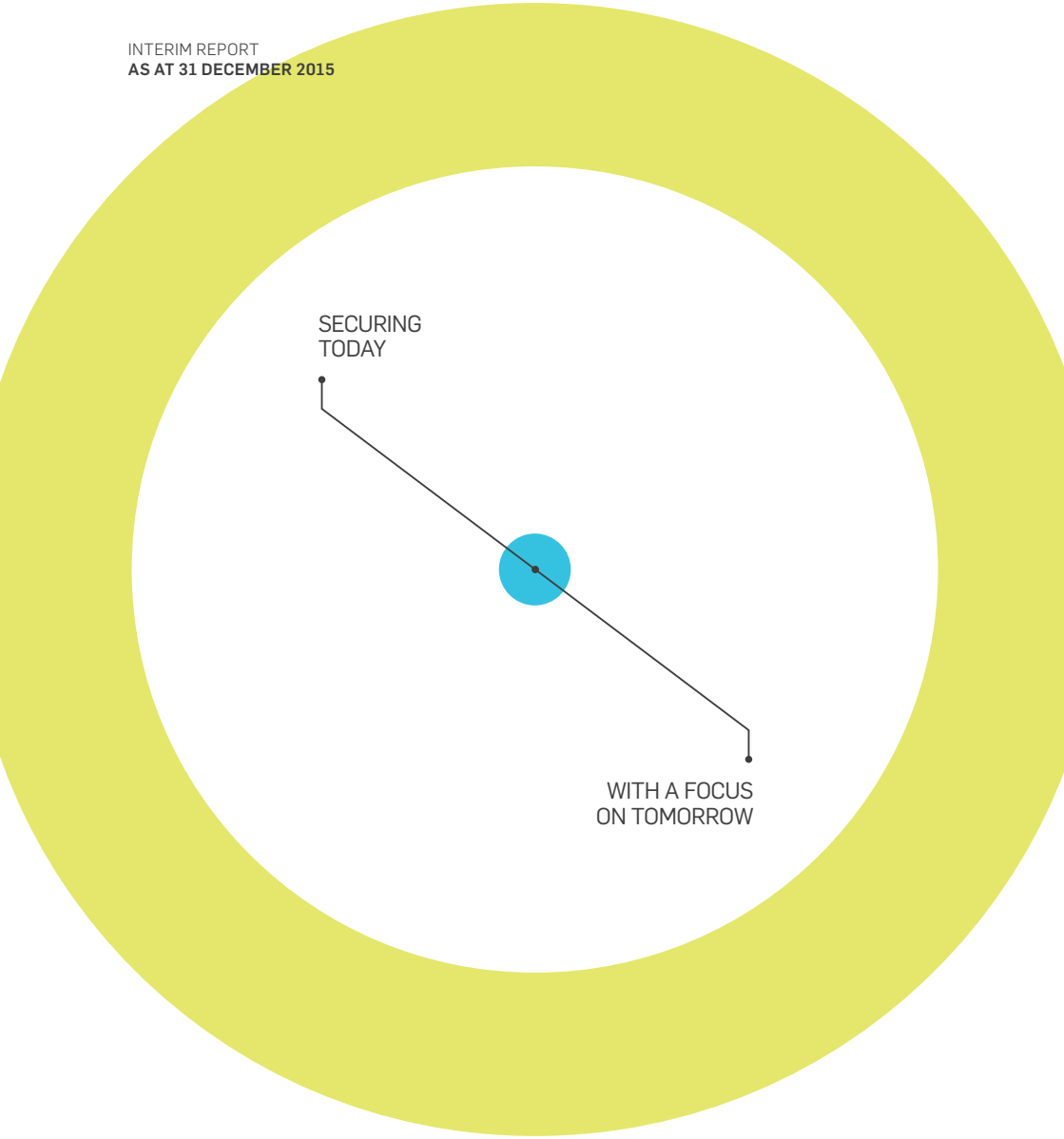
Vital
Healthcare
Property Trust

INTERIM REPORT
AS AT 31 DECEMBER 2015



Vital Healthcare Property Trust (NZSX: VHP) is Australasia's largest listed healthcare real estate investment vehicle.

Staying on strategy has delivered solid results including strong revaluation gains. Our entry into aged care creates a more diversified portfolio, well positioned for tomorrow.

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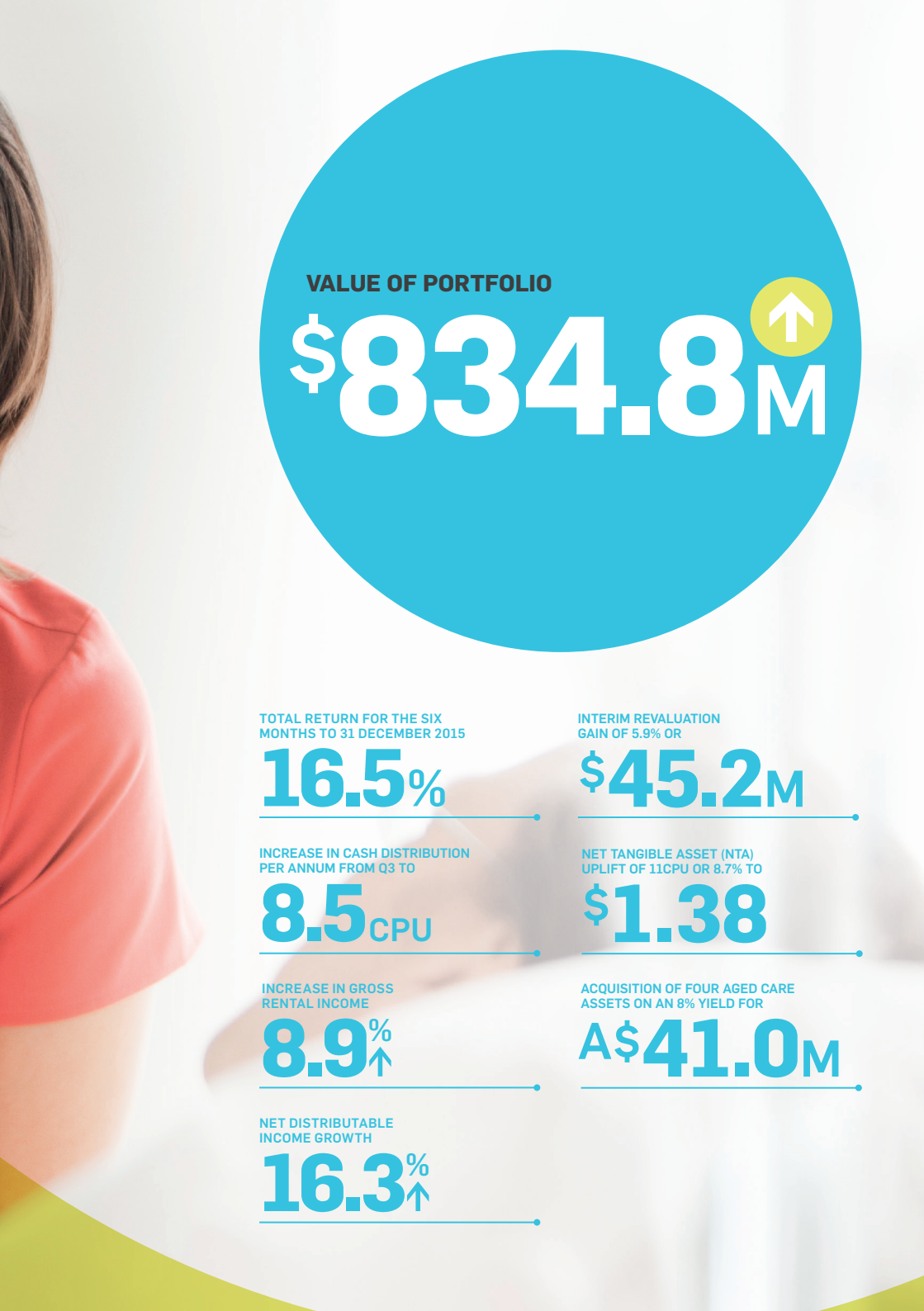


VALUE OF PORTFOLIO

$834.8M

TOTAL RETURN FOR THE SIX MONTHS TO 31 DECEMBER 2015

16.5%

INTERIM REVALUATION GAIN OF 5.9% OR

$45.2M

INCREASE IN CASH DISTRIBUTION PER ANNUM FROM Q3 TO

8.5CPU

NET TANGIBLE ASSET (NTA) UPLIFT OF 11CPU OR 8.7% TO

$1.38

INCREASE IN GROSS RENTAL INCOME

8.9%

ACQUISITION OF FOUR AGED CARE ASSETS ON AN 8% YIELD FOR

A$41.0M

NET DISTRIBUTABLE INCOME GROWTH

16.3%

STRONGER RETURNS

Vital delivered a strong interim result, increasing cash distribution to 8.5 cpu and executed on aged care strategy.

Financial performance

	Actual 1H16	Actual 1H15	change	change %
Gross rental income ($m)	33.5	30.8	2.8	8.9
Net rental income ($m)	32.9	30.1	2.7	9.1
Operating profit before tax ($m)	26.6	26.7	-0.1	-0.3
Gross distributable income ($m)	21.8	21.1	0.8	3.7
Current tax – NZ & Australia ($m)	2.9	4.7	-1.9	
Net distributable income ($m)	19.0	16.3	2.7	16.3
Gross distributable income (cpu)	6.3	6.2	0.2	2.5
Net distributable income per unit (earned) (cpu)	5.5	4.8	0.7	15.2
Adjusted funds from operations (cpu)	5.5	4.8	0.7	15.2
Units on issue (weighted average, millions)	344.0	340.4		

Vital will raise its cash distribution to 8.5 cents per unit per annum from the third quarter of the 2016 financial year. Vital has acquired or committed to new growth and expansion initiatives of over A$100m, including its initial investment in four Australian residential aged care assets for A$41m on an initial yield of 8%.

Highlights for the first six months to 31 December 2015 include:

- Total return of 16.5% outperforming the S&P/NZX All Real Estate Gross Index by 8.1%
- Increased cash distribution per unit to 8.5 cents per annum effective from Q3 2016
- Gross rental income of $33.5m, up 8.9%
- Net distributable income of $19.0m, up 16.3%
- Bank facilities renewed on more competitive pricing and terms
- Interim revaluation gain of $45.2m or 5.9%, weighted average cap rate firming 35 basis points to 7.64%
- NTA uplift of 11.0 cents, up 8.7% to $1.38
- Sites acquired adjacent to Sportsmed in Adelaide, with commitment to further A$9.5m development in 2016
- Conditional acquisition of Boulcott Hospital for $30.7m and adjacent development land
- Spent $31.1m on value-add brownfield projects, minimum A$50m of additional brownfield development forecast to commence over next 12 months

GRAEME HORSLEY
Independent Chairman

DAVID CARR
Chief Executive Officer

"Vital is in excellent shape and our financial and portfolio position has strengthened further since FY15."

DAVID CARR

Financial position

	Actual 1H16	Actual FY15	change	change %
Net tangible assets ($)	1.38	1.27		8.7
Investment properties ($m)	834.8	781.9	53.0	6.8
Total assets ($m)	851.7	784.6		8.6
Bank debt ($m)	283.7	256.4	27.3	10.7
Unitholder funds ($m)	476.6	439.8	36.8	8.4
Units on issue (m)	345.2	342.1		
Weighted average cost of debt (%)	5.16	5.32		
LVR (%)	34.1	32.9		

"The lift in cash distribution reflects the successful execution of our strategy in recent years."

GRAEME HORSLEY

- Strong WALT of 17.0 years, continued high occupancy at 99.5%, average increase in rents reviewed of 3.3%

Vital executed on a suite of value-add investment, asset and capital management initiatives in the period, which aligns with our stated scale and diversification strategy and continues to drive performance. The acquisition of our first portfolio of Australian residential aged care assets also delivers on this strategy.

The lift in our annualised cash distribution to 8.5 cents per unit effective from quarter three of the 2016 financial year reflects the successful execution of our strategy in recent years. The Board is of the view that our strategy will continue delivering attractive returns to investors and is confident the new distribution is sustainable over the long term.

Financial performance

Gross rental income growth pre-currency movement was up 8.8%. Rental growth was driven principally by the strong contribution of development income over the period. The post-currency impact resulted in gross rental income growth of $2.8m or 8.9%.

The finance expense of $7.2m (+$1.2m, 19.3%) reflects slightly higher overall debt levels, with funding primarily applied to the value-add development programme. The benefit of the renewed banking facility terms announced in December 2015 will crystallise in the second half of the financial year.

Vital assessed the fair value of its portfolio for its interim financial reporting purposes as at 31 December 2015. For the period from 1 July 2015 to 31 December 2015 (supported by external independent desktop review advice from six valuers in New Zealand and Australia), Vital recorded an increase in the fair value of its portfolio of $45.2m (+5.9%) to $834.8m.

This increase is over and above the acquisitions and development expenditure incurred in that period.

Other expenses increased to $6.2m (+83.4%), principally as a result of provision made for a Manager incentive fee of $2.3m for the period. The fee is calculated in accordance with the Trust Deed and won't crystallise until the end of the financial year.

Base management fees increased to $2.9m (+$0.5m) due to the higher asset base compared to the prior year.

Gross distributable income for the period was higher at $21.8m (+$0.8m, or +3.7%) whilst net distributable income for the same period grew to $19.0m (+16.3%) on lower comparable current tax.

Distributions

The Board has confirmed that investors will receive a distribution of 2.025 cents per unit with no imputation credits attached for the second quarter distribution. The record date for the second quarter distribution is 10 March 2016 and payment will be made on 24 March 2016. Vital's Distribution Reinvestment Plan will remain available to investors for this distribution, with a 1.0% discount being applied when determining the strike price.

Effective from the third quarter distribution in the 2016 financial year, the Board has increased the annualised cash distribution to 8.5 cents per unit.

Treasury and capital management

Vital's loan-to-value ratio (LVR) as at 31 December was 34.1% and remains well below the Trust Deed covenant of 50%. The weighted average interest rate at period end was 5.16% and includes bank line and margin fees.

During the period, Vital repriced and extended its banking facilities on more competitive terms and added an additional A$100m tranche expiring October 2020. Vital's weighted average bank facility term to expiry has been increased to 4.1 years from 2.6 years, providing added certainty and duration of funding.

NTA increased to $1.38, up 11 cents per unit

Vital's NTA per unit is $1.38 or 8.7% higher compared to the 30 June 2015 year end NTA of $1.27. The material driver of the NTA change was the increase in the fair value of the portfolio in the period.

Strong interim valuations

The strong interim revaluation reflects the quality of the portfolio and strengthening investment themes for healthcare real estate. In the last six months there has been sustained transactional evidence to support a continued directional firming in market capitalisation rates for healthcare real estate. The desktop review advice received from independent valuers pointed to a number of drivers, including:

- Firming capitalisation rates across the broader market
- Continued strong performance from redeveloped assets due to the unique and attractive lease terms
- Rising interest in healthcare real estate, with strong competition for assets
- Increasing transactional evidence in the sub-7% cap rate range
- A low interest rate environment

The Australian portfolio was again a strong driver of the overall result, contributing approximately 90% of the $45.2m total fair value gain.

The portfolio weighted average market capitalisation rate firmed by 35 basis points to 7.64%, with the weighted average capitalisation rate firming approximately 40 basis points in Australia and 10 basis points in New Zealand. Vital will undertake full independent valuations for all properties as at 30 June 2016.

Portfolio activity

Proactive asset management continued to see Vital's metrics remain some of the strongest in the sector. Occupancy remains high at 99.5% and Vital's WALT of 17.0 years is approximately three times the New Zealand listed property sector average. Vital achieved rent growth of 3.3% on rents subject to review over the period and concluded a number of lease renewals. Less than 1% of total annual income is due to expire prior to 30 June 2016.

Acquisition and development activity

During the period Vital announced a number of strategic acquisitions including:

- Hopkins Street property for A$7.8m, immediately adjacent to Lingard Private Hospital in Newcastle
- Two parcels of land adjacent to Sportsmed Private Hospital in Adelaide for A$5.2m and construction of a A$9.5m stand-alone medical consulting building.

Vital also announced the conditional acquisition of Boulcott Hospital in Lower Hutt for $30.7m, reflecting an initial yield of 6.85%. Also acquired was an adjacent property providing future expansion capability. The Boulcott acquisition reaffirms Vital's commitment to the New Zealand market and complements the growth experienced in Australia.

Settlement is anticipated to occur mid-2016 following receipt of satisfactory regulatory approvals.

During the period Vital spent approximately $31.1m and effectively completed and started receiving rent on three developments: Hurstville, Belmont and Maitland Private Hospitals.

This accretive development work continues with two projects, one at South Eastern Private Hospital in Melbourne and the other at the Marian Centre in Perth, with a forecast remaining capital spend of approximately A$12.0m.

Subject to due diligence and final Board approvals, Vital anticipates commencing a minimum of A$50.0m of brownfield projects in the next 12 months.

Acquisition of four Australian residential aged care properties

Previously Vital has articulated a strategic desire to invest in residential aged care real estate and is fortunate to have now established a partnership with a leading private provider, Hall & Prior, in the Australian market. This initial portfolio of four properties, two each in New South Wales and Western Australia comprises 275 operational places.

The development at South Eastern Private Hospital will deliver positive earnings and portfolio benefits to investors.

The acquisition will further diversify Vital's portfolio composition, geographic markets and operator covenant, and will enhance long-term sustainable earnings for our investors.

Highlights of the acquisition include:

- Four properties acquired for A$41.0m, at an initial yield of 8%
- 20-year initial lease term, with two ten year rights of renewal
- Leases are triple net with annual CPI reviews and periodic reviews to market
- Hall & Prior is an experienced, highly regarded operator with a strong focus and reputation for resident care
- Underlying drivers of residential aged care demand closely align with core drivers of Vital's historic performance, including a growing and ageing population
- Aged care is predominantly government funded. Recent and ongoing reforms encourage new investment and underpin the long-term sustainability of the sector, and
- The residential aged care real estate market provides attractive long-term growth potential via consolidation, acquisition and development opportunities to meet increasing demand

Outlook

Vital started 2016 in a strong financial and portfolio position after a very productive 2015. A growing and ageing population continues to support long-term demand for healthcare services and our outlook remains positive, notwithstanding reviews across parts of the healthcare system in Australia.

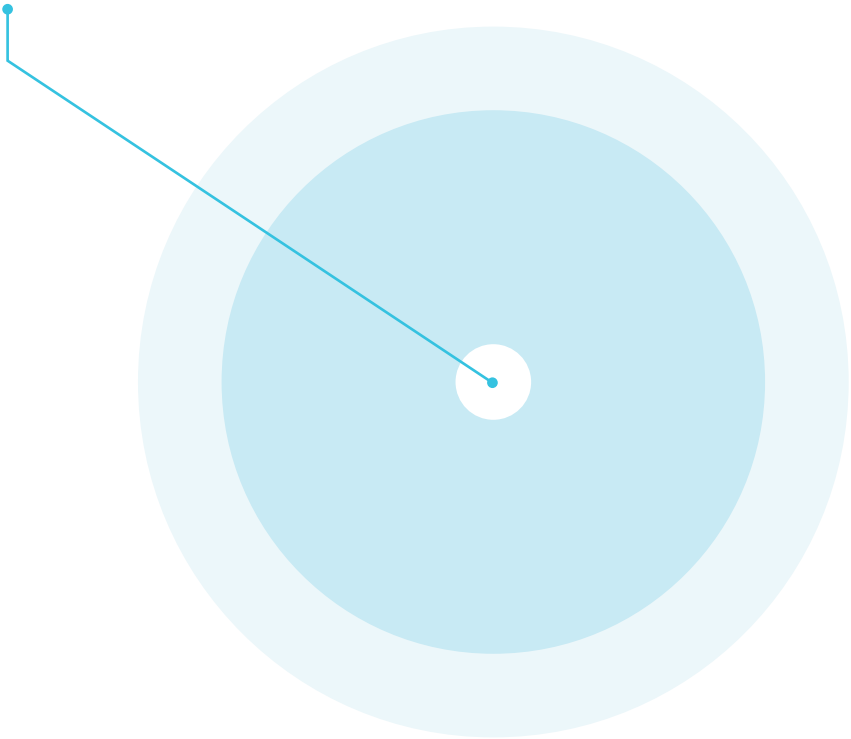
Vital continues to consider healthcare real estate opportunities that support our scale and diversification strategy, and will prudently assess each acquisition and development opportunity on its merits.

GRAEME HORSLEY MNZM
Independent Chairman
Vital Healthcare Management Limited
Manager of Vital Healthcare Property Trust

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

FINANCIAL STATEMENTS

For the period ended 31 December 2015



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2015

	Note	Unaudited 6 months Dec-15 $000s	Unaudited 6 months Dec-14 $000s
Gross property income from rentals		**33,539**	30,785
Gross property income from expense recoveries		**3,283**	3,542
Property expenses		**(3,950)**	(4,201)
Net property income	3	**32,872**	30,126
Other expenses		**6,231**	3,398
Profit before finance income/(expense) and other gains/(losses)		**26,641**	26,728
Finance income/(expense)			
Finance income		**34**	47
Finance expense		**(7,224)**	(6,055)
Fair value gain/(loss) on interest rate derivatives		**17**	(5,456)
		(7,173)	(11,464)
Other gains/(losses)			
Revaluation gains on investment property		**45,188**	–
Receipts under transaction hedging foreign exchange contracts		**109**	342
Fair value gain on foreign exchange derivatives		**863**	462
Unrealised gain/(loss) on foreign exchange		**1,354**	(472)
		47,514	332
Profit before income tax		**66,982**	15,596
Taxation (expense)/credit	4	**(7,991)**	(1,651)
Profit for the year attributable to unitholders of the Trust		**58,991**	13,945
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		**(25,122)**	(10,410)
Realised foreign exchange gains/(losses) on hedges		**(492)**	453
Current taxation credit/(expense)		**138**	(127)
Unrealised foreign exchange gains/(losses) on hedges		**12,887**	5,475
Deferred taxation (expense)/credit		**(3,608)**	(1,533)
Fair value gain on net investment hedges		**5,828**	3,650
Deferred taxation (expense)		**(1,631)**	(1,022)
Total other comprehensive (loss) after tax		**(12,000)**	(3,514)
Total comprehensive income after tax		**46,991**	10,431
Earnings per unit			
Basic and diluted earnings per unit (cents)	5	**17.15**	4.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	Unaudited Dec-15 $000s	Audited Jun-15 $000s
Non-current assets			
Investment properties	6	**834,849**	781,862
Derivative financial instruments		**77**	–
Other non-current assets		**376**	407
Total non-current assets		**835,302**	782,269
Current assets			
Cash and cash equivalents		**2,697**	1,022
Trade and other receivables		**595**	1,073
Other current assets		**4,205**	178
Derivative financial instruments		**8,883**	23
Total current assets		**16,380**	2,296
Total assets		**851,682**	784,565
Unitholders' funds			
Units on issue	8	**368,072**	362,853
Reserves		**(19,202)**	(5,702)
Retained earnings		**127,731**	82,605
Total unitholders' funds		**476,601**	439,756
Non-current liabilities			
Borrowings	9	**283,693**	256,384
Income in advance		**4,704**	5,866
Derivative financial instruments		**13,940**	13,475
Deferred tax		**53,136**	45,251
Total non-current liabilities		**355,473**	320,976
Current liabilities			
Trade and other payables		**9,174**	8,032
Income in advance		**2,217**	2,115
Derivative financial instruments		**357**	5,690
Taxation payable		**7,860**	7,996
Total current liabilities		**19,608**	23,833
Total liabilities		**375,081**	344,809
Total unitholders' funds and liabilities		**851,682**	784,565

For and on behalf of the Manager, Vital Healthcare Management Limited

G Horsley, **Chairman**

C Higgins, **Director**

25 February 2016

The notes on pages FIN-5 to FIN-14 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period ended 31 December 2015

	Units on issue $000s	Retained earnings / (accumulated losses) $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 2015:						
Balance at the start of the period	**362,853**	**82,605**	**(47,682)**	**38,207**	**3,773**	**439,756**
Changes in unitholders' funds	**5,219**	**–**	**–**	**–**	**(3,773)**	**1,446**
Manager's incentive fee	**–**	**–**	**–**	**–**	**2,273**	**2,273**
Profit for the period	**–**	**58,991**	**–**	**–**		**58,991**
Distributions to unitholders	**–**	**(13,865)**	**–**	**–**	**–**	**(13,865)**
Other comprehensive income for the period						
Movement in foreign currency translation reserve	**–**	**–**	**(25,122)**	**–**	**–**	**(25,122)**
Realised foreign exchange gains on hedges	**–**	**–**	**–**	**(354)**	**–**	**(354)**
Unrealised foreign exchange gains/ (losses) on hedges	**–**	**–**	**–**	**9,279**	**–**	**9,279**
Fair value gain on net investment hedges	**–**	**–**	**–**	**4,197**	**–**	**4,197**
Balance at the end of the period	**368,072**	**127,731**	**(72,804)**	**51,329**	**2,273**	**476,601**
For the six months ended 31 December 2014:						
Balance at the start of the period	359,480	13,561	(64,931)	45,410	542	354,062
Changes in unitholders' funds	1,955	–	–	–	(542)	1,413
Profit for the period	–	13,945	–	–	–	13,945
Distributions to unitholders	–	(13,680)	–	–	–	(13,680)
Other comprehensive income for the period						
Movement in foreign currency translation reserve	–	–	(10,410)	–	–	(10,410)
Realised foreign exchange gains on hedges	–	–	–	326	–	326
Unrealised foreign exchange gains/ (losses) on hedges	–	–	–	3,943	–	3,943
Fair value gain on net investment hedges	–	–	–	2,628	–	2,628
Balance at the end of the period	361,435	13,826	(75,341)	52,307	–	352,227

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended 31 December 2015

	Note	Unaudited 6 months Dec-15 $000s	Unaudited 6 months Dec-14 $000s
Cash flows from operating activities			
Property income		**32,432**	30,399
Recovery of property expenses		**3,300**	3,492
Interest received		**28**	47
Property expenses		**(4,452)**	(4,311)
Management and trustee fees		**(3,316)**	(2,539)
Interest paid		**(7,058)**	(6,484)
Tax paid		**(2,605)**	(5,974)
Other trust expenses		**(1,021)**	(4,884)
Net cash provided by/(used in) operating activities		**17,308**	9,746
Cash flows from investing activities			
Sale of investment properties		**–**	4,139
Receipts from foreign exchange contracts		**109**	795
Loan repayments from tenants		**6**	–
Capital additions on investment properties		**(31,098)**	(12,649)
Purchase of properties		**(12,642)**	(20,027)
Prepaid acquisition costs		**(1,523)**	–
Tenant incentives		**(418)**	–
Payments for foreign exchange derivatives		**(492)**	–
Net cash (used in)/provided by investing activities		**(46,058)**	(27,742)
Cash flows from financing activities			
Debt drawdown		**46,816**	42,333
Repayment of debt		**(3,449)**	(11,998)
Loan issue costs		**(529)**	–
Costs associated with Distribution Reinvestment Plan		**(8)**	–
Distributions paid to unitholders		**(12,406)**	(12,267)
Net cash from/(used in) financing activities		**30,424**	18,068
Net increase/(decrease) in cash and cash equivalents		**1,674**	72
Effect of exchange rate changes on cash and cash equivalents		**1**	1
Cash and cash equivalents at the beginning of the period		**1,022**	1,094
Cash and cash equivalents at the end of the period		**2,697**	1,167

The notes on pages FIN-5 to FIN-14 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 2015

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 Vital Healthcare Management Limited (the Manager). The Manager is an issuer for the purposes of the Financial Reporting Act 2013.

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

The condensed consolidated interim financial statements of VHP for the period ended 31 December 2015 comprise VHP and it's subsidiaries (together refer to as "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 Manager is an issuer for the purposes of the Financial Reporting Act 2013. 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 25 February 2016.

2 BASIS OF PREPARATION

Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP), NZ IAS 34 and IAS 34 Interim Financial Reporting. The 2015 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 as appropriate for a profit oriented entity. The accounting policies have been consistently applied, when compared to those used in the 2015 Annual Report except for the accounting policy on the incentive fee. The incentive fee is now recognised as a component of equity as management have determined this better reflects that the fee is settled in units. The comparative incentive fee amount of $3,773,000 for the period ended 30 June 2015, has been reclassified from a current liability to a component in equity.

Basis of measurement

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

Use of estimates and judgements

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

Note 4 – taxation

Note 6 – valuation of investment property

Note 7 – financial instruments

Amendments to NZ IFRS

All standards and amendments effective in the current period have been adopted and have no impact on these condensed consolidated interim financial statements.

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

3 SEGMENT INFORMATION

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

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

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

	Australia $000s	New Zealand $000s	Total $000s
Segment profit/(loss) for the period ended 31 December 2015 (Unaudited):			
Net property income	**25,986**	**6,886**	**32,872**
Other (expense)	**(2,679)**	**(3,552)**	**(6,231)**
Finance income	**1**	**33**	**34**
Finance (expense)	**(2,884)**	**(4,340)**	**(7,224)**
	20,424	**(973)**	**19,451**
Fair value gain/(loss) on interest rate derivatives	**161**	**(144)**	**17**
Revaluation gains on investment properties	**41,676**	**3,512**	**45,188**
Receipts under transaction hedging foreign exchange contracts	**–**	**109**	**109**
Fair value gain on foreign exchange derivatives	**–**	**863**	**863**
Unrealised gain/(loss) on foreign exchange	**(4)**	**1,358**	**1,354**
Total segment profit/(loss) before income tax	**62,257**	**4,725**	**66,982**
Taxation (expense)/credit			**(7,991)**
Profit for the period			**58,991**
Segment profit/(loss) for the period ended 31 December 2014 (Unaudited):			
Net property income	23,455	6,671	30,126
Other (expense)	(2,172)	(1,226)	(3,398)
Finance income	6	41	47
Finance (expense)	(2,511)	(3,544)	(6,055)
	18,778	1,942	20,720
Fair value (loss) on interest rate derivatives	–	(5,456)	(5,456)
Receipts under transaction hedging foreign exchange contracts	–	342	342
Fair value gain on foreign exchange derivatives	–	462	462
Unrealised gain/(loss) on foreign exchange	(2)	(470)	(472)
Total segment profit/(loss) before income tax	18,776	(3,180)	15,596
Taxation (expense)/credit			(1,651)
Profit for the period			13,945

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 three tenants with over 10% of gross property income from rentals totalling $24.8m, all in Australia (31 December 2014: four tenants totalling $22.5m).

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 of the Manager, which is the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

	Australia $000s	New Zealand $000s	Total $000s
Segment assets at 31 December 2015 (Unaudited):			
Investment properties	**667,480**	**167,369**	**834,849**
Other non-current assets	**301**	**152**	**453**
Current assets	**3,000**	**13,380**	**16,380**
Consolidated assets	**670,781**	**180,901**	**851,682**
Segment assets at 30 June 2015 (Audited):			
Investment properties	618,174	163,688	781,862
Other non-current assets	320	87	407
Current assets	912	1,384	2,296
Consolidated assets	619,406	165,159	784,565
Segment liabilities at 31 December 2015 (Unaudited):			
Borrowings	**167,063**	**116,630**	**283,693**
Other liabilities	**56,935**	**34,453**	**91,388**
Consolidated liabilities	**223,998**	**151,083**	**375,081**
Segment liabilities at 30 June 2015 (Audited):			
Borrowings	139,309	117,075	256,384
Other liabilities	54,285	34,140	88,425
Consolidated liabilities	193,594	151,215	344,809

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

- all assets are allocated to reportable segments.

- all liabilities are allocated to reportable segments.

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

4 TAXATION

	Unaudited 6 months Dec-15 $000s	Unaudited 6 months Dec-14 $000s
Profit/(loss) before tax for the period	**66,982**	15,596
Taxation (charge)/credit – 28% on profit before income tax	**(18,755)**	(4,367)
Effect of different tax rates in foreign jurisdictions	**5,536**	1,805
Tax exempt income	**4,901**	2,662
Foreign tax credits	**2,471**	2,430
Tax charges on overseas investments	**(2,341)**	(1,700)
Other adjustments	**197**	(2,481)
Taxation (expense)/credit	**(7,991)**	(1,651)
The taxation (expense)/credit is made up as follows:		
Current taxation	**(2,856)**	(4,745)
Deferred taxation	**(5,135)**	3,094
Total taxation (expense)/credit	**(7,991)**	(1,651)

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

5 EARNINGS PER UNIT

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

	Unaudited Dec-15	Unaudited Dec-14
Profit attributable to unitholders of the Trust ($000s)	**58,991**	13,945
Weighted average number of units on issue (000's of units)	**343,991**	340,413
Basic and diluted earnings per unit (cents)	**17.15**	4.10

	$000s	$000s
Distributable income		
Profit before income tax	**66,982**	15,596
Revaluation (gains)	**(45,188)**	–
Unrealised foreign exchange (gain)/loss	**(1,354)**	472
Unrealised foreign exchange (gain)/loss derivatives	**(863)**	(462)
Unrealised interest rate (gain)/loss derivatives	**(17)**	5,456
Manager's incentive fee	**2,273**	–
Profit used in calculating gross distributable income	**21,833**	21,062
Current tax charge	**2,856**	4,745
Profit used in calculating net distributable income	**18,977**	16,317
Gross distributable income (cpu) *	**6.35**	6.19
Net distributable income (cpu) *	**5.52**	4.79

* Based on weighted average number of units on issue.

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

6 INVESTMENT PROPERTIES

	Unaudited Dec-15 $000s	Audited Jun-15 $000s
Carrying value of investment property at the beginning of the period	**781,862**	613,136
Acquisition of properties	**12,692**	20,027
Capitalised costs	**31,388**	42,007
Capitalised interest costs	**268**	971
Net capitalised incentives	**(11)**	904
Disposals	**–**	(4,200)
Foreign exchange translation difference	**(36,538)**	24,986
Change in fair value	**45,188**	84,031
Carrying value of investment property at the end of the period	**834,849**	781,862
Carrying value of investment property includes;		
Fair value of investment properties	**827,928**	773,881
Income in advance	**6,921**	7,981
Carrying value of investment property at the end of the period	**834,849**	781,862

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 2015. The fair value of investment property as at 31 December 2015, was determined by the Manager, using market data provided by independent valuers and based on independent valuation advice. This follows recent comparable transactional evidence of market property sale transactions and a review of leasing activity undertaken in the period. Additionally, Epworth Eastern Hospital and Epworth Eastern Medical Centre were subject to full independent valuations

The Group holds the freehold to all properties except the car parks at the rear of Ascot Hospital and Ascot Central. The total value of leasehold property at 31 December 2015 was $3.3m (30 June 2015: $3.3m) representing 0.4% of the total investment property portfolio (30 June 2015: 0.4%). The weighted average lease length of leasehold property at 31 December 2015 was 3.3 years (30 June 2015: 3.8 years). The Group has an option to extend the ground lease for a further 20 years following expiry of the lease, and has secured an additional right of renewal of 20 years. This will extend the final expiry to 2059.

Acquisition of properties

During the period, the Group acquired three strategic properties, two are located in Newcastle, New South Wales and one in Toronto, New South Wales. (30 June 2015: one healthcare property located in Perth, Western Australia and one development property located in Box Hill, Victoria). The purchase prices included stamp duty and other transaction costs.

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

7 DERIVATIVE FINANCIAL INSTRUMENTS

	Unaudited Dec-15 $000s	Audited Jun-15 $000s
Nominal value of forward exchange contracts – AUD	**153,000**	153,000
Nominal value of foreign exchange options – AUD	**–**	80,000

Hedge Accounting

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

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

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

	Unaudited Dec-15 $000s	Audited Jun-15 $000s
Borrowings	**95,980**	101,808
Forward exchange derivatives (nominal amount)	**163,165**	263,570

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.

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 forward prices used to determine the fair value of NZD versus AUD foreign exchange derivatives is 0.9378 at 31 December 2015 (30 June 2015: 0.9004).

There have been no reclassifications of fair value instruments between levels in the period ended 31 December 2015 and 30 June 2015.

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.)

8 UNITS ON ISSUE

	Unaudited Dec-15 $000s	Audited Jun-15 $000s
Balance at the beginning of the period	**362,853**	359,480
Issue of units under Distribution Reinvestment Plan	**1,458**	2,847
Issue of units to satisfy Manager's incentive fee	**3,773**	542
Issue costs of units	**(12)**	(16)
	5,219	3,373
Balance at the end of the period	**368,072**	362,853

	Unaudited Dec-15 000s	Audited Jun-15 000s
Reconciliation of number of units		
Balance at the beginning of the period	**342,080**	339,851
Issue of units under the Distribution Reinvestment Plan	**827**	1,824
Issue of units to satisfy Manager's incentive fee	**2,289**	405
Balance at the end of the period	**345,196**	342,080

The number of units on issue at 31 December 2015 was 345,196,565 (30 June 2015: 342,080,378). 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 19 August 2015, 2,289,196 units were issued against the 2015 Manager's incentive fee of $3,773,133 (30 June 2015: $542,222).

Capital risk management

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

The Group's banking covenants require that the aggregate principal amount of the loan outstanding does not exceed 50%, (30 June 2015: 50%) of the fair market value of property at all times calculated to the Australian dollar equivalent. All banking covenants have been met during the period.

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

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

9 BORROWINGS

	Unaudited Dec-15 $000s	Audited Jun-15 $000s
AUD denominated loans	**280,910**	257,340
NZD denominated loans	**4,150**	–
Borrowing costs	**(1,367)**	(956)
Total borrowings	**283,693**	256,384

The Group has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. The A$425.0m and NZ$20.0m facility (30 June 2015: A$325.0m and NZ$20.0m) a multi-currency facility, was split between: Tranche A: A$125.0m and Tranche B: A$100.0m which are due to expire on 31 March 2019; and Tranche C: A$100.0m, Tranche D: A$100.0m and NZ Dollar Facility: NZ$20.0m which are due to expire on 31 October 2020 (30 June 2015: Tranche C: A$100.0m and NZ Dollar Facility: NZ$20.0m which are due to expire on 31 March 2017).

The effective interest rate on the borrowings as at 31 December 2015 was 5.16% per annum (30 June 2015: 5.32%).

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

10 COMMITMENTS

	Unaudited Dec-15 $000s	Audited Jun-15 $000s
Capital Commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	**11,650**	44,051

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:

Not later than one year	**66,200**	64,867
Later than one year and not later than five years	**238,418**	238,938
Later than five years	**760,844**	790,236
	1,065,462	1,094,041

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

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

11 CONTINGENCIES

There were no contingencies as at 31 December 2015 (30 June 2015: nil).

12 SUBSEQUENT EVENTS

On 25 February 2016 a gross distribution of 2.025 cents per unit was announced by the Trust. The record date for the distribution is 10 March 2016 and a payment is scheduled to unitholders on 24 March 2016. There will be nil cents per unit of imputation credits attached to the distribution.

13 RELATED PARTY TRANSACTIONS

The Manager

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

Remuneration of the Manager

The Trust paid management fees to the Manager. The calculation of management fees and incentive fees is stipulated in the Trust Deed. Management fees have been charged at 0.75% of the monthly average of the gross value of the assets of the Trust for the quarter ended on the last day of that month. Incentive fees are payable when there is an average annual increase in the Gross Value of the assets of the Trust Fund over the relevant financial year and the two preceding financial years. The incentive fee calculation may give rise to an excess or deficit to be applied in the calculation of future incentive fees. The incentive fee is 10% of the amount of the increase with payment being made by way of subscribing for new units. The management and incentive fees shall not exceed an amount equal to 1.75% per annum of the gross value of the Trust.

Transactions with related parties include:

	Unaudited Dec-15 $000s	Unaudited Dec-14 $000s
Total fees incurred		
Management fees	**2,891**	2,414
Manager's incentive fees	**2,273**	–
Expenses charged by Vital Healthcare Management Limited	**191**	115
Expenses charged by Vital Healthcare Australian Property Pty Limited	**631**	505
	5,986	3,034

Properties owned by the Trust have been managed, on normal commercial terms by Vital Healthcare Management Limited, a subsidiary of NWI Healthcare Properties LP. Property management fees charged are either included in property expenses or capitalised. The amount paid to Vital Healthcare Management Limited for reimbursement of expenses was $190,734 (31 December 2014: $115,174). The amount not recovered from tenants was nil (31 December 2014: nil).

Deloitte.

INDEPENDENT REVIEW REPORT TO THE SHAREHOLDERS OF VITAL HEALTHCARE PROPERTY TRUST

We have reviewed the condensed consolidated interim financial statements of Vital Healthcare Property Trust and its subsidiaries ("the Group") which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and 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-14.

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.

Manager's Responsibilities

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

Our Responsibilities

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

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and cash flows for the 6 month period ended on that date in accordance with NZ IAS 34 *Interim Financial Reporting and IAS 34 Interim Financial Reporting*.

Deloitte

25 February 2016
Chartered Accountants
Auckland, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Vital Healthcare Property Trust for the six months ended 31 December 2015 included on Vital Healthcare Property Trust's website. The Manager's Board of Directors is responsible for the maintenance and integrity of Vital Healthcare Property Trust's website. We have not been engaged to report on the integrity of Vital Healthcare Property Trust's website. We accept no responsibility for any changes that may have occurred to the unaudited condensed consolidated interim financial statements since they were initially presented on the website. The review report refers only to the unaudited condensed consolidated interim financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these unaudited condensed consolidated interim financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the unaudited condensed consolidated interim financial statements and related review report dated 25 February 2016 to confirm the information included in the unaudited condensed consolidated interim financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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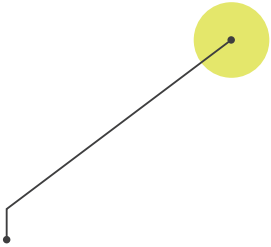

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