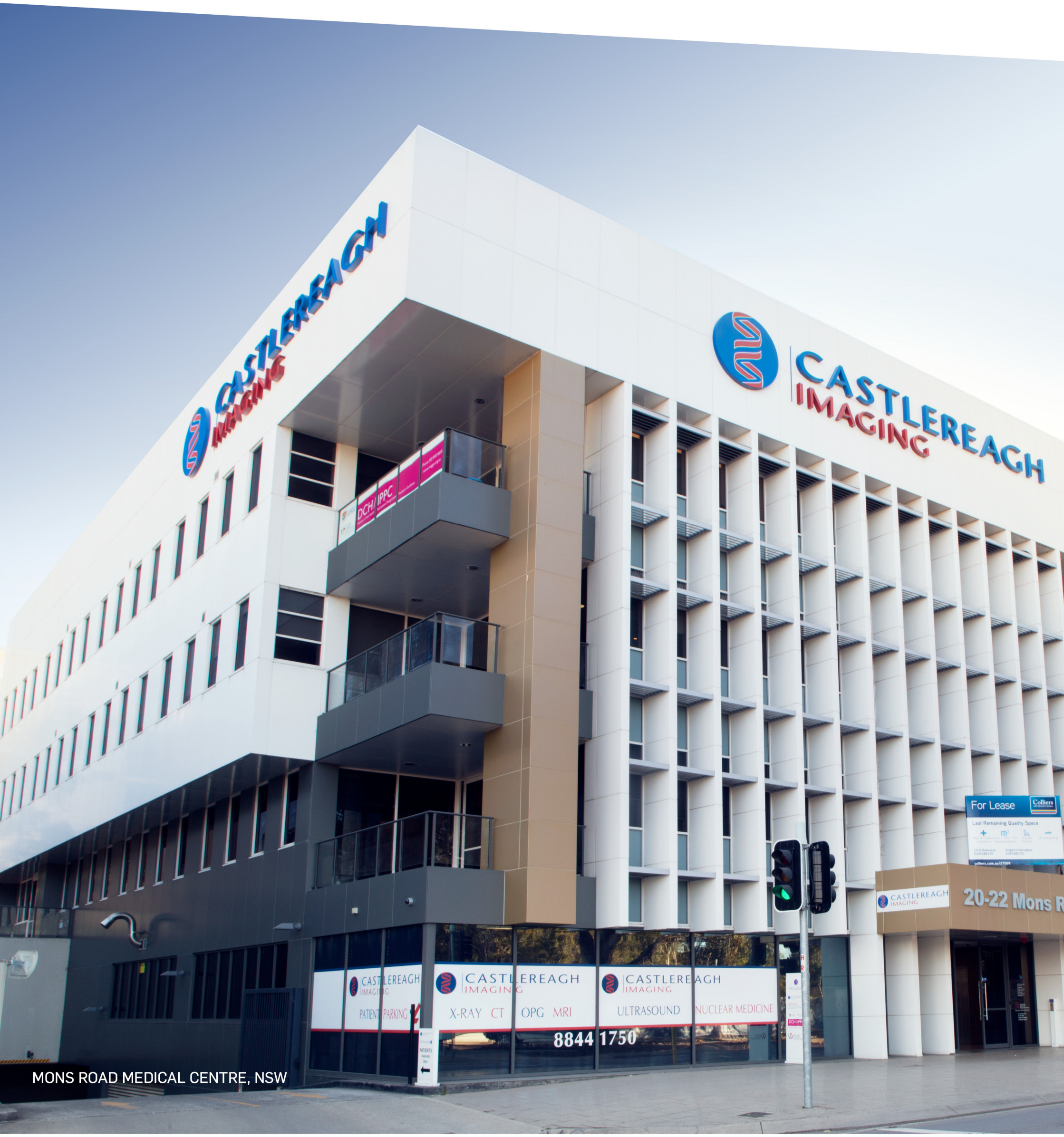
Vital
Healthcare Property Trust

INTERIM REPORT
AS AT 31 DECEMBER 2018



MONS ROAD MEDICAL CENTRE, NSW

Vital continues to evolve as Australasia's leading publicly listed healthcare property investor

CONTENTS

VALUE OF PORTFOLIO

$1.77BN

FY2019 DIVIDEND GUIDANCE UP

2.2%

NET TANGIBLE ASSETS (NTA) OF

$2.24

GROSS RENTAL INCOME GROWTH OF 12.9% TO

$50.5M

PORTFOLIO OCCUPANCY OF

99.4%

NET DISTRIBUTABLE INCOME OF

$18.5M

PORTFOLIO WEIGHTED AVERAGE CAP RATE FIRMED 3 BASIS POINTS TO

5.73%

STRONG INTERIM RESULT

Vital confirmed a second quarter cash distribution of 2.1875 cents per unit.

Highlights

- Gross rental income of $50.5m, up 12.9%, driven by investment activity and organic growth;
- Net distributable income of 4.19 cpu;
- Cash earnings (or AFFO[1]) of $19.7m, representing a 98% payout ratio;
- LVR at 39.5%[2], post balance date completed bank facility expansion of A$150m;
- Portfolio independently assessed at $1.77bn, WACR[3] firmed 3bps to 5.73%;
- NTA of $2.24, down $0.02/unit from 30 June 2018 due to the impact of foreign exchange;
- 99.4% occupancy, now maintained at over 99% for 9 years;
- Market leading WALE of 18.0 years;
- Invested $17.8m in brownfield projects, $223m to be completed over next 3 years;
- Agreement for A$126.2m brownfield development at Epworth Eastern Hospital, completion late-2021;
- Forecast weighted average brownfield development yields of ~6.70%, a spread of approximately 100bps to Vital's WACR[3];
- Board reconfirmed FY19 cash distribution guidance of 8.75 cpu, up 2.2% from FY18.

Strategic Update

On 1 February 2019, NorthWest Healthcare Properties Management Limited, as manager of Vital Healthcare Property Trust (Vital), announced that its related company, NorthWest Healthcare Properties Real Estate Investment Trust (NorthWest) had entered into a conditional contract to acquire 11 freehold hospital property assets for A$1,258 million from ASX listed Healthscope Limited (Healthscope) (the Portfolio) as part of a sale and lease back transaction. This transaction is conditional on Brookfield's acquisition of Healthscope.

Claire Higgins, Independent Chair of Vital's Manager said "Vital is not currently a party to the potential transaction, however views it as potentially an attractive opportunity and the Independent Directors are optimistic they will be able to agree terms with NorthWest that sees Vital participate in the Healthscope transaction to the benefit of unitholders. Discussions with NorthWest remain ongoing and a non-binding term sheet is well advanced. However, there can be no guarantee that an agreement will be able to be reached".

Mrs Higgins also said "We have made good progress on the previously announced fee review, and have engaged EY to prepare an independent research report and conduct direct unitholder engagement on our behalf. At this stage the Board expects to be in a position to provide an update on both Healthscope and the fee and governance review by 31 March 2019."

David Carr, Chief Executive of the Manager said, "In addition to focussing on near term strategic initiatives the team continues to proactively deal with all aspects of the business. Core occupancy remains at 99.4% and our portfolio WALE at an industry leading 18 years. We continue with the brownfield development program, adding capacity and improving asset quality, ultimately driving value and earnings accretion.

1 Adjusted Funds from Operations

2 Trust deed LVR is based on total borrowings as a percentage of the gross asset value of the Trust

3 Weighted average capitalisation rate

CLAIRE HIGGINS
INDEPENDENT CHAIR

DAVID CARR
CHIEF EXECUTIVE OFFICER

"In addition to focussing on near term strategic initiatives the team continues to proactively deal with all aspects of the business with occupancy at 99.4% and a market leading WALE of 18 years. We continue with the brownfield development program, adding capacity and improving asset quality, ultimately driving value and earnings accretion"

DAVID CARR

All NZ$m (unless otherwise stated)	Actual 1H19	Actual 1H18	Change $m	Change %
Gross rental income ($m)	**50.5**	**44.8**	**5.8**	**12.9**
Net rental income ($m)	**48.8**	**43.2**	**5.7**	**13.2**
Total expenses	30.4	23.3	7.1	30.6
Operating profit before tax ($m)	**18.4**	**19.9**	**(1.4)**	**(7.2)**
Gross distributable income ($m)	23.6	25.7	(2.1)	(8.3)
Current Tax - NZ & Australia ($m)	5.0	2.9	2.1	74.2
Net distributable income ($m)	**18.5**	**22.8**	**(4.3)**	**(18.7)**
Net distributable income per unit (earned) (cpu)	4.2c	5.3c	-1.1c	(20.4)
AFFO (cpu)	4.5c	5.4c	-0.9c	(17.4)
Net distributable income payout ratio	104%	81%		
Units on issue (weighted average million)	441.7	432.9		

Despite some short term private healthcare sector headwinds, our investment and development activities continue to be supported by positive long term trends including a growing and ageing population and increasing demand for healthcare services."

Interim valuations and portfolio activity

At the half year to 31 December 2018, the incumbent independent valuers from 30 June 2018 were commissioned to provide external desktop property asset reviews. As a result, Vital recorded an increase of $43.5m in the fair value of its portfolio to $1.77bn, or 2.4% over carrying book value. The increase is over and above acquisitions and development expenditure incurred in the period. The valuation uplift was driven by post development revaluation gains on the spread between rentalisation and market yields at Lingard Private and Toronto Private and supported by rent reviews over the period.

Vital's WACR for the six months to 31 December 2018 firmed approximately 3 bps to 5.73%. The Australian portfolio reported a 3bps firming to 5.70% and the New Zealand portfolio firmed 1 bps to 5.82%.

A total of 47 rent reviews (approximately 25% of total income) were completed to 31 December 2018, resulting in annualised rent growth of 3.0%. With around 53% of Vital's total income remaining subject to review to 30 June 2019, we expect these reviews will contribute to forecast income growth approximately in line with inflation.

Vital's WALE was 18.0 years, supported by favourable lease renewals at Ascot Central and Epworth Eastern Medical Centre. With a very low lease expiry profile at the start of FY19 representing 3.9% of total income, approximately 50% of these renewals or expiries are now completed, with an 84% retention rate.

We look to resolve the remaining expiries over the next six months with a high expectation of renewal and we continue to proactively seek to secure future renewals well ahead of actual lease expiry dates.

Financial performance

Gross rental income grew 12.9% during the period. After property expenses, net income grew at 13.2%.

This operating result was driven by same-property income growth of 1.4% (or 2.2% on a same currency basis) and over NZ$210m of property acquisitions and approximately NZ$50m of developments over the last 18 months.

Finance expense of $16.0m was up 52% from the prior year resulting from higher overall average debt levels within the respective half year periods. This reflects the timing of acquisitions (eg. Acurity properties $147m in

Dec 2017) and development activity and the related party loan. Contributing to the increased finance expense was an increase in Vital's weighted average cost of debt to 4.50% (including bank line and margin fees) compared to the prior year of 4.09%.

Net distributable income for the period was $18.5m (or 4.19 cents per unit). AFFO, which adjusts for maintenance capex, lease incentives and non-recurring items, was $19.7m (or 4.46 cents per unit) down 17.4% versus the prior year period. This was primarily due to $1.8m (0.41 cents per unit) of higher income tax expense, reflecting tax on unrealised foreign exchange gains, and $1.4m (or 0.33 cents per unit) of higher maintenance capex and lease incentives versus the prior year period.

For the six months to 31 December 2018, Vital's AFFO pay-out ratio was 98%.

Treasury and capital management

Vital's loan-to-value ratio (LVR) was 39.5% at 31 December 2018 for Trust Deed purposes, up from 36.4% the same time last year. For the purposes of the bank covenant the LVR was 43.7% as adjustments are made removing the interim desktop revaluations and the related party loan. The LVR remains well below bank and Trust Deed covenants of 50%. At year end Vital had a hedged interest rate position of 68% with a 6.7 year average duration.

Accordingly, the Trust maintains an appropriate level of flexibility to finance announced development commitments over the next three years. We are actively considering portfolio recycling opportunities and recently received multiple qualified offers on a number of properties with an aggregate book value of approximately NZ$100m.

Acquisitions

Vital acquired two significant future development properties and a number of small strategic land holdings in the period for a total cost of NZ$23.6m.

In September 2018, by way of an off-market transaction, Vital acquired an additional ~5,500sqm of vacant land for NZ$9.3m which is located adjacent to Vital's Ormiston Hospital in Auckland. Existing facilities include a six theatre, 31 bed private hospital in one of Auckland's strongest population growth corridors. Ormiston is the only private hospital in this area, which has a population estimated at 540,000.

In November 2018, Vital and NorthWest jointly acquired a significant development site for A$13.75m (Vital's half share ~A$7.0m) which is located adjacent to Lyell McEwin Public Hospital, the third largest public hospital in metropolitan South Australia. The 16,700 sqm site is currently occupied by a retail centre of approximately 2,200 sqm with 100% occupancy on short lease terms with relocation and/or termination rights. The acquisition provides a significant opportunity for development of a private healthcare precinct co-located with a major public hospital.

Development update

In the first half of the year, Vital completed brownfield developments at NorthWest in Burnie, Tasmania, and a further Stage at Lingard Private Hospital in Newcastle, New South Wales, representing value-add investments of approximately A$21m.

Five further projects, totalling approximately NZ$240.9m remain in various stages of development. These five projects are forecast for completion between early 2019 and 2023, with approximately NZ$223.4m in costs to complete, at a forecast development yield on completion of approximately 6.70%, a spread of approximately 100 bps to Vital's weighted average capitalisation rate.

Longer term, Vital's brownfield development programme remains a core part of Vital's scale and diversification strategy. Brownfield projects not only directly underpin earnings sustainability and long-term value creation but materially improves asset quality, supporting operator performance.

Epworth Eastern Hospital expansion

Epworth Eastern Hospital, original built in 2005, is a six-level, 227 bed private hospital located in the Box Hill suburb of Melbourne, approximately 14 kilometres east of Melbourne's CBD and operated by Epworth Foundation. The Hospital is adjoined by Vital's Epworth Eastern Medical Centre, which provides 3,000 square metres of consulting suites across two levels to 24 healthcare tenants.

In 2014, Vital purchased an adjacent site as a strategic property held for development to facilitate future expansion of the Epworth campus. Epworth Eastern Hospital is currently near capacity and generating strong operating performance. Epworth Eastern Executive Director, Louise O'Connor commented that Epworth has "a waiting list of doctors who want to operate."

Accordingly, Vital has entered into an agreement to lease with Epworth Eastern to build a new 14 storey tower on the adjacent site. A planning permit has been received, developed design is complete, and a preferred construction contractor is expected to be appointed shortly.

Architect's impression of new 14 level tower development adjacent Epworth Eastern Hospital

Approximately half of the new building is to be utilised by Epworth for clinical services (adding 63 beds and 5 operating theatres) and the remaining area would provide new consulting suites (approximately 4,200 sqm), of which Epworth has agreed to head-lease just under half of the consulting space.

The development is 80% pre-committed, with strong and growing demand from associated healthcare practitioners, many of whom will decant from the adjacent medical centre which will be refurbished to provide theatre recovery space and a new emergency department. At completion the building is forecast to be 100% occupied. Epworth will reset its lease term for the existing hospital and new areas leased to a new 30 year lease term with rental reviews based on the greater of 3% or CPI.

The development is budgeted to cost approximately A$126.2m (including land currently held by Vital for development). On completion, expected in late 2021, this project is forecast to be approximately 1% accretive to AFFO per unit excluding development profit.

David Carr said "the Epworth Eastern development is another example of Vital's strong tenant relationships and our commitment to work with our hospital operating partners. The development will improve the quality and value of the asset and help drive operational benefits and efficiencies for Epworth to meet rising demand for healthcare services in their community. Furthermore, it presents another opportunity for Vital to demonstrate its execution capabilities to enhance portfolio performance and deliver secure and stable returns to unitholders."

All NZ$m (unless otherwise stated)	Actual 1H19	Actual FY18	Change $m	Change %
Net tangible assets ($ per unit)	2.24	2.26		(0.74)
Investment properties ($m)	1,766.0	1,731.2	34.7	2.0
Total assets ($m)	**1,881.9**	**1,786.8**	**95.0**	**5.3**
Bank debt ($m)	743.2	670.1		
Unitholders funds ($m)	**998.5**	**988.0**	**10.5**	**1.1**
Units on issue (m)	444.8	436.9	7.9	1.8
Weighted average cost of debt (%)	4.50	4.60		
LVR (%)	43.7	38.7		

Distribution

The Board confirmed that investors will receive a second quarter distribution of 2.1875 cents per unit with 0.3477 cents per unit of imputation credits attached. The record date is 15 March 2019 and payment will be made on 29 March 2019.

Vital's Distribution Reinvestment Plan remains available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

The Board has also reconfirmed its full year guidance for a cash distribution of 8.75 cents per unit.

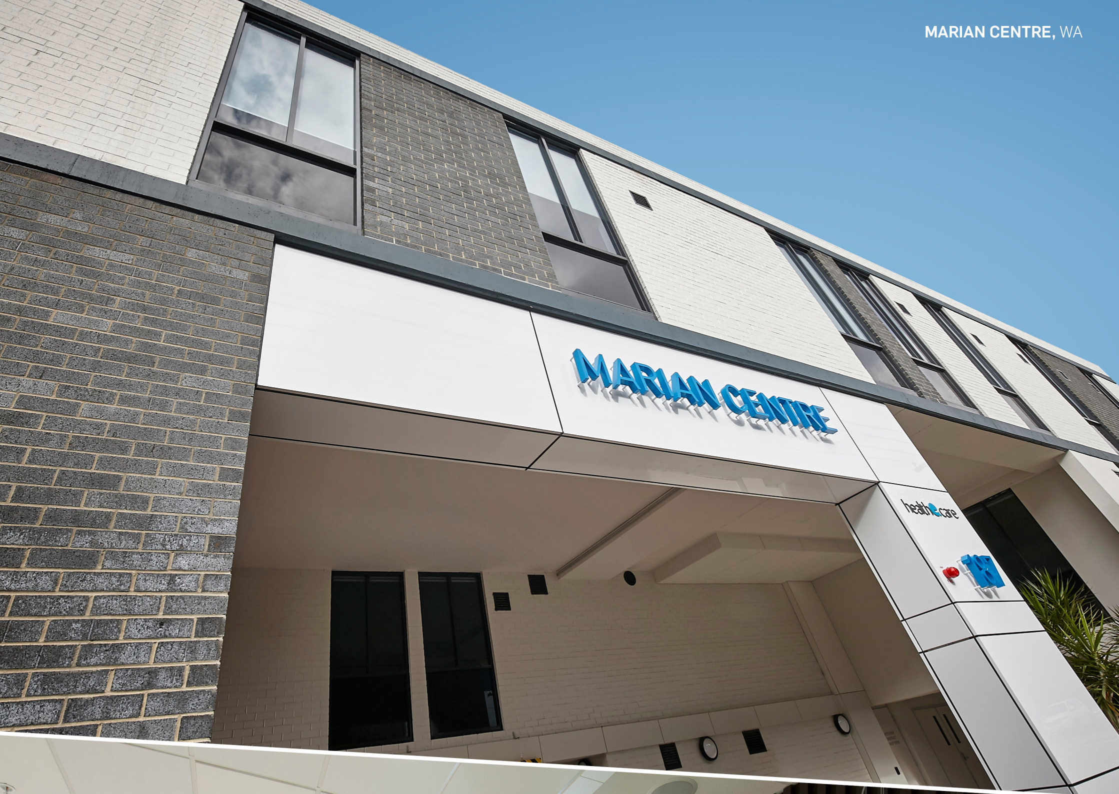
Outlook

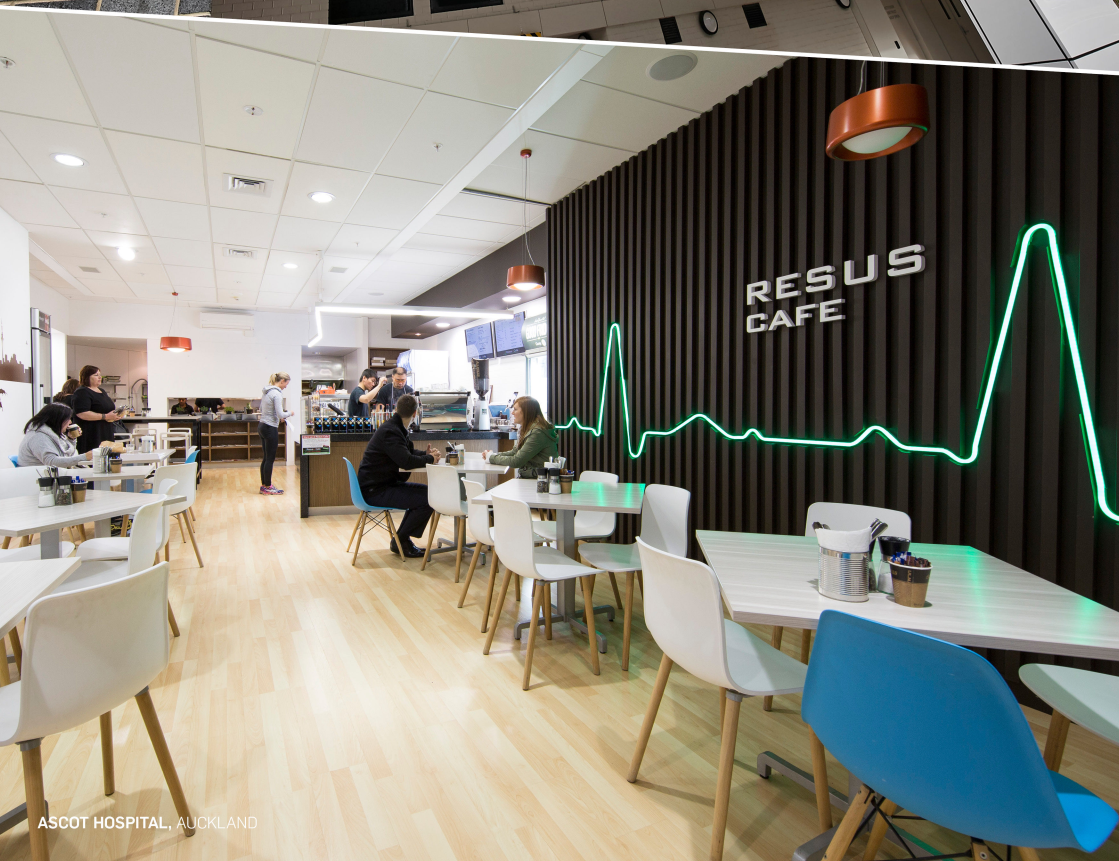
Mr Carr said "Notwithstanding the last six months being an exceptionally intense period working through a number of important strategic matters, Vital's continued underlying portfolio performance is sound as we continue to deliver on the Board's stated scale and diversification strategy and further enhance Vital's overall position as a market leader focused solely on healthcare real estate".

CLAIRE HIGGINS
Chair & Independent Director
NorthWest Healthcare Properties Management Limited
Manager of Vital Healthcare Property Trust

DAVID CARR
Chief Executive Officer
NorthWest Healthcare Properties Management Limited
Manager of Vital Healthcare Property Trust

MARIAN CENTRE, WA





ASCOT HOSPITAL, AUCKLAND

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2018

	Note	Unaudited 6 months Dec-18 $000s	Unaudited 6 months Dec-17 $000s
Gross property income from rentals		**50,537**	44,752
Gross property income from expense recoveries		**5,293**	5,183
Property expenses		**(6,995)**	(6,782)
Net property income	3	**48,835**	43,153
Other income and expenses		**(13,524)**	(12,794)
Net strategic transaction costs	13	**(1,872)**	-
Finance income		**1,041**	57
Finance expense		**(16,035)**	(10,540)
Operating Profit		**18,445**	19,876
Other gains/(losses)			
Revaluation gain/(loss) on investment property	6	**43,482**	42,774
Fair value gain/(loss) on foreign exchange derivatives		**318**	(284)
Fair value gain/(loss) on interest rate derivatives		**(8,262)**	116
Fair value gain/(loss) on strategic transaction derivatives	13	**(2,717)**	-
Unrealised gain/(loss) on foreign exchange		**5,162**	(1,366)
		37,983	41,240
Profit before income tax		**56,428**	61,116
Taxation expense	4	**(9,630)**	(8,236)
Profit for the period attributable to unitholders of the Trust		**46,798**	52,880
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		**(33,561)**	34,020
Realised foreign exchange gain/(loss) on hedges		**19**	1,634
Current taxation (expense)/credit		**(5)**	(458)
Unrealised foreign exchange gain/(loss) on hedges		**7,042**	(3,656)
Deferred taxation (expense)/credit		**(1,972)**	1,024
Fair value gain/(loss) on net investment hedges		**4,876**	(4,445)
Deferred taxation (expense)/credit		**(1,365)**	1,244
Total other comprehensive income/(loss) after tax		**(24,966)**	29,363
Total comprehensive income after tax		**21,832**	82,243
Earnings per unit			
Basic and diluted earnings per unit (cents)	5	**10.59**	12.22

The notes on pages FIN-5 to FIN-19 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Non-current assets			
Investment properties	6	**1,765,975**	1,731,247
Derivative financial instruments	7	**-**	856
Other non-current assets	13	**84,728**	43,984
Total non-current assets		**1,850,703**	1,776,087
Current assets			
Cash and cash equivalents		**8,513**	5,388
Trade and other receivables		**3,424**	1,189
Other current assets	13	**11,910**	3,801
Derivative financial instruments	7	**7,307**	363
Total current assets		**31,154**	10,741
Total assets		**1,881,857**	1,786,828
Unitholders' funds			
Units on issue	8	**572,918**	556,878
Reserves		**(17,320)**	15,629
Retained earnings		**442,854**	415,469
Total unitholders' funds		**998,452**	987,976
Non-current liabilities			
Borrowings	9	**742,100**	668,712
Derivative financial instruments	7	**20,915**	14,444
Deferred tax		**91,709**	86,796
Total non-current liabilities		**854,724**	769,952
Current liabilities			
Trade and other payables	13	**15,343**	16,965
Income in advance		**1,553**	2,281
Derivative financial instruments	7	**980**	460
Taxation payable		**10,805**	9,194
Total current liabilities		**28,681**	28,900
Total liabilities		**883,405**	798,852
Total unitholders' funds and liabilities		**1,881,857**	1,786,828

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

C Higgins, **Chair** B Crotty, **Director**

1 March 2019

The notes on pages FIN-5 to FIN-19 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 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 six months ended 31 December 2017 (Unaudited)						
Balance at the start of the period	538,469	352,647	(83,713)	60,104	12,314	879,821
Changes in unitholders' funds	15,355	-	-	-	(12,314)	3,041
Manager's incentive fee	-	-	-	-	5,803	5,803
Profit for the period	-	52,880	-	-	-	52,880
Distributions to unitholders	-	(18,594)	-	-	-	(18,594)
Other comprehensive income for the period						
Movement in foreign currency translation reserve	-	-	34,020	-	-	34,020
Realised foreign exchange gains on hedges	-	-	-	1,176	-	1,176
Unrealised foreign exchange gains/ (losses) on hedges	-	-	-	(2,632)	-	(2,632)
Fair value gains on net investment hedges	-	-	-	(3,201)	-	(3,201)
Balance at the end of the period	553,824	386,933	(49,693)	55,447	5,803	952,314
For the six months ended 31 December 2018 (Unaudited)						
Balance at the start of the period	**556,878**	**415,469**	**(54,911)**	**57,445**	**13,095**	**987,976**
Changes in unitholders' funds	**16,040**	**-**	**-**	**-**	**(13,095)**	**2,945**
Manager's incentive fee	**-**	**-**	**-**	**-**	**5,112**	**5,112**
Profit for the period	**-**	**46,798**	**-**	**-**	**-**	**46,798**
Distributions to unitholders	**-**	**(19,413)**	**-**	**-**	**-**	**(19,413)**
Other comprehensive income for the period						
Movement in foreign currency translation reserve	**-**	**-**	**(33,561)**	**-**	**-**	**(33,561)**
Realised foreign exchange gains on hedges	**-**	**-**	**-**	**14**	**-**	**14**
Unrealised foreign exchange gains/ (losses) on hedges	**-**	**-**	**-**	**5,070**	**-**	**5,070**
Fair value losses on net investment hedges	**-**	**-**	**-**	**3,511**	**-**	**3,511**
Balance at the end of the period	**572,918**	**442,854**	**(88,472)**	**66,040**	**5,112**	**998,452**

The notes on pages FIN-5 to FIN-19 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 31 December 2018

	Note	Unaudited 6 months Dec-18 $000s	Unaudited 6 months Dec-17 $000s
Cash flows from operating activities			
Property income		**49,391**	44,942
Recovery of property expenses		**4,479**	4,308
Interest received		**38**	43
Property expenses		**(5,235)**	(6,167)
Management and trustee fees		**(7,147)**	(5,575)
Interest paid		**(15,447)**	(9,620)
Tax (paid)/refund		**(3,376)**	755
Other trust expenses		**(1,334)**	(1,014)
Net cash provided by/(used in) operating activities		**21,369**	27,672
Cash flows from investing activities			
Receipts from foreign exchange derivatives		**309**	1,634
Capital additions on investment properties		**(20,270)**	(9,801)
Purchase of properties		**(21,885)**	(182,510)
Prepaid acquistion costs		**(10,788)**	(1,003)
Tenant incentives		**-**	(2,314)
Advances provided to related parties		**(42,400)**	(171)
Strategic transaction costs		**(4,515)**	-
Net cash provided by/(used in) investing activities		**(99,549)**	(194,165)
Cash flows from financing activities			
Debt drawdown		**97,787**	189,168
Costs associated with Distribution Reinvestment Plan		**(14)**	(14)
Distributions paid to unitholders		**(16,468)**	(15,553)
Net cash from/(used in) financing activities		**81,305**	173,601
Net increase/(decrease) in cash and cash equivalents		**3,125**	7,108
Effect of exchange rate changes on cash and cash equivalents		**-**	(7)
Cash and cash equivalents at the beginning of the period		**5,388**	3,352
Cash and cash equivalents at the end of the period		**8,513**	10,453

The notes on pages FIN-5 to FIN-19 form part of and are to be read in conjunction with these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2018

1 GENERAL INFORMATION

Vital Healthcare Property Trust ("VHP" or the "Trust") is 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). The Manager is a registered managed investment scheme manager under the Financial Markets Conduct Act.

The condensed consolidated interim financial statements of VHP for the period ended 31 December 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 health sector related properties.

The condensed consolidated interim 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.

These condensed consolidated interim financial statements were approved by the Board of Directors of the Manager on 1 March 2019.

2 BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 and IAS 34 Interim Financial Reporting. The accounting policies have been consistently applied, when compared to those used in the 2018 Annual Report except as described below under the heading "change in accounting policies". The 2018 Annual Report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards issued and effective at the time of preparing those statements.

Basis of measurement

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

Use of estimates and judgements

The preparation of financial statements in conformity with NZ IAS 34 requires the use of certain critical accounting estimates and judgements that affect the application of policies and reported amount of assets and liabilities, income and expenses. 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 4 - Taxation
- Note 6 - Valuation of investment property
- Note 13 - Related party transactions

Change in accounting policies

Accounting policies have been applied consistently to all periods with the exception of the mandatory adoption of NZ IFRS 9 Financial instruments and NZ IFRS 15 Revenue from Contracts with Customers, which are effective for annual reporting periods beginning on or after 1 January 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

2 BASIS OF PREPARATION (continued)

NZ IFRS 9 Financial Instruments

Classification and measurement

From 1 July 2018, the Group classifies its financial assets and financial liabilities in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and

- those to be measured at amortised cost.

The classification of financial instruments has not resulted in any reclassification between measurement categories for the Group's financial assets and liabilities. Derivative financial instruments designated as hedges of a net investment in a foreign operation (net investment hedge) remain measured at fair value through other comprehensive income. All other derivative financial instruments the Group uses to manage its foreign exchange and interest rate risk will continue to be measured at fair value through profit or loss. The Group's other financial instruments (including cash and cash equivalents, trade and other receivables, trade payables, related party loans, bank borrowings and the NZX bond) are measured at amortised cost.

Impairment

Under NZIFRS 9, on initial recognition of a financial asset, the Group assesses on a forward looking basis, the expected credit loss associated with its financial assets and related party loans carried at amortised cost. At each reporting date, the credit risk on a financial asset, apart from trade receivables, is assessed to determine whether there has been a significant increase in the credit risk. In assessing whether there has been a significant increase in credit risk, the Group considers both forward looking information and the financial history of counterparties to assess the probability of default or the likelihood that full settlement is not received. For trade receivables, the simplified approach to measuring expected credit loss is adopted, which uses a lifetime expected loss allowance. Consistent with the assessment disclosed in the annual report for the financial year ended 30 June 2018, the Group has concluded that the impact of the expected credit loss model is not material for the interim financial statements.

Hedge Accounting

Derivative financial instruments designated as hedges of a net investment in a foreign operation (net investment hedge) continue to meet the requirements under NZ IFRS 9. The Group's risk management strategies and hedge documentation are aligned with the requirements of NZ IFRS 9 and are therefore treated as continuing hedges.

NZ IFRS 15 Revenue from contracts with customers

The majority of the revenues of the Group are derived from rental income from lease agreements with tenants of the investment properties. Accounting for lease income is out of the scope of NZ IFRS 15 Revenue from contracts with customers. However, certain non-rental income streams such as recovery of property operating expenses, are within the scope of NZ IFRS 15. The Group has separately identified the significant performance obligations and revenue streams within gross property income from expense recoveries and determined that there is no change to the timing and measurement of these revenue streams. Hence, no cumulative opening balance adjustment is required for the interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

2 BASIS OF PREPARATION (continued)

Standards and interpretations in issue not yet effective

At the date of authorisation of these interim financial statements the following relevant Standards and Interpretations were in issue but not yet effective and have not been applied in preparing these interim financial statements:

NZ IFRS 16 Leases (effective for accounting periods beginning on or after 1 January 2019) eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheet, 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.

Given the Group is primarily a lessor, this standard is not expected to significantly impact on the financial statements. However, a ground lease exists over the Ascot carparks at Ascot Avenue, Auckland and as the lessee, the Group will recognise a "right-of-use" asset and corresponding lease liability (representing the obligation to make lease payments) in the Statement of Financial Position.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

3 SEGMENT INFORMATION

The principal business activity of the Group 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, which is the Board of Directors of the Manager 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 for the period ended 31 December 2018 (Unaudited):			
Net property income	**36,569**	**12,266**	**48,835**
Other expense	**(6,111)**	**(7,413)**	**(13,524)**
Net strategic transaction costs	**(1,872)**	**-**	**(1,872)**
Net finance expense	**(9,212)**	**(5,782)**	**(14,994)**
	19,374	**(929)**	**18,445**
Fair value gain/(loss) on interest rate derivatives	**-**	**(8,262)**	**(8,262)**
Fair value gain/(loss) on strategic transaction derivatives	**(2,717)**	**-**	**(2,717)**
Revaluation gains on investment properties	**37,577**	**5,905**	**43,482**
Other foreign exchange gains/(losses)	**-**	**5,480**	**5,480**
Total segment profit before income tax	**54,234**	**2,194**	**56,428**
Taxation (expense)	**-**	**-**	**(9,630)**
Profit for the period	**-**	**-**	**46,798**
Segment profit for the period ended 31 December 2017 (Unaudited):			
Net property income	34,437	8,716	43,153
Other expense	(5,004)	(7,790)	(12,794)
Net finance expense	(5,548)	(4,935)	(10,483)
	23,885	(4,009)	19,876
Fair value gain/(loss) on interest rate derivatives	-	116	116
Revaluation gains on investment properties	37,807	4,967	42,774
Other foreign exchange gains/(losses)	-	(1,650)	(1,650)
Total segment profit before income tax	61,692	(576)	61,116
Taxation (expense)	-	-	(8,236)
Profit for the period	-	-	52,880

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

3 SEGMENT INFORMATION (continued)

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 $28m, all in Australia (31 December 2017: two tenants totalling $25.4m).

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 chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Australia $000s	New Zealand $000s	Total $000s
Segment assets at 31 December 2018 (Unaudited):			
Investment properties	**1,341,510**	**424,465**	**1,765,975**
Other non-current assets	**84,687**	**41**	**84,728**
Current assets	**19,876**	**11,278**	**31,154**
Consolidated assets	**1,446,073**	**435,784**	**1,881,857**
Segment assets at 30 June 2018 (Audited):			
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 liabilities at 31 December 2018 (Unaudited):			
Borrowings	**594,158**	**147,942**	**742,100**
Other liabilities	**98,273**	**43,032**	**141,305**
Consolidated liabilities	**692,431**	**190,974**	**883,405**
Segment liabilities at 30 June 2018 (Audited):			
Borrowings	526,811	141,901	668,712
Other liabilities	98,075	32,065	130,140
Consolidated liabilities	624,886	173,966	798,852

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

- All assets are allocated to reportable segments
- All liabilities are allocated to reportable segments

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

4 TAXATION

	Unaudited 6 months Dec-18 $000s	Unaudited 6 months Dec-17 $000s
Profit before tax for the period	**56,428**	61,116
Taxation expense - 28% on profit before income tax	**(15,800)**	(17,113)
Effect of different tax rates in foreign jurisdictions	**7,360**	8,020
Tax exempt income	**2,340**	1,796
Foreign tax credits	**1,089**	1,763
Tax charges on overseas investments	**(4,811)**	(4,279)
Over/(under) provided in prior periods	**-**	1,263
Other adjustments	**192**	314
Taxation (expense)	**(9,630)**	(8,236)
The taxation (expense) is made up as follows:		
Current taxation	**(5,034)**	(2,890)
Deferred taxation	**(4,596)**	(5,346)
Total taxation (expense)	**(9,630)**	(8,236)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

5 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 period.

	Unaudited Dec-18	Unaudited Dec-17
Profit attributable to unitholders of the Trust ($000s)	**46,798**	52,880
Weighted average number of units on issue (000's of units)	**441,711**	432,849
Basic and diluted earnings per unit (cents)	**10.59**	12.22

	Unaudited Dec-18 $000's	Unaudited Dec-17 $000's
Distributable income		
Profit before income tax	**56,428**	61,116
Revaluation (gains)	**(43,482)**	(42,774)
Unrealised foreign exchange (gain)/loss	**(5,162)**	1,366
Unrealised foreign exchange (gain)/loss derivatives	**(318)**	284
Unrealised interest rate (gain)/loss derivatives	**8,262**	(116)
Unrealised (gain)/loss on strategic transaction derivatives	**2,717**	-
Manager's incentive fee	**5,112**	5,803
Profit used in calculating gross distributable income	**23,557**	25,679
Current tax charge	**5,034**	2,890
Profit used in calculating net distributable income	**18,523**	22,789
Gross distributable income (cpu) *	**5.33**	5.93
Net distributable income (cpu) *	**4.19**	5.26

* Based on weighted average number of units on issue.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

6 INVESTMENT PROPERTIES

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Carrying value of investment property at the beginning of the period	**1,731,247**	1,376,243
Acquisition of properties	**23,575**	194,696
Capitalised costs	**17,708**	26,134
Capitalised interest costs	**376**	952
Net capitalised incentives	**(328)**	2,249
Foreign exchange translation difference	**(50,085)**	45,512
Change in fair value	**43,482**	85,461
Carrying value of investment property at the end of the period	**1,765,975**	1,731,247
Carrying value of investment property includes:		
Fair value of investment properties	**1,765,499**	1,729,705
Income in advance	**476**	1,542
Carrying value of investment property at the end of the period	**1,765,975**	1,731,247

Investment Properties Valuation

The Group's policy is for investment property to be measured at fair value for which the Group completes property valuations at least annually by independent registered valuers. All investment property was valued by independent registered valuers as at 30 June 2018. The fair value of investment property as at 31 December 2018 was determined by the Manager, using market data provided by independent valuers and based on independent valuation advice. This follows recent comparable transactional evidence of market property sale transactions and a review of leasing activity undertaken in the period.

The Group holds the freehold to all properties except the car parks at the rear of Ascot Hospital and Ascot Central. The total value of leasehold property at 31 December 2018 was $3.2m (30 June 2018: $3.2m) representing 0.2% of the total investment property portfolio (30 June 2018: 0.2%). The weighted average lease length of leasehold property at 31 December 2018 was 20.1 years (30 June 2018: 0.8 years).

Acquisition of properties

In New Zealand, strategic development land was purchased adjacent to Ormiston Hospital in Auckland and Royston Hospital in Hastings . In Australia, the Group purchased strategic development properties at 9 Abbotsford Street WA, adjacent to Abbotsford Private Hospital and six properties in Molucca Close, Maitland NSW, adjacent to Maitland private hospital.

The Group also purchased a 50% share of an investment property for future development in Elizabeth Vale, SA. The property has been purchased as Tenants in Common with NorthWest Healthcare Properties Australia Real Estate Investment Trust and is subject to a Co-ownership Deed. The arrangement constitutes a joint operation whereby the Group recognises in relation to its interest in the joint operation its share of assets and liabilities in the consolidated statement of financial position and share of revenue earned and expenses incurred in the consolidated statement of comprehensive income. The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operation in accordance with the NZ IFRSs applicable to the particular assets, liabilities, revenues and expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

7 DERIVATIVE FINANCIAL INSTRUMENTS

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 in accordance with formal policy documents approved by the Board.

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 performs an effectiveness assessment of the hedges 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 in other comprehensive income. Any ineffective portion is recognised in profit or loss. For a derivative instrument to be classified and accounted for as a hedge, it must be highly correlated with, and effective as a hedge of the underlying risk being managed. This relationship is documented from inception of the hedge.

The face value of hedging instruments designated in net investment hedges is:

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Borrowings	**126,143**	131,019
Forward exchange contracts (nominal amount)	**210,239**	163,773

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. The fair value of interest rate swaps is a liability of $21,885,291.

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. The fair value of foreign exchange derivatives is an asset of $7,297,780.

There have been no reclassifications of fair value instruments between levels in the period ended 31 December 2018 and 30 June 2018.

Derivatives are all carried at fair value on the Statement of Financial Position. The carrying amounts of all other financial instruments approximate their fair value.

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Nominal value of foreign exchange contracts - AUD	**50,000**	-
Nominal value of foreign exchange options - AUD	**150,000**	150,000

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

8 UNITS ON ISSUE

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Balance at the beginning of the period	**556,878**	538,469
Issue of units under Distribution Reinvestment Plan	**2,959**	6,140
Issue of units to satisfy Manager's incentive fee	**13,095**	12,314
Issue costs of units	**(14)**	(45)
	16,040	18,409
Balance at the end of the period	**572,918**	556,878

	Unaudited Dec-18 000s	Audited Jun-18 000s
Reconciliation of number of units		
Balance at the beginning of the period	**436,893**	428,562
Issue of units under the Distribution Reinvestment Plan	**1,425**	2,891
Units issued to satisfy Manager's incentive fee	**6,506**	5,440
Balance at the end of the period	**444,824**	436,893

The number of units on issue at 31 December 2018 was 444,823,859 (30 June 2018: 436,893,108). 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 30 August 2018, 6,505,957 units were issued against the 2018 Manager's incentive fee of $13,095,308 (30 June 2018: $12,314,339).

Capital risk management

The Group is subject to imposed capital requirements arising from the Trust Deed, which requires 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%, (30 June 2018: 50%) of the fair market value of property at all times calculated to the Australian dollar equivalent. All banking covenants have been met during the period.

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 of the Manager. There have been no material changes in the Group's overall capital risk management strategy during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

9 BORROWINGS

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
AUD denominated loans	**726,438**	664,374
NZD denominated loans	**16,750**	5,750
Borrowing costs	**(1,088)**	(1,412)
Total borrowings	**742,100**	668,712

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. The multi-currency facilities of A$700.0m and NZ $20.0m are split between: Tranche A: A$125.0m due to expire on 31 March 2021; Tranche B: A$200.0m due to expire on 31 July 2022; Tranche C: A$100.0m, Tranche D: A$100.0m and NZ Dollar Facility: NZ$20.0m which are due to expire on 30 October 2020; and Tranche E: A$175m which is due to expire on 20 November 2021.

The effective interest rate on the borrowings as at 31 December 2018 was 4.50% per annum (30 June 2018: 4.60%).

Borrowings are secured by a Security Trust Deed dated 1 April 2003 and as amended and restated on 30 May 2018. The Security Provider comprises T.E.A. Custodians Limited in its capacity as nominee of the VHP Trustee as supervisor 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.

10 COMMITMENTS

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Capital Commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	**223,402**	9,183

Lease Commitments

The property rental income expected 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:

	Unaudited Dec-18 $000s	Audited Jun-18 $000s
Not later than one year	**97,471**	98,157
Later than one year and not later than five years	**433,132**	433,381
Later than five years	**850,874**	899,911
	1,381,478	1,431,449

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

11 CONTINGENCIES

There were no contingencies as at 31 December 2018 (30 June 2018: nil).

12 SUBSEQUENT EVENTS

On 1 March 2019 a gross distribution of 2.1875 cents per unit was announced by the Trust. The record date for the distribution is 15 March 2019 and a payment is scheduled to unitholders on 29 March 2019. There will be 0.3477 cents per unit of imputation credits attached to the distribution.

On 15 February 2019 the Group entered into an amended syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited, Bank of New Zealand and National Australia Bank Limited. An additional facility of A$150 million has been provided bringing the total facility to A $850 million and NZ$20 million.

13 RELATED PARTY TRANSACTIONS

The Manager

The Trust is managed by NorthWest Healthcare Properties Management Limited (the "Manager"). The Manager is a wholly owned subsidiary of NWI Healthcare Properties LP. The Manager is related to the Trust and its subsidiaries as the Manager of the Trust.

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 as at the Trusts financial year end.

Transactions with related parties include:

	Unaudited Dec-18 $000s	Unaudited Dec-17 $000s
Total fees incurred		
Management fees	**6,884**	5,589
Manager's incentive fees	**5,112**	5,803
Expenses charged by NorthWest Healthcare Properties Management Limited	**473**	92
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	**9,633**	1,179
	22,102	12,663

Expenses charged by related parties include property related costs, acquisition and development fees and other operating expenses.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

13 RELATED PARTY TRANSACTIONS (continued)

	Unaudited Dec-18 $000s	Audited June-18 $000s
Expenses capitalised to projects		
Expenses charged by NorthWest Healthcare Properties Management Limited	**373**	1,302
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	**9,163**	847
	9,536	2,149

Properties owned by the Trust have been managed by NorthWest Healthcare Properties Management Limited, a subsidiary of NWI Healthcare Properties LP. Property management fees charged are either included in property expenses or capitalised. The amount paid to NorthWest Healthcare Properties Management Limited for reimbursement of expenses was $45,075 (31 December 2017: $92,430).

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 2018 financial year 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 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.

NWHAAT prepaid A$85.3m of the A$415.1m 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 $2.60 and limits NWHAAT's exposure to HSO share price depreciation below A$2.00 down to A$1.25 per share.

During the period NWHAAT amended the forward derivative contracts with DB to acquire an additional 57,417,000 HSO shares. The total funding for the amended forward contract was approximately A$71.3 million. The amended forward contract gives NWHAAT the ability to acquire, and DB the obligation to deliver, a minimum of 231,387,330 HSO shares at a price of A$2.36 per share.

The derivative instruments have been valued based on market accepted valuation methodologies with market-observable inputs, therefore are level 2 on the fair value hierarchy. The option contract is valued using the Black Scholes model which uses market based observable inputs, including historic share price information and the risk free rate. The forward is measured using a valuation model based on the applicable forward share prices.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

13 RELATED PARTY TRANSACTIONS (continued)

In accordance with the intention of the Joint Investment Policy, the Group has the benefit of participating in up to fifty percent of 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. During the period ended 31 December 2018 the Group has recorded a loss of $2.7m (30 June 2018: $0.1m) in respect of the mark to market value of the derivative. Vital's participation in the opportunity in the derivative remains proportional to its participation in the opportunity.

On 6th of May 2018, the Group entered into an agreement with NWHAAT to advance up to A$41m to NWHAAT, of which A$40m had been advanced as at 30 June 2018. On 5th of December 2018, the Group entered into an amended loan agreement with NWHAAT to advance up to A$81m, to NWHAAT. As at 31 December 2018 a total of A$80.3m has been advanced under the loan agreement which is unsecured, repayable within 12 months from the date of the amended agreement, and the Group is charging interest to NWHAAT at circa 4% p.a. on a monthly basis.

Net strategic transaction costs incurred during the period totalled $1.9m (2017: nil). These costs comprise a notional dividend received and commission, legal and interest expenses representing the Group's share of the cost of the HSO derivative. These are settled on a net basis with NWHAAT.

Due to the significant nature of the proposed HSO real estate transaction an acquisition fee of A$8.2m has been charged based on the work undertaken by the Manager. The fee recognises the significant time, complexity of transaction and resources the Manager has appointed to pursuing this acquisition. The acquisition fee has been capitalised as a prepayment of acquisition fees in advance for pursuing the acquisition of the HSO real estate and is creditable against any subsequent portfolio acquisition fee to be charged on a successful acquisition. A$5.2m of the fee is refundable if the transaction does not proceed.

The Directors have exercised judgement in determining that the amounts are capitalised as the Group continues to make further progress on the HSO transaction, and is therefore considered appropriate. If the transaction is not successful, the non-refundable portion will be expensed. The amount is recorded in other current assets in the consolidated statement of financial position.

Brookfield takeover and agreement for sale and leaseback of HSO properties.

On 1st February 2019 HSO announced that it has entered into an implementation deed with Brookfield Business Partners and its institutional partners (together "Brookfield") under which Brookfield undertakes to acquire 100% of HSO by way of scheme arrangement and a simultaneous off-market takeover offer. The HSO Board have unanimously recommended this transaction in the absence of a superior proposal. HSO also announced that it has entered into agreements to sell 22 properties to NorthWest and another property investor for A$2.5 billion and lease them back, conditional on the scheme arrangement becoming effective, or control passing to Brookfield under the takeover offer. 11 of the properties will be acquired by NorthWest and 11 by the other property investor. NorthWest has also agreed that it will vote its voting rights in HSO in favour of the Brookfield transaction, and to accept the takeover offer for those shares.

NWHAAT and the Group continue to progress the HSO real estate acquisition jointly, in accordance with the Joint Investment Policy, with scope to introduce other capital partners as appropriate.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT.)

13 RELATED PARTY TRANSACTIONS (continued)

	Unaudited Dec-18 $000s	Unaudited Dec-17 $000s
During the period there have been transactions between the Trust and NWHAAT		
Related party advance	**40,743**	-
Interest income	**1,003**	
Net strategic transaction costs	**(1,872)**	-
Fair value gain/(loss) on strategic transaction derivatives	**(2,717)**	

	Unaudited Dec-18 $000s	Audited June-18 $000s
Balances outstanding at the end of the year are unsecured and on normal trading terms		
Amounts owing from related party	**84,416**	43,956
Amounts owing to related party	**(2,002)**	(3,517)

	Unaudited Dec-18 $000s	Unaudited Dec-17 $000s
During the year there have been transactions between the Trust and NorthWest Healthcare Properties Australia Real Estate Investment Trust		
Acquisition costs recharged	**446**	-

	Unaudited Dec-18 $000s	Audited June-18 $000s
Balances outstanding at the end of the year are unsecured and on normal trading terms		
Amounts owing from related party	**434**	-

As disclosed in note 6 Investment Properties, the Group acquired a 50% interest in an investment property as Tenants in Common with NorthWest Healthcare Properties Australia Real Estate Investment Trust.

Deloitte.

INDEPENDENT REVIEW REPORT
TO THE UNITHOLDERS OF VITAL HEALTHCARE PROPERTY TRUST

We have reviewed the condensed consolidated interim financial statements of Vital Healthcare Property Trust and its subsidiaries ('the Trust') which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information on pages FIN 1 to FIN 19.

This report is made solely to the Trust's unitholders, as a body. Our review has been undertaken so that we might state to the Trust's unitholders those matters we are required to state to them in a review 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 engagement, for this report, or for the opinions we have formed.

Board of Directors' Responsibilities

The Board of Directors of the Manager are responsible for the preparation and fair presentation of the condensed consolidated interim financial statements, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and for such internal control as the Board of Directors of the Manager determine is necessary to enable the preparation and fair presentation of the condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibilities

Our responsibility is to express a conclusion on the condensed consolidated interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity ('NZ SRE 2410'). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting. As the auditor of Vital Healthcare Property Trust, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the condensed consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor, we have no relationship with or interests in Vital Healthcare Property Trust or its subsidiaries.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Trust do not present fairly, in all material respects, the financial position of the Group as at 31 December 2018 and its financial performance and cash flows for the six month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting.

Deloitte Limited

01 March 2019
Chartered Accountants
AUCKLAND, NEW ZEALAND

DIRECTORY

MANAGER

NorthWest Healthcare Properties Managment Limited

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SUPERVISOR (PREVIOUSLY TRUSTEE)

Trustees Executors Limited

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BANKERS TO THE TRUST

ANZ Bank New Zealand Limited

ANZ Centre
23-29 Albert Street
Auckland 1010

Australia and New Zealand Banking Group Limited

27/100 Queen Street
Melbourne, Victoria 3000
Australia

Bank of New Zealand

Deloitte Centre
80 Queen Street
Auckland 1010

National Australia Bank Limited

Level 22, 255 George Street
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UNIT REGISTRAR

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