Template
Results announcement
(for Equity Security issuer/Equity and Debt Security issuer)

Updated as at 8 May 2019

Results for announcement to the market		
Name of issuer	Vital Healthcare Property Trust	
Reporting Period	12 months to 30 June 2019	
Previous Reporting Period	12 months to 30 June 2018	
Currency	NZD	
	Amount (000s)	**Percentage change**
Revenue from continuing operations	$97,683	7.75%
Total Revenue	$97,683	7.75%
Net profit/(loss) from continuing operations	$93,422	-6.64%
Total net profit/(loss)	$93,422	-6.64%
Interim/Final Dividend		
Amount per Quoted Equity Security	$0.021875	
Imputed amount per Quoted Equity Security	$0.006725	
Record Date	12 September 2019	
Dividend Payment Date	26 September 2019	
	Current period	**Prior comparable period**
Net tangible assets per Quoted Equity Security	$2.31	$2.26
A brief explanation of any of the figures above necessary to enable the figures to be understood	Refer announcement	
Authority for this announcement		
Name of person authorised to make this announcement	Stuart Harrison	
Contact person for this announcement	Stuart Harrison	
Contact phone number	09 973 7302	
Contact email address	sharrison@nwhpm.com.au	
Date of release through MAP	8 August 2019	

Audited financial statements accompany this announcement.

Vital
Healthcare
Property Trust

INVESTING IN AUSTRALASIA'S HEALTHCARE INFRASTRUCTURE

FINANCIAL STATEMENTS

2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	Note	2019 $000s	2018 $000s
Gross property income from rentals		**101,052**	93,678
Gross property income from expense recoveries		**10,321**	10,258
Property expenses		**(13,690)**	(13,277)
Net property income	4	**97,683**	90,659
Other income and expenses	5	**(29,505)**	(27,717)
Strategic transaction income and expenses	24	**(4,273)**	(3,579)
Strategic transaction interest income	24	**2,672**	283
Finance income		**123**	102
Finance expense	6	**(32,665)**	(23,172)
Operating profit		**34,035**	36,576
Other gains/(losses)			
Revaluation gain on investment property	10	**103,556**	85,461
Fair value gain/(loss) on foreign exchange derivatives		**102**	(300)
Fair value gain/(loss) on interest rate derivatives		**(36,314)**	(2,883)
Realised gain/(loss) on foreign exchange		**5,447**	-
Unrealised gain/(loss) on foreign exchange		**207**	(1,417)
		72,998	80,861
Profit before income tax		**107,033**	117,437
Taxation expense	7	**(13,611)**	(17,372)
Profit for the year attributable to unitholders of the Trust		**93,422**	100,065
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		**(38,411)**	28,802
Realised foreign exchange gain/(loss) on hedges		**4,633**	1,457
Current taxation (expense)/credit		**(1,297)**	(408)
Unrealised foreign exchange gain/(loss) on hedges		**-**	(2,317)
Deferred taxation (expense)/credit		**-**	649
Fair value gain/(loss) on net investment hedges		**5,548**	(2,834)
Deferred taxation (expense)/credit		**(1,553)**	794
Total other comprehensive income/(loss) after tax		**(31,080)**	26,143
Total comprehensive income after tax		**62,342**	126,208
Earnings per unit			
Basic and diluted earnings per unit (cents)	8	**21.07**	23.04

The notes on pages FIN 5 to FIN 30 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Note	2019 $000s	2018 $000s
Non-current assets			
Investment properties	10,11	**1,836,430**	1,731,247
Derivative financial instruments	12	**-**	856
Other non-current assets	15,24	**793**	43,984
Total non-current assets		**1,837,223**	1,776,087
Current assets			
Cash and cash equivalents	9	**6,068**	5,388
Trade and other receivables	14	**1,300**	1,189
Other current assets	15,24	**86,875**	3,801
Derivative financial instruments	12	**77**	363
Total current assets		**94,320**	10,741
Total assets		**1,931,543**	1,786,828
Unitholders' funds			
Units on issue	16	**576,300**	556,878
Reserves		**(16,469)**	15,629
Retained earnings		**469,914**	415,469
Total unitholders' funds		**1,029,745**	987,976
Non-current liabilities			
Borrowings	17	**734,211**	668,712
Derivative financial instruments	12	**49,436**	14,444
Deferred tax	13	**90,867**	86,796
Total non-current liabilities		**874,514**	769,952
Current liabilities			
Trade and other payables	18	**13,815**	16,965
Income in advance		**652**	2,281
Derivative financial instruments	12	**540**	460
Taxation payable		**12,277**	9,194
Total current liabilities		**27,284**	28,900
Total liabilities		**901,798**	798,852
Total unitholders' funds and liabilities		**1,931,543**	1,786,828

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

B Crotty, **Chairman**
8 August 2019

G Stuart, **Director**

The notes on pages FIN 5 to FIN 30 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 2019

	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 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
For the year ended 30 June 2019						
Balance at the start of the period	**556,878**	**415,469**	**(54,911)**	**57,445**	**13,095**	**987,976**
Changes in unitholders' funds	**19,422**	**-**	**-**	**-**	**(13,095)**	**6,327**
Manager's incentive fee	**-**	**-**	**-**	**-**	**12,077**	**12,077**
Profit for the period	**-**	**93,422**	**-**	**-**	**-**	**93,422**
Distributions to unitholders	**-**	**(38,977)**	**-**	**-**	**-**	**(38,977)**
Other comprehensive income for the period						
Movement in foreign currency translation reserve	**-**	**-**	**(38,411)**	**-**	**-**	**(38,411)**
Realised foreign exchange gains on hedges	**-**	**-**	**-**	**3,336**	**-**	**3,336**
Unrealised foreign exchange gains/ (losses) on hedges	**-**	**-**	**-**	**-**	**-**	**-**
Fair value gains on net investment hedges	**-**	**-**	**-**	**3,995**	**-**	**3,995**
Balance at the end of the year	**576,300**	**469,914**	**(93,322)**	**64,776**	**12,077**	**1,029,745**

The notes on pages FIN 5 to FIN 30 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	Note	30 June 2019 $000s	30 June 2018 $000s
Cash flows from operating activities			
Property income		**99,324**	91,906
Recovery of property expenses		**10,028**	9,837
Interest received		**123**	90
Property expenses		**(15,169)**	(13,143)
Management and trustee fees		**(13,250)**	(12,341)
Interest paid		**(32,041)**	(22,290)
Tax paid		**(5,717)**	(6,062)
Other trust expenses		**(2,684)**	(2,283)
Net cash provided by/(used in) operating activities	9	**40,614**	45,714
Cash flows from investing activities			
Receipts from foreign exchange derivatives		**5,183**	3,266
Capital additions on investment properties		**(36,183)**	(26,886)
Purchase of properties		**(23,469)**	(187,694)
Prepaid acquisition costs		**(127)**	(5,038)
Advances provided to related parties		**(42,400)**	(43,295)
Payments for foreign exchange derivatives		**-**	(1,736)
Strategic transaction third party interest		**(9,551)**	-
Strategic transaction settlement		**1,761**	-
Strategic transaction interest income		**2,955**	-
Net cash provided by/(used in) investing activities		**(101,831)**	(261,383)
Cash flows from financing activities			
Debt drawdown		**118,401**	249,910
Repayment of debt		**(23,517)**	-
Loan issue costs		**(308)**	(1,029)
Costs associated with Distribution Reinvestment Plan		**(29)**	(27)
Distributions paid to unitholders		**(32,650)**	(31,149)
Net cash from/(used in) financing activities		**61,897**	217,705
Net increase/(decrease) in cash and cash equivalents		**680**	2,036
Cash and cash equivalents at the beginning of the period		**5,388**	3,352
Cash and cash equivalents at the end of the year		**6,068**	5,388

The notes on pages FIN 5 to FIN 30 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 2019 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 8 August 2019.

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 Group'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 estimates. Actual results may differ from the estimates and assumptions made by the Board and management.

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.

In particular information about 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 13 – deferred tax (and taxation in Note 7)

Note 24 – related party transactions

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 20. Control is achieved where the Trust has power over the investees; is exposed, or has rights, to variable returns from its 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 h.6.2 for hedge accounting policy).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign operations

For the purpose 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.

(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 Group 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 Group, 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) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When the Group undertakes its activities under joint operations, the Group as a joint operator recognises, in relation to its interest in a 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 IFRS standards applicable to the particular assets, liabilities, revenues and expenses.

(h) Financial instruments

(h.1) Non-derivative financial instruments

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

(h.2) Cash and cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(h.3) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. The Group has applied the simplified approach to measuring expected credit loss as prescribed by NZ IFRS 9, which uses a lifetime expected loss allowance. In determining the loss allowance, past default experience of the debtor, the debtor's current financial position, general economic conditions of the industry in which the debtors operate and an assessment of both current, as well as the forecast direction of conditions at the reporting date, is considered. The transition to NZ IFRS 9 has resulted in a change to the estimation technique used to measure expected credit losses from an incurred loss model to an expected loss model during the current reporting period.

The Group writes off a trade receivable when it is determined there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

(h.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.

(h.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.

(h.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.

(h.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 are aligned to the Group's documented risk management strategy approved by the Board.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and the hedging instrument.

The effective 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.

(i) Finance expense

Finance expense comprises interest payable on borrowings and interest paid on interest rate hedging instruments. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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) Gross property income

Gross property income from investment property leased to tenants under operating leases is recognised on a straight-line basis over the term of the lease to the extent that future rental increases are known with certainty. Fixed rental adjustments are accounted for to achieve straight-line income recognition. Where lease incentives are provided to tenants, the cost of incentives is recognised over the lease term on a straight-line basis as a reduction in rental income. Tenants' share of property operating expenses which is recoverable, is recognised as gross property income from expense recoveries as the Group considers itself the principal of the arrangement. The Group collectively arranges this for tenants as part of the lease agreements.

(o) 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.

(p) Adoption of new accounting standards

The Group has adopted NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers effective from 1 July 2018.

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 NZ IFRS 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Adoption of new accounting standards (continued)

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. Accounting policies have been amended to include the five-step method, as defined in NZ IFRS 15, to recognise revenue across the Group. The Group has applied the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application.

The five-step method for recognising revenue from contracts with customers involves consideration of the following:

- Identifying the contract with the customer
- Identifying performance obligations
- Determining the transaction price
- Allocating the transaction price to distinct performance obligations
- Recognising revenue when performance obligations are satisfied, this may be at a point in time or over time

The Group considers a performance obligation is satisfied at a point in time when control of a good or service transfers to a customer. 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 to the financial statements.

(q) Standards and interpretations in issue not yet effective

At the date of authorisation of the financial statements, the following relevant standard was in issue but not applied as the standard is effective for accounting periods beginning on or after 1 January 2019.

NZ IFRS 16 Leases

Replaces the current guidance in NZ IAS 17 Leases . The standard 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, the 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.

(r) Changes in accounting policy and presentation

All accounting policies have been applied on a basis consistent with the prior years' financial statements, with the exception of the mandatory adoption of NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers outlined above. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4 SEGMENT INFORMATION

The principal business activity of the Group 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, 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/(loss) for the year ended 30 June 2019:			
Gross property income from rentals	**75,282**	**25,770**	**101,052**
Gross property income from expense recoveries	**5,001**	**5,320**	**10,321**
Property expenses	**(7,069)**	**(6,621)**	**(13,690)**
Net property income	**73,214**	**24,469**	**97,683**
Other (expense)	**(12,125)**	**(17,380)**	**(29,505)**
Strategic transaction income and expenses	**(4,273)**	**-**	**(4,273)**
Strategic transaction interest income	**2,672**	**-**	**2,672**
Net finance (expense)	**(19,685)**	**(12,857)**	**(32,542)**
	39,803	**(5,768)**	**34,035**
Fair value gain/(loss) on interest rate derivatives	**-**	**(36,314)**	**(36,314)**
Revaluation gains on investment properties	**80,363**	**23,193**	**103,556**
Other foreign exchange gains/(losses)	**(1)**	**5,757**	**5,756**
Total segment profit before income tax	**120,165**	**(13,132)**	**107,033**
Taxation (expense)			**(13,611)**
Profit for the year			**93,422**
Segment profit/(loss) for the year ended 30 June 2018:			
Gross property income from rentals	71,579	22,099	93,678
Gross property income from expense recoveries	5,090	5,168	10,258
Property expenses	(6,734)	(6,543)	(13,277)
Net property income	69,935	20,724	90,659
Other (expense)	(14,170)	(13,547)	(27,717)
Strategic transaction income and expenses	(3,579)	-	(3,579)
Strategic transaction interest income	283	-	283
Net finance (expense)	(13,274)	(9,796)	(23,070)
	39,195	(2,619)	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	115,137	2,300	117,437
Taxation (expense)			(17,372)
Profit for the year			100,065

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 $56.5m, all in Australia (2018: two tenants totalling $52.4m).

There were no inter-segment sales during the year (2018: 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.

4 SEGMENT INFORMATION (continued)

	Australia $000s	New Zealand $000s	Total $000s
Segment assets at 30 June 2019:			
Investment properties	**1,387,661**	**448,769**	**1,836,430**
Other non-current assets	**284**	**509**	**793**
Current assets	**90,963**	**3,357**	**94,320**
Consolidated assets	**1,478,908**	**452,635**	**1,931,543**
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 liabilities at 30 June 2019:			
Borrowings	**466,093**	**268,118**	**734,211**
Other liabilities	**105,986**	**61,601**	**167,587**
Consolidated liabilities	**572,079**	**329,719**	**901,798**
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

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

	2019 $000s	2018 $000s
Expenses		
Auditor's remuneration:		
Audit and review of financial statements	**183**	143
Manager's fees	**13,839**	11,856
Manager's incentive fee	**12,077**	13,096
Trustee fees	**587**	488
Other operating income/expenses	**2,819**	2,134
Total other income and expenses	**29,505**	27,717

6 FINANCE EXPENSES

	2019 $000s	2018 $000s
Expenses		
Interest expense	**33,770**	24,124
Borrowing costs capitalised	**(1,105)**	(952)
Total finance expenses	**32,665**	23,172

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7 TAXATION

	2019 $000s	2018 $000s
Profit/(loss) before tax for the period	**107,033**	117,437
Taxation (charge)/credit - 28% on profit before income tax	**(29,969)**	(32,882)
Effect of different tax rates in foreign jurisdictions	**16,043**	15,786
Tax exempt income	**7,013**	3,687
Foreign tax credits	**2,090**	2,351
Tax charges on overseas investments	**(9,932)**	(8,559)
Over/(under) provided in prior periods	**-**	1,263
Other adjustments	**1,144**	982
Taxation (expense)/credit	**(13,611)**	(17,372)
The taxation (charge)/credit is made up as follows:		
Current taxation	**(7,572)**	(3,537)
Deferred taxation	**(6,039)**	(13,835)
Total taxation (expense)	**(13,611)**	(17,372)

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.

Attributable Foreign Investment Fund Income

In previous years, distributions from VHAPT were not subject to income tax in New Zealand as VHPL was able to rely on section CW 9 of the Income Tax Act 2007. However, recent changes to the tax legislation mean that under certain circumstances (which apply to VHPL's investment into VHAPT), distributions from foreign entities will no longer be eligible for the foreign dividend exemption provided by section CW 9 of the Income Tax Act 2007 and are therefore treated as a taxable distribution in VHPL.

Imputation credits

	2019 $000s	2018 $000s
Imputation (deficit)/credits at end of year	(1,146)	(702)

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.

	2019	2018
Profit attributable to unitholders of the Trust ($000s)	**93,422**	100,065
Weighted average number of units on issue (000's of units)	**443,453**	434,322
Basic and diluted earnings per unit (cents)	**21.07**	23.04

	2019 $000s	2018 $000s
Distributable income		
Profit before income tax	**107,033**	117,437
Revaluation (gains)	**(103,556)**	(85,461)
Unrealised foreign exchange (gain)/loss	**(207)**	1,417
Unrealised foreign exchange (gain)/loss derivatives	**(102)**	300
Unrealised interest rate (gain)/loss derivatives	**36,314**	2,883
Manager's incentive fee	**12,077**	13,096
Profit used in calculating gross distributable income	**51,559**	49,672
Current tax charge	**7,572**	3,537
Profit used in calculating net distributable income	**43,987**	46,135
Gross distributable income (cpu)	**11.63**	11.44
Net distributable income (cpu)	**9.92**	10.62

Distributions paid in the financial year were 8.75 cents per unit (2018: 8.50).

9 STATEMENT OF CASH FLOWS RECONCILIATION FROM OPERATING ACTIVITIES

	2019 $000s	2018 $000s
Cash and cash equivalents		
Australian financial institutions	**5,002**	3,211
New Zealand financial institutions	**1,066**	2,177
Cash at bank	**6,068**	5,388
Reconciliation of profit after income tax to net cash flows from operating activities		
Profit after tax for the year	**93,422**	100,065
Adjustments for non-cash items		
Change in fair value of investment properties	**(103,556)**	(85,461)
Fair value (gain)/loss on derivative financial instruments	**36,212**	3,183
Unrealised foreign exchange (gain)/loss	**(207)**	1,417
Realised foreign exchange (gain)/loss	**(5,447)**	-
Deferred taxation	**6,040**	13,835
Income in advance	**(1,628)**	(1,667)
Manager's incentive fee	**12,077**	13,096
Other	**37**	(1,140)
Operating cash flow before changes in working capital	**36,950**	43,328
Change in trade and other payables	**692**	5,428
Change in taxation payable	**3,083**	(1,891)
Change in trade and other receivables	**(111)**	3,263
Items classified as investing activities	**-**	(4,414)
Net cash from operating activities	**40,614**	45,714

During the 2019 year, distributions of $6,375,614 (2018: $6,140,047) have been reinvested under the Distribution Reinvestment Plan (DRP), which is excluded from investing and financing activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10 INVESTMENT PROPERTIES

	2019 $000s	2018 $000s
Carrying value of investment property at the beginning of the year	**1,731,247**	1,376,243
Acquisition of properties	**25,158**	194,696
Capitalised costs	**34,566**	26,134
Capitalised interest costs	**633**	952
Net capitalised incentives	**(520)**	2,249
Foreign exchange translation difference	**(58,210)**	45,512
Change in fair value	**103,556**	85,461
Carrying value of investment property at the end of the year	**1,836,430**	1,731,247
Carrying value of investment property includes:		
Fair value of investment properties	**1,836,430**	1,729,705
Income in advance	**-**	1,542
Carrying value of investment property at the end of the year	**1,836,430**	1,731,247

The capitalised costs consist of $23.4m relating to Australian investment properties and $11.3m 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 2019 was $3.6m (2018: $3.2m) representing 0.2% of the total investment properties portfolio (2018: 0.2%). The weighted average lease length of leasehold property at 30 June 2019 was 19.8 years (2018: 0.8 years).

In the previous financial year Income in advance related to a termination payment received of $10.0m which was 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, the cost of such works is carried at cost until the development reaches practical completion stage. At this stage the project costs are rentalised at the respective agreed project yield, additional rent is collected from the tenant and fair value is calculated on the new rent amount. The exception to this relates to project development deeds that allow the additional rent to be collected from the tenant as development progresses, such as Wakefield Hospital. Fair value is calculated based on the adjusted rent amount.

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

Generally, as capitalisation rates and discount rates used in the valuation approaches decrease (firm), the fair value of the investment property will increase, and vice versa.

10 INVESTMENT PROPERTIES (continued)

Properties	Location	30 June 2019 Valuer
Australia		
Abbotsford Private Hospital	West Leederville, Western Australia	Colliers International
Belmont Private Hospital	Carina Heights, Queensland	Jones Lang LaSalle Australia
Clover Lea Aged Care	Burwood Heights, New South Wales	Ernst & Young
Dubbo Private Hospital	Dubbo, New South Wales	Colliers International
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	Jones Lang LaSalle Australia
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	M3
Hirondelle Private Hospital	Chatswood, New South Wales	Ernst & Young
Hurstville Private Hospital	Sydney, New South Wales	Colliers International
Lingard Private Hospital	Merewether, New South Wales	Ernst & Young
Maitland Private Hospital	East Maitland, New South Wales	Valued Care
Marian Centre	Perth, Western Australia	Colliers International
Mayo Private Hospital	Taree, New South Wales	Jones Lang LaSalle Australia
Mons Road Medical Centre	Westmead, New South Wales	Ernst & Young
North West Private Hospital	Burnie, Tasmania	Jones Lang LaSalle Australia
Palm Beach Currumbin Clinic	Currumbin, Queensland	CBRE
Rockingham Aged Care	Rockingham, Western Australia	M3
South Eastern Private Hospital	Noble Park, Victoria	Valued Care
Sportsmed Consulting	Adelaide, South Australia	Ernst & Young
Sportsmed Hospital & Clinic	Adelaide, South Australia	Ernst & Young
Sportsmed Office	Adelaide, South Australia	Ernst & Young
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	Valued Care
New Zealand		
Apollo Health and Wellness Centre	Albany, Auckland	Colliers International New Zealand Limited
Ascot Central	Greenlane, Auckland	Absolute Value
Ascot Central Carpark (ground lease)	Greenlane, Auckland	Absolute Value
Ascot Hospital & Clinics	Greenlane, Auckland	Absolute Value
Ascot Hospital Carpark (ground lease)	Greenlane, Auckland	Absolute Value
Boulcott Private Hospital	Lower Hutt, Wellington	Jones Lang LaSalle New Zealand
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	Absolute Value
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Fair value		Market capitalisation rate		Occupancy		WALE	
$000s 2019	$000s 2018	% 2019	% 2018	% 2019	% 2018	Years 2019	Years 2018
28,858	28,387	**5.3**	5.5	**100.0**	100.0	**22.7**	23.7
76,119	79,157	**5.3**	5.3	**100.0**	100.0	**16.7**	17.7
13,488	13,866	**7.0**	7.0	**100.0**	100.0	**16.7**	17.7
18,716	17,688	**6.0**	6.5	**100.0**	100.0	**12.6**	13.6
26,767	26,051	**5.8**	5.8	**100.0**	100.0	**18.5**	19.5
30,322	31,335	**5.8**	6.0	**92.1**	94.2	**3.1**	2.1
180,763	167,250	**5.0**	5.0	**100.0**	100.0	**20.8**	21.9
39,732	38,214	**5.3**	5.5	**100.0**	100.0	**8.5**	9.3
27,185	27,143	**5.5**	5.8	**100.0**	100.0	**4.6**	5.6
17,880	18,343	**7.0**	7.0	**100.0**	100.0	**16.7**	17.7
14,534	15,286	**7.2**	7.2	**63.2**	69.2	**0.9**	1.6
11,292	11,246	**7.2**	7.5	**100.0**	100.0	**17.8**	18.8
12,547	12,774	**7.2**	7.2	**100.0**	100.0	**16.7**	17.7
26,840	27,514	**5.5**	5.5	**100.0**	100.0	**22.9**	23.9
77,583	80,467	**6.3**	6.3	**100.0**	100.0	**22.8**	23.8
149,937	136,860	**5.5**	5.8	**100.0**	100.0	**26.7**	22.7
103,513	98,067	**5.5**	5.8	**100.0**	100.0	**18.5**	19.5
49,456	49,023	**5.3**	5.5	**100.0**	100.0	**15.1**	16.1
39,732	39,087	**6.3**	6.5	**100.0**	100.0	**12.5**	13.5
34,923	35,484	**5.8**	5.8	**94.5**	96.9	**3.6**	4.6
24,258	22,655	**6.0**	6.3	**100.0**	100.0	**17.4**	18.4
59,076	55,683	**5.3**	5.5	**100.0**	100.0	**12.6**	13.6
6,797	6,682	**7.2**	7.5	**100.0**	100.0	**16.7**	17.7
62,788	60,050	**5.3**	5.5	**100.0**	100.0	**21.7**	22.7
8,563	8,025	**5.5**	5.8	**100.0**	100.0	**16.6**	17.6
61,752	58,085	**5.5**	5.8	**100.0**	100.0	**15.9**	16.9
4,705	4,258	**6.0**	6.5	**100.0**	100.0	**16.6**	17.6
34,609	34,720	**5.3**	5.5	**100.0**	100.0	**28.1**	29.1
45,797	47,603	**5.5**	5.5	**100.0**	100.0	**18.6**	19.6
41,980	38,244	**5.8**	6.0	**100.0**	100.0	**23.5**	24.5
1,330,512	1,289,247						
28,000	28,500	**6.1**	6.1	**94.2**	91.5	**6.4**	7.0
39,000	35,000	**5.6**	6.1	**100.0**	100.0	**4.4**	2.6
1,625	1,550	**9.5**	9.5	**95.0**	100.0	**4.1**	2.1
112,989	106,000	**5.3**	5.4	**99.0**	100.0	**18.2**	17.6
1,975	1,625	**9.5**	9.5	**100.0**	100.0	**24.0**	25.0
40,200	38,400	**5.6**	5.8	**100.0**	100.0	**19.0**	20.0
51,300	44,300	**5.5**	5.5	**100.0**	100.0	**28.5**	29.5
20,100	19,650	**6.0**	6.0	**100.0**	100.0	**27.0**	28.0
10,900	10,800	**9.0**	9.0	**100.0**	100.0	**4.5**	1.5
38,497	35,275	**6.0**	6.1	**100.0**	100.0	**4.2**	4.2
57,536	53,864	**5.8**	5.8	**100.0**	100.0	**28.5**	29.5
33,076	26,407	**5.5**	5.5	**100.0**	100.0	**28.5**	29.5
435,198	401,371						
70,720	39,087						
1,836,430	1,729,705	**5.6**	5.8	**99.4**	99.3	**18.1**	18.2
-	1,542						
1,836,430	1,731,247						

11 INTEREST IN JOINT ARRANGEMENT

During the year the Group 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 IFRS standards applicable to the particular assets, liabilities, revenues and expenses.

12 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 $000s	2018 $000s
Current assets		
Foreign exchange derivative assets	**77**	363
Non-current assets		
Interest rate derivative assets	**-**	856
Current liabilities		
Interest rate derivative liabilities	**(502)**	(35)
Foreign exchange derivative liabilities	**(38)**	(425)
Non-current liabilities		
Interest rate derivative liabilities	**(49,436)**	(14,444)
Total	**(49,899)**	(13,685)

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 2019 (2018: nil).

Interest rate derivatives mature over the next ten years and have fixed interest rates ranging from 1.54% to 4.99% (2018: from 2.41% to 4.99%).

	2019 $000s	2018 $000s
Nominal value of interest rate swaps - AUD	**510,000**	490,000
Average fixed interest rate	**3.12%**	3.21%
Floating rates based on AUD BBSW	**1.45%**	2.07%

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 2019 (2018: nil).

	2019 $000s	2018 $000s
Nominal value of foreign exchange contracts - AUD	**12,600**	-
Nominal value of foreign exchange options - AUD	**-**	150,000
Average foreign exchange rate	**0.9519**	0.9095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13 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 2018	**(3,814)**	**84,940**	**6,344**	**(674)**	**86,796**
Charge to profit and loss for the year	**(10,168)**	**15,716**	**-**	**491**	**6,039**
Change in exchange rate	**-**	**(3,533)**	**-**	**12**	**(3,521)**
Charge to other comprehensive income	**-**	**-**	**1,553**	**-**	**1,553**
At 30 June 2019	**(13,982)**	**97,123**	**7,897**	**(171)**	**90,867**
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

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.

14 TRADE AND OTHER RECEIVABLES

	2019 $000s	2018 $000s
Trade receivables	**930**	749
Loss allowance	**(4)**	(69)
	926	680
Other receivables	**374**	509
Total trade and other receivables	**1,300**	1,189

	2019 $000s	2018 $000s
Aged past due but not impaired trade receivables		
0-30 days past due	**402**	337
31-60 days past due	**174**	53
61-90 days past due	**37**	81
beyond 90 days past due	**4**	68
	617	539

	2019 $000s	2018 $000s
Movement in the loss allowance		
Balance at the beginning of the year	**69**	7
(Decrease)/increase in allowance recognised in profit or loss	**(65)**	62
Balance at the end of the year	**4**	69

14 TRADE AND OTHER RECEIVABLES (continued)

The Group has provided for 50% of all receivables over 90 days unless there is information suggesting that particular amounts are recoverable. This amount increases to 100% of any receivable that is determined as not being recoverable. Trade receivables less than 90 days are provided for based on estimated non-recoverable amounts, determined by reference to relevant factors, conditions, and information at reporting date including past default experience.

During the year the Group had a bad debt write off of $113,864 (2018: nil).

15 OTHER ASSETS

	2019 $000s	2018 $000s
Current		
Related party advance (refer to note 24)	**83,966**	-
Other	**2,909**	3,801
Total Current	**86,875**	3,801
Non-Current		
Related party advance (refer to note 24)	**-**	43,956
Other	**793**	28
Total Non-current	**793**	43,984

16 UNITS ON ISSUE

	2019 $000s	2018 $000s
Balance at the beginning of the year	**556,878**	538,469
Issue of units under Distribution Reinvestment Plan	**6,376**	6,140
Issue of units to satisfy Manager's incentive fee	**13,095**	12,314
Issue costs of units	**(49)**	(45)
	19,422	18,409
Balance at the end of the year	**576,300**	556,878

	2019 000s	2018 000s
Reconciliation of number of units		
Balance at the beginning of the year	**436,893**	428,562
Issue of units under the Distribution Reinvestment Plan	**2,947**	2,891
Units issued to satisfy Manager's incentive fee	**6,506**	5,440
Balance at the end of the year	**446,346**	436,893

The number of units on issue at 30 June 2019 was 446,346,087 (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 (2018: 5,440,157 were issued against the 2017 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% (2018: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 BORROWINGS

	2019 $000s	2018 $000s
AUD denominated loans	**718,172**	664,374
NZD denominated loans	**17,250**	5,750
Borrowing costs	**(1,211)**	(1,412)
Total borrowings	**734,211**	668,712
Shown as:		
Current	**-**	-
Term	**734,211**	668,712

	2019 $000s	2018 $000s
Total borrowing at the beginning of the year	**668,712**	401,879
Drawdowns during the year	**118,401**	249,909
Repayments during the year	**(23,517)**	-
Additional facility refinancing fee	**(308)**	(1,029)
Facility refinancing fee amortised during the year	**470**	468
Foreign exchange movement	**(29,547)**	17,485
Total borrowings at the end of the year	**734,211**	668,712

The Group has a 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.

	2019		2018	
Tranche	**A$m**	**Expiry**	**A$m**	**Expiry**
A	125.0	31 Mar-21	125.0	31 Mar-21
B	200.0	31 Jul-22	200.0	31 Jul-22
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	175.0	20 Nov-21
F	150.0	15 Jan-22		
A$ Facility	**850.0**		**700.0**	
NZ$ Facility	**20.0**	30 Oct-20	**20.0**	30 Oct-20

On 15 February 2019 the Group entered into an expanded syndicated revolving multi-currency facility. An additional tranche of A$150 million (Tranche F) has been provided, bringing the total facility to A$850 million and NZ$20 million.

The effective interest rate on the borrowings as at 30 June 2019 was 4.40% per annum (2018: 4.60%).

The contractual rate for the borrowings varies between the tranches from 2.33% to 2.85% (2018: 2.88% to 3.26%).

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 (the Supervisor) 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.

18 TRADE AND OTHER PAYABLES

	2019 $000s	2018 $000s
Interest accrued on borrowings	**3,546**	2,860
Other creditors and accruals	**10,269**	14,105
Total trade and other payables	**13,815**	16,965

19 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

The Group incurs credit risk from trade and other receivables (note 14), related party advances (note 24) and transactions with financial institutions including cash balances (note 9), interest rate derivatives and foreign exchange derivatives (note 12). The Group is not exposed to any concentrations of credit risk apart from the related party loan. The carrying amount of these financial assets best represents the maximum exposure to credit risk at year end.

The risk associated with trade and other receivables is managed with a credit policy which includes performing credit evaluations on all customers requiring credit. Generally collateral is not required. In addition, receivable balances are managed on an ongoing basis. The Group does not hold any collateral in respect of balances past due.

The risk from financial institutions is managed by only entering into foreign exchange and interest rate 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 Group assesses on a forward looking basis, the expected credit losses (ECL's) associated with its financial assets carried at amortised cost. For trade receivables, the Group makes use of a simplified approach and records the expected credit loss as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Group uses its historical experience, external indicators and forward looking information to calculate the expected credit losses.

The impairment of trade receivables is assessed on a collective basis (grouped based on days past due) as they possess shared credit characteristics. Details of the expected credit loss recognised in relation to trade receivables is disclosed in note 14.

For the related party advance, the Group recognises a lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk has not increased significantly since initial recognition, the Group measures the loss allowance at an amount equal to a 12 month ECL. It has been assessed that there has been no significant increase in credit risk as the loan has been repaid in full subsequent to balance date (refer note 23 subsequent events).

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 2019, 72.5% of borrowings were at fixed rates as approved by the Board of Directors (2018: 79.8%). 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

19 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 2019						
Cash and cash equivalents (floating rates)	1.45%	**6,068**	**-**	**-**	**-**	**6,068**
Borrowings (floating rates)	2.49%	**(202,173)**	**-**	**-**	**-**	**(202,173)**
Borrowings (fixed rates)	4.16%	**(52,279)**	**(20,912)**	**(31,368)**	**(428,690)**	**(533,249)**
		(248,384)	**(20,912)**	**(31,368)**	**(428,690)**	**(729,354)**
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)

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) 2019 $000s	Impact on unitholders' funds 2019 $000s	Impact on profit/(loss) 2018 $000s	Impact on unitholders' funds 2018 $000s
If interest rates had been 100 bps higher:	**29,474**	**29,474**	29,683	29,683
If interest rates had been 100 bps lower:	**(32,289)**	**(32,289)**	(32,582)	(32,582)

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) 2019 $000s	Impact on unitholders' funds 2019 $000s	Impact on profit/(loss) 2018 $000s	Impact on unitholders' funds 2018 $000s
If interest rates had been 100 bps higher:	**(1,849)**	**(1,849)**	(1,294)	(1,294)
If interest rates had been 100 bps lower:	**1,849**	**1,849**	1,294	1,294

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.

19 FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange exposure

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

	2019 $000s	2018 $000s
Non-financial instrument assets and liabilities denominated in Australian dollars		
Investment properties	**1,387,661**	1,327,104
Other assets	**107,288**	175,701
Deferred tax	**(93,097)**	(80,673)
Total non-financial instrument assets and liabilities	**1,401,852**	1,422,132
Non-derivative financial instruments		
Cash and cash equivalents	**5,002**	3,211
Trade and other receivables	**1,111**	842
Trade and other payables	**(12,889)**	(17,401)
Borrowings	**(718,172)**	(664,374)
Total exposure from non-derivative financial instruments	**(724,948)**	(677,722)
Derivative financial instruments		
Foreign exchange derivatives	**39**	(62)
Interest rate swaps	**(49,938)**	(13,624)
Total exposure from derivative instruments	**(49,899)**	(13,686)
Net exposure to currency risk	**627,005**	730,724

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 (2018: 10%) based on year end exposures:

	2019 $000s	2018 $000s
If the New Zealand Dollar versus the Australian Dollar was 10% higher for the year:		
Profit and loss	**12,326**	1,978
Other comprehensive income	**(76,240)**	(60,884)
Unitholders' funds	**(63,914)**	(58,906)
If the New Zealand Dollar versus the Australian Dollar was 10% lower for the year:		
Profit and loss	**(15,065)**	(2,417)
Other comprehensive income	**93,183**	74,414
Unitholders' funds	**78,118**	71,997

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19 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, Bank of New Zealand and National Australia Bank of A$850.0m and NZ$20.0m (2018: A$700.0m and NZ$20.0m). As at 30 June 2019, after translation to NZ$735.4m (2018: NZ$670.1m) had been drawn-down. The effective interest rate was 4.40% (2018: 4.60%).

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 2019						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	**(735,422)**	**(752,343)**	**(8,246)**	**(362,379)**	**(172,383)**	**(209,335)**
Trade and other payables	**(13,815)**	**(13,815)**	**(13,815)**	**-**	**-**	**-**
	(749,237)	**(766,158)**	**(22,061)**	**(362,379)**	**(172,383)**	**(209,335)**
Derivative financial instruments						
Interest rate swaps	**(49,938)**	**(50,800)**	**(9,653)**	**(9,422)**	**(8,721)**	**(23,004)**
Foreign exchange derivatives	**39**	**39**	**39**	**-**	**-**	**-**
	(49,899)	**(50,761)**	**(9,614)**	**(9,422)**	**(8,721)**	**(23,004)**
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)

19 FINANCIAL RISK MANAGEMENT (continued)

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 performs an effectiveness test on 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 directly 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 there must be:

- an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

There has been no ineffectiveness loss on the net investment hedges during the year ended 30 June 2019 (2018: NZ$145,455). The face value of hedging instruments designated in net investment hedges is:

	2019 $000s	2018 $000s
Borrowings	**125,471**	131,019
Foreign exchange derivatives (nominal amount)	**-**	163,773

Categories of financial instruments

The Group's financial instruments are classified as:

	Financial assets at amortised cost $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 2019	**94,243**	**(748,026)**	**77**	**(49,976)**
30 June 2018	54,334	(685,677)	1,219	(14,904)

Cash, cash equivalents, trade and other receivables, trade and other payables, borrowings and related party advances

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

As a result of the transition to IFRS 9 Financial Instruments, cash and trade and other receivables, which were previously classified as "loans and receivables", are now classified in the "financial assets at amortised cost" category. There have been no changes to measurement as a result of the transition.

20 INVESTMENT IN SUBSIDIARIES

The Trust has control over the following subsidiaries:

Name of subsidiary	Principal activity	Place of incorporation and operation	Holding 2019	Holding 2018
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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21 COMMITMENTS

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:

	2019 $000s	2018 $000s
Capital commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	**222,213**	9,183

	2019 $000s	2018 $000s
Not later than one year	**98,632**	98,157
Later than one year and not later than five years	**432,696**	433,381
Later than five years	**833,808**	899,911
	1,365,136	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 1.23.2 The bank bond required by the Trust for listing on the NZSX is $50,000.

22 CONTINGENCIES

There were no contingencies as at 30 June 2019 (2018: nil)

23 SUBSEQUENT EVENTS

On 8 August 2019 a final cash distribution of 2.1875 cents per unit was announced by the Trust. The Record Date for the final distribution is 12 September 2019 and a payment is scheduled to unitholders on 26 September 2019. There will be 0.6725 cents per unit of imputation credits attached to the distribution.

On 2 August 2019 the related party advance to NWH Australia Asset Trust (NWHAAT) of A$80.3m as disclosed in note 24 was repaid in full.

24 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 (NWIHLP). The ultimate parent of NWIHLP is Toronto listed 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 also 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 basis for the calculation of management and incentive fees is stipulated in the Trust Deed.

The base 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 is 10% of the amount of the increase with payment being made by way of subscribing for new units.

On 1 April 2019 a revised basis for management fees was outlined setting out a tiered basis for charging the base management fees including a provision for charging certain specified activity and service fees (see later). This revised basis remains subject to unitholders approving amendments to the Trust Deed to reflect the outlined fees, with such approval expected to be obtained pre 31 October 2019. Should unitholders not approve such an amendment then the calculation of management and incentive fees will remain as currently stipulated in the Trust Deed.

24 RELATED PARTY TRANSACTIONS (continued)

Remuneration of the Manager (continued)

In the intervening period the Manager has agreed to procure that the fees charged will not exceed those that would have been charged if the amendments had been effective from 1 April 2019 (other than in respect of the incentive fee). In performing the calculation of the existing Trust Deed fee structure compared to the proposed fee structure the outcome is that the management fees being charged are as per the existing fee basis.

Transactions with related parties include:

		2019 $000s	2018 $000s
Fees expensed			
Management fees		**13,839**	11,856
Manager's incentive fees		**12,077**	13,096
Strategic transaction fees		**2,834**	-
Property management fees	(b)	**214**	200
AFSL fee		**834**	781
Total fees expensed		**29,798**	25,933
Fees capitalised			
Service fees			
- Acquisition fees	(d)	**222**	1,342
- Development management fees	(e)	**1,208**	807
Total fees capitalised		**1,430**	2,149
Total fees		**31,228**	28,082

The management and incentive fees shall not exceed an amount equal to 1.75% per annum of the gross value of the Trust. Based on the total fees charged (excluding expenses reimbursed) as at 30 June 2019 this was 1.62% (2018: 1.58%)

	2019 $000s	2018 $000s
Expenses reimbursed		
Strategic - Capital charge	**3,259**	-
Strategic - Financing cost	**2,387**	-
Third party costs recovered	**300**	45
Total expenses reimbursed	**5,946**	45
Total transactions with related parties	**37,174**	28,127

As detailed further under the heading "Acquisition of an interest in Healthscope Limited" below, the strategic - capital charge and strategic - financing costs, were approved by the independent directors of the Manager under section 173(2)(b) of the Financial Markets Conduct Act 2013.

	2019 $000s	2018 $000s
Amounts outstanding		
Manager's incentive fees	**12,077**	13,096
Expenses charged by NorthWest Healthcare Properties Management Limited	**143**	-
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	**1,957**	17
	14,177	13,113

From 1 April 2019, the revised basis for management fees to be adopted would give rise to the base management fees being charged at:

- 0.65% per annum of the monthly average of the gross value of the assets of the Trust up to $1 billion,
- 0.55% per annum of the monthly average of the gross value of the assets of the Trust between $1 billion and $2 billion,
- 0.45% per annum of the monthly average of the gross value of the assets of the Trust between $2 billion and $3 billion, and
- 0.40% per annum of the monthly average of the gross value of the assets of the Trust over $3 billion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 RELATED PARTY TRANSACTIONS (continued)

Remuneration of the Manager (continued)

The gross value of the assets of the Trust for the base management fee are calculated for the quarter ended on the last day of that month.

From 1 April 2019, activity services and activity fees would be charged based on the following categories:

a) Leasing

Vital pays the Manager leasing fees where the Manager has negotiated leases instead of or alongside a real estate agent. Consistent with general market rates, these fees are charged at 11% of the annual rental for terms of 3 years or less (to a minimum of $2,500), 12% of the annual rental for terms of 3 years, and 12% plus an additional 1% for each year greater than three years (to a maximum of 20%.).

Lease renewals are charged at 50% of a new lease. Structured rent reviews or market reviews which do not result in a rental increase are charged an administration fee of $1,000. Open market reviews are charged at 10% of the rental increase achieved in the first year. Leasing fees are capitalised to the respective investment or development property in the Statement of Financial Position and amortised over the term of the life of the lease.

b) Property management

Vital pays the Manager property management fees where the Manager acts as the property manager instead of or alongside a real estate agent. These fees are charged at 1% - 2% of gross income depending on the type of property. These fees are expensed through direct operating expenses in the year in which they arise.

c) Facilities management

Vital pays a facilities management fee on a cost recovery basis to the Manager. These fees are expensed through direct operating expenses in the year in which they arise.

From 1 April 2019, additional services and costs would be charged based on the following categories:

d) Acquisitions

Vital pays fees to the Manager for managing the due diligence, financing, legal aspects and settlement of the purchase of properties instead of or alongside a real estate agent. These fees are charged at 1.5% of the purchase price. Acquisition fees are capitalised to the respective investment or development property in the Statement of Financial Position.

e) Development management

Vital pays development management fees where the Manager acts as a development manager on Vital developments. These fees are charged at 4% of the committed spend, exclusive of land. Development management fees are capitalised to the respective investment or development property in the Statement of Financial Position.

f) Project management

Vital pays project management fees to the Manager for managing capital expenditure projects, instead of engaging an external project manager. These fees are charged at 2% of the committed spend where the Manager is the project lead and 1% of committed spend where the Manager has an oversight role. Project management fees are capitalised to the respective property in the Statement of Financial Position.

24 RELATED PARTY TRANSACTIONS (continued)

Remuneration of the Manager (continued)

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

	Expenses		Amounts Outstanding	
	2019 $000s	2018 $000s	2019 $000s	2018 $000s
Andrew Evans	**50**	50	**50**	-
Graham Stuart	**50**	n/a	**50**	n/a
Claire Higgins	**105**	40	**105**	-
Graeme Horsley	**-**	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

Derivative contract

During the 2018 and 2019 financial years, NWHAAT entered into derivative contracts with Deutsche Bank AG ("DB") which gave NWHAAT an economic interest equivalent up to 13% of the outstanding shares of HSO by way of a forward contract to acquire HSO shares and an option contract (the terms of which minimise the underlying margin requirements associated with the forward contract). The forward gave 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. NWHAAT prepaid A$85.3 million of the A$415.1 million notional amount of the forward contract.

Under the forward contract NWHAAT was entitled to receive dividend equivalents declared by HSO and it paid variable interest on the underlying embedded funding contained in the forward contract at Bank Bill Swap Bid Rate ("BBSY") plus 3% to 3.5%.

The zero cost option contract for 173,970,330 options limited the benefits to NWHAAT of HSO share price appreciation above A$2.60 and limited the exposure to HSO share price depreciation below A$2.00 down to A$1.25 per share. The option contract also provided that NWHAAT will reimburse DB for its costs should DB be required to borrow HSO stock to fulfill its obligations under the forward contract.

On 6 June 2019 the derivative was settled by DB, and the Group's 50% share of the settlement funds was received on 12 June 2019. The total amount received in settlement of the derivative by Vital was A$6,176,171.

Related party loan

In accordance with the intention of the Joint Investment Policy, the Group had the benefit of participating in up to 50% of the opportunity and agreed to jointly pay the costs and jointly share the benefits and risks of the mark to market risk of the arrangement with DB . On 6 May 2018, the Group entered into an agreement with NWHAAT to advance up to A$41.0m to NWHAAT, of which A $40.0m had been advanced as at 30 June 2018.

On 5 December 2018, the Group entered into an amended loan agreement with NWHAAT to advance up to A$81m, to NWHAAT. 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 . The loan remained in place at balance date with a repayment date of 5 December 2019, however, was repaid in full subsequent to balance date on 2 August 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24 RELATED PARTY TRANSACTIONS (continued)

Other Related Parties (continued)

Fees and reimbursements

Due to the significant nature of the proposed HSO real estate transaction the Manager initially charged a prepaid acquisition fee (HY19: $8.2m). This was subsequently amended to be a fee for the acquisition of the HSO derivative of $2.8m which was based on the cost incurred and work performed by the Manager, plus a capital charge of $3.3m based on NW REIT (the ultimate owner of the Manager) providing security to Deutsche Bank for all of the HSO derivative participation and a recharge of financing costs of $2.4m which was charged based on the sharing of costs under the Joint Investment Policy. These fees recognise the significant time, complexity of the transaction and resources the Manager had contributed pursuing this transaction.

During the period, Directors had exercised judgement in determining that those fees were capitalised, as the Group continued to make further progress on the HSO transaction. On 10 May 2019 Vital announced that after due consideration, Vital had declined to participate in the HSO real estate acquisition opportunity with NWHAAT. Vital would still participate in 50% of NWHAAT's derivative position in the HSO shares including payment of associated fees. These arrangements, along with related financing, were to be settled in accordance with their terms following the completion of the transaction.

Net strategic transaction costs, including interest income on the related party loan, incurred during the 2019 financial year totalled $1.6m (2018: 3.2m). These net costs comprise a notional HSO dividend received along with the proceeds from the close out of the HSO derivative. Against this were charges for fees, financing expenses, third party commissions, legal and interest expenses representing the Group's share of third party costs of the HSO derivative. The related party amounts settled on a net basis with NWHAAT.

As the Group has determined that the HSO derivative financing cost and capital charge were not payable to the manager for management services under the Trust Deed, the Directors have applied judgement in approving those payments to NWHAAT under section 173(2)(b) of the Financial Markets Conduct Act 2013, after considering expert advice, and provided a certificate to the supervisor recording that fact.

	2019 $000s	2018 $000s
During the year there have been transactions between the Trust and the Manager		
Related party advance	**40,293**	43,673
Interest income	**2,672**	283
Strategic transaction costs		
Healthscope dividend	**7,363**	-
Realised gain/(loss) on derivative	**6,128**	(114)
NorthWest derivative acquisition fee	**(2,834)**	-
HSO derivative (financing cost)	**(2,387)**	-
HSO derivative (capital charge)	**(3,259)**	-
Third party commission, interest and legal	**(9,284)**	(3,465)
Total strategic transaction costs	**(4,273)**	(3,579)
Net strategic transaction costs	**(1,601)**	(3,296)
Balances outstanding at the end of the year are unsecured		
Amounts owing from related party (NWHAAT)	**83,966**	43,956
Amounts owing to related party (NWHAAT)	**-**	(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 2019, 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 FIN 1 to FIN 30, present fairly, in all material respects, the consolidated financial position of the Group as at 30 June 2019, 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.

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 $1,836 million as at 30 June 2019. Revaluation gains on the Group's investment properties for the year ended 30 June 2019 of $104 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 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 for no more than two consecutive years per property as set out in the Trust Deed, to perform valuations for each of
	We have evaluated the appropriateness of the valuation of investment property by performing the following:
	
	• Reviewing the external valuers' valuation reports. We evaluated the key metrics, including capitalisation rate, market rent and contract rent on a property and portfolio basis for year on year movements and assessed whether in our judgement, the movements represented outliers to investigate. We held discussions, on a sample basis, with the valuers and challenged assumptions, including the possible outliers identified.
	• 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.
	• Evaluating the objectivity, independence and expertise of the 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.

Deloitte.

the properties on an annual basis. The valuation methods used for assessing the fair value include a combination of direct comparison, discounted cash flow, capitalisation 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.	• 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 data where available.
Related party transactions - pursuit of Healthscope property assets During the period, the Group together with Northwest Healthcare Australia Asset Trust, a related party, pursued the acquisition of certain Healthscope Limited property assets. The Group, ultimately, determined that it would not participate in the transaction. Information on the pursuit of the Healthscope property assets is detailed in Note 24, including the transaction background, the accounting treatment, judgement applied for the related party transaction, related party fees, reimbursement of costs and third party costs. While the transaction did not eventuate, it is a Key Audit Matter due to the involvement of related parties and the judgement applied by the Board of Directors in respect of how the fees and costs incurred in respect of the transaction are considered under the Trust Deed.	We have evaluated the related party transactions in respect of the pursuit of the Healthscope property assets, by performing the following procedures: • Reviewing relevant minutes of board meetings and management papers. • Obtaining management papers detailing the judgement applied by the Board of Directors in determining whether the fees and costs charged or reimbursed are in accordance with the Trust Deed. We also reviewed independent advice obtained by the Board of Directors and compared this to the judgement applied by the Board of Directors. • Agreeing to supporting documentation a sample of the related party transactions, including costs, cost reimbursment, fees charged or income earned. • Assessing the adequacy of disclosures made in the consolidated financial statements in relation to these related party transactions.

Other information

The Board of Directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

Our responsibility is to read the other information identified above when it becomes available and consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information in the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Board of Directors and consider further appropriate actions.

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.

Deloitte.

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
8 August 2019