated in Flat Bush, 25km south of the Auckland CBD. Ormiston is anchored by Ormiston Surgical and Endoscopy Limited, a business whose cornerstone shareholder is Southern Cross Hospitals Limited, New Zealand's largest private hospital operator.

ROYSTON HOSPITAL
Hastings

MARKET VALUE $53,863,981

MARKET CAPITALISATION RATE 5.75%

WALE 29.5

OCCUPANCY 100.0%

MAJOR TENANT Acurity Health Group

Royston Hospital is a single-level hospital facility and two-level consulting centre, located in the city of Hastings. Royston is the only private hospital within the regional hub of the Hawkes Bay and one of two hospitals in the region serving 160,000 residents. Originally constructed in 1931, the facility had undergone major upgrades as recently as 2005.

WAKEFIELD HOSPITAL
Wellington

MARKET VALUE $26,407,342

MARKET CAPITALISATION RATE 5.50%

WALE 29.5

OCCUPANCY 100.0%

MAJOR TENANT Acurity Health Group

Wakefield Hospital is the largest private hospital in the Wellington region. Vital has committed to a full redevelopment planned in stages to minimise disruption to ongoing business continuity. The completed development will result in a seismically resilient, modern and functional facility including 8 operating theatres, 42 beds, a 3,000 sqm medical consulting building and over 260 carparks.

OUR EXECUTIVE TEAM

Our small, successful management team come from a diverse range of property investment, development and finance backgrounds. They understand the importance of partnering with operators to deliver long-term real estate solutions and sustainable distributions to investors.

DAVID CARR
Chief Executive Officer

Refer to David's profile on Our Board page (page 20).

STUART HARRISON
Chief Financial Officer

Stuart has nearly three decades of financial reporting and management experience within the Chartered Accountancy, utilities and hospitality/property industries and joined the team in September 2008. As Chief Financial Officer for Vital, he has been responsible for overseeing the financial and management reporting, treasury management and tax compliance within both New Zealand and Australia. The efficient implementation of these functions have been supportive of the Trust's operating performances in recent years – including equity raising, debt facility renewals and strategic acquisitions.

In his capacity as Regional Finance Director, Stuart has taken on responsibility for the Australia and New Zealand regional financial and treasury management requirements of the Manager and its associated entities.

Stuart holds a Bachelor of Commerce and Chartered Accountants Australia and NZ qualifications. He is also a member of the New Zealand Institute of Directors.

RICHARD ROOS
Managing Director – Australia

Richard moved to Melbourne with his family to join Vital five years ago after spending the previous six years in a senior executive role with NorthWest Healthcare Properties REIT, a Canadian healthcare property trust. He has over 20 years of career experience in commercial real estate financing, acquisitions and property management.

In his role as Executive Director, Richard is responsible along with his Melbourne and Auckland based teams for the asset management of Vital's Australian and New Zealand portfolio, including acquisitions, development, leasing and tenant relationships.

CHRIS ADAMS
Executive Director

Chris has extensive experience in the property industry in Australia, New Zealand and the United Kingdom, including over 20 years experience in health sector property acquisitions, transaction structuring and large scale hospital development. Responsibilities with respect to NorthWest include overseeing development and acquisitions undertaken by the business.

He was one of the founding Executives at Generation Healthcare REIT (now NorthWest Healthcare Properties Australia).

Prior to joining Generation, Chris established Vital Healthcare's presence in Australia in 1999 and served as General Manager – Australia following various roles with the group in New Zealand. Chris holds a Bachelor of Property from Auckland University.

OUR BOARD

Our Board has overall responsibility for setting the strategic direction and managing the Trust. It is currently made up of two Independent Directors and three non-Independent Directors. Directors are chosen for their complementary skills and knowledge.

CLAIRE HIGGINS
Chair and Independent Director

Claire Higgins is an Australian based professional Director. She is the Chair of REI Superannuation Pty Ltd. Claire is also a Director of Ryman Healthcare Limited, RT Health Fund Ltd, Pancare Foundation Inc (Acting Chair) and the Helen Macpherson Smith Trust. Formerly the Chair of Barwon Health, the Victorian State Emergency Service and the County Fire Authority in Victoria, Claire has also had extensive executive experience with BHP and OneSteel Limited.

Claire's areas of expertise are in governance, accounting, finance, economics and healthcare. Claire has a Bachelor of Commerce (Accounting, Economics and Commercial Law) from The University of Melbourne and is a present Fellow at the Australian Institute of Company Directors, the Australian Society of Certified Practising Accountants and the Institute of Public Administration Australia.

ANDREW EVANS
Independent Director

Andrew Evans has over 25 years' experience in commercial real estate and asset management, previously holding executive positions in listed and unlisted real estate investment businesses. Andrew is a Director of Argosy Property Limited, Holmes Group Limited, Holmes GP Fire Limited, Trust Investments Management Limited and Accessible Properties NZ Limited. In addition, Andrew is a past National President of the Property Council of New Zealand, a fellow of the New Zealand Property Institute, a government appointee to the Land Valuation Tribunal (Waikato No.1) and a Trustee of the Marist Brothers Old Boys Rugby Charitable Trust. He is a Chartered Fellow of the Institute of Directors and is on the Auckland Branch Committee.

Andrew has a Bachelor of Business Studies and MBA (with distinctions) from Massey University and a Diploma in Finance from Auckland University.

DAVID CARR
Chief Executive Officer and Executive Director

David Carr has over 25 years' experience in commercial real estate investment and capital markets, and has been the Chief Executive Officer of the Manager of Vital since October 2006. David was appointed as an Executive Director in May 2018.

David has accountability for implementing and delivering the Trust's strategy and for its overall performance. He leads a team of passionate healthcare real estate professionals in New Zealand and Australia.

Vital remains Australasia's largest listed healthcare real estate investment vehicle with assets of approximately $1.7bn and a market capitalisation of approximately $950m. During David's tenure Vital has delivered a ten-year compound annual total return of 13.6%, outperforming both the S&P/NZX All RE Gross Index and the S&P NZX50 Index.

Committed to maintaining the highest ethical standards and accountability.

PAUL DALLA LANA
Director

Paul Dalla Lana is the founder and CEO of NorthWest Healthcare Properties REIT – the 100% owner of NorthWest Healthcare Properties Management Limited, the Manager of Vital Healthcare Property Trust. Over the past 24 years, Paul has led NorthWest in the acquisition and development of over $3.0 billion worth of real estate transactions, with a significant focus on healthcare properties.

Prior to founding NorthWest, Paul was a professional in the Real Estate Capital Markets Group of Citibank, N.A. and an economist with B.C. Central Credit Union. Paul received his BA (Economics) and his MBA (Finance and Real Estate) from The University of British Columbia.

Paul serves as Chairman of the Board of NorthWest Healthcare Properties REIT. Additionally, he is actively involved in addressing public health and education issues in Canada and around the world. He is an Advisory Board member of the Dalla Lana School of Public Health and on the President's Advisory Council at the University of Toronto.

BERNARD CROTTY
Director

Bernard Crotty is the President and a Trustee of NorthWest Healthcare Properties REIT and a Director of the Manager of Vital Healthcare Property Trust and previously served as President and Trustee of NorthWest International Healthcare Properties REIT.

Prior to his current role, Bernard was the Principal ofSilver and White Management, Inc., a private investment firm.

From September 2001 to February 2008, Bernard acted as Chairman and/or Chief Executive Officer of Certicom Corp., a provider of cryptographic software and services that was acquired by the then Research in Motion Ltd. From January 2004 to February 2007, Bernard acted as Chairman and/or Chief Executive Officer of Comnetix Inc., a provider of biometric identification and authorization solutions that was acquired by L-1 Identity Solutions, Inc.

In addition Bernard has served on a variety of public company boards and was counsel to the law firm Gibson,

Dunn & Crutcher LLP in Los Angeles and a partner at the law firm McCarthy Tétrault, LLP in Toronto and London, England. Bernard received his B.A. from the University of Alberta, LL.B. from the University of Toronto, LL.M. from the London School of Economics and his M.B.A. from Duke University. He is also a graduate of the Toronto ICD-Rotman Directors Education Program

CORPORATE GOVERNANCE

INTRODUCTION

Ultimate responsibility for corporate governance of Vital Healthcare Property Trust (Vital) resides with the Board of Directors of the Manager. The Board acknowledges robust corporate governance and stewardship as fundamental to the strong performance of Vital. As a result, they have a commitment to the highest standards of business behaviour, transparency and accountability wherever possible.

It is with these objectives in mind that the Board has adopted its current framework. In the Board's opinion the framework materially complies with the NZX Corporate Governance Code 2017 (NZX Code), taking into account Vital's structure as a listed managed investment scheme, unless otherwise stated. Included on Vital's website www.vhpt.co.nz is a Corporate Governance Statement that contains a more detailed review against each of the recommendations in the NZX Code.

THE TRUST AND SUPERVISOR

Vital was a unit trust established under the Unit Trust Act 1960 by a Trust Deed dated 11 February 1994 as subsequently amended and replaced. Vital became a registered Managed Investment Scheme under the Financial Markets Conduct Act 2013 on 29 November 2016. Vital units are listed on the New Zealand Stock Exchange (NZX code: VHP).

The Supervisor of Vital is Trustees Executors Limited. The Supervisor is required to be licensed by the FMA under the Financial Markets Supervisors Act 2011 to act as a Supervisor of a Managed Investment Scheme. The Supervisor's role is to supervise the administration and management of Vital in accordance with the Trust Deed, and to ensure that the Manager complies with its duties and responsibilities under the Trust Deed.

The Supervisor holds title to the assets of Vital in trust for the unitholders, subject to the terms and conditions of the Trust Deed. The Supervisor also has certain discretions and powers to approve investment and divestment proposals recommended to it by the Manager and reviews and authorises all payments made by Vital.

THE MANAGER

The Manager of Vital is NorthWest Healthcare Properties Management Limited, a wholly owned subsidiary of NorthWest Healthcare Properties Real Estate Investment Trust. The Manager has responsibility for the management of Vital in accordance with the Trust Deed and Statement of Investment Policy and Objectives.

The Manager's responsibilities include the day-to-day management of Vital's portfolio of properties and assets, negotiating the acquisition and disposal of assets, development and construction planning and management, treasury and funding management, ensuring Vital meets its financial, reporting and other statutory and regulatory obligations and communicating with unitholders and the market.

Vital does not engage or employ any Directors or employees of its own. The Manager provides a highly experienced and diverse range of professionals with expertise across a range of areas.

PRINCIPLE 1 - ETHICAL BEHAVIOUR

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

The Board considers it particularly important to manage all real or perceived conflicts of interest that may arise during the ordinary course of business. The Manager has established internal policies and procedures that govern behaviour of its Directors and employees.

Code of Conduct

All Directors and employees of the Manager must abide by its Code of Conduct policy. The Manager recognises the importance of a work environment that actively promotes best practice and does not compromise business ethics or principles. The purpose of the Code of Conduct is to uphold the highest ethical standards, acting in good faith and in the best interests of unitholders at all times. The Code of Conduct outlines the Manager's policies in respect of conflicts of interest, fair dealing, compliance with applicable laws and regulations, maintaining confidentiality of information, dealing with Vital's assets and use of Vital's information.

The policy provides a practical set of guiding principles and operates in conjunction with other policies relating to minimum standards of behaviour and conduct. Compliance with this policy is a condition of employment with the Manager and it can be found on Vital's website www.vhpt.co.nz.

The Manager and affiliated entities have adopted a Conflicts Policy for Australia and New Zealand. This policy establishes principles for the management of conflicts including the related party transactions, leasing, tenants, off market transactions and acquisition and development opportunities. A copy of this policy is available on the website at www.vhpt.co.nz.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

The Board of Directors

The role of the Board of Directors is to set the strategic direction of Vital and to support management in monitoring the delivery of this against specific performance objectives. The Board also reviews compliance with regulatory, statutory, financial, health and safety and social responsibility obligations.

Board Composition

The Manager is committed to having an effective Board providing a balance of independent skills, knowledge, experience and perspectives. The Constitution of the Manager provides for there to be no more than seven Directors, nor less than three Directors. All bring a significant breadth and depth of expertise and have the composite skills to optimise the financial and portfolio performance of Vital and returns to unitholders.

	Attendance at Board Meetings	Date of Appointment
Claire Higgins(Chair)	7 of 7	16 January 2012 (Appointed Chair 1 May 2018)
Andrew Evans	7 of 7	20 August 2007
Paul Dalla Lana	7 of 7	16 January 2012
Bernard Crotty	7 of 7	16 January 2012
David Carr	1 of 1	1 May 2018
Graeme Horsley (Chair)*	6 of 6	20 August 2007 (*Retired 1 May 2018)

The Board does not impose a restriction on the tenure of any Director as it considers that such a restriction may lead to the loss of experience and expertise from the Board.

Appointment

Unitholders have the opportunity to nominate two of the Independent Directors of the Manager required by the NZX Listing Rule 3.3.1.(c). Unitholders are able to nominate and vote on one Independent Director of the Manager each year. The nominee receiving the most votes will be approved as a Director of the Manager by the Manager's shareholders, and will hold the position for a two-year term.

As the Manager is a wholly owned subsidiary of NorthWest Healthcare Real Estate Investment Trust, appointment of other Directors is made by NorthWest Healthcare Real Estate Investment Trust.

The Board Charter sets out expectations of Directors. The purpose of the Charter is to set out the role, composition and responsibilities of the Board, and how its powers and responsibilities will be exercised and discharged. The Charter reaffirms directors must comply with their duties as set out in the Financial Markets Conduct Act 2013 and the Companies Act 1993. The Charter can be found on Vital's website www.vhpt.co.nz.

The table below shows all relevant interests of Directors in Units, which include legal and beneficial interests in Units.

	Holdings (number of units) non-beneficial	Holdings (number of units) beneficial
Claire Higgins	79,795	
Andrew Evans	304,723	454,263
Paul Dalla Lana[1]	108,417,335	
Bernard Crotty		
David Carr		
Graeme Horsley	48,972	304,723

1 Paul Dalla Lana is the founder, Chairman, CEO, Trustee and largest unitholder of NorthWest Healthcare Properties Real Estate Investment Trust (a trust organised under the laws of Ontario, Canada, Corporation). NorthWest Healthcare Properties Real Estate Investment Trust directly or indirectly holds approximately 108.4 million units in Vital Healthcare Property Trust, which Mr Dalla Lana is considered to have a relevant interest in. Mr Bernard Crotty is President and Trustee of NorthWest Healthcare Properties Real Estate Investment Trust, but is not considered to have a relevant interest in its units in Vital.

Independent Directors

The Manager recognises that Independent Directors are important in assuring unitholders that the Board is properly fulfilling its role and is diligent in holding management accountable for its performance. The procedures in place for determining independence is whether the Director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

As defined in the NZX Listing Rules, the Board has determined that two of its member, Claire Higgins (Chair) and Andrew Evans are Independent Directors. Paul Dalla Lana, Bernard Crotty and David Carr (Executive Director) are considered to be non-independent.

Each Board member's biography including their skills, experience and expertise are included in the Board of Directors section on pages 20-21.

Diversity

At a Board level, diversity of experience is critical to ensure a healthy exchange of ideas and opinions to deliver higher quality decision making and outcomes. All Board appointments are always based on merit and diversity (including gender and ethnicity).

A key feature of the external management structure that Vital operates under is that all employee costs are the responsibility of the Manager, not Vital. The Manager is committed to providing a positive working environment where diversity in all its form is respected and embraced.

As at 30 June 2018 the Manager has one female Director out of the five currently appointed Directors. All of the Officers of the Manager are male.

Gender diversity	2018 Number Male	2018 Number Female	2018 Proportion Male	2018 Proportion Female	2017 Number Male	2017 Number Female	2017 Proportion Male	2017 Proportion Female
Directors	4	1	80%	20%	4	1	80%	20%
Officers	4	0	100%	0%	3	0	100%	0%
Leadership	4	4	50%	50%	4	0	100%	0%
All Employees	12	13	48%	52%	9	4	69%	31%

The table above includes all employees of NorthWest within the Australia/New Zealand region

Healthcare real estate is a specialised sector and the Board believes that it is important to have members with a diverse range of backgrounds, skills and experience. It is also important to balance skills and knowledge gained through length of tenure and the value of fresh ideas in decision making.

A majority of the Directors are members of professional organisations such as the Institute of Directors (or equivalent) or other industry specific and relevant organisations, which support the ongoing education and training of professional directors. The table below summarises the skills, experience and length of service of the current Board.

Board and Director Performance

Assessment of the Board and individual Directors' performance is a process determined by the Chair. This takes into account the overall attendance, contribution and experience of each individual member concerned.

Chair and Chief Executive Officer

The role of Chair and Chief Executive Officer (CEO) are separated to increase accountability and facilitate more effective monitoring and oversight of management. At the financial year-end and at the date of this report, Claire Higgins is the Chair and David Carr is the CEO and Executive Director of the Manager. Claire's role as Chair is to provide leadership to the Board of Directors and is accountable to the Board. David's primary role is to ensure management deliver on the strategy approved by the Board.

PRINCIPLE 3 – BOARD COMMITTEES

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

The Board uses a number of committees to assist in the discharge of its duties and responsibilities. Each committee operates under a charter agreed by the Board, setting out its role, responsibilities, authority, and relationship with the Board, in relation to reporting requirements, composition, structure and membership.

Audit Committee

The Audit Committee is responsible for overseeing the financial and accounting responsibilities of Vital. The minimum number of members on the Audit Committee is three. All members must be a Director with the majority being Independent Directors and at least one member must have an accounting or financial background. The Audit Committee Charter is available on Vital's website www.vhpt.co.nz.

The members of the Audit Committee are Claire Higgins (Chair), Andrew Evans and Bernard Crotty.

The Audit Committee assists the Board in fulfilling its corporate governance and disclosure responsibilities with particular reference to financial matters, internal and external audits, and is specifically responsible for:

- Recommending to the Board the appointment/removal of Vital's external auditor
- Monitoring compliance with the Financial Reporting Act 2013, Financial Markets Conduct Act 2013, Companies Act 1993 and the NZX Listing Rules
- Supervising and monitoring external audit requirements
- Reviewing annual and interim financial statements prior to submission for Board approvals
- Reviewing and approving quarterly distributions with recommendation of the same for Board approvals
- Reviewing the performance and independence of the external auditor

Attendance at Audit Committee		Date of Appointment
Claire Higgins (Chair)	4 of 4	16 January 2012
Andrew Evans	4 of 4	14 November 2011
Bernard Crotty	4 of 4	16 January 2012

Skills & Experience	Claire Higgins	Andrew Evans	Bernard Crotty	Paul Dalla Lana	David Carr
Accounting / finance / economics	●	●	●	●	
Commercial real estate / asset management / valuation	●	●	●	●	●
Corporate governance	●	●	●	●	●
Legal / regulatory	●		●	●	●
International business	●	●	●	●	●
Tenure (years)	6.5	11	6.5	6.5	0.25

Directors and Officers have a standing invitation to attend Audit Committee meetings. Employees may attend on an invitation basis only.

Remuneration Committee

The NZX Code recommends that a Remuneration Committee be established to benchmark remuneration packages for Directors and senior employees and that the information be disclosed to investors. A key feature of the external management structure that Vital operates under is that all employment expenses are the responsibility of the Manager, not Vital. Consequently, a Remuneration Committee is not considered necessary by the Board at this time.

Nominations Committee

Unitholders have the opportunity to nominate two of the Independent Directors of the Manager and can nominate and vote on one Independent Director of the Manager each year. As a result of this current structure a nominations committee is not considered necessary by the Board at this time.

Due Diligence Committee

From time to time the Board establishes Due Diligence Committees (DDC) to report on the due diligence process in relation to any potential transaction for Vital of material size or complexity. An example would be a material portfolio acquisition or equity capital raising. A DDC will normally include all Directors, relevant management staff and external consultants appropriate for the transaction.

Investment Committee

Under the terms of the Conflicts Policy an Investment Committee has been established to avoid, manage and resolve conflicts in a manner which complies with any relevant legal obligations and is equitable to each party. The Conflicts Policy can be found on www.vhpt.co.nz.

PRINCIPLE 4 – REPORTING & DISCLOSURE

The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.

Continuous Disclosure

As an NZX issuer, the Manager is aware of the need to ensure the market, investors and regulators remain fully informed of any and all material or price sensitive information relevant to Vital. The Board and all management employees are aware of the NZX Continuous Disclosure requirements and Vital has internal procedures in place to ensure compliance with them. The continuous disclosure policy is included as part of Vital's Code of Conduct.

Sustainability

From a sustainability perspective, the Board is conscious that an awareness of an organisation's impact on the environment in addition to its financial performance is important to investors. The Board acknowledges this and wherever possible, actively looks to encourage environmentally sustainable behaviour from its staff (through paper and waste recycling), investors (greater use of electronic communications) and key partners (supporting environmentally sustainable practices with a focus on brownfield projects).

Community / Social Responsibility

The Board and Manager recognise that engaging with investors means more than just measuring traditional financial performance or shareholder return measures. As part of demonstrating its corporate and social responsibility, the Manager has a charity and sponsorship committee that aims to support its employees and the communities in which it operates in. These provide two types of sponsorships as follows:

- eligible employees are entitled to take one day per year paid leave to participate in company sponsored charity activities, or individual charity activities as approved by the Manager; and
- an individual employee may request sponsorship for events that they are taking part in using their own time to raise money for healthcare related charities.

Some of the organisations who have benefitted from this support includes the New Zealand Breast Cancer Foundation, Starship Foundation and the Epworth Foundation.

PRINCIPLE 5 – REMUNERATION

The remuneration of directors and executives should be transparent, fair and reasonable.

Manager's Remuneration

Stipulated within the Trust Deed is the basis on which the Manager is entitled to receive management fees and incentive fees.

Management fees are charged, in respect of each month, a base fee equal to 0.75% per annum of the monthly average of the Gross Value of the assets of Vital for the quarter ended on the last day of that month. The incentive fee is an amount equal to 10% per annum of the average annual increase in the Gross Value of Vital over the relevant financial year and two preceding financial years.

The Manager is required to apply the incentive fee in subscribing for new Units in Vital issued at the weighted average price. The remuneration of the Manager is subject to an overall limit of 1.75% per annum of the Gross Value of Vital and includes the remuneration of the CEO and management team.

The Manager and the Supervisor are each entitled to be reimbursed out of the Trust Fund for all expenses, costs or liabilities incurred by them respectively in acting as Manager or Supervisor.

Supervisor's Remuneration

The Supervisor is entitled to receive fees in respect of its services based on the average gross value of the assets of Vital as follows: 0.10% per annum on the first $100m, 0.08% per annum on the next $25m, 0.05% per annum on the next $25m and 0.03% per annum on any amount over $150m. The Supervisor is also entitled to reasonable reimbursement for special attendances.

Directors Remuneration

The basis for Directors fees are set out in the Board Charter which seeks to pay market level remuneration which is fair and reasonable. The Manager believes it is important to attract and retain high quality directors who can bring a valuable and diverse set of skills and experience to the trust.

A key feature of the external management structure that Vital operates under is that all Directors expenses are the responsibility of the Manager, not Vital. As a result, the remuneration paid to Directors of the Manager is not required to be approved by unitholders.

Insurance and Indemnities

In accordance with the Board Charter, the Manager has provided insurance and indemnities to its Directors and Officers for any liability / losses arising in respect of actions or omissions occurring during the normal carrying out of their duties.

PRINCIPLE 6 – RISK MANAGEMENT

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Risk Management

The Board of Directors maintains a sound understanding of key risks faced by Vital. Effective management of all financial and non-financial risks is fundamental to the delivery of the Board's strategy.

As part of its framework, the Board and Audit Committee work closely with management and external auditors to support the identification, management and reporting of certain financial and non-financial risks to Vital. In addition, the Manager will engage other external advisers as appropriate to deal with specific risks. Vital and the Manager have a risk management framework that is integrated into day to day operations. This is part of Vital's overall compliance assurance programme that is reviewed on an annual basis by the Operational Risk Committee. High risk groups are reviewed more frequently on an annual basis with low risk groups reviewed biennial.

Insider Trading and Restricted Persons Trading

The Manager's Directors, Officers and Employees, their families and related parties must comply with the Security Trading policy. The Manager is committed to ensuring compliance with legal and regulatory requirements with respect to insider trading and restricted persons trading.

To assist with such compliance, the Manager's Security Trading policy identifies circumstances where Directors, Officers and other restricted persons are permitted to trade, or are prohibited from trading, units in Vital. Compliance with this policy is monitored by the Board. In addition, all trading by Directors and Officers of the Manager is required to be reported to NZX in accordance with the Financial Markets Conduct Act 2013. The holdings of Directors of the Manager are disclosed on page 23.

Health and Safety

The Directors and Manager of the Trust are committed to ensuring that as far as reasonably practicable it provides a safe and healthy working environment for all employees, tenants, contractors and others who may visit our properties. The Manager's Health & Safety policy can be found on our website and aims to reflect this commitment. The Manager has an Operational Risk Committee that meets on a regular basis and a standing agenda item is Health and Safety.

PRINCIPLE 7 – AUDITORS

The Board should ensure the quality and independence of the external audit process.

EXTERNAL AUDITORS

In addition to the formal charter under which the Audit Committee operates, the Audit Committee has also developed a Charter of Audit Independence, which sets out the procedures that need to be followed to ensure the independence of the Trust's external auditor.

The Audit Committee is responsible for recommending the appointment of the external auditor and maintaining procedures for the rotation of the external audit engagement partner. Under the Audit Charter, the external audit engagement partner must be rotated at least every five years.

The charter covers provision of non-audit services with the general principle being applied that the external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived as auditing their own work. It is however appropriate for the external auditor to provide services of due diligence on proposed transactions and accounting policy advice.

The external auditors are prepared to answer unitholders' questions about the preparation and content of the independent auditor's report.

Vital undertakes quarterly audited review engagements with its external auditor. As part of the process the Audit Committee identify any key areas of focus and reporting required of the auditors. Management is required to attend the meeting to discuss the findings of the report and respond to queries.

External audit for Vital – following recommendation from the Audit Committee, the Board appointed the firm of Deloitte Limited as the Trust's statutory auditor. KPMG has been appointed as the auditor of the Manager.

PRINCIPLE 8 – UNITHOLDER RIGHTS & COMMUNICATION

The Board should respect the rights of unitholders and foster constructive relationships with unitholders that encourage them to engage with the issuer.

A key focus of investor relations is to ensure the market and investors are informed of all details necessary to assess their investment and Vital's performance as specified by NZX Listing Rules. The Board aims to foster constructive communications and encourages all stakeholders to engage with Vital.

Website

A key element of corporate communication is the Trust's website at www.vhpt.co.nz. The website enables all existing and potential new unitholders to view information including:

- An overview of the business and corporate structure
- A history of financial and investment performance
- Key calendar dates
- The ability to access and download all NZX announcements, presentations and reports
- The website also includes key corporate governance documents including the Board Charter, Statement of Investment Policy and Objectives (SIPO), Conflicts Policy and other key policy documentation

The Manager also actively encourages engagement through a communication strategy which includes:

- The Annual Meeting for the unitholders to meet with and ask questions of the Board, the Supervisor, management and external auditors
- Any other meetings called to obtain approval for the Manager's action as appropriate
- Results webcasting providing all investors with the ability to listen and ask questions of management
- Various investor communications including Annual and Interim Reports
- Newsletters and periodic investor roadshows
- Regular reminders to unitholders they have the option to receive communications electronically
- Periodic and continuous disclosure to NZX
- Notices and explanatory memoranda for Annual and Special Meetings

Vital also has a toll-free contact number (0800 225 264) and general service and enquiry email address (enquiry@vhpt.co.nz) for the Manager to receive any market or investor enquiries.

INVESTING IN AUSTRALASIA'S HEALTHCARE INFRASTRUCTURE

FINANCIAL STATEMENTS

2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2018

	Note	2018 $000s	2017 $000s
Gross property income from rentals		**93,678**	91,849
Gross property income from expense recoveries		**10,258**	7,620
Property expenses		**(13,277)**	(9,812)
Net property income	4	**90,659**	89,657
Other income and expenses	5	**(31,296)**	(22,070)
Finance income		**385**	96
Finance expense	6	**(23,172)**	(14,650)
Operating profit		**36,576**	53,033
Other gains/(losses)			
Revaluation gain on investment property	10	**85,461**	168,549
Fair value gain/(loss) on foreign exchange derivatives		**(300)**	(342)
Fair value gain/(loss) on interest rate derivatives		**(2,883)**	9,023
Unrealised gain/(loss) on foreign exchange		**(1,417)**	885
		80,861	178,115
Profit before income tax		**117,437**	231,148
Taxation expense	7	**(17,372)**	(13,526)
Profit for the year attributable to unitholders of the Trust		**100,065**	217,622
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		**28,802**	(2,183)
Realised foreign exchange gain/(loss) on hedges		**1,457**	9,605
Current taxation (expense)/credit		**(408)**	(2,689)
Unrealised foreign exchange gain/(loss) on hedges		**(2,317)**	(6,549)
Deferred taxation (expense)/credit		**649**	1,834
Fair value gain/(loss) on net investment hedges		**(2,834)**	(267)
Deferred taxation (expense)/credit		**794**	75
Total other comprehensive income/(loss) after tax		**26,143**	(174)
Total comprehensive income after tax		**126,208**	217,448
Earnings per unit			
Basic and diluted earnings per unit (cents)	8	**23.04**	51.68

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 $000s	2017 $000s
Non-current assets			
Investment properties	10	**1,731,247**	1,376,243
Derivative financial instruments	11	**856**	1,499
Other non-current assets	13	**43,984**	327
Total non-current assets		**1,776,087**	1,378,069
Current assets			
Cash and cash equivalents	9	**5,388**	3,352
Trade and other receivables		**1,189**	367
Other current assets		**3,801**	7,886
Derivative financial instruments	11	**363**	2,554
Total current assets		**10,741**	14,159
Total assets		**1,786,828**	1,392,228
Unitholders' funds			
Units on issue	14	**556,878**	538,469
Reserves		**15,629**	(11,295)
Retained earnings		**415,469**	352,647
Total unitholders' funds		**987,976**	879,821
Non-current liabilities			
Borrowings	15	**668,712**	401,879
Income in advance		**-**	1,541
Derivative financial instruments	11	**14,444**	12,142
Deferred tax	12	**86,796**	71,719
Total non-current liabilities		**769,952**	487,281
Current liabilities			
Trade and other payables	16	**16,965**	11,537
Income in advance		**2,281**	2,407
Derivative financial instruments	11	**460**	97
Taxation payable		**9,194**	11,085
Total current liabilities		**28,900**	25,126
Total liabilities		**798,852**	512,407
Total unitholders' funds and liabilities		**1,786,828**	1,392,228

For and on behalf of the Manager, NorthWest Healthcare Properties Management Limited

C Higgins, **Chair**
9 August 2018

B Crotty, **Director**

The notes on pages 33 to 53 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

	Units on issue $000s	Retained earnings $000s	Translation of foreign operations $000s	Foreign exchange hedges $000s	Share based payments $000s	Total unitholders' funds $000s
For the year ended 30 June 2017						
Balance at the start of the period	369,220	171,617	(81,530)	58,095	6,317	523,719
Changes in unitholders' funds	169,249	-	-	-	(6,317)	162,932
Manager's incentive fee	-	-	-	-	12,314	12,314
Profit for the period	-	217,622	-	-	-	217,622
Distributions to unitholders	-	(36,592)	-	-	-	(36,592)
Other comprehensive income for the period						
Movement in foreign currency translation reserve	-	-	(2,183)	-	-	(2,183)
Realised foreign exchange gains on hedges	-	-	-	6,916	-	6,916
Unrealised foreign exchange gains/ (losses) on hedges	-	-	-	(4,715)	-	(4,715)
Fair value gains on net investment hedges	-	-	-	(192)	-	(192)
Balance at the end of the year	538,469	352,647	(83,713)	60,104	12,314	879,821
For the year ended 30 June 2018						
Balance at the start of the period	**538,469**	**352,647**	**(83,713)**	**60,104**	**12,314**	**879,821**
Changes in unitholders' funds	**18,409**	**-**	**-**	**-**	**(12,314)**	**6,095**
Manager's incentive fee	**-**	**-**	**-**	**-**	**13,095**	**13,095**
Profit for the period	**-**	**100,065**	**-**	**-**	**-**	**100,065**
Distributions to unitholders	**-**	**(37,243)**	**-**	**-**	**-**	**(37,243)**
Other comprehensive income for the period						
Movement in foreign currency translation reserve	**-**	**-**	**28,802**	**-**	**-**	**28,802**
Realised foreign exchange gains on hedges	**-**	**-**	**-**	**1,049**	**-**	**1,049**
Unrealised foreign exchange gains/ (losses) on hedges	**-**	**-**	**-**	**(1,668)**	**-**	**(1,668)**
Fair value gains on net investment hedges	**-**	**-**	**-**	**(2,040)**	**-**	**(2,040)**
Balance at the end of the year	**556,878**	**415,469**	**(54,911)**	**57,445**	**13,095**	**987,976**

The notes on pages 33 to 53 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year eneded 30 June 2018

	Note	30 June 2018 $000s	30 June 2017 $000s
Cash flows from operating activities			
Property income		**91,906**	90,271
Recovery of property expenses		**9,837**	7,478
Interest received		**90**	84
Property expenses		**(13,143)**	(13,410)
Management and trustee fees		**(12,341)**	(8,438)
Interest paid		**(22,290)**	(14,072)
Tax paid		**(6,062)**	(4,995)
Other trust expenses		**(2,283)**	(2,407)
Net cash provided by/(used in) operating activities	9	**45,714**	54,511
Cash flows from investing activities			
Receipts from foreign exchange derivatives		**3,266**	11,115
Capital additions on investment properties		**(26,886)**	(30,575)
Purchase of properties		**(187,694)**	(223,292)
Prepaid acquisition costs		**(5,038)**	(3,394)
Advances provided to related parties		**(43,295)**	-
Payments for foreign exchange derivatives		**(1,736)**	(445)
Net cash provided by/(used in) investing activities		**(261,383)**	(246,591)
Cash flows from financing activities			
Debt drawdown		**249,910**	219,989
Issue of units (net of issue costs)		**-**	157,004
Repayment of debt		**-**	(163,843)
Loan issue costs		**(1,029)**	-
Costs associated with Distribution Reinvestment Plan		**(27)**	(31)
Distributions paid to unitholders		**(31,149)**	(30,665)
Net cash from/(used in) financing activities		**217,705**	182,454
Net increase/(decrease) in cash and cash equivalents		**2,036**	(9,626)
Effect of exchange rate changes on cash and cash equivalents		**-**	(2)
Cash and cash equivalents at the beginning of the period		**3,352**	12,980
Cash and cash equivalents at the end of the year		**5,388**	3,352

The notes on pages 33 to 53 form part of and are to be read in conjunction with these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 REPORTING ENTITY

The reporting entity is Vital Healthcare Property Trust ("VHP" or the "Trust"), a unit trust established under the Unit Trusts Act 1960 by a Trust Deed dated 11 February 1994 as subsequently amended and replaced, domiciled in New Zealand. The Trust is managed by NorthWest Healthcare Properties Management Limited (the "Manager") and the address of its registered office is Level 16, AIG Building, 41 Shortland Street, Auckland.

The consolidated financial statements of VHP for the year ended 30 June 2018 comprise VHP and its subsidiaries (together referred to as the "Group"). VHP is listed on the New Zealand Stock Exchange (NZX) and is a FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013. The Trust's principal activity is the investment in high quality Health Sector related properties.

These consolidated financial statements were approved by the Board of Directors of the Manager on 9 August 2018.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The consolidated financial statements comply with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis except for derivative financial instruments and investment properties which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($), which is the Trust's functional and presentation currency. All information has been rounded to the nearest thousand dollars ($000), unless stated otherwise.

(d) Critical accounting estimates and judgements

In the application of NZ IFRS, the Board and management are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from the estimates, judgements and assumptions made by the Board and management.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of a material adjustment in the next financial year are disclosed where applicable in the relevant notes to the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

Note 10 – valuation of investment properties

Note 12 – deferred tax (and taxation in Note 7)

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The Group's financial statements incorporate the financial statements of the Trust and entities controlled by the Trust (its subsidiaries) as set out in Note 18. Control is achieved where the Trust has the power over the investees; is exposed, or has rights, to variable returns from it's involvement with the investees; and has the ability to use its power to affect its returns. The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) Foreign currency transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each group entity are expressed in New Zealand Dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at that time.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedge accounting policies).

(c) Foreign operations

For the purposes of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated as a separate component of equity in the Group's foreign currency translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Goods and services tax

The statement of comprehensive income and statement of cash flows have been prepared so that all components are stated exclusive of goods and services tax (GST) to the extent that GST is recoverable. All items in the statement of financial position are stated exclusive of GST with the exception of receivables and payables, which include GST invoiced. Cash flows are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing, which is recoverable from, or payable to, the taxation authority, is classified as part of operating cash flows.

(e) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both. Investment properties are initially stated at cost, including any related transaction costs. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. Initial direct costs incurred in negotiating and arranging operating leases and lease incentives granted are added to the carrying amount of the leased asset.

After initial recognition, investment properties are stated at fair value as determined every year by independent valuers, with any change therein recognised in the statement of comprehensive income. In accordance with the valuation policy of the Trust, complete property valuations are carried out by independent registered valuers having appropriately recognised professional qualifications and experience in the location and category of property being valued. The valuation policy stipulates that the same valuer may not value a property for more than two consecutive years. The fair values are based on market values being the estimated amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In the absence of current prices in an active market, the valuations are prepared using a discounted cash flow methodology based on the estimated rental cash flows expected to be received from the property adjusted by a discount rate that appropriately reflects the risks inherent in the expected cash flows.

Investment properties are derecognised when they have been disposed of and any gains or losses incurred on disposal, being the difference between the carrying amount of the investment property at the time of disposal and the proceeds on disposal, are recognised in the statement of comprehensive income in the year in which the disposal occurred.

(f) Development of investment properties

Investment property that is being redeveloped for continuing use is measured at fair value and subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Borrowing costs are capitalised if they are directly attributable to the development of a qualifying property.

Capitalisation of borrowing costs commences when the activities to prepare the property are in progress and expenditure and borrowing costs are being incurred. Capitalisation of borrowing costs may continue until the assets are substantially ready for their intended use.

(g) Financial instruments

(g.1) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings and trade and other payables.

(g.2) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and call deposits.

(g.3) Trade and other receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(g.4) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(g.5) Bank borrowings

Interest-bearing bank loans are initially measured at fair value net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Accrued interest is classified separately under trade and other payables.

(g.6.1) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and forward exchange contracts to reduce its exposure to interest rate risk and foreign exchange risk.

Derivative financial instruments are initially recognised and subsequently measured at fair value. Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the profit and loss in the statement of comprehensive income unless the derivative is a hedging instrument in a qualifying hedge relationship, in which case the gains and losses are recognised in other comprehensive income. Derivatives are recognised on the date the contract is entered into.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

(g.6.2) Hedge accounting

The Group has entered into hedge relationships for hedges of net investments in foreign operations. Hedge relationships are formally documented at the inception of the hedge and this documentation identifies the hedged item, hedging instrument, risks that are being hedged, strategies for undertaking the hedge, and the way effectiveness will be assessed.

In the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised directly in other comprehensive income. Any ineffective portion is recognised directly in the profit and loss in the statement of comprehensive income. The Group uses derivative financial instruments and non-derivative financial instruments as hedging instruments of a net investment in a foreign operation. On disposal of the foreign operation, the cumulative value of such gains or losses recognised in other comprehensive income is reclassified to the profit and loss in the statement of comprehensive income.

(h) Recognition of income

Rental income from the investment properties held by the Group is recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives provided in relation to letting the investment property are amortised on a straight line basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income. Operating expenses attributable to tenants are offset by recoveries from tenants. Operating expenses not attributable to tenants are offset by rental income.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

(i) Finance expense

Finance expense comprises interest payable on borrowings and realised gains and losses on the interest rate hedging instruments that are recognised in profit or loss. All borrowing costs (other than borrowing costs attributable to property under development) are recognised in the statement of comprehensive income using the effective interest method.

(j) Taxation

(j.1) Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax expense is recognised in profit or loss in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity.

(j.2) Current tax

The tax currently payable is based on taxable profit for the reporting period, using tax rates enacted or substantively enacted at the reporting date in the countries where the Group operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Taxable profit differs from profit reported in the statement of comprehensive income because it excludes items that are never taxable or deductible.

(j.3) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax rules) that have been enacted or substantively enacted by the end of the reporting period.

(k) Items carried at fair value

The items which are carried at fair value include investment property and derivative financial instruments. These items are classified into the following levels in the fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(l) Operating lease commitments

The Group has entered into commercial property leases on its investment properties. The Group has determined that it retains all significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

(m) Capital

(m.1) Units

Units are classified as equity. External costs, net of tax, directly attributable to the issue of new units are deducted from unitholders' funds as permitted by the Trust Deed.

(m.2) Distributions

Distributions to the Group's unitholders are recognised as a liability in the Group's financial statements in the period in which the distributions are approved.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Capital (continued)

(m.3) Share based payments

The Trust receives management services from the Manager and pays the Manager an asset management fee and an incentive fee. The management fee is recorded in the statement of comprehensive income and is settled in cash. The incentive fee, as set out in the Trust Deed, is settled in newly issued units. The incentive fee arrangements are considered a share based payment. The Trust recognises the incentive fee as the services are provided. The incentive fee not yet settled as newly issued units is reflected within the share based payment reserve until such time as it has been settled.

(n) Statement of cash flows

The statement of cash flows is prepared on a GST exclusive basis, which is consistent with the statement of comprehensive income.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(o) Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements the following relevant standards and interpretations were in issue but not yet effective and have not been applied in preparing these financial statements. These changes are not expected to have a material impact on the financial statements but may affect presentation and disclosure:

NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018) introduces a new classification and measurement regime for financial assets and liabilities. Vital is partway through the implementation project for this standard, but ultimately this will not have a material impact on the business.

NZ IFRS 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018) provides revenue recognition criteria in relation to the nature, amount and timing of revenue associated with contracts from customers. Vital has asessed the effects of applying the new standard on the consolidated financial statements and has concluded that the standard does not have a material impact on the timing of revenue recognition.

NZ IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019) eliminates the distinction between the operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets, with the exception of certain short term leases and leases of low value assets. There are minimal changes from the current NZ IAS 17 requirements for lessors. Vital is currently assessing the impact of this standard.

Other standards and interpretations in issue but not yet effective are not expected to have an impact on the financial statements of the Group in the period of initial application.

(p) Standards, interpretations and amendments adopted by Vital Healthcare Property Trust

There were no new standards, amendments or interpretations adopted in the current year that impacted the Group.

(q) Changes in accounting policy and presentation

All accounting policies have been applied on a basis consistent with the prior years' financial statements.

4 SEGMENT INFORMATION

The principal business activity of the Trust and its subsidiaries is to invest in Health Sector related properties. NZ IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The information reported to the Group's chief operating decision maker is based on primarily one industry sector, investing in Health Sector related properties. The Group operates in both Australia and New Zealand.

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Australia $000s	New Zealand $000s	Total $000s
Segment profit/(loss) for the year ended 30 June 2018:			
Net property income	**69,935**	**20,724**	**90,659**
Other (expense)	**(14,170)**	**(17,126)**	**(31,296)**
Net finance (expense)	**(13,274)**	**(9,513)**	**(22,787)**
	42,491	**(5,915)**	**36,576**
Fair value gain/(loss) on interest rate derivatives	**-**	**(2,883)**	**(2,883)**
Revaluation gains on investment properties	**75,944**	**9,517**	**85,461**
Other foreign exchange gains/(losses)	**(2)**	**(1,715)**	**(1,717)**
Total segment profit before income tax	**118,433**	**(996)**	**117,437**
Taxation (expense)			**(17,372)**
Profit for the year			**100,065**
Segment profit/(loss) for the year ended 30 June 2017:			
Net property income	73,956	15,701	89,657
Other (expense)	(7,588)	(14,482)	(22,070)
Net finance (expense)	(6,290)	(8,264)	(14,554)
	60,078	(7,045)	53,033
Fair value gain/(loss) on interest rate derivatives	-	9,023	9,023
Revaluation gains on investment properties	143,436	25,113	168,549
Other foreign exchange gains/(losses)	(3)	546	543
Total segment profit before income tax	203,511	27,637	231,148
Taxation (expense)			(13,526)
Profit for the period			217,622

Net property income consists of revenue generated from external tenants less property operating expenditure. The Group has two tenants with over 10% of gross property income from rentals totalling $52.4m, all in Australia (2017: two tenants totalling $47.4m).

There were no lease termination receipts included in net property income for the year ended 30 June 2018 (2017: $13.8m).

There were no inter-segment sales during the year (2017: nil).

Segment profit represents the profit earned by each segment including allocation of identifiable administration costs, finance costs, revaluation gains/(losses) on investment properties, and gains/(losses) on disposal of investment properties. This is the measure reported to the Board of Directors, who are the chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 SEGMENT INFORMATION (continued)

	Australia $000s	New Zealand $000s	Total $000s
Segment assets at 30 June 2018:			
Investment properties	**1,327,104**	**404,143**	**1,731,247**
Other non-current assets	**43,957**	**883**	**44,840**
Current assets	**4,968**	**5,773**	**10,741**
Consolidated assets	**1,376,029**	**410,799**	**1,786,828**
Segment assets at 30 June 2017:			
Investment properties	1,110,530	265,713	1,376,243
Other non-current assets	286	1,540	1,826
Current assets	4,813	9,346	14,159
Consolidated assets	1,115,629	276,599	1,392,228
Segment liabilities at 30 June 2018:			
Borrowings	**526,811**	**141,901**	**668,712**
Other liabilities	**98,075**	**32,065**	**130,140**
Consolidated liabilities	**624,886**	**173,966**	**798,852**
Segment liabilities at 30 June 2017:			
Borrowings	270,855	131,024	401,879
Other liabilities	77,907	32,621	110,528
Consolidated liabilities	348,762	163,645	512,407

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets are allocated to reportable segments, and

– all liabilities are allocated to reportable segments.

5 OTHER INCOME AND EXPENSES

	2018 $000s	2017 $000s
Expenses		
Auditor's remuneration:		
Audit and review of financial statements	**143**	139
Manager's fees	**11,856**	8,073
Manager's incentive fee	**13,096**	12,314
Strategic transaction costs	**3,579**	-
Other operating income/expenses	**2,622**	1,544
Total other expenses	**31,296**	22,070

6 FINANCE EXPENSES

	2018 $000s	2017 $000s
Expenses		
Interest expense	**24,124**	14,952
Borrowing costs capitalised	**(952)**	(302)
Total finance expenses	**23,172**	14,650

7 TAXATION

	2018 $000s	2017 $000s
Profit/(loss) before tax for the period	**117,437**	231,148
Taxation (charge)/credit - 28% on profit before income tax	**(32,882)**	(64,722)
Effect of different tax rates in foreign jurisdictions	**15,786**	26,475
Change in tax rate	**-**	17,201
Tax exempt income	**3,687**	6,941
Foreign tax credits	**2,351**	5,019
Tax charges on overseas investments	**(8,559)**	(5,337)
Over/(under) provided in prior periods	**1,263**	75
Other adjustments	**982**	822
Taxation (expense)/credit	**(17,372)**	(13,526)
The taxation (charge)/credit is made up as follows:		
Current taxation	**(3,537)**	(3,526)
Deferred taxation	**(13,835)**	(10,000)
Total taxation (expense)	**(17,372)**	(13,526)

Key assumptions in calculating income tax

The key assumptions used in the preparation of the Group's tax calculation are as follows:

Tax rate:

The New Zealand entities are subject to New Zealand tax on assessable income at the rate of 28%.

VHIT – This Australian Trust was established so that it qualifies as a Managed Investment Trust (MIT) for Australian tax purposes and is subject to Australian tax on assessable income at the rate of 15%.

VHAPT – This Australian Trust is subject to Australian tax on assessable income at the rate of 15% after qualifying as a MIT for Australian tax purposes in FY2017.

Imputation credits

Imputation (deficit)/credits at end of year	(702)	196

8 EARNINGS PER UNIT

Basic and diluted earnings per unit is calculated by dividing the profit attributable to unitholders of the Trust by the weighted average number of ordinary units on issue during the year.

	2018	2017
Profit attributable to unitholders of the Trust ($000s)	**100,065**	217,622
Weighted average number of units on issue (000's of units)	**434,322**	421,117
Basic and diluted earnings per unit (cents)	**23.04**	51.68

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8 EARNINGS PER UNIT (continued)

	2018 $000s	2017 $000s
Distributable income		
Profit before income tax	**117,437**	231,148
Revaluation (gains)	**(85,461)**	(168,549)
Unrealised foreign exchange (gain)/loss	**1,417**	(885)
Unrealised foreign exchange (gain)/loss derivatives	**300**	342
Unrealised interest rate (gain)/loss derivatives	**2,883**	(9,023)
Manager's incentive fee	**13,096**	12,314
Profit used in calculating gross distributable income	**49,672**	65,347
Current tax charge	**3,537**	3,526
Profit used in calculating net distributable income	**46,135**	61,821
Gross distributable income (cpu)	**11.44**	15.52
Net distributable income (cpu)	**10.62**	14.68

Distributions paid in the financial year were 8.50 cents per unit (2017: 8.50).

9 STATEMENT OF CASH FLOWS RECONCILIATION FROM OPERATING ACTIVITIES

	2018 $000s	2017 $000s
Cash and cash equivalents		
Australian financial institutions	**3,211**	2,529
New Zealand financial institutions	**2,177**	823
Cash at bank	**5,388**	3,352
Reconciliation of profit after income tax to net cash flows from operating activities		
Profit after tax for the year	**100,065**	217,622
Adjustments for non-cash items		
Change in fair value of investment properties	**(85,461)**	(168,549)
Fair value (gain)/loss on derivative financial instruments	**3,183**	(8,682)
Unrealised foreign exchange (gain)/loss	**1,417**	(885)
Deferred taxation	**13,835**	10,000
Income in advance	**(1,667)**	(2,115)
Manager's incentive fee	**13,096**	12,314
Other	**(1,140)**	348
Effect of exchange rate changes on cash balances	**-**	(3)
Operating cash flow before changes in working capital	**43,328**	60,050
Change in trade and other payables	**5,428**	1,907
Change in taxation payable	**(1,891)**	1,117
Change in trade and other receivables	**3,263**	(4,782)
Items classified as investing activities	**(4,414)**	(465)
Net cash from operating activities	**45,714**	57,827

During the 2018 year, distributions of $6,140,047 (2017: $5,927,848) have been reinvested under the Distribution Reinvestment Plan (DRP), which is excluded from investing and financing activities.

10 INVESTMENT PROPERTIES

	2018 $000s	2017 $000s
Carrying value of investment property at the beginning of the year	**1,376,243**	951,879
Acquisition of properties	**194,696**	223,562
Capitalised costs	**26,134**	31,637
Capitalised interest costs	**952**	302
Net capitalised incentives	**2,249**	2,048
Foreign exchange translation difference	**45,512**	(1,734)
Change in fair value	**85,461**	168,549
Carrying value of investment property at the end of the year	**1,731,247**	1,376,243
Carrying value of investment property includes:		
Fair value of investment properties	**1,729,705**	1,372,587
Income in advance	**1,542**	3,656
Carrying value of investment property at the end of the year	**1,731,247**	1,376,243

The capitalised costs consist of $22.1m relating to Australian investment properties and $4.0m relating to New Zealand investment properties. The foreign exchange translation difference relates to Australian investment properties.

The Group holds the freehold title to all properties except the car parks at the rear of Ascot Hospital and Ascot Central. The total value of leasehold property at 30 June 2018 was $3.2m (2017: $3.2m) representing 0.2% of the total investment properties portfolio (2017: 0.4%). The weighted average lease length of leasehold property at 30 June 2018 was 0.8 years (2017: 1.8 years). The Group has an option to extend the ground lease, with two further rights of renewal of 20 years each. This will extend the final expiry to 2059.

Income in advance relates to a termination payment received of $10.0m, and will be amortised over a five year period to March 2019.

Investment properties are classified as Level 3 under the fair value hierarchy.

Investment properties are stated at fair value by independent valuers supported by market evidence of property sale transactions and leasing activity. These valuations are reviewed by the Manager. The methods used for assessing the current market value are the Direct Comparison, Discounted Cash Flow, Capitalisation of Contract and Market Income approaches and are unchanged from the prior year. The principal assumptions in establishing the valuation include the capitalisation rate, occupancy and the weighted average lease term to expiry (WALE) with the following table identifying the respective levels adopted by the Valuers within the Group's segment. Where significant development is in progress at a property, this is carried at cost, until the development is sufficiently close to completion where fair value is estimated with reference to expected future rental streams and costs to complete the development.

Generally as occupancy and weighted average lease terms increase, yields firm, resulting in increased fair values for investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 INVESTMENT PROPERTIES (continued)

Properties	Location	30 June 2018 Valuer
Australia		
Abbotsford Private Hospital	West Leederville, Western Australia	Ernst & Young
Belmont Private Hospital	Carina Heights, Queensland	CBRE
Clover Lea Aged Care	Burwood Heights, New South Wales	Ernst & Young
Dubbo Private Hospital	Dubbo, New South Wales	CBRE
Eden Rehabilitation	Cooroy, Queensland	Ernst & Young
Ekera Medical Centre	Box Hill, Victoria	Jones Lang LaSalle Australia
Epworth Eastern Hospital	Box Hill, Victoria	Jones Lang LaSalle Australia
Epworth Eastern Medical Centre	Box Hill, Victoria	Jones Lang LaSalle Australia
Epworth Rehabilitation	Brighton, Victoria	Ernst & Young
Fairfield Aged Care	Fairfield, New South Wales	Ernst & Young
Gold Coast Surgery Centre	Southport, Queensland	CBRE
Grafton Aged Care	South Grafton, New South Wales	CBRE
Hamersley Aged Care	Subiaco, Western Australia	Ernst & Young
Hirondelle Private Hospital	Chatswood, New South Wales	Jones Lang LaSalle Australia
Hurstville Private Hospital	Sydney, New South Wales	Jones Lang LaSalle Australia
Lingard Private Hospital	Merewether, New South Wales	Jones Lang LaSalle Australia
Maitland Private Hospital	East Maitland, New South Wales	Jones Lang LaSalle Australia
Marian Centre	Perth, Western Australia	Ernst & Young
Mayo Private Hospital	Taree, New South Wales	M3
Mons Road Medical Centre	Westmead, New South Wales	M3
North West Private Hospital	Burnie, Tasmania	M3
Palm Beach Currumbin Clinic	Currumbin, Queensland	CBRE
Rockingham Aged Care	Rockingham, Western Australia	Ernst & Young
South Eastern Private Hospital	Noble Park, Victoria	Ernst & Young
Sportsmed Consulting	Adelaide, South Australia	M3
Sportsmed Hospital & Clinic	Adelaide, South Australia	M3
Sportsmed Office	Adelaide, South Australia	M3
The Hills Clinic	Kellyville, New South Wales	Jones Lang LaSalle Australia
The Southport Private Hospital *	Southport, Queensland	CBRE
Toronto Private Hospital	Toronto, New South Wales	CBRE
New Zealand		
Apollo Health and Wellness Centre	Albany, Auckland	Jones Lang LaSalle New Zealand
Ascot Central	Greenlane, Auckland	Absolute Value
Ascot Central Carpark (ground lease)	Greenlane, Auckland	Absolute Value
Ascot Hospital & Clinics	Greenlane, Auckland	Colliers International New Zealand Limited
Ascot Hospital Carpark (ground lease)	Greenlane, Auckland	Colliers International New Zealand Limited
Boulcott Private Hospital	Lower Hutt, Wellington	Ernst & Young
Bowen Hospital	Crofton Downs, Wellington	Ernst & Young
Kensington Hospital	Whangarei, Northland	Jones Lang LaSalle New Zealand
Napier Health Centre	Napier, Hawkes Bay	Colliers International New Zealand Limited
Ormiston Hospital	Flatbush, Auckland	Colliers International New Zealand Limited
Royston Hospital	Hastings, Hawkes Bay	Ernst & Young
Wakefield Hospital	Newtown, Wellington	Ernst & Young
Properties held for development		
TOTAL FAIR VALUE OF INVESTMENT PROPERTIES		
Income in advance		
TOTAL CARRYING VALUE		

* Formerly named Allamanda Private Hospital

Fair value		Market capitalisation rate		Occupancy		WALE	
$000s 2018	$000s 2017	% 2018	% 2017	% 2018	% 2017	Years 2018	Years 2017
28,387	23,517	**5.5**	6.3	**100.0**	100.0	**23.7**	24.7
79,157	67,402	**5.3**	5.8	**100.0**	100.0	**17.7**	18.7
13,866	12,073	**7.0**	7.5	**100.0**	100.0	**17.7**	18.7
17,688	15,853	**6.5**	6.8	**100.0**	100.0	**13.6**	14.6
26,051	-	**5.8**	-	**100.0**	-	**19.5**	-
31,335	29,816	**6.0**	6.5	**94.2**	92.1	**2.1**	3.6
167,250	150,129	**5.0**	5.3	**100.0**	100.0	**21.9**	22.2
38,214	31,129	**5.5**	6.3	**100.0**	100.0	**9.3**	10.1
27,143	23,412	**5.8**	6.3	**100.0**	100.0	**5.6**	1.6
18,343	16,469	**7.0**	7.5	**100.0**	100.0	**17.7**	18.7
15,286	14,961	**7.2**	7.0	**69.2**	68.2	**1.6**	1.8
11,246	9,449	**7.5**	8.0	**100.0**	100.0	**18.8**	19.8
12,774	11,864	**7.2**	7.5	**100.0**	100.0	**17.7**	18.7
27,514	24,147	**5.5**	6.0	**100.0**	100.0	**23.9**	24.9
80,467	86,089	**6.3**	6.3	**100.0**	100.0	**23.8**	24.8
136,860	107,341	**5.8**	6.3	**100.0**	100.0	**22.7**	23.7
98,067	82,910	**5.8**	6.3	**100.0**	100.0	**19.5**	20.5
49,023	41,155	**5.5**	6.3	**100.0**	100.0	**16.1**	17.1
39,087	36,955	**6.5**	6.5	**100.0**	100.0	**13.5**	14.5
35,484	33,911	**5.8**	6.0	**96.9**	100.0	**4.6**	5.4
22,655	20,549	**6.3**	6.5	**100.0**	100.0	**18.4**	14.6
55,683	46,332	**5.5**	6.0	**100.0**	100.0	**13.6**	14.6
6,682	6,068	**7.5**	7.8	**100.0**	100.0	**17.7**	18.7
60,050	53,333	**5.5**	6.0	**100.0**	100.0	**22.7**	23.7
8,025	6,850	**5.8**	6.0	**100.0**	100.0	**17.6**	18.6
58,085	52,073	**5.8**	6.0	**100.0**	100.0	**16.9**	17.9
4,258	3,843	**6.5**	6.8	**100.0**	100.0	**17.6**	18.6
34,720	-	**5.5**	-	**100.0**	-	**29.1**	-
47,603	42,625	**5.5**	5.8	**100.0**	100.0	**19.6**	20.6
38,244	30,484	**6.0**	6.3	**100.0**	100.0	**24.5**	25.5
1,289,247	1,080,739						
28,500	27,000	**6.1**	6.5	**91.5**	91.5	**7.0**	3.3
35,000	29,000	**6.1**	6.4	**100.0**	98.4	**2.6**	2.9
1,550	1,530	**9.5**	10.9	**100.0**	100.0	**2.1**	2.5
106,000	102,500	**5.4**	5.6	**100.0**	99.5	**17.6**	18.5
1,625	1,700	**9.5**	9.8	**100.0**	100.0	**25.0**	26.0
38,400	35,800	**5.8**	6.0	**100.0**	100.0	**20.0**	21.0
44,300	-	**5.5**	-	**100.0**	-	**29.5**	-
19,650	18,900	**6.0**	6.0	**100.0**	100.0	**28.0**	29.0
10,800	11,477	**9.0**	7.9	**100.0**	100.0	**1.5**	2.5
35,275	33,000	**6.1**	6.3	**100.0**	100.0	**4.2**	5.2
53,864	-	**5.8**	-	**100.0**	-	**29.5**	-
26,407	-	**5.5**	-	**100.0**	-	**29.5**	-
401,371	260,907						
39,087	30,941						
1,729,705	1,372,587	**5.8**	6.1	**99.3**	99.1	**18.2**	17.7
1,542	3,656						
1,731,247	1,376,243						

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11 DERIVATIVE FINANCIAL INSTRUMENTS

	2018 $000s	2017 $000s
Current assets		
Foreign exchange derivative assets	**363**	2,554
Non-current assets		
Interest rate derivative assets	**856**	1,499
Current liabilities		
Interest rate derivative liabilities	**(35)**	(97)
Foreign exchange derivative liabilities	**(425)**	-
Non-current liabilities		
Interest rate derivative liabilities	**(14,444)**	(12,142)
Total	**(13,685)**	(8,186)

Interest rate swaps

Interest rate swaps are measured using a valuation model based on the present value of estimated future cash flows and discounted based on the applicable yield curves derived from observable market interest rates. The Group has determined the interest rate swaps are Level 2 fair value measurements (refer to Note 3.(k)). There have been no reclassifications between levels in the year ended 30 June 2018 (2017: nil).

Interest rate derivatives mature over the next ten years and have fixed interest rates ranging from 2.41% to 4.99% (2017: from 2.41% to 4.99%).

	2018 $000s	2017 $000s
Nominal value of interest rate swaps - AUD	**490,000**	305,000
Average fixed interest rate	**3.21%**	3.37%
Floating rates based on AUD BBSW	**2.07%**	1.78%

Foreign exchange derivatives

Foreign exchange derivatives are measured using a valuation model based on the applicable forward price curves derived from observable forward prices. The Group has determined the foreign exchange derivatives are Level 2 fair value measurements (refer to Note 3.(k)). There have been no reclassifications between levels in the year ended 30 June 2018 (2017: nil).

	2018 $000s	2017 $000s
Nominal value of foreign exchange contracts - AUD	**-**	50,000
Nominal value of foreign exchange options - AUD	**150,000**	50,000
Average foreign exchange rate	**0.9095**	0.9252

12 DEFERRED TAX

The following are the major deferred tax liabilities and (assets) recognised by the Group, and the movements thereon during the current and prior reporting years:

	Interest rate swaps $000s	Revaluation of investment properties $000s	Borrowings $000s	Other $000s	Total $000s
At 1 July 2017	**(3,007)**	**67,614**	**7,136**	**(24)**	**71,719**
Charge to profit and loss for the year	**(807)**	**14,705**	**-**	**(63)**	**13,835**
Change in exchange rate	**-**	**2,621**	**2**	**62**	**2,685**
Charge to other comprehensive income	**-**	**-**	**(794)**	**(649)**	**(1,443)**
At 30 June 2018	**(3,814)**	**84,940**	**6,344**	**(674)**	**86,796**
At 1 July 2016	(5,534)	60,618	7,211	1,374	63,669
Charge to profit and loss for the year	2,527	7,036	-	437	10,000
Change in exchange rate	-	(40)	-	(1)	(41)
Charge to other comprehensive income	-	-	(75)	(1,834)	(1,909)
At 30 June 2017	(3,007)	67,614	7,136	(24)	71,719

Significant estimates and judgements made in the determination of deferred tax (with an impact on current tax) include:

Deferred tax on depreciation – deferred tax is provided in respect of depreciation expected to be recovered on the sale of investment property at fair value.

Deferred tax on changes in fair value of investment properties – deferred tax is provided on New Zealand-based properties for depreciation recovery on the building components, being the taxable temporary difference. Deferred tax for Australian-based properties is provided on the capital gains tax expected to be assessable on the land and building component from the sale of investment properties at fair value. Investment properties are valued each year by independent valuers (as outlined in Note 10).

Deferred tax on fixtures and fittings – it is assumed that all fixtures and fittings will be sold at their tax book value.

13 OTHER NON-CURRENT ASSETS

	2018 $000s	2017 $000s
Related party advance (refer to note 22)	**43,673**	-
Other	**311**	327
Total	**43,984**	327

14 UNITS ON ISSUE

	2018 $000s	2017 $000s
Balance at the beginning of the year	**538,469**	369,220
Issue of units under Distribution Reinvestment Plan	**6,140**	5,928
Issue of units under Rights Issue	**-**	159,932
Issue of units to satisfy Manager's incentive fee	**12,314**	6,317
Issue costs of units	**(45)**	(2,928)
	18,409	169,249
Balance at the end of the year	**556,878**	538,469

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14 UNITS ON ISSUE (continued)

	2018 000s	2017 000s
Reconciliation of number of units		
Balance at the beginning of the year	**428,562**	345,998
Issue of units under the Distribution Reinvestment Plan	**2,891**	2,795
Units issued under Rights Issue	**-**	76,891
Units issued to satisfy Manager's incentive fee	**5,440**	2,878
Balance at the end of the year	**436,893**	428,562

The number of units on issue at 30 June 2018 was 436,893,108 (2017: 428,562,486). The units have no par value and are fully paid. Fully paid ordinary units carry one vote per unit and carry the right to distributions.

On 23 August 2017, 5,440,157 units were issued against the 2017 Manager's incentive fee of $12,314,339 (2017: 2,877,727 were issued against the 2016 Manager's incentive fee).

Capital risk management

The Group is subject to imposed capital requirements arising from the Trust Deed, which requires that the total borrowings do not exceed 50% of the gross value of the Trust Fund.

The Group's banking covenants require that the aggregate principal amount of the loan outstanding does not exceed 50% (2017: 50%) of the fair market value of property at all times calculated to the New Zealand dollar equivalent. All banking covenants have been met during the year.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes in the Group's overall capital risk management strategy during the year.

15 BORROWINGS

	2018 $000s	2017 $000s
AUD denominated loans	**664,374**	402,649
NZD denominated loans	**5,750**	-
Borrowing costs	**(1,412)**	(770)
Total borrowings	**668,712**	401,879
Shown as:		
Current	**-**	-
Term	**668,712**	401,879

	2018 $000s	2017 $000s
Total borrowing at the beginning of the year	**401,879**	344,159
Drawdowns during the year	**249,909**	219,989
Repayments during the year	**-**	(163,843)
Additional facility refinancing fee	**(1,029)**	-
Facility refinancing fee amortised during the year	**468**	386
Foreign exchange movement	**17,485**	1,188
Total borrowings at the end of the year	**668,712**	401,879

The Group has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand.

15 BORROWINGS (continued)

	2018		2017	
Tranche	**A$m**	**Expiry**	**A$m**	**Expiry**
A	125.0	31 Mar-21	125.0	31 Mar-19
B	200.0	31 Jul-22	100.0	31 Mar-19
C	100.0	30 Oct-20	100.0	30 Oct-20
D	100.0	30 Oct-20	100.0	30 Oct-20
E	175.0	20 Nov-21	-	
A$ Facility	**700.0**		**425.0**	
NZ$ Facility	**20.0**	30 Oct-20	**20.0**	30 Oct-20

On 5 June 2018 the Group extended and expanded existing tranches with ANZ and BNZ that were due to expire on 31 March 2019. Tranche A, representing A$125m, was extended to 31 March 2021. Tranche B was expanded to A$200m (from A$100m previously) and extended to 31 July 2022.

The effective interest rate on the borrowings as at 30 June 2018 was 4.60% per annum (2017: 4.34%).

Borrowings are secured by a Security Trust Deed dated 1 April 2003 and as amended and restated on 26 June 2014. The Security Provider comprises T.E.A. Custodians Limited in its capacity as nominee of the VHP Trustee as trustee of the Trust and the Trust's subsidiaries. Pursuant to the Deed, a security interest has been granted of first ranking mortgages over the respective investment properties by a General Security Deed over the assets and undertakings of Vital Healthcare Property Limited and fixed and floating charges over the assets and undertakings of NorthWest Healthcare Australian Property Pty Limited in its capacity as trustee for Vital Healthcare Australian Property Trust and Vital Healthcare Investment Trust.

The carrying values of these balances are approximately equivalent to their fair values because the loans have floating rates of interest that reset every 90 days.

16 TRADE AND OTHER PAYABLES

	2018 $000s	2017 $000s
Interest accrued on borrowings	**2,860**	1,884
Other creditors and accruals	**14,105**	9,653
Total trade and other payables	**16,965**	11,537

17 FINANCIAL RISK MANAGEMENT

Financial risk management

The Group's activities expose it primarily to credit risk, market risk (interest rate risk and foreign exchange risk) and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses financial derivatives to manage market risks. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles that are consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Credit risk

In the normal course of business the Group incurs credit risk from trade receivables and transactions with financial institutions. The risk associated with trade receivables is managed with a credit policy which includes performing credit evaluations on customers requiring credit. Generally collateral is not required. The risk from financial institutions is managed by only entering into derivative transactions and placing cash and deposits with high credit quality financial institutions. The Group places its cash deposits with ANZ Bank New Zealand Limited and Australia and New Zealand Banking Group Limited. The risk associated with related party advances is managed through a diligence process where the recoverability of the advance is assessed before the advance is made.

The carrying amount of financial assets best represents the maximum exposure to credit risk at year end.

Interest rate risk

Interest rate risk arises from the variability in cash flows arising from floating rate bank loans. The Group's policy is to convert a portion of its floating rate debt to fixed rates using interest rate swaps to maintain 70% to 100% of its borrowings in fixed rate instruments. At 30 June 2018, 79.8% of borrowings were at fixed rates as approved by the Board of Directors (2017: 79.5%). The Group does not apply hedge accounting to interest rate swaps. Any gains or losses arising on revaluation are recognised immediately in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 FINANCIAL RISK MANAGEMENT (continued)

Interest rate repricing analysis

The following table indicates the effective interest rates and the earliest period in which financial instruments reprice. Fixed rate balances are presented with the effect of hedging derivatives:

	Weighted effective interest rate %	Less than 1 year $000s	1-2 years $000s	2-3 years $000s	3+ years $000s	Total $000s
30 June 2018						
Cash and cash equivalents (floating rates)	2.07%	**5,388**	-	-	-	**5,388**
Borrowings (floating rates)	2.72%	**(135,131)**	-	-	-	**(135,131)**
Borrowings (fixed rates)	3.86%	**(10,918)**	**(54,591)**	**(21,836)**	**(447,648)**	**(534,993)**
		(140,661)	**(54,591)**	**(21,836)**	**(447,648)**	**(664,736)**
30 June 2017						
Cash and cash equivalents (floating rates)	1.78%	3,352	-	-	-	3,352
Borrowings (floating rates)	2.29%	(82,438)	-	-	-	(82,438)
Borrowings (fixed rates)	3.89%	(15,748)	(10,499)	(52,493)	(241,470)	(320,210)
		(94,834)	(10,499)	(52,493)	(241,470)	(399,296)

Interest rate sensitivity

The Group's sensitivity to interest rate risk can be expressed in two ways:

Fair value sensitivity

A change in interest rates impacts the fair value of the Group's fixed rate assets and liabilities, and its interest rate swaps. Fair value changes impact profit or loss or equity only where the instruments are carried at fair value. Accordingly, the fair value sensitivity to a 100 bps movement in interest rates (based on the assets and liabilities held at year end) is:

	Impact on profit/(loss) 2018 $000s	Impact on unitholders' funds 2018 $000s	Impact on profit/(loss) 2017 $000s	Impact on unitholders' funds 2017 $000s
If interest rates had been 100 bps higher:	**29,683**	**29,683**	15,148	15,148
If interest rates had been 100 bps lower:	**(32,582)**	**(32,582)**	(16,533)	(16,533)

Cash flow sensitivity analysis

A change in interest rates would also impact on interest payments and receipts on the Group's floating rate assets and liabilities. Accordingly, the one-year cash flow sensitivity to a 100 bps movement in interest rates (based on assets and liabilities held at year end) is:

	Impact on profit/(loss) 2018 $000s	Impact on unitholders' funds 2018 $000s	Impact on profit/(loss) 2017 $000s	Impact on unitholders' funds 2017 $000s
If interest rates had been 100 bps higher:	**(1,294)**	**(1,294)**	(824)	(824)
If interest rates had been 100 bps lower:	**1,294**	**1,294**	824	824

17 FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange risk

Foreign exchange risk arises due to the exposure of Australian denominated assets and liabilities to movements in foreign exchange rates. The Group minimises foreign exchange risk by matching as far as possible, its foreign denominated assets and associated borrowings in the same currency and entering into foreign exchange derivatives where necessary.

Foreign exchange exposure

The exposure to Australian dollars arising from foreign currency denominated assets and liabilities is:

	2018 $000s	2017 $000s
Non-financial instrument assets and liabilities denominated in Australian dollars		
Investment properties	**1,327,104**	1,110,530
Other assets	**175,701**	12,170
Deferred tax	**(80,673)**	(63,723)
Total non-financial instrument assets and liabilities	**1,422,132**	1,058,977
Non-derivative financial instruments		
Cash and cash equivalents	**3,211**	2,529
Trade and other receivables	**842**	152
Trade and other payables	**(17,401)**	(14,184)
Borrowings	**(664,374)**	(402,649)
Total exposure from non-derivative financial instruments	**(677,722)**	(414,152)
Derivative financial instruments		
Foreign exchange derivatives	**(62)**	2,554
Interest rate swaps	**(13,624)**	(10,741)
Total exposure from derivative instruments	**(13,686)**	(8,187)
Net exposure to currency risk	**730,724**	636,638

Foreign currency sensitivity

The following table illustrates the sensitivity of the profit after tax for the year and equity in regard to the exchange rates for the Australian Dollar. It assumes a 10% change in exchange rate (2017: 10%) based on year end exposures:

	2018 $000s	2017 $000s
If the New Zealand Dollar versus the Australian Dollar was 10% higher for the year:		
Profit and loss	**1,978**	4,621
Other comprehensive income	**(60,884)**	(57,519)
Unitholders' funds	**(58,906)**	(52,898)
If the New Zealand Dollar versus the Australian Dollar was 10% lower for the year:		
Profit and loss	**(2,417)**	(5,648)
Other comprehensive income	**74,414**	70,301
Unitholders' funds	**71,997**	64,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group's policy is to maintain unutilised credit facilities to meet contractual obligations when they fall due. The Group monitors its liquidity requirements on an ongoing basis.

The Group has a multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand of A$700.0m and NZ$20.0m (2017: A$425.0m and NZ$20.0m). As at 30 June 2018, after translation to NZ $670.1m (2017: NZ$402.6m) had been drawn-down. The effective interest rate was 4.60% (2017: 4.34%).

Liquidity risk exposure

The following table details the Group's exposure to liquidity risk based on the contractual undiscounted cash flows relating to financial liabilities, foreign exchange contracts and interest rate derivatives:

	Carrying value $000s	Contractual cash flows $000s	Less than 1 year $000s	1-2 years $000s	2-3 years $000s	3+ years $000s
30 June 2018						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	**(670,124)**	**(711,895)**	**(13,384)**	**(14,298)**	**(366,960)**	**(317,253)**
Trade and other payables	**(16,965)**	**(16,965)**	**(16,965)**	**-**	**-**	**-**
	(687,089)	**(728,860)**	**(30,349)**	**(14,298)**	**(366,960)**	**(317,253)**
Derivative financial instruments						
Interest rate swaps	**(13,623)**	**(14,760)**	**(6,004)**	**(4,934)**	**(3,550)**	**(272)**
Foreign exchange derivatives	**(62)**	**(62)**	**(62)**	**-**	**-**	**-**
	(13,685)	**(14,822)**	**(6,066)**	**(4,934)**	**(3,550)**	**(272)**
30 June 2017						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(402,649)	(422,299)	(7,112)	(243,244)	(3,886)	(168,057)
Trade and other payables	(11,537)	(11,537)	(11,537)	-	-	-
	(414,186)	(433,836)	(18,649)	(243,244)	(3,886)	(168,057)
Derivative financial instruments						
Interest rate swaps	(10,741)	(11,114)	(4,987)	(4,039)	(2,547)	459
Foreign exchange derivatives		-	-	-	-	-
	(10,741)	(11,114)	(4,987)	(4,039)	(2,547)	459

Hedge accounting

The Group is exposed to foreign exchange risk on its net investment in its Australian functional currency subsidiaries and hedges this risk using Australian-denominated borrowings and foreign exchange derivatives.

The Group has designated Australian denominated borrowings and foreign exchange derivatives as hedges of a net investment in a foreign operation (net investment hedge). The Group prospectively and retrospectively tests the hedges for effectiveness on a semi-annual basis. The portion of the foreign exchange differences arising on the hedging instruments determined to be an effective hedge is recognised directly in other comprehensive income. Any ineffective portion is recognised in profit or loss.

There has been an ineffectiveness loss of NZ$145,455 on the net investment hedges during the year ended 30 June 2018 (2017: nil). The face value of hedging instruments designated in net investment hedges is:

	2018 $000s	2017 $000s
Borrowings	**131,019**	94,488
Foreign exchange derivatives (nominal amount)	**163,773**	104,987

17 FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

The Group's financial instruments are classified as:

	Cash, loans and receivables $000s	Financial liabilities at amortised cost $000s	Financial assets at fair value through profit or loss $000s	Financial liabilities at fair value through profit or loss $000s
30 June 2018	**6,577**	**(685,677)**	**1,219**	**(14,904)**
30 June 2017	3,719	(413,415)	4,054	(12,240)

Cash, cash equivalents, trade and other receivables, trade and other payables

The carrying values of these balances are approximately equivalent to their fair values because of their short terms to maturity.

18 INVESTMENT IN SUBSIDIARIES

The Trust has control over the following subsidiaries:

			Holding	
Name of subsidiary	Principal activity	Place of incorporation and operation	2018	2017
Vital Healthcare Australian Property Trust *	Property investment	Australia	**100%**	100%
Vital Healthcare Investment Trust **	Property investment	Australia	**100%**	100%
Vital Healthcare Property Limited	Property investment	New Zealand	**100%**	100%
Colma Services Limited	Holding company	New Zealand	**100%**	100%

** Vital Healthcare Australian Property Trust is a 100% owned subsidiary of Vital Healthcare Property Limited and Colma Services Limited owns 0.0%.*

*** Vital Healthcare Investment Trust is a 99.9% owned subsidiary of Vital Healthcare Property Limited and is 0.1% owned by Colma Services Limited.*

The subsidiaries have the same reporting date as the Trust.

19 COMMITMENTS

	2018 $000s	2017 $000s
Capital commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	**9,183**	78,234

The property rental income to be earned by the Group from its investment property, all of which is leased out under operating leases, is set out in the table below:

	2018 $000s	2017 $000s
Not later than one year	**98,157**	80,901
Later than one year and not later than five years	**433,381**	293,850
Later than five years	**899,911**	1,059,951
	1,431,449	1,434,702

As a condition of listing on the New Zealand Stock Exchange (NZSX), NZSX requires all issuers to provide a bank bond to NZSX under NZSX/DX Listing Rule 2.6.2. The bank bond required by the Trust for listing on the NZSX is $50,000.

20 CONTINGENCIES

There were no contingencies as at 30 June 2018 (2017: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 SUBSEQUENT EVENTS

On 9 August 2018 a final cash distribution of 2.1875 cents per unit was announced by the Trust. The Record Date for the final distribution is 6 September 2018 and a payment is scheduled to unitholders on 20 September 2018. There will be no imputation credits attached to the distribution.

22 RELATED PARTY TRANSACTIONS

The Manager

The Trust is managed by NorthWest Healthcare Properties Management Limited (formerly Vital Healthcare Management Limited).

NorthWest Healthcare Properties Management Limited (the "Manager") is a wholly owned subsidiary of NWI Healthcare Properties LP (NWIHLP). The ultimate parent of NWIHLP is NorthWest Healthcare Properties Real Estate Investment Trust ('NW REIT'). NW REIT holds an interest in the Trust through its holding of approximately 24% of the units. The Manager is related to the Trust and its subsidiaries as the Manager of the Trust.

Other related parties by virtue of common ownership and/or ownership and/or directorship to the Manager of the Trust include Australian Properties Limited and NorthWest Healthcare Australian Property Proprietary Limited (formerly Vital Healthcare Australian Property Pty Limited).

Remuneration of the Manager

The Trust paid management fees to the Manager. The calculation of management fees and incentive fees is stipulated in the Trust Deed. Management fees have been charged at 0.75% per annum of the monthly average of the gross value of the assets of the Trust for the quarter ended on the last day of that month. Incentive fees are payable when there is an average annual increase in the Gross Value of the assets of the Trust Fund over the relevant financial year and the two preceding financial years. The incentive fee calculation may give rise to an excess or deficit to be applied in the calculation of future incentive fees.

The incentive fee is 10% of the amount of the increase with payment being made by way of subscribing for new units. The management and incentive fees shall not exceed an amount equal to 1.75% per annum of the gross value of the Trust.

Transactions with related parties include:

	2018 $000s	2017 $000s
Total fees incurred		
Management fees	**11,856**	8,073
Manager's incentive fees	**13,096**	12,314
Expenses charged by NorthWest Healthcare Properties Management Limited	**1,442**	2,088
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	**1,733**	2,949
	28,127	25,424
Amounts outstanding		
Manager's incentive fees	**13,096**	12,314
Expenses charged by NorthWest Healthcare Properties Management Limited	**-**	1,212
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	**17**	318
	13,113	13,844

Expenses charged by related parties includes property related costs, acquisitions and development fees and other operating expenses.

	2018 $000s	2017 $000s
Expenses capitalised to projects		
Expenses charged by NorthWest Healthcare Properties Management Limited	**1,302**	1,563
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	**847**	2,395
	2,149	3,958

Properties owned by the Trust have been managed on normal commercial terms by NorthWest Healthcare Properties Management Limited, a subsidiary of NWI Healthcare Properties LP. Property management fees charged are included in property expenses. The amount not recovered from tenants was nil (2017: nil).

22 RELATED PARTY TRANSACTIONS (continued)

Included in the expenses charged by NorthWest Healthcare Properties Management Limited were amounts paid to the following:

	Expenses		Amounts Outstanding	
	2018 $000s	2017 $000s	2018 $000s	2017 $000s
Graeme Horsley	40	-	-	-
Andrew Evans	50	-	-	-
Claire Higgins	40	-	-	-

Other Related Parties

NWH Australia AssetCo Pty Limited as trustee of NWH Australia Asset Trust (NWHAAT) is a wholly owned subsidiary of NWI Healthcare Properties LP.

Acquisition of an Interest in Healthscope Ltd ("HSO") by NWHAAT.

During the year the NWHAAT entered into derivative contracts with Deutsche Bank AG ("DB") giving NWHAAT an economic interest equivalent to 10% of the outstanding shares of HSO. The derivative contracts include a forward contract to acquire HSO shares and an option contract that limits downside risk and upside potential and reduces the initial margin requirements of the transaction.

The forward contract gives NWHAAT the ability to acquire, and DB the obligation to deliver, 173,970,330 to 176,111,600 HSO shares at a price of A$2.3863 per share on May 8, 2020, or earlier, at the NWHAAT's option, if a voting meeting is scheduled for HSO or HSO receives a formal takeover bid. The NWHAAT prepaid A$85,254,703 of the A$415,148,293 notional amount of the forward contract. The forward contract contemplates physical settlement, but may be net settled in certain circumstances. Under the forward contract NWHAAT is entitled to receive payments from DB equivalent to dividends declared by HSO and NWHAAT pays variable interest to DB on the underlying embedded funding contained in the forward contract at the Bank Bill Swap Rate plus 3%.

The option contract is a zero cost collar for 173,970,330 options that limits the benefits to the NWHAAT of HSO share price appreciation above A$2.60 and limits the NWHAAT's exposure to HSO share price depreciation below A$2.00 down to A$1.25 per share.

An acquisition of HSO's underlying hospital related real estate is of interest to NWHAAT and the Trust in line with their long term strategy to invest in healthcare real estate assets in the Australasian market. NWHAAT and the Trust currently intend to pursue any potential HSO real estate acquisition jointly, in accordance with the Conflicts Policy, with scope to introduce other capital partners as appropriate.

On 6th of May 2018, the Trust entered into an agreement with NWHAAT to advance A$41m to NWHAAT, of which A$40m has been advanced as at 30 June 2018. NWHAAT has used the proceeds of the advance to prepay a portion (A$85,254,703) of a forward contract to acquire 173,970,330 shares of HSO.

In accordance with the intention of the Conflict Policy, Vital has the benefit of participating in the opportunity and have agreed to jointly pay the costs and jointly share the benefits and risks of the mark to market risk of the arrangement with DB.

	2018 $000s	2017 $000s
During the year there have been transactions between the Trust and NWHAAT		
Related party advance	43,673	-
Interest income	283	
Strategic transaction costs	(3,517)	-
Balances outstanding at the end of the year are unsecured and on normal trading terms		
Amounts owing from related party	43,956	-
Amounts owing to related party	(3,517)	-

Deloitte.

Independent Auditor's Report

To the Unitholders of Vital Healthcare Property Trust

Opinion

We have audited the consolidated financial statements of Vital Healthcare Property Trust and its controlled entities (the 'Group' or 'Trust'), which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 29 to 53, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2018, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Group.

Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group financial statements as a whole to be $2.4 million.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter and results
Valuation of Investment Properties The Group's investment properties consist of health sector properties totalling $1,731.2 million as at 30 June 2018. Revaluation gains on the Group's investment properties for the year ended 30 June 2018 of $85.4 million were recognised in profit or loss. Information about the Group's property portfolio and valuation are set out in Note 10. The valuation of investment properties is important to our audit as determining the fair value requires significant judgement and the balance represents the majority of the total assets of the Group. Investment properties are carried at fair value. Where significant development is in progress at a property, this is carried at cost, until the development is sufficiently close to completion where fair value is	We have evaluated the appropriateness of the valuation of investment property by performing the following: • Obtaining metrics for each property, including capitalisation rate, market rent and contract rent. We considered these metrics on a property and portfolio basis for year on year movements to identify possible outliers. • Agreeing property specific information supplied to the external valuer, including occupancy data, current rentals, and lease terms, to the underlying records held by the Group on a sample basis; • Reviewing the external valuers' valuation reports, holding discussions with the valuers on a sample basis and challenging assumptions where, on a year on year basis, the movements represented a possible outlier compared with the rest of the portfolio; • Evaluating the objectivity, independence and expertise of the

estimated with reference to expected future rental streams and costs to complete the development.

The valuation of investment property is highly dependent on forecasts and estimates including a number of unobservable inputs to take into account property-specific attributes.

The Group's policy is to engage external valuers to perform valuations for each of the properties on an annual basis. The valuation methods used for assessing the fair value include a combination of direct comparison, discounted cash flow, capitialisation of contract and market capitalisation approaches.

The external valuers, amongst other matters, take into consideration occupancy rates, weighted average lease term to expiry ('WALE') and capitalisation rates.

external valuers;

- With respect to significant property developments,
  - where management has determined the development is sufficiently close to completion, obtaining evidence supporting management's estimates of the expected future rental cash flows that will apply upon completion and the costs to complete the development;
  - where property developments are carried at cost, testing the cost incurred to date on a sample basis;
- Involving our valuation specialists to consider and challenge, on a sample basis, the reasonableness of the assumptions and valuation methodology applied, including comparing assumptions to market-available data where available.

Other information

The Board of Directors of Northwest Healthcare Management Limited (the 'Manager') is responsible on behalf of the Trust for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' responsibilities for the consolidated financial statements

The Board of Directors of the Manager is responsible on behalf of the Trust for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Board of Directors of the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Manager is responsible on behalf of the Trust for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Manager either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1

This description forms part of our auditor's report.

Restriction on use

This report is made solely to the Trust's unitholders, as a body. Our audit has been undertaken so that we might state to the Trust's unitholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust's unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Silvio Bruinsma, Partner
for Deloitte Limited
Auckland, New Zealand
9 August 2018

UNITHOLDER STATISTICS

Analysis of shareholding as at 30 June 2018

Holding range	Number of unitholders	Total units	% of total units issued
1 to 1,999	431	356,442	0.08
2,000 to 4,999	730	2,526,998	0.58
5,000 to 9,999	1098	7,933,576	1.82
10,000 to 49,999	2318	50,276,969	11.51
50,000 to 99,999	313	20,823,229	4.77
100,000 to 499,999	132	24,101,048	5.52
500,000 to 999,999	8	5,102,323	1.17
1,000,000 and above	17	325,772,523	74.58
Total	**5,047**	**436,893,108**	**100.0**

Substantial security holders as at 30 June 2018

Unitholder	Date notice files	Number of units	% of total units issued
Northwest Healthcare Properties Real Estate Investment Trust	6 July 2015	82,064,900	24.02%

Twenty largest security holders as at 30 June 2018

Unitholder	Total	% of total units issued
BAINCOR NOMINEES PTY LTD	105,977,178	24.26
FORSYTH BARR CUSTODIANS LIMITED	36,426,938	8.34
ACCIDENT COMPENSATION CORPORATION	20,428,080	4.68
HSBC NOMINEES (NEW ZEALAND) LIMITED	18,860,713	4.32
CUSTODIAL SERVICES LIMITED	17,560,308	4.02
CITIBANK NOMINEES (NEW ZEALAND) LIMITED	14,357,182	3.29
BNP PARIBAS NOMINEES (NZ) LIMITED	11,985,490	2.74
INVESTMENT CUSTODIAL SERVICES LIMITED	10,767,343	2.46
CUSTODIAL SERVICES LIMITED	9,614,579	2.20
ANZ WHOLESALE TRANS-TASMAN PROPERTY SECURITIES FUND	9,237,722	2.11
CUSTODIAL SERVICES LIMITED	9,119,546	2.09
FNZ CUSTODIANS LIMITED	7,683,540	1.76
HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET	6,180,748	1.41
JPMORGAN CHASE BANK NA NZ BRANCH	5,989,913	1.37
CUSTODIAL SERVICES LIMITED	4,973,981	1.14
ANZ WHOLESALE PROPERTY SECURITIES	3,924,168	0.90
CUSTODIAL SERVICES LIMITED	3,846,329	0.88
TEA CUSTODIANS LIMITED CLIENT PROPERTY TRUST ACCOUNT	3,777,687	0.86
BNP PARIBAS NOMINEES (NZ) LIMITED	3,133,207	0.72
NEW ZEALAND DEPOSITORY NOMINEE LIMITED	2,824,183	0.65
Totals	**306,668,835**	**70.19**
Total units on issue	**436,893,108**	

DIRECTORY

MANAGER

NorthWest Healthcare Properties Management Limited

Level 16, AIG Building 41 Shortland Street
Auckland 1010
PO Box 6945, Wellesley Street
Auckland 1141
Telephone: 0800 225 264
Facsimile: +64 9 377 2776

NorthWest Healthcare Properties Management - Australia

Level 45, Rialto South Tower, 525 Collins Street
Melbourne 3000

DIRECTORS OF THE MANAGER

Claire Higgins - Independent Chair
Andrew Evans
David Carr
Paul Dalla Lana
Bernard Crotty

AUDITOR

Deloitte Limited

Deloitte Centre
80 Queen Street
Auckland 1010
Private Bag 115-033
Auckland 1140
Telephone: +64 9 303 0700
Facsimile: +64 9 303 0701

LEGAL ADVISERS TO THE TRUST AND THE MANAGER

Harmos Horton Lusk

Vero Centre
48 Shortland Street
PO Box 28
Auckland 1140
Telephone: +64 9 921 4300
Facsimile: +64 9 921 4319

Bell Gully

Vero Centre
48 Shortland Street
PO Box 4199
Auckland 1140
Telephone: +64 9 916 8800
Facsimile: +64 9 916 8801

Ashurst Australia

Level 26
181 William Street
GPO Box 4958
Melbourne, Victoria 3001
Australia
Telephone: +61 3 9679 3000
Facsimile: +61 3 9679 3111

TRUSTEE

Trustees Executors Limited

Level 7, 51 Shortland Street
Auckland 1010
PO Box 4197
Auckland 1140
Telephone: +64 9 308 7100
Facsimile: +64 9 308 7101

BANKERS TO THE TRUST

ANZ Bank New Zealand Limited

ANZ Centre
23-29 Albert Street
Auckland 1010

Australia and New Zealand Banking Group Limited

2/100 Queen Street
Melbourne, Victoria 3000
Australia

Bank of New Zealand

Deloitte Centre
80 Queen Street
Auckland 1010

UNIT REGISTRAR

Computershare Investor Services Limited

159 Hustmere Road
Takapuna, Auckland 0622
Private Bag 92119
Auckland 1142
New Zealand

vital@computershare.co.nz
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787