

DETAILS OF THE SCHEME

The Scheme is the Vital Healthcare Property Trust (**Scheme** or **Vital**) which is a managed investment scheme for the purposes of the Financial Markets Conduct Act 2013 (**FMCA**).

The Scheme is managed by NorthWest Healthcare Properties Management Limited (**Manager**) and supervised by Trustees Executors Limited, a supervisor licensed under the Financial Markets Supervisors Act 2011 (**Supervisor**).

The offer of interests in the Scheme was originally made under the Unit Trust Act 1960. The Scheme transitioned to compliance with the FMCA on 30 November 2016. Accordingly a Product Disclosure Statement has not been prepared for the Scheme as no regulated offers of units have been made pursuant to the FMCA. The Scheme units are listed on the New Zealand Stock Exchange (NZX code: VHP).

Vital's latest financial statements and the auditor's report for those statements were lodged with the Registrar on 20 September 2018.

DESCRIPTION OF THE SCHEME

Vital's main function is to identify, acquire and manage healthcare properties that are leased or for lease to operators across the healthcare continuum. From time to time, Vital may undertake the design, refurbishment or development of healthcare properties for particular health service operators. Vital may invest directly in real property, or in companies or trusts (listed on a recognised stock exchange or unlisted) which themselves own, directly or indirectly, real property with healthcare related qualities.

The Scheme was a unit trust established under the Unit Trust Act 1960 by a Trust Deed dated 11 February 1994, as amended by subsequent Deeds of Variation and Restatement. Vital became a registered Managed Investment Scheme under the Financial Markets Conduct Act 2013 on 29 November 2016.

INFORMATION ON COMPOSITION OF THE SCHEME

This Annual Report covers the accounting period from 1 July 2017 to 30 June 2018.

The number of managed investment products, being units in the Scheme (**Units**) on issue at the start of the accounting period was 428,562,486.

The number of Units on issue at the end of the accounting period was 436,893,108.

CHANGES RELATING TO THE SCHEME

Material changes to the nature of the Scheme, the Scheme property, or the management of the Scheme over the accounting period are as follows:

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (SIPO)

The SIPO was lodged on 29 November 2016. Amendments were made on 9 August, 2018, including to provide detail on Vital's investment objectives and relevant performance monitoring benchmarks.

TRUST DEED

There were no material changes to the Trust Deed during the period.

Vital is required by the Trust Deed to give formal notice to Unit Holders of the amendments made. Copies of the amended and restated Trust Deed are available on the Vital website (www.vhpt.co.nz) under the section About/Our Structure.

The amended and restated Trust Deed is also available on the Disclose Register accessible on the Companies Office website (<https://disclose-register.companiesoffice.govt.nz/disclose>).

RELATED PARTY TRANSACTIONS

During the period 1 July 2017 to 30 June 2018 there were no changes to the nature and scale of related party transactions, apart from the details as outlined below:

There were no related party transactions that were not on arm's-length terms.

Acquisition of an interest in Healthscope Ltd ("HSO") by NWH Australia Asset Trust (NWHAAAT).

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

The forward contract gives NWHAAAT the ability to acquire, and DB the obligation to deliver, 173,970,330 to 176,111,600 HSO shares at a price of A\$2.3863 per share on May 8, 2020, or earlier, at the NWHAAAT's option, if a voting meeting is scheduled for HSO or HSO receives a formal takeover bid. The NWHAAAT prepaid A\$85,254,703 of the A\$415,148,293 notional amount of the forward contract.

The forward contract contemplates physical settlement, but may be net settled in certain circumstances. Under the forward contract NWHAAAT is entitled to receive payments from DB equivalent to dividends declared by HSO and NWHAAAT pays variable interest to DB on the underlying embedded funding contained in the forward contract at the Bank Bill Swap Rate plus 3%.

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

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

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

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

Further details of the related party fees paid by Vital to the Manager can be found in the financial statements for Vital which have been lodged with the Registrar and under the heading "Fees" below.

TERMS OF THE OFFER OF UNITS

There was no applicable offer of units during the reporting period.

VALUATION AND PRICING METHODOLOGIES

There was no change to the valuation and pricing methodologies for the Scheme during the reporting period.

FINANCIAL CONDITION AND PERFORMANCE OF THE SCHEME

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

HIGHLIGHTS:

- Gross rental income of \$93.7m, up 20.1%¹;
- Net distributable income of 10.6 cpu;
- Cash distribution of 8.5625 cpu, payout ratio of 81%;
- Cash earnings (or AFFO²) of \$49.5m, up 4.5%¹;
- Successful bank facility renewal and extension by A\$100m;
- LVR at 37.5%;
- Vital's portfolio valued at \$1.73bn;
- Portfolio WACR firmed 36bps to 5.76%, from 6.12%;
- NTA increase to \$2.26 from \$2.05, up 10.2%;
- 99.3% occupancy, maintained at over 99% for the ninth consecutive year;
- WALE of 18.2 years, up from 17.7 years;
- \$194.7m of acquisitions across Australasia, including 5 hospitals, all with brownfield potential;
- Invested \$27.7m on brownfield projects, \$112m to be completed at average yields of ~7%;
- Integration of the NorthWest Healthcare Australia management team, resulting in 30 professionals in Auckland and Melbourne;
- Jointly³ secured an interest in ASX-listed Healthscope, Australia's second largest private hospital operator, providing a tactical and generational opportunity to acquire a quality hospital real estate portfolio.

¹ Adjusting for the 2017 one-off \$13.8m lease termination receipt

² Adjusted funds from operations

³ As announced on 8 May. Interest is with Vital's Manager and major unitholder, NorthWest Healthcare Properties REIT

Comprehensive Income

	2018 \$000s	2017 \$000s
Profit before income tax	117,437	231,148
Taxation expense	(17,372)	(13,526)
Profit for the year attributable to unitholders of the Trust	100,065	217,622
Total other comprehensive income/(loss) after tax	26,143	(174)
Total comprehensive income after tax	126,208	217,448
Distributions to Unit Holders	37,243	36,592
Distribution paid in the financial year (cents per unit)	8.5	8.5

Financial Position

	2018 \$000s	2017 \$000s
Total non-current assets	1,776,087	1,378,069
Total current assets	10,741	14,159
Total assets	1,786,828	1,392,228
Total Liabilities	798,852	512,407
Net Assets	987,976	879,821

Vital continues to build on its market leading position, which underpins Vital's strategy to drive long term value-add opportunities and deliver sustainable returns to investors. With this backdrop and reflecting Vital's overall position and relatively stable outlook, the Board has prudently determined to increase the annualised cash distribution to unitholders to 8.75 cpu effective from the fourth quarter of the 2018 year.

You can find a copy of Vital's financial statements, including information on distributions made by the Scheme on the Disclose register at:
<https://disclose-register.companiesoffice.govt.nz/disclose>, scheme number SCH11214.

Further information on the financial results is provided in Vital's Annual Report at:
www.vhpt.co.nz

FEES

The following fees and expenses were charged in respect of the Scheme in dollars and as a percentage of the Scheme's property for the 12 month period to 30 June 2018

	2018 \$000s	Percentage of Scheme Property
Total fees and expenses incurred		
Management fees	11,856	0.66%
Manager's incentive fee	13,096	0.73%
Expenses charged by NorthWest Healthcare Properties Management Limited	1,442	0.08%
Expenses charged by NorthWest Healthcare Australian Property Proprietary Limited	1,733	0.10%
Fees charged by the Manager and associated persons	28,127	1.57%
Auditor's remuneration	143	0.01%
Strategic transaction costs	3,579	0.20%
Other operating income/expenses	2,622	0.15%
Total fees & expenses	34,471	1.93%

MANAGER'S BASE FEE

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

Management fees are charged, in respect of each month, a base fee equal to 0.75% per annum of the monthly average of the Gross Value of the assets of Vital for the quarter ended on the last day of that month.

The remuneration of the Manager includes the remuneration of the CEO and management team.

MANAGER'S INCENTIVE FEE

The Manager's incentive fee is an amount equal to 10% per annum of the average annual increase in the Gross Value of Vital over the relevant financial year and two preceding financial years.

The Manager is required to apply the incentive fee in subscribing for new Units in Vital issued at the weighted average price.

EXPENSES CHARGED BY THE MANAGER & ASSOCIATED PERSONS

The Manager (and the Supervisor) is entitled to be reimbursed by Vital for all expenses, costs or liabilities incurred in acting as Manager (or Supervisor). Certain services are provided by the Manager in lieu of using external providers. Fees and expenses charged or changes to fees and expenses charged requires the approval of the Supervisor (or in certain circumstances, Unit Holders) and would be advised to Unit Holders via the NZX.

For more information in respect to the Fees, please refer to Vital's financial statements, on the Disclose register at <https://disclose-register.companiesoffice.govt.nz/disclose>, scheme number SCH11214.

SCHEME PROPERTY

The table below contains the assets of the Scheme extracted from the Consolidated Statement of Financial Position as at 30 June 2018 and 30 June 2017:

	2018 \$000s	2017 \$000s
Non-current assets		
Investment Properties	1,731,247	1,376,243
Derivative financial instruments	856	1,499
Other non-current assets	43,984	327
Total non-current assets	1,776,087	1,378,069
Current assets		
Cash and cash equivalents	5,388	3,352
Trade and other receivables	1,189	367
Other current assets	3,801	7,886
Derivative financial instruments	363	2,554
Total current assets	10,741	14,159
	1,786,828	1,392,228

CHANGES TO PERSONS INVOLVED IN THE SCHEME

The Manager appointed David Carr as an Executive Director to the Board of the Manager (1 May 2018) following the retirement of Graeme Horsley (1 May 2018). Changes to the Manager's key personnel involved in the Scheme during the accounting period included the appointment of Chris Adams (Executive Director-Australia). Key personnel of the Manager who remained in place throughout the accounting period included: David Carr (holding the position of Chief Executive Officer); Stuart Harrison (Chief Financial Officer) and Richard Roos (Managing Director- Australia).

The Supervisor appointed the following persons as Directors of the Supervisor during the accounting period: Franceska Banga (18 July 2017 and resigned 5 April 2018); Matthew Sale (17 May 2018) and Mark Darrow (18 June 2018). Whilst outside of the accounting period it is also noted that Sarah Roberts (16 July 2018) was appointed as a Director. Two further Directors resigned during the accounting period being Robert Russell (17 May 2018) and Andrew Scott-Howman (15 June 2018).

There have been no changes to the registrar or the auditors involved in the Scheme during the accounting period.

HOW TO FIND FURTHER INFORMATION

Copies of documents relating to the Scheme, such as the Trust Deed, SIPO and the annual financial statements are available on the Disclose register at <https://disclose-register.companiesoffice.govt.nz/disclose>, scheme number SCH11214, on Vital's website www.vhpt.co.nz or on request from the Manager.

You have the right, free of charge and during normal office hours, to inspect that part of the Unit register that relates to your Units on giving 5 working days' notice to the Manager.

You also have the right, free of charge, on giving 5 working days' notice and during normal office hours, to inspect a copy of the Trust Deed, SIPO and annual financial statements at the Manager's registered office, which is located at: Level 16, AIG Building, 41 Shortland Street, Auckland. Alternatively, you can obtain a copy free of charge by writing to us at: PO Box 6945, Wellesley Street, Auckland 1141.

CONTACT DETAILS AND COMPLAINTS

Manager

NorthWest Healthcare Properties Management Limited
Level 16, AIG Building, 41 Shortland Street, Auckland
PO Box 6945, Wellesley Street, Auckland 1141

Attn: Company Secretary

Telephone: 0800 225 264

Email: enquiries@vhpt.co.nz

Website: www.vhpt.co.nz

Trustee and Supervisor

Trustees Executors Limited
Level 7, 51 Shortland Street, Auckland 1010
PO Box 4197, Auckland 1140

Attn: Client Services Manager – Corporate Trustee Services

Telephone: +64 9 308 7100

Registrar

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Private Bag 92119, Auckland 1142

Telephone: +64 9 488 8777

Facsimile: +64 9 488 8787

Email: vital@computershare.co.nz

Complaints

Complaints may be made to the Manager or the Supervisor at the contact details above. In addition, as a financial service provider registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008, the Manager is a member of an approved dispute resolution scheme (registration number FSP33302) to which complaints may be made.

Insurance & Financial Services Ombudsman Scheme Inc.

Level 8, 81 Molesworth Street, Wellington 6011

Telephone: +64 4 499 7612

Email: info@ifso.nz

There will be no fee charged to any complainant in connection with investigation or resolution of a complaint.