INTERIM REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

INVESTING IN AUSTRALASIA'S HEALTHCARE INFRASTRUCTURE

VALUE OF PORTFOLIO $1.93bn

LIKE FOR LIKE RENTAL GROWTH 2.5%	NORMALISED NDI $22.1M UP 14.6%
12 MONTH TOTAL UNITHOLDER RETURN 39.9%	NET TANGIBLE ASSETS (NTA) PER UNIT OF $2.36
DEBT TO GROSS ASSETS RATIO 35.1%	HEADROOM AVAILABLE UNDER CREDIT FACILITIES $225m
FY20 CASH DISTRIBUTIONS OF AT LEAST 8.75cpu	OCCUPANCY 99.5%

CHAIRMAN'S LETTER TO UNIT HOLDERS

TOTAL RETURN FOR THE 12 MONTHS ENDED 31 DECEMBER 2019

39.9%[1]

DEAR UNITHOLDERS,

I am delighted to report on the six months ended 31 December 2019 (the Half Year); a period of substantial accomplishment for Vital. Work undertaken during the Half Year has positioned Vital to take advantage of future opportunities and continue to provide growing returns for unitholders.

On the financial front, Vital recorded a 39.9% total return for the 12 months to 31 December 2019[1]. Distributions totaling 4.375 cents per unit (cpu) will be made for the Half Year.

During the Half Year we appointed a new Fund Manager, Aaron Hockly, and a new CFO, Michael Groth in late 2019. Both Aaron and Michael have extensive experience in property and funds management including previous experience in healthcare property.

[1] Source: Forsyth Barr analysis.

We also appointed another independent director, Dr Michael Stanford, to Vital's board in accordance with our previous commitments. Dr Stanford has significant experience in both public and private healthcare including 16 years as CEO of St John of God Healthcare, Australia's third largest private healthcare operator and a former Board member of Healthscope, Australia's second largest private hospital operator. His skills and experience complement the property, financial, legal and other skills and experience of Vital's existing directors. An independent chair will be appointed by the 2020 AGM, consistent with the commitment made.

In October 2019, unitholders approved our revised management fee structure and we were pleased to see overwhelming support (99% voted in favour).

Following many months of work, we announced a proposal to restructure Vital to facilitate a foreign exempt listing on the ASX. This restructure will remove inefficiencies in Vital's current structure, lead to increased unitholder distributions and give Vital deeper access to equity capital to support future earnings growth.

I would like to acknowledge my fellow directors and the NorthWest regional team comprising over 40 professionals in Auckland, Melbourne and Sydney who continue to deliver excellent outcomes for Vital's unitholders.

On behalf of your Board, thank you for your on-going support.

Bernard Crotty
CHAIRMAN

MANAGER'S REPORT TO UNIT HOLDERS

NORMALISED NDI OF $22.1M UP

14.6%

DEAR UNITHOLDERS,

We are pleased to present this Half Year report. Vital has the enviable position of being Australasia's only listed specialist healthcare property owner. The Trust has grown substantially, particularly over the last four years, and we will seek to continue this growth in both Australia and New Zealand as a means of providing a stable and growing income stream for unitholders. Our key activities during the Half Year, including the proposed foreign exempt listing on the ASX, are all designed to support future growth in earnings and distributions.

MOVEMENTS IN VITAL'S KEY METRICS OVER THE 12 MONTHS ENDED 31 DECEMBER 2019:

	31 Dec 2019	31 Dec 2018	% change
Normalised NDI per unit (cpu)	4.918	4.376	12.4%
AFFO per unit (cpu)	4.896	4.464	9.7%
Distributions per unit (cpu)	4.375	4.375	0.0%
Debt to total assets	35.1%	39.5%	(4.40%)
Properties ($m / no.)	$1,927 / 42	$1,766 / 42	9.1%
Occupancy	99.5%	99.4%	0.1%
Weighted average lease expiry ('WALE') in years	17.9	18.0	(0.1%)
Net tangible assets per unit	$2.36	$2.24	5.4%
Unit price	$2.82	$2.09	34.9%

FINANCIAL RESULTS

Normalised NDI for the half year increased by 14.6% to $22.1m (HY19: $19.3m) equating to 4.918 cents per unit ("cpu"). Cash from operations available to unitholders, measured by AFFO, increased 11.8% to $22.0m.

Total expenses were $26.3m, 13.4% lower than the prior corresponding period ('pcp').

Key expenses were:

1. Net finance expenses of $14.6m, an 8.9% decrease on pcp due to lower floating interest rates and repayment of the related party loan.
2. Management fees of $9.5m, a 21.0% decrease on pcp partly due to the new fee structure (base fees of $6.3m, a 9% pcp decrease, and incentive fees of $3.2m, a 37% pcp decrease).
3. Corporate costs of $2.4m, a 33% increase on pcp due to recently introduced Australian foreign ownership land taxes and costs related to the unitholder vote on fee and governance changes.

Vital's NTA increased to $2.36 per unit at 31 December 2019 a 5.4% increase from 31 December 2018. This change was primarily due to property revaluation gains.

PORTFOLIO OVERVIEW

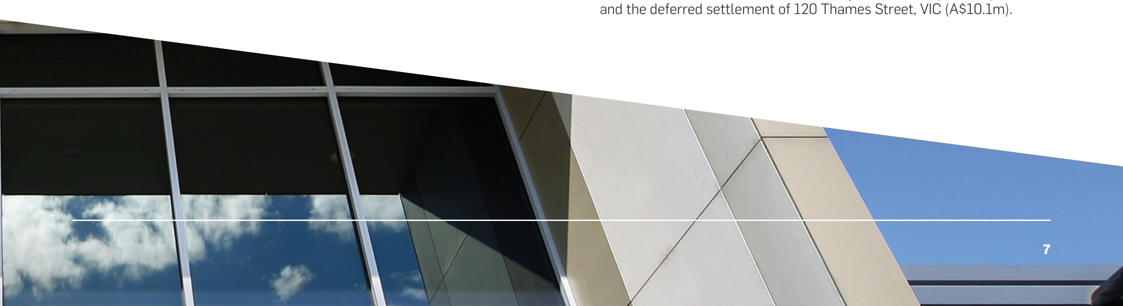
Vital owns a high quality portfolio of private hospitals in Australia and New Zealand; complemented by a growing portfolio of mental health, rehabilitation, medical office buildings and aged care facilities. The portfolio also includes strategic and development assets allowing us to respond to the evolving property needs of our tenants and the communities in which we operate.

There were no acquisitions or disposals of investment properties during the half year; $11.2m was contracted for strategic property acquisitions[2]. Post balance date, we announced the conditional acquisition of three Australian aged care assets. These acquisitions total approximately NZ$60.1 million (A$57.5 million) and are expected to settle before the end of the financial year. We are also considering divesting a number of assets but no settlements are expected this financial year.

Like-for-like property income increased 2.5% on a same currency basis.

Vital's weighted average lease expiry ("WALE") was 17.9 years at 31 December 2019; the longest of any ASX or NZX-listed property entity.

[2] Includes the settlement of 10 Buttercup Street, QLD (A$0.4m) and the deferred settlement of 120 Thames Street, VIC (A$10.1m).



THE VALUE OF THE PORTFOLIO INCREASED BY $91M OVER THE HALF YEAR AS FOLLOWS:

Opening Valuation (30 Jun 2019)	**1,836**
Cap Rate Compression (from revaluations)	25
Rental Increases (from revaluations)	18
Capital Expenditures	39
Acquisitions	11
Right Of Use Asset[3]	4
Foreign Exchange	(7)
Closing Balance (31 Dec 2019)*	**1,927**

**May not sum due to rounding.*

The weighted average capitalisation rate ("**WACR**") across Vital's portfolio firmed by 9 basis points over the half year (5.61% to 5.52%) as shown in the table below:

Location	WACR 31 Dec 2019	WACR 30 June 2019	Change (Basis Points)
Australia	5.47%	5.57%	(10)
New Zealand	5.66%	5.72%	(6)
Total	**5.52%**	**5.61%**	**(9)**

PROJECTS

Developments and expansions are a favourable driver of Vital's earnings growth as they typically:

1. Provide an accretive return on cost for Vital.
2. Respond to our tenants' business and operating requirements (reducing their costs and / or increasing their revenues).
3. Ensure Vital's assets are modern, fit-for-purpose and accord with community / patient expectations.

Significant capital expenditure continues to be invested across the portfolio at the following projects:

Property	Overview	Spend To Date	Cost To Complete
Australia			
Lingard Day Surgery, NSW	New day surgery unit, consulting building and car park	NZ$21.9m (A$21.0m)	NZ$5.2m (A$5.0m)
The Hills, NSW	Expansion including 26 private rooms	NZ$4.1m (A$3.9m)	NZ$4.9m (A$4.7m)
Epworth Eastern, VIC	New 14 storey tower incorporating 60 beds and emergency department	NZ$21.3m (A$20.5m)	NZ$110.1m (A$105.7m)
New Zealand			
Wakefield Hospital, NZ	Staged demolition and redevelopment of entire hospital	NZ$19.4m	NZ$78.6m
Royston Hospital, NZ	Expansion including two new operating theatres	NZ$5.0m	TBD[4]
Total		**NZ$71.7m**	**NZ$198.8m**

[3] Represents the fair value adjustment to Vital's leasehold interest in the Ascot Hospital and Ascot Central car parks in accordance with NZ IFRS 16.
[4] Work is underway to reassess the scope of the Royston expansion with a view to increase the size of the project.

CAPITAL MANAGEMENT

Vital's all-in weighted average cost of debt as at 31 December 2019 was 4.03% (31 December 2018 - 4.50%) with this decrease being primarily the result of a decline in floating rates.

The debt to total assets ratio was 35.1% at 31 December 2019 (31 December 2018 – 39.5%). Given the nature of Vital's portfolio (17.9 year WALE, high quality tenant base and limited property expenses which are not recoverable from tenants) the Board and Management are comfortable with both the current and projected levels of debt. Vital currently has approximately $225m of headroom under its current debt facilities.

At the end of December 2019, Vital received credit approval for an expansion and extensions to Tranche C (A$125M up from A$100m) and the NZ dollar facility (NZ$20m, unchanged) to October 2023 and an expansion and extension to Tranche D (A$115m up from A$100m) to October 2021. Pro forma these extensions, Vital's average debt maturity would be 2.3 years.

Following the proposed restructuring and foreign exempt listing on the ASX, Vital's debt will be extended and diversified.

MANAGEMENT FEES

Vital's new management fee structure was approved by unitholders at the AGM in October 2019. The key change was to reduce the base management fees from a fixed 0.75% of gross assets to a tiered fee structure:

Gross Value of Portfolio	Base management fee[5]
< / = $1 billion	0.65%
>$1 billion to < / = $2 billion	0.55%
>$2 billion to < / = $3 billion	0.45%
= / > $3 billion	0.40%

There were also changes to activity-based fees. Full details are available on Vital's website.

Total management fees for HY20 were $9.5m ($12.0m for pcp).[6]

FOREIGN EXEMPT LISTING

At Vital's Annual General Meeting in October 2019 it was announced that Vital was exploring a foreign exempt listing on the ASX. In December 2019, we released further details to the NZX of this proposal which involves separating Vital's New Zealand and Australian properties into separate but stapled trusts removing inefficiencies for investors outside of New Zealand. Removing these inefficiencies is required to facilitate a foreign exempt listing on the ASX.

Key benefits are expected to include:

1. Increased distributions and payout ratio for all unitholders.
2. Providing Vital with access to broader and deeper sources of capital, ensuring an efficient cost of capital.
3. A more competitive position for acquisitions and development projects for future earnings growth.
4. Expected increase in the value and liquidity of Vital's units over time.

Importantly, there will be no change to Vital's:

a. Primary listing on the NZX.

b. PIE status in respect of its New Zealand assets.

c. Core strategy of owning quality, well tenanted healthcare real estate in New Zealand and Australia as a means of providing a stable and growing income stream for investors.

[5] Note that the above fees are tiered on the basis that management fees charged on the first $1 billion of gross asset value are 0.65% notwithstanding the total value, similarly for $1-2 billion at 0.55% and $2-3 billion at 0.45%.

[6] These figures exclude development fees which are capitalised to projects.

Grant Samuel has been appointed as an independent adviser to consider the transaction for unitholders. Their report will be included in the Notice of Meeting.

A foreign exempt listing on the ASX will bring Vital in line with over 50% of other NZX50 listed entities and support Vital to continue to grow its earnings.

The proposal does not change the fees and governance approved by unitholders in 2019 and NorthWest will not receive any additional fees for services provided in connection with the proposal.

Vital is currently in advanced discussions with regulators in New Zealand and Australia on this proposal and anticipates releasing a notice of meeting in the coming weeks.

OUTLOOK

Healthcare property is a defensive asset class underpinned by growing demand, high levels of government support (in both New Zealand and Australia) and continued growth of institutional acceptance as an asset class. As Australasia's only listed owner of healthcare real estate, Vital is well positioned to take advantage of opportunities in this sector.

Vital also benefits from being managed by NorthWest one of the world's leading specialist healthcare property owners and managers, a relationship Vital will continue to leverage in the future. Opportunities include:

1. Access to a team of 40+ healthcare property professionals with deep experience and relationships in the region.
2. Utilising NorthWest's brand and scale to support capital raising initiatives (debt and equity).
3. Leverage strategic insights and operating experience of 200+ professionals in countries where NorthWest has interests including Canada, Germany, Brazil and the UK.

Our plan for the short to medium term is as follows:

1. Seek unitholder approval to restructure Vital to facilitate a foreign exempt listing on the ASX (unitholder vote expected to be scheduled before 31 March 2020).
2. Subject to unitholder approval of the proposed restructure, reset Vitals' interest rates swaps, increase distributions and increase the payout ratio.
3. Complete the acquisitions announced today and continue to consider further investments across New Zealand and Australia, including existing and future developments and expansions, as a means of growing earnings.
4. Extend the debt maturity profile and diversify sources of debt.

Thank for you on-going support for Vital. We look forward to Vital's new era with a continued focus on growing Vital's earnings.

NorthWest Healthcare Properties Management Limited
MANAGER OF THE VITAL HEALTHCARE PROPERTY TRUST


Our past
beginning
Mayo Private Hospital
Serving the local community since 1922
Mayo Private Hospital is a respected, much-loved organisation because of all who have gone before and all who give their best today.
building on the past
a time line
1920
1922
1940s
1976
1997
2012
an honour and a privilege

FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2019

	Note	6 months Dec-19 $000s	6 months Dec-18 $000s
Gross property income from rentals		**51,084**	50,537
Gross property income from expense recoveries		**6,335**	5,293
Property expenses		**(7,521)**	(6,995)
Net property income	3	**49,898**	48,835
Other income and expenses		**(11,998)**	(13,524)
Net strategic transaction income/(expenses)	14	**7**	(4,588)
Strategic transaction interest income	14	**267**	1,003
Finance income		**41**	38
Finance expense		**(14,619)**	(16,035)
Operating Profit		**23,596**	15,729
Other gains/(losses)			
Revaluation gain on investment property	6	**42,612**	43,482
Fair value gain/(loss) on foreign exchange derivatives		**137**	318
Fair value gain/(loss) on interest rate derivatives		**1,503**	(8,262)
Unrealised gain/(loss) on foreign exchange		**642**	5,162
		44,894	40,699
Profit before income tax		**68,490**	56,428
Taxation expense	4	**(11,297)**	(9,630)
Profit for the period attributable to unitholders of the Trust		**57,193**	46,798
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		**(4,203)**	(33,561)
Realised foreign exchange gain/(loss) on hedges		**-**	19
Current taxation (expense)/credit		**-**	(5)
Unrealised foreign exchange gain/(loss) on hedges		**-**	7,042
Deferred taxation (expense)/credit		**-**	(1,972)
Fair value gain/(loss) on net investment hedges		**484**	4,876
Deferred taxation (expense)/credit		**(135)**	(1,365)
Total other comprehensive income/(loss) after tax		**(3,854)**	(24,966)
Total comprehensive income after tax		**53,339**	21,832
Earnings per unit			
Basic and diluted earnings per unit (cents)	5	**12.70**	10.59

The notes on pages FIN-5 to FIN-21 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	Dec-19 $000s	Jun-19 $000s
Non-current assets			
Investment properties	6	**1,926,743**	1,836,430
Other non-current assets	7	**455**	793
Total non-current assets		**1,927,198**	1,837,223
Current assets			
Cash and cash equivalents		**5,225**	6,068
Trade and other receivables		**1,264**	1,300
Other current assets	7	**4,769**	86,875
Derivative financial instruments	8	**176**	77
Total current assets		**11,434**	94,320
Total assets		**1,938,632**	1,931,543
Unitholders' funds			
Units on issue	9	**591,839**	576,300
Reserves		**(29,193)**	(16,469)
Retained earnings		**507,184**	469,914
Total unitholders' funds		**1,069,830**	1,029,745
Non-current liabilities			
Borrowings	10	**453,046**	734,211
Lease liability - ground lease	2	**3,876**	-
Other payables	6	**9,994**	-
Derivative financial instruments	8	**47,952**	49,436
Deferred tax		**96,919**	90,867
Total non-current liabilities		**611,787**	874,514
Current liabilities			
Trade and other payables		**18,874**	13,815
Income in advance		**1,335**	652
Derivative financial instruments	8	**482**	540
Taxation payable		**9,762**	12,277
Borrowings	10	**226,562**	-
Total current liabilities		**257,015**	27,284
Total liabilities		**868,802**	901,798
Total unitholders' funds and liabilities		**1,938,632**	1,931,543

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

B Crotty, **Chair** G Stuart, **Independent Director**

19 February 2020

The notes on pages FIN-5 to FIN-21 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 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 six months ended 31 December 2018						
Balance at the start of the six months	556,878	415,469	(54,911)	57,445	13,095	987,976
Changes in unitholders' funds	16,040	-	-	-	(13,095)	2,945
Manager's incentive fee	-	-	-	-	5,112	5,112
Profit for the period	-	46,798	-	-	-	46,798
Distributions to unitholders	-	(19,413)	-	-	-	(19,413)
Other comprehensive income for the period						
Movement in foreign currency translation reserve	-	-	(33,561)	-	-	(33,561)
Realised foreign exchange gains on hedges	-	-	-	14	-	14
Unrealised foreign exchange gains/(losses) on hedges	-	-	-	5,070	-	5,070
Fair value gains on net investment hedges	-	-	-	3,511	-	3,511
Balance at the end of the six months	572,918	442,854	(88,472)	66,040	5,112	998,452
For the six months ended 31 December 2019						
Balance at the start of the six months	**576,300**	**469,914**	**(93,324)**	**64,776**	**12,077**	**1,029,743**
Changes in unitholders' funds	**15,539**	**-**	**-**	**-**	**(12,077)**	**3,462**
Manager's incentive fee	**-**	**-**	**-**	**-**	**3,209**	**3,209**
Profit for the period	**-**	**57,193**	**-**	**-**	**-**	**57,193**
Distributions to unitholders	**-**	**(19,923)**	**-**	**-**	**-**	**(19,923)**
Other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**
Movement in foreign currency translation reserve	**-**	**-**	**(4,203)**	**-**	**-**	**(4,203)**
Realised foreign exchange gains on hedges	**-**	**-**	**-**	**-**	**-**	**-**
Unrealised foreign exchange gains/(losses) on hedges	**-**	**-**	**-**	**-**	**-**	**-**
Fair value losses on net investment hedges	**-**	**-**	**-**	**349**	**-**	**349**
Balance at the end of the six months	**591,839**	**507,184**	**(97,527)**	**65,125**	**3,209**	**1,069,830**

The notes on pages FIN-5 to FIN-21 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2019

	6 months Dec-19 $000s	6 months Dec-18 $000s
Cash flows from operating activities		
Property income	**51,708**	49,391
Recovery of property expenses	**5,972**	4,479
Interest received	**41**	38
Property expenses	**(6,446)**	(5,235)
Management and trustee fees	**(6,559)**	(7,147)
Interest paid	**(14,642)**	(15,447)
Tax (paid)/refund	**(7,513)**	(3,376)
Other trust expenses	**(2,780)**	(1,334)
Net cash provided by/(used in) operating activities	**19,781**	21,369
Cash flows from investing activities		
Receipts from foreign exchange derivatives	**48**	309
Capital additions on investment properties	**(34,451)**	(20,270)
Purchase of properties	**(1,003)**	(21,885)
Prepaid transaction costs	**(1,308)**	(10,788)
Disposal of properties	**64**	-
Repayment of loan provided to related parties	**84,495**	-
Advances provided to related parties	**-**	(42,400)
Payments for foreign exchange derivatives	**(161)**	-
Strategic transaction third party interest	**267**	(4,515)
Net cash provided by/(used in) investing activities	**47,951**	(99,549)
Cash flows from financing activities		
Debt drawdown	**31,205**	97,787
Repayment of debt	**(83,317)**	-
Costs associated with Distribution Reinvestment Plan	**(8)**	(14)
Distributions paid to unitholders	**(16,455)**	(16,468)
Net cash from/(used in) financing activities	**(68,575)**	81,305
Net increase/(decrease) in cash and cash equivalents	**(843)**	3,125
Cash and cash equivalents at the beginning of the period	**6,068**	5,388
Cash and cash equivalents at the end of the period	**5,225**	8,513

The notes on pages FIN-5 to FIN-21 form part of and are to be read in conjunction with these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2019

1 GENERAL INFORMATION

Vital Healthcare Property Trust ("VHP" or the "Trust") is a unit trust established under the Unit Trusts Act 1960 by a Trust Deed dated 11 February 1994 as subsequently amended and replaced, domiciled in New Zealand. The Trust is managed by NorthWest Healthcare Properties Management Limited (the Manager). The Manager is a registered managed investment scheme manager under the Financial Markets Conduct Act 2013.

The condensed consolidated interim financial statements of VHP for the six months ended 31 December 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 Financial Markets Conduct (FMC) reporting entity for the purpose of the Financial Markets Conduct Act 2013.

The Trust's principal activity is the investment in health sector related properties.

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

These condensed consolidated interim financial statements were approved by the Board of Directors of the Manager on 19 February 2020.

The consolidated condensed interim financial statements for the six months ended 31 December 2019 (including comparative balances) have been reviewed by the auditor. The 30 June 2019 comparatives were subject to independent audit.

2 BASIS OF PREPARATION

The Consolidated Statement of Comprehensive Income uses the same format as the Consolidated Statement of Comprehensive Income used in the 2019 Annual Report. This has been adjusted in comparison to the format used in the prior half year to December 2018.

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 and IAS 34 Interim Financial Reporting, and do not include notes of the type normally included in an Annual Report. Therefore this report should be read in conjunction with the Group's most recent Annual Report. The accounting policies adopted by the Group have been consistently applied, when compared to those used in the 2019 Annual Report except as described below under the heading "change in accounting policies". The 2019 Annual Report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards issued and effective at the time of preparing those statements.

Basis of measurement

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

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

2 BASIS OF PREPARATION (continued)

Use of estimates and judgements

The preparation of financial statements in conformity with NZ IAS 34 requires the use of certain critical accounting estimates and judgements that affect the application of policies and reported amount of assets and liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Note 4 - Taxation
- Note 6 - Valuation of investment property

Change in accounting policies

Accounting policies have been applied consistently to all periods with the exception of the mandatory adoption of NZ IFRS 16 Leases which is effective for annual reporting periods beginning on or after 1 January 2019.

NZ IFRS 16 Leases

The Group has adopted NZ IFRS 16 Leases for the interim financial statements. NZ IFRS 16 Leases eliminates the distinction between operating and finance leases for lessees and results in lessees bringing most leases onto their balance sheet, with the exception of certain short-term leases and leases of low-value assets. Where the Group is a lessor, by virtue of the lease arrangement associated with its investment properties, NZ IFRS 16 has not given rise to a change in accounting treatment.

The Group adopted NZ IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. No adjustment is made to comparative disclosures.

For the adoption of NZ IFRS 16 the Group has used the practical expedient to not reassess whether a contract is, or contains, a lease at the date of initial application.

From 1 July 2019, leases are recognised as a right-of-use asset in the Investment Properties value and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is subsequently measured at fair value in Investment Properties. The finance cost is recognised as interest paid in the Statement of Cash Flows (formerly recognised as property expenses under NZ IAS 17 Leases). The repayment of the principal portion of the lease liability is recognised as a financing activity in the Statement of Cash Flows. Payments associated with short-term leases and leases of low-value assets are recognised as an expense in the Statement of Comprehensive Income.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any incentives receivable
- Variable lease payments that are based on an index or rate
- Amounts expected to be payable by the lessees under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

2 BASIS OF PREPARATION (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are initially measured at cost comprising the following:

- The amount of the initial measurement of the lease liability
- Any lease payments made before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

The Group has opted to recognise expenses on a systematic basis.

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Accounting for operating leases with a lease term of less than 12 months as short term leases, and
- Excluding leases for which the underlying asset is of low value.

On 1 July 2019 the Group applied NZ IFRS 16 to the ground lease that exists over Ascot Ave, Greenlane, Auckland. Previously this ground lease was classified as an operating lease, and at 30 June 2019 the lease committment to expiry was $5.8m. The first time application of NZ IFRS 16 resulted in the recognition of:

- a $4.0m lease liability, which resulted from discounting the 30 June 2019 lease committment of $5.8m using an incremental borrowing rate of 4.25%; and
- a $4.0m right of use asset.

3 SEGMENT INFORMATION

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

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

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

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

3 SEGMENT INFORMATION (continued)

	Australia $000s	New Zealand $000s	Total $000s
Segment profit for the six months ended 31 December 2019:			
Gross property income from rentals	**38,493**	**12,591**	**51,084**
Gross property income from expense recoveries	**2,524**	**3,811**	**6,335**
Property expenses	**(3,444)**	**(4,077)**	**(7,521)**
Net property income	**37,573**	**12,325**	**49,898**
Other expenses	**(5,630)**	**(6,368)**	**(11,998)**
Net strategic transaction income/(expenses)	**7**	**-**	**7**
Strategic transaction interest income	**267**	**-**	**267**
Net finance expense	**(5,562)**	**(9,016)**	**(14,578)**
	26,655	**(3,059)**	**23,596**
Fair value gain/(loss) on interest rate derivatives	**-**	**1,503**	**1,503**
Revaluation gains on investment properties	**29,770**	**12,842**	**42,612**
Other foreign exchange gains/(losses)	**-**	**779**	**779**
Total segment profit before income tax	**56,425**	**12,065**	**68,490**
Taxation (expense)			**(11,297)**
Profit for the six months			**57,193**
Segment profit for the six months ended 31 December 2018:			
Gross property income from rentals	37,658	12,879	50,537
Gross property income from expense recoveries	2,607	2,686	5,293
Property expenses	(3,696)	(3,299)	(6,995)
Net property income	36,569	12,266	48,835
Other expenses	(6,111)	(7,703)	(13,814)
Net strategic transaction income/(expenses)	(4,588)	-	(4,588)
Strategic transaction interest income	1,003	-	1,003
Net finance expense	(10,214)	(5,783)	(15,997)
	16,659	(1,220)	15,439
Fair value gain/(loss) on interest rate derivatives	-	(8,262)	(8,262)
Revaluation gains on investment properties	37,577	5,905	43,482
Other foreign exchange gains/(losses)	-	5,769	5,769
Total segment profit before income tax	54,236	2,192	56,428
Taxation (expense)			(9,630)
Profit for the six months			46,798

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

3 SEGMENT INFORMATION (continued)

Net property income consists of revenue generated from external tenants less property operating expenditure. The Group has two tenants which exceed 10% of gross property income from rentals totaling $28.3m, located in Australia (31 December 2018: two tenants totalling $28m).

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.

	Australia $000s	New Zealand $000s	Total $000s
Segment assets at 31 December 2019:			
Investment properties	**1,445,677**	**481,066**	**1,926,743**
Other non-current assets	**410**	**45**	**455**
Current assets	**5,393**	**6,041**	**11,434**
Consolidated assets	**1,451,480**	**487,152**	**1,938,632**
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 liabilities at 31 December 2019:			
Borrowings	**426,485**	**253,123**	**679,608**
Other liabilities	**125,973**	**63,221**	**189,194**
Consolidated liabilities	**552,458**	**316,344**	**868,802**
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

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments.

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

4 TAXATION

	6 months Dec-19 $000s	6 months Dec-18 $000s
Profit/(loss) before tax for the six months	**68,490**	56,428
Taxation (expense)/credit - 28% on profit before income tax	**(19,177)**	(15,800)
Effect of different tax rates in foreign jurisdictions	**7,335**	7,360
Tax exempt income	**3,902**	2,340
Foreign tax credits	**1,896**	1,089
Tax charges on overseas investments	**(5,834)**	(4,811)
Other adjustments	**581**	192
Taxation (expense)/credit	**(11,297)**	(9,630)
The taxation (expense)/credit is made up as follows:		
Current taxation	**(4,977)**	(5,034)
Deferred taxation	**(6,320)**	(4,596)
Total taxation (expense)/credit	**(11,297)**	(9,630)

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

5 EARNINGS PER UNIT

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

The Distributable Income calculation is a commonly used non-GAAP measure in the property sector.

	Dec-19	Dec-18
Profit attributable to unitholders of the Trust ($000s)	**57,193**	46,798
Weighted average number of units on issue (000's of units)	**450,234**	441,711
Basic and diluted earnings per unit (cents)	**12.70**	10.59

	Dec-19 $000's	Dec-18 $000's
Distributable income		
Profit before income tax	**68,490**	56,428
Revaluation (gains)/losses	**(42,612)**	(43,482)
Unrealised foreign exchange (gain)/loss	**(642)**	(5,162)
Unrealised foreign exchange (gain)/loss derivatives	**(137)**	(318)
Unrealised interest rate (gain)/loss derivatives	**(1,503)**	8,262
Unrealised (gain)/loss on strategic transaction derivatives	**-**	2,717
Manager's incentive fee	**3,209**	5,112
Profit used in calculating gross distributable income	**26,805**	23,557
Current taxation	**4,977**	5,034
Profit used in calculating net distributable income	**21,828**	18,523
Gross distributable income (cpu) *	**5.95**	5.33
Net distributable income (cpu) *	**4.85**	4.19

* Based on weighted average number of units on issue.

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

6 INVESTMENT PROPERTIES

	Dec-19 $000s	Jun-19 $000s
Carrying value of investment property at the beginning of the six months	**1,836,430**	1,731,247
Acquisition of properties	**11,212**	25,158
Capitalised costs	**37,475**	34,566
Capitalised interest costs	**1,575**	633
Net capitalised incentives	**49**	(520)
Disposal of properties	**(64)**	-
Foreign exchange translation difference	**(6,501)**	(58,210)
Change in fair value	**42,612**	103,556
Right of use asset	**3,955**	-
Carrying value of investment property at the end of the six months	**1,926,743**	1,836,430

Investment Properties valuation

The Group's policy is for investment property to be measured at fair value for which the Group completes property valuations at least annually by independent registered valuers. All investment property was valued by independent registered valuers as at 30 June 2019. The fair value of investment property as at 31 December 2019 was determined by the Manager, informed by market data and valuation advice provided by independent valuers, comparable transactional evidence and current period leasing activity.

The Group holds the freehold to all properties except the car parks at the rear of Ascot Hospital and Ascot Central, which are the subject of a ground lease ("right of use" asset) with a weighted average term remaining of 19.3 years (30 June 2019: 19.8 years). The fair value of this right of use asset includes the first time adoption of NZ IFRS 16 adjustment of $4.0m recorded on 1 July 2019, and as at 31 December 2019 was valued at $7.8m (30 June 2019: $3.6m).

Acquisition of properties

The Group has entered into an agreement to acquire 120 Thames Street, Box Hill, VIC for A$10.1m plus transaction costs. Settlement, which is subject to conditions in favour of the Group, is deferred until no later than October 2021. As at reporting date this property has been recognised as Investment Property, with a corresponding liability (Non-current other payable) recognised for the outstanding consideration payable.

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

7 OTHER ASSETS

	Dec-19 $000s	Jun-19 $000s
Current		
Related party advance (refer to note 14)	-	83,966
Other	**4,769**	2,909
Total Current	**4,769**	86,875
Non-Current		
Other	**455**	793
Total Non-current	**455**	793

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

8 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps

Interest rate swaps are measured using a valuation model based on the present value of estimated future cash flows and discounted based on the applicable yield curves derived from observable market interest rates. The Group has determined the interest rate swaps are Level 2 fair value measurements. The fair value of interest rate swaps is a liability of $48.4m (30 June 2019:$49.9m).

Foreign exchange derivatives

Foreign exchange derivatives are measured using a valuation model based on the applicable forward price curves derived from observable forward prices. The Group has determined the foreign exchange derivatives are Level 2 fair value measurements. The fair value of foreign exchange derivatives is an asset of $0.2m (30 June 2019:$0.04m).

There have been no reclassifications of fair value instruments between levels in the six months ended 31 December 2019 and 30 June 2019.

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

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

9 UNITS ON ISSUE

	Dec-19 $000s	Jun-19 $000s
Balance at the beginning of the period	**576,300**	556,878
Issue of units under Distribution Reinvestment Plan	**3,470**	6,376
Issue of units to satisfy Manager's incentive fee	**12,077**	13,095
Issue costs of units	**(8)**	(49)
	15,539	19,422
Balance at the end of the period	**591,839**	576,300

	Dec-19 000s	Jun-19 000s
Reconciliation of number of units		
Balance at the beginning of the period	**446,346**	436,893
Issue of units under the Distribution Reinvestment Plan	**1,315**	2,947
Units issued to satisfy Manager's incentive fee	**4,920**	6,506
Balance at the end of the period	**452,581**	446,346

The number of units on issue at 31 December 2019 was 452,581,395 (30 June 2019: 446,346,087). 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 22 August 2019, 4,919,883 units were issued against the 2019 Manager's incentive fee of $12.1m (30 June 2019: $13.1m).

Capital risk management

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

The Group's banking covenants require that the aggregate principal amount of the loan outstanding does not exceed 50%, (30 June 2019: 50%) of the fair market value of secured property at all times calculated to the Australian dollar equivalent. All banking covenants have been met during the six months.

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

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

10 BORROWINGS

	Dec-19 $000s	Jun-19 $000s
AUD denominated loans	**662,285**	718,172
NZD denominated loans	**18,250**	17,250
Borrowing costs	**(927)**	(1,211)
Total borrowings	**679,608**	734,211
Current liability	**226,562**	-
Non current liability	**453,046**	734,211
Total borrowings	**679,608**	734,211

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. The multi-currency facilities of A$850.0m and NZ$20.0m are split between: Tranche A: A$125.0m due to expire on 31 March 2021; Tranche B: A$200.0m due to expire on 31 July 2022; Tranche C: A$100.0m, Tranche D: A$100.0m and NZ Dollar Facility: NZ$20.0m which are due to expire on 30 October 2020; Tranche E: A$175.0m which is due to expire on 20 November 2021; and Tranche F: A$150.0m which is due to expire on 15 January 2022.

At the end of December 2019, VHP was credit approved for extensions to Tranches C, D and the NZ Dollar Facility, giving Tranche C and the NZ Dollar facility an expiry date of 30 October 2023, and Tranche D an expiry date of 30 October 2021. The limit on Tranche C will be increased by A$25.0m to A$125.0m, and the limit on Tranche D will be increased by A$15.0m to A$115.0m.

The effective interest rate on the borrowings as at 31 December 2019 was 4.03% per annum (30 June 2019: 4.40%), and a weighted average term to expiry of 2.3 years, incorporating the credit approved term extensions received.

Borrowings are secured via a Security Trust Deed dated 1 April 2003 and as amended and restated on 30 May 2018. The Security Provider comprises T.E.A. Custodians Limited in its capacity as nominee of the VHP Trustee as supervisor of the Trust and the Trust's subsidiaries. Pursuant to the Deed, a security interest has been granted via first ranking mortgages over the respective investment properties and, 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.

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

11 COMMITMENTS

	Dec-19 $000s	Jun-19 $000s
Capital Commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	**206,786**	222,213

Lease Commitments

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

	Dec-19 $000s	Jun-19 $000s
Not later than one year	**100,157**	98,632
Later than one year and not later than five years	**434,808**	432,696
Later than five years	**819,492**	833,808
	1,354,457	1,365,136

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

12 CONTINGENCIES

There were no contingencies as at 31 December 2019 (30 June 2019: nil).

13 SUBSEQUENT EVENTS

On 19 February 2020 the Group:

- announced a gross distribution of 2.1875 cents per unit. The record date for the distribution is 12 March 2020 and a payment is scheduled to unitholders on 26 March 2020. There will be 0.5381 cents per unit of imputation credits attached to the distribution.
- announced the proposed acquisition of three Australian aged care facilities from NorthWest Healthcare Properties REIT for a purchase price of approximately A$57.5m. Settlement, subject to satisfactory completion of due diligence, is expected to occur prior to 30 June 2020.

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

14 RELATED PARTY TRANSACTIONS

The Manager

The Trust is managed by NorthWest Healthcare Properties Management Limited (the "Manager"), 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) that, as at reporting date, holds a 24.9% (2018:24.9%) interest in the Trust. NW REIT and its controlled entities (including the Manager) are considered related parties to the Trust and its controlled entities by virtue of common ownership and/or directorships.

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.

Remuneration of the Manager

The Trust pays fees to the Manager in accordance with the Trust Deed. The aggregate of Base Fees, Incentive Fees and Activity Fees is capped at 1.75% per annum of the Trusts gross asset value (GAV) as at the end of a financial year.

Following unitholder approval on 31 October 2019, the Trust Deed was amended to adopt the revised basis for fees (as outlined below) in accordance with the undertakings made in the Trusts' Fee and Governance Review announcement of 1 April 2019. Up until the Trust Deed was amended the Manager has procured that the fees charged did not exceed those that would have been charged if the amendments that were approved by unitholders on 31 October 2019 had been approved on 1 April 2019.

In accordance with, and from the effective date of, the amended Trust Deed, the fee arrangements are as follows:

Base Fee

The Base Fee structure is as follows:

- 65 bps per annum up to $1bn of GAV:
- 55 bps per annum from $1bn to $2bn of GAV;
- 45 bps per annum from $2bn to $3bn of GAV; and
- 40 bps per annum over $3bn of GAV.

Incentive Fee

Vital pays the Manager 10% of the average annual increase in Vital's NTA over the respective financial year and the two preceding financial years, with payment being made by way of subscribing for new units. The incentive fee calculations are also subject to a 'three year high watermark", such that the Manager will not be paid an Incentive Fee in a year where NTA grows if it is still below where it was on the last business day of the past three financial years.

Activity Fees

The Activity Fee structure is as follows:

a. Leases or licences

Vital pays the Manager leasing or licence fees where the Manager has negotiated leases or licences. The fees are charged at 11% of the aggregate annual rental for terms less than 3 years, 12% of the aggregate 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%), subject to a minimum fee of $2,500.

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

14 RELATED PARTY TRANSACTIONS (continued)

Lease or licence renewals are charged at 50% of a new lease or licence fee.

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, subject to a minimum fee of $1,000.

Leasing or licence fees are capitalised to the respective investment or property in the Statement of Financial Position and amortised over the term of the lease.

b. Property management

Vital pays the Manager property management fees where the Manager acts as the property manager. These fees are charged at 1% - 2% of gross income depending on the number of tenants at the property and may be recovered from tenants if permitted under lease agreements.

Property management fees are expensed, net of recoveries from tenants, through the Statement of Comprehensive Income in the year in which they arise.

c. Facilities management

Vital pays the Manager a facilities management fee where the Manager acts as a property facilities manager based on the market rate (referenced to a reputable and high-quality third party service provider) for similar services at similar properties. This fee may be recovered from tenants if permitted under lease agreements.

Facilities management fees are expensed, net of recoveries from tenants, through the Statement of Comprehensive Income in the year in which they arise.

d. Project management

Vital pays project management fees to the Manager for managing capital expenditure projects where the purpose of the project is to upgrade, repair or otherwise extend the life of the property, including replacement or repair of major plant and equipment, structural items and building envelope.

Project management fees for projects with a budget of between $200,000 and $2,500,000 are 2% of the committed spend where the Manager is the project lead and 1% of committed spend where the Manager has an oversight role, increasing to 4% and 2% respectively for projects with a budget greater than $2,500,000

Project management fees are capitalised to the respective investment or property in the Statement of Financial Position.

Additional Costs

The Additional Costs structure is as follows:

a. Acquisitions

Vital pays fees to the Manager for managing the due diligence, financing, legal aspects and settlement of the purchase of an investment or property instead of or alongside a third party agent. These fees are charged at 1.5% of the capitalised cost of the relevant investment, being the contracted price payable, excluding any deductions netted off the settlement price (such as rates), together with other related capitalised acquisition costs.

Acquisition fees are capitalised to the respective investment or property in the Statement of Financial Position.

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

14 RELATED PARTY TRANSACTIONS (continued)

b. Disposals

Vital pays fees to the Manager for managing the due diligence, legal aspects and settlement of the sale of an investment or property instead of or alongside a third party agent. These fees are charged at 1% of the contracted sale price of the relevant investment actually received, provided that, if a third party agent has been engaged to provide services for the disposal, then the fee payable to the Manager will be net of the third party agent's costs and commissions.

Disposal fees are expensed in the profit or loss on disposal of the investment or property through the Statement of Comprehensive Income in the year in which they arise.

c. 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 (excluding land) approved by the Board of the Manager provided that, if a third party agent has been engaged to provide development management services, then the fee payable to the Manager will be reduced by the non-rentalisable third party costs paid.

Development management fees are capitalised to the respective property in the Statement of Financial Position.

Prior to the unitholder approved amendments to the Trust Deed, the fee arrangements were as follows:

Base Fee

The Base Fee was 75 bps per annum of the Gross Value (as defined at the time by the Trust Deed) of the Trust.

Incentive Fee

The annual Incentive Fee was 10% of the average annual increase in the Gross Value (as defined at the time by the Trust Deed) of the Trust Fund over the relevant financial year and the two proceeding financial years.

Other amounts

In accordance with the Trust Deed, the Manager is permitted to engage related parties to provide services to the Trust, such as development management. The provision of these services is subject to compliance with the restrictions on related party transactions in the Financial Markets Conduct Act 2013.

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

14 RELATED PARTY TRANSACTIONS (continued)

Transactions with related parties

Amounts charged by the Manager and related parties and owing are as follows:

	31 December 2019 $000s				31 December 2018 $000s			30 June 2019 $000s
	Statement of Comprehensive Income	Statement of Financial Position	Total	Amounts Owing/ (Receivable)	Statement of Comprehensive Income	Statement of Financial Position	Total	Amounts Owing/ Receivable
Base fee[1]	**6,271**	**-**	**6,271**	**-**	6,884	-	6,884	830
Incentive Fee	**3,209**	**-**	**3,209**	**3,209**	5,112	-	5,112	12,077
Activity Fees:								
Leasing/licensing	**19**	**47**	**66**	**65**	-	-	-	-
Property management[2]	**297**	**-**	**297**	**189**	109	-	109	-
Facilities management[2]	**-**	**-**	**-**	**-**	-	-	-	-
Project management	**-**	**-**	**-**	**-**	-	-	-	-
AFSL fee	**437**	**-**	**437**	**-**	417	-	417	-
	10,233	**47**	**10,280**	**3,463**	12,522	-	12,522	12,907
Additional Costs:								
Acquisitions	**-**	**3**	**3**	**-**	-	280	280	-
Disposals	**-**	**-**	**-**	**-**	-	-	-	-
Development management	**-**	**3,460**	**3,460**	**2,483**	-	363	363	1,070
	-	**3,463**	**3,463**	**2,483**	-	643	643	1,070
Other Amounts:								
Reimbursement of third party expenses:								
Amounts paid to directors:								
Andrew Evans	**15**	**-**	**15**	**15**	-	-	-	-
Graham Stuart	**17**	**-**	**17**	**17**	-	-	-	-
Claire Higgins	**-**	**-**	**-**	**-**	-	-	-	105
Other expenses	**17**	**-**	**17**	**-**	45	-	45	151
Strategic - Prepaid acquisition fee[3]	**-**	**-**	**-**	**-**	-	8,893	8,893	(56)
	49	**-**	**49**	**32**	45	8,893	8,938	200
	10,282	**3,510**	**13,792**	**5,978**	12,567	9,536	22,103	14,177

1 Amounts outstanding at 31 December 2019 are; Manager's incentive fee $3.2m (Jun19: $12.1m); NorthWest Healthcare Properties Management Limited $0.2m (Jun19: 0.7m); NorthWest Healthcare Australian Property Proprietary Limited $2.5m (Jun19: $1.3m)

2 Property Management and Facilities Management fees, net of recoveries from tenants, incurred by the Trust totalled $0.3m and nil respectively for the six months (HY19: $0.1m and nil respectively).

3 Due to the significant nature of the proposed HSO real estate transaction the Manager initially charged a prepaid acquisition fee. This was subsequently amended in the period to 30 June 2019 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 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.

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

14 RELATED PARTY TRANSACTIONS (continued)

Other Related Parties

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

During the period the Group received interest income on the related party advance that it had with NWHAAT, which was fully paid on 2 August 2019.

	Dec-19 $000s	Dec-18 $000s
During the period there have been transactions between the Trust and NWHAAT		
Related party advance/(repayment)	**(84,495)**	40,743
Interest income	**267**	1,003
Net strategic transaction costs	-	(1,872)
Fair value gain/(loss) on strategic transaction derivatives	-	(2,717)

	Dec-19 $000s	June-19 $000s
Balances outstanding at the end of the year are unsecured and on normal trading terms		
Amounts owing from related party	-	83,966


Epworth
MAXCON

Deloitte.

INDEPENDENT REVIEW REPORT
TO THE UNITHOLDERS OF VITAL HEALTHCARE PROPERTY TRUST

We have reviewed the condensed consolidated interim financial statements of Vital Healthcare Property Trust and its subsidiaries ('the Trust') which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information on pages FIN 1 to FIN 21.

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

Board of Directors' Responsibilities

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

Our Responsibilities

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

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Trust do not present fairly, in all material respects, the financial position of the Group as at 31 December 2019 and its financial performance and cash flows for the six month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting* and IAS 34 *Interim Financial Reporting*.

Deloitte Limited

19 February 2020
AUCKLAND, NEW ZEALAND

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Dr Michael Stanford – Independent Director
Graham Stuart – Independent Director
Paul Dalla Lana – Director
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Vital

Healthcare
Property Trust