Vital
Healthcare
Property Trust

INTERIM REPORT
AS AT 31 DECEMBER 2014

BUILDEMAND

DEVELOPING OUR PORTFOLIO.
DELIVERING ON STRATEGY.

PORTFOLIO VALUED AT OVER

$630M

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

Vital's expertise meets the growing needs of healthcare operators in New Zealand and Australia, creating additional capacity in their businesses. Vital actively identifies, develops and manages quality properties to meet the rising demand for medical and healthcare services from an ageing population.

The 108 tenants and operators across 25 properties, provide essential healthcare services including medical, surgical and psychiatric services to thousands of patients every year. Some operators conduct world-leading research in the specialised healthcare environments that Vital provides.

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HIGHLIGHTS

/ FINANCIAL PERFORMANCE
INCREASE IN GROSS RENTAL INCOME

3.0%

/ FINANCIAL POSITION
LOAN-TO-VALUE RATIO

34.4%

/ INVESTOR RETURNS: TEN-YEAR COMPOUND ANNUAL TOTAL RETURN

12.8%↑

/ FIVE YEAR
AVERAGE OCCUPANCY ABOVE 99%

99.5%↑

/ PORTFOLIO METRICS:
WALT IS ALMOST THREE TIMES LONGER THAN THE NEW ZEALAND LISTED PROPERTY SECTOR AVERAGE

15.2↑ YEARS

/ NEW DEVELOPMENTS COMMENCED ACROSS 5 HOSPITALS TOTALLING:

A$40.8M

GRAEME HORSLEY
Independent Chairman

DAVID CARR
Chief Executive Officer

DELIVERING ON STRATEGY.

Vital has delivered another strong interim result and continues to deliver on its strategy.

Financial performance

All NZ$m (unless otherwise stated)	Actual 1H15	Actual 1H14	change $m	change %
Gross rental income	30.8	29.9	**0.9**	**3.0**
Net rental income	30.1	28.9	**1.3**	**4.3**
Operating profit before interest and tax	26.7	25.7	**1.0**	**4.0**
Gross distributable income	21.1	19.0	**2.1**	**10.9**
Current tax – New Zealand & Australia	4.7	(1.6)	**6.3**	**(398.0)**
Net distributable income	16.3	20.6	**(4.3)**	**(20.7)**
Gross distributable income (cpu)	6.2c	5.8c	**0.4c**	**7.0**
Net distributable income per unit (earned) (cpu)	4.8c	6.3c	**(1.5c)**	**(23.5)**
Units on issue (weighted average, millions)	340.4	328.5		

For the six months to 31 December 2014, Vital achieved gross rental of $30.8m, a growth of 3.0% or $0.9m on the prior year period, driven by the combination of a part period contribution from the Marian Centre acquisition in Perth, brownfield development income and rental growth. Vital's operating profit before interest and tax increased by $1.0m, or 4.0%, to $26.7m.

Vital's finance expense declined by $1.8m or 22.9% to $6.1m. This reflected the combination of lower net debt following the equity raising last financial year, a higher New Zealand dollar over the period, lower floating interest rates and the renewed banking facility on more attractive terms.

Unrealised marked to market movement on interest rate swaps resulted in a loss of $5.5m at period end compared to a $3.1m gain in the comparable period.

Net distributable income was $16.3m for the six months, compared to $20.6m in the prior period. This reduction is due to a current tax expense of $4.7m versus a tax credit of $1.6m in the prior period. Part of the tax increase related to tax payable on income received in advance in relation to the Mercy Ascot lease transaction, with the comparative prior year period benefiting from notable tax adjustments, including Inland Revenue binding rulings and unrealised Forex loss.

NET TANGIBLE ASSETS

$1.03

Financial position

All NZ$m (unless otherwise stated)	Actual 1H15	Actual FY14	change $m	change %
Net tangible assets ($ per unit)	1.03	1.04		**0.0**
Investment properties	631.9	613.1	**18.8**	**3.1**
Total assets	640.9	616.0	**24.9**	**4.1**
Bank debt	216.6	191.4	**25.2**	**13.2**
Unitholder funds	352.2	353.5	**(1.3)**	**(0.4)**
Units on issue (weighted average, millions)	340.4	333.8		
Loan-to-value ratio	34.4%	31.4%		

Vital's net tangible asset value (NTA) per unit was $1.03 (FY14: $1.04).

Vital's loan-to-value ratio (LVR) at 31 December 2014 was 34.4% (FY14: 31.4%). This increase primarily reflected the acquisition of the Marian Centre and funds utilised in developments offset in part from the sale of the Hibiscus Coast Community Health Centre in Whangaparaoa and a stronger New Zealand dollar. The LVR remains well below Bank and Trust Deed covenants, which are both aligned at 50%. This headroom provides additional flexibility to undertake value add developments and acquisition opportunities as they arise.

The weighted average interest rate at period end including line and margin fees was 5.52% (FY14: 5.66%). The lower rate reflects Vital being slightly less hedged with more exposure to declining floating interest rates, than at its year end position.

NEW DEVELOPMENTS

A$40.8M

NEW DEVELOPMENTS UNDER WAY AT FIVE HOSPITALS ILLUSTRATES THE RISING DEMAND FOR HEALTHCARE SERVICES

Treasury & capital management

All NZ$m (unless otherwise stated)	Actual 1H15	Actual FY14
Drawn debt at period end	217.7	192.6
Facility size	359.9	369.8
Weighted average cost of debt	5.52%	5.66%
Weighted average facility term (years)	3.6	4.1

"Our strong tenant relationships underpin the attractive portfolio opportunities we continue to deliver to investors."

/ DAVID CARR

Portfolio activity

In the 2015 financial year approximately 90% of total rent is subject to review, with an average increase to date of 2.1%. There were 21 leases due to expire over the year equating to 3.4% of annual income. We have now renewed 2.6%, leaving only 0.8% to address.

For the first six months Vital announced five new value add capital projects further expanding on Vital's 'creating capacity to meet demand' theme. The committed capex equates to A$40.8m and on completion is forecast to yield approximately 9.0% per annum. The forecast completion dates for the five projects range between February and December 2015.

During the period Vital sold Hibiscus Coast Community Health Centre in Whangaparaoa for $4.2m and acquired property adjacent to the Epworth Eastern Melbourne campus for A$3.5m.

As at 31 December 2014 Vital's WALT was 15.2 years and occupancy 99.5%.

Distribution

Vital delivered a second-quarter distribution of 2.000 cents per unit made up of a fully imputed distribution of 0.8207 cents per unit with imputation credits of 0.2298 attached and an excluded distribution of 1.4091 cents per unit.

The record date for the distribution is Thursday 12 March 2015 and payment will be made on Thursday 26 March 2015. Vital's Distribution Reinvestment Plan (DRP) will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price that will be applied in the calculation of the issue price of units allotted to those participating in the DRP.

Looking forward

Supported by positive ongoing sector fundamentals, the interim result reflects the management team's continued execution on its strategy.

Vital's portfolio metrics and financial position remain strong and it continues to leverage the favourable outlook in demand for healthcare services.

The November 2017 lease expiry at Allamanda Private Hospital remains a clear priority and focus for management and we continue to actively consider alternative users and uses for the property.

The Board has reaffirmed its previous cash distribution guidance for the year ending 30 June 2015 of 8.0 cents per unit.

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

Vital
Healthcare
Property Trust

FINANCIAL STATEMENTS

/ FOR THE PERIOD ENDED 31 DECEMBER 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2014

	Note	Unaudited 6 months Dec-14 $000s	Unaudited 6 months Dec-13 $000s
Gross property income from rentals		**30,785**	29,889
Gross property income from expense recoveries		**3,542**	3,031
Property expenses		**(4,201)**	(4,049)
Net property income	3	**30,126**	28,871
Other expenses		**3,398**	3,162
Profit before finance income/(expense) and other gains/(losses)		**26,728**	25,709
Finance income/(expense)			
Finance income		**47**	59
Finance expense		**(6,055)**	(7,855)
Fair value gain/(loss) on interest rate derivatives		**(5,456)**	3,071
		(11,464)	(4,725)
Other gains/(losses)			
Revaluation gains on investment property		**–**	–
Receipts under transaction hedging foreign exchange contracts		**342**	1,083
Fair value gain on foreign exchange derivatives		**462**	286
Unrealised (loss) on foreign exchange		**(472)**	(6,419)
		332	(5,050)
Profit before income tax		**15,596**	15,934
Taxation (expense)/credit	4	**(1,651)**	645
Profit for the year attributable to unitholders of the Trust		**13,945**	16,579
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		**(10,410)**	(27,688)
Realised foreign exchange gains on hedges		**453**	18,206
Current taxation (expense)		**(127)**	(5,097)
Unrealised foreign exchange gains/(losses) on hedges		**5,475**	(6,263)
Deferred taxation (expense)/credit		**(1,533)**	1,754
Fair value gain on net investment hedges		**3,650**	18,171
Deferred taxation (expense)		**(1,022)**	(5,088)
Total other comprehensive (loss) after tax		**(3,514)**	(6,005)
Total comprehensive income after tax		**10,431**	10,574
All amounts are from continuing operations			
Earnings per unit			
Basic and diluted earnings per unit (cents)	5	**4.10**	5.05

The notes on pages FIN-5 to FIN-15 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	Unaudited Dec-14 $000s	Audited Jun-14 $000s
Non-current assets			
Investment properties	6	**631,904**	613,136
Other non-current assets		**105**	43
Total non-current assets		**632,009**	613,179
Current assets			
Cash and cash equivalents		**1,167**	839
Trade and other receivables		**–**	235
Other current assets		**379**	218
Derivative financial instruments		**7,434**	1,497
Total current assets		**8,980**	2,789
Total assets		**640,989**	615,968
Unitholders' funds			
Units on issue	8	**361,435**	359,480
Reserves		**(23,034)**	(19,521)
Retained earnings/(accumulated losses)		**13,826**	13,561
Total unitholders' funds		**352,227**	353,520
Non-current liabilities			
Borrowings	9	**216,601**	191,364
Income in advance		**7,088**	8,000
Derivative financial instruments		**14,330**	8,838
Deferred tax		**32,791**	34,100
Total non-current liabilities		**270,810**	242,302
Current liabilities			
Trade and other payables		**6,196**	7,017
Income in advance		**2,000**	2,000
Derivative financial instruments		**–**	57
Taxation payable		**9,756**	11,072
Total current liabilities		**17,952**	20,146
Total liabilities		**288,762**	262,448
Total unitholders' funds and liabilities		**640,989**	615,968

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

G Horsley, **Chairman**

C Higgins, **Director**

26 February 2015

The notes on pages FIN-5 to FIN-15 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 2014

Group	Units on issue $000's	Retained earnings / (accumulated losses) $000's	Translation of foreign operations $000's	Foreign exchange hedges $000's	Total unitholders' funds $000's
For the six months ended 31 December 2014:					
Balance at the start of the period	**359,480**	**13,561**	**(64,931)**	**45,410**	**353,520**
Changes in unitholders' funds	**1,955**	**–**	**–**	**–**	**1,955**
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**
For the six months ended 31 December 2013:					
Balance at the start of the period	318,088	3,491	(34,043)	21,458	308,994
Changes in unitholders' funds	39,937	–	–	–	39,937
Profit for the period	–	16,579	–	–	16,579
Distributions to unitholders	–	(13,872)	–	–	(13,872)
Other comprehensive income for the period					
Movement in foreign currency translation reserve	–	–	(27,688)	–	(27,688)
Realised foreign exchange gains on hedges	–	–	–	13,109	13,109
Unrealised foreign exchange gains/(losses) on hedges	–	–	–	(4,509)	(4,509)
Fair value gain on net investment hedges	–	–	–	13,083	13,083
Balance at the end of the period	358,025	6,198	(61,731)	43,141	345,633

The notes on pages FIN-5 to FIN-15 form part of and are to be read in conjunction with these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the period ended 31 December 2014

	Note	Unaudited 6 months Dec-14 $000s	Unaudited 6 months Dec-13 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		**30,399**	30,069
Recovery of property expenses		**3,492**	3,036
Interest received		**47**	59
Cash was applied to:			
Property expenses		**(4,311)**	(4,187)
Management and trustee fees		**(2,539)**	(2,485)
Interest paid		**(6,484)**	(7,823)
Tax paid		**(5,974)**	(2,524)
Other trust expenses		**(4,884)**	(1,784)
Net cash from/(used in) operating activities		**9,746**	14,361
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		**4,139**	–
Receipts from foreign exchange contracts		**795**	18,206
Other		**–**	746
Cash was applied to:			
Capital additions on investment properties		**(12,649)**	(14,818)
Purchase of properties		**(20,027)**	–
Net cash from/(used in) investing activities		**(27,742)**	4,134
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		**42,333**	12,782
Loan repayments from tenants		**–**	81
Issue of units (net of issue costs)		**–**	39,910
Cash was applied to:			
Repayment of debt		**(11,998)**	(58,583)
Costs associated with Distribution Reinvestment Plan		**–**	(27)
Distributions paid to unitholders		**(12,267)**	(12,559)
Net cash from/(used in) financing activities		**18,068**	(18,396)
Net increase/(decrease) in cash and cash equivalents		**72**	99
Effect of exchange rate changes on cash and cash equivalents		**1**	44
Cash and cash equivalents at the beginning of the period		**1,094**	951
Cash and cash equivalents at the end of the period		**1,167**	1,094

The notes on pages FIN-5 to FIN-15 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 2014

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 which was amended and replaced by Deed of Trust dated 1 September 1999 and which was subsequently amended by Deeds of Amendments dated 10 November 2003, 12 November 2007, 12 December 2007, 5 August 2008, 27 September 2010 and 31 October 2012. The Trust is an issuer under the Financial Reporting Act 1993. The Trust is incorporated and domiciled in New Zealand.

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

The condensed consolidated interim financial statements are presented in New Zealand dollars which is the Trust's functional currency and have been rounded to the nearest thousand dollars ($000).

These condensed consolidated interim financial statements were approved by the Board of Directors of the Manager on 26 February 2015.

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, as applicable to a profit orientated entity. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the 2014 Annual Report except as stated below, and should be read in conjunction with the 2014 Annual Report. The 2014 Annual report complies with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) issued and other applicable Financial Reporting Standards issued and effective at the time of preparing those statements as applicable to the Trust as a profit oriented entity.

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 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

The Group has adopted the following new interpretation during the period:

NZ IFRIC 21 Levies: This is an interpretation of NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets. NZ IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The adoption of the interpretation has not had a significant impact on the condensed consolidated interim financial statements.

All other 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 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**
Segment profit/(loss) for the period ended 31 December 2013 (Unaudited):			
Net property income	21,786	7,085	28,871
Other (expense)	(1,985)	(1,177)	(3,162)
Finance income	11	48	59
Finance (expense)	(1,110)	(6,745)	(7,855)
	18,702	(789)	17,913
Fair value (loss) on interest rate derivatives	897	2,174	3,071
Receipts under transaction hedging foreign exchange contracts	–	1,083	1,083
Fair value gain on foreign exchange derivatives	–	286	286
Unrealised gain/(loss) on foreign exchange	–	(6,419)	(6,419)
Total segment profit/(loss) before income tax	19,598	(3,665)	15,934
Taxation (expense)/credit			645
Profit for the period			16,579

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 four tenants with over 10% of gross property income from rentals totalling $22.5m, one in New Zealand and three in Australia (31 December 2013: four tenants totalling $22.9m).

There were no inter-segment sales during the period (31 December 2013: nil).

Segment profit represents the profit earned by each segment including allocation of identifiable administration costs, finance costs, revaluation gains/(losses) on investment properties, and gains/(losses) on disposal of investment properties. This is the measure reported to the Board of Directors, 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 2014 (Unaudited):			
Investment properties	**474,481**	**157,423**	**631,904**
Other non-current assets	**2**	**103**	**105**
Other current assets	**342**	**8,638**	**8,980**
Consolidated assets	**474,825**	**166,164**	**640,989**
Segment assets at 30 June 2014 (Audited):			
Investment properties	451,541	161,595	613,136
Other non-current assets	9	34	43
Other current assets	179	2,610	2,789
Consolidated assets	451,729	164,239	615,968
Segment liabilities at 31 December 2014 (Unaudited):			
Borrowings	**105,073**	**111,528**	**216,601**
Other liabilities	**33,669**	**38,492**	**72,161**
Consolidated liabilities	**138,742**	**150,020**	**288,762**
Segment liabilities at 30 June 2014 (Audited):			
Borrowings	106,965	84,399	191,364
Other liabilities	30,903	40,181	71,084
Consolidated liabilities	137,868	124,580	262,448

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-14 $000s	Unaudited 6 months Dec-13 $000s
Profit/(loss) before tax for the period	**15,596**	15,934
Taxation (charge) (28%)	**(4,367)**	(4,461)
Effect of different tax rates in foreign jurisdictions	**1,805**	1,552
Tax exempt income	**2,662**	1,704
Non deductible expenses	**(2)**	(1)
Over/(under) provided in prior periods	**–**	2,692
Other adjustments	**(1,749)**	(841)
Taxation (expense)/credit	**(1,651)**	645
The taxation (charge)/credit is made up as follows:		
Current taxation	**(4,745)**	1,592
Deferred taxation	**3,094**	(947)
Total taxation (expense)/credit	**(1,651)**	645

5 EARNINGS PER UNIT

Basic and diluted earnings/(loss) 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-14	Unaudited Dec-13
Profit attributable to unitholders of the Trust ($000s)	**13,945**	16,579
Weighted average number of units on issue (000's of units)	**340,413**	328,535
Basic and diluted earnings per unit (cents)	**4.10**	5.05

On 26 February 2015 a gross distribution of 2 cents per unit was announced by the Trust. Any continuation of the DRP programme will increase the number of units on issue.

Distributable income		
Profit before income tax	**15,596**	15,934
Unrealised foreign exchange loss	**472**	6,419
Unrealised foreign exchange derivatives (gain)	**(462)**	(286)
Unrealised interest rate derivatives loss/(gain)	**5,456**	(3,071)
Managers incentive fee	**–**	–
Profit used in calculating gross distributable income	**21,062**	18,996
Current tax charge/(credit)	**4,745**	(1,592)
Profit used in calculating net distributable income	**16,317**	20,588
Gross distributable income (cpu) *	**6.19**	5.78
Net distributable income (cpu) *	**4.79**	6.27

* Based on weighted average number of units on issue.

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

6 INVESTMENT PROPERTIES

	Unaudited Dec-14 $000s	Audited Jun-14 $000s
Balance at the beginning of the period	**613,136**	618,727
Acquisition of properties	**19,058**	–
Capitalised costs	**16,465**	20,960
Capitalised interest costs	**292**	189
Net capitalised incentives	**(47)**	(106)
Disposals	**(4,200)**	–
Foreign exchange translation difference	**(12,800)**	(41,845)
Change in fair value	**(9,000)**	15,211
Fair value of investment properties	**622,904**	613,136
Income in advance	**9,000**	–
Closing balance	**631,904**	613,136
Carrying value of investment property at the beginning of the period	**613,136**	618,727
Carrying value of investment property at the end of the period	**631,904**	613,136

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. There was no independent valuation for investment properties as at 31 December 2014. The board and management have carefully reviewed the portfolio using available market information and consider that there has been no significant change to the valuation completed at 30 June 2014.

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 2014 was $2,880,000 (30 June 2014: $2,880,000) representing 0.5% of the total investment property portfolio (30 June 2014: 0.5%). The weighted average lease length of leasehold property at 31 December 2014 was 4.3 years (30 June 2014: 4.8 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 one healthcare property located in Perth, Western Australia and additional strategic properties in Melbourne, Victoria. (30 June 2014: none). The purchase price included stamp duty and other transaction costs.

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

7 FINANCIAL INSTRUMENTS

	Unaudited Dec-14 $000s	Audited Jun-14 $000s
Nominal value of forward exchange contracts and options – AUD	**125,000**	106,250
Nominal value of interest rate swaps – AUD	**190,000**	200,000

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 forward exchange contracts and options.

The Group has designated Australian denominated borrowings, forward exchange contracts and options 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-14 $000s	Audited Jun-14 $000s
Borrowings	**94,122**	75,342
Forward exchange contracts	**130,725**	114,358

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 of the fair value hierarchy on the basis that the valuation techniques used to determine the values at balance date use observable inputs.

Forward exchange contracts & options

Forward exchange contracts and options are measured using a valuation model based on the applicable forward price curves derived from observable forward prices. The Group has determined the forward exchange contracts and options are level 2 of the fair value hierarchy on the basis that the valuation techniques used to determine the values at balance date use observable inputs. The forward prices used to determine the fair value of NZD versus AUD forward exchange contracts and options is 0.9542 at 31 December 2014 (30 June 2014: 0.9199).

There have been no reclassifications of fair value instruments between levels in the period ended 31 December 2014 and 30 June 2014.

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-14 $000s	Audited Jun-14 $000s
Balance at the beginning of the year	**359,480**	318,088
Issue of units under Distribution Reinvestment Plan	**1,413**	2,761
Issue of units under Rights Issue	**–**	39,149
Issue of units to satisfy Manager's incentive fee	**542**	–
Issue costs of units	**–**	(518)
	1,955	41,392
Balance at the end of the period	**361,435**	359,480

	Unaudited Dec-14 000s	Audited Jun-14 000s
Reconciliation of number of units		
Balance at the beginning of the year	**339,851**	307,039
Issue of units under the Distribution Reinvestment Plan	**955**	2,107
Units issued under Rights Issue	**–**	30,705
Issue of units to satisfy Manager's incentive fee	**405**	–
Balance at the end of the year	**341,211**	339,851

The number of units on issue at 31 December 2014 was 341,211,623 (30 June 2014: 339,851,030). 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 September 2014, 405,036 units were issued against the 2014 Manager's incentive fee of $542,222 (30 June 2014: nil).

Capital risk management

The Group's capital includes units, reserves and retained earnings with Total unitholders' funds sitting at $352.3m (30 June 2014: $353.5m).

The Group maintains a strong capital base so as to maintain investor, creditor and market confidence and to sustain the Group's future on-going activities and development of the business. The impact of the level of capital on Unitholders returns is also recognised along with the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group is subject to imposed capital requirements arising from the Trust Deed, which requires the total borrowings to 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 2014: 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. There have been no material changes in the Group's overall strategy during the period.

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

9 BORROWINGS

	Unaudited Dec-14 $000s	Audited Jun-14 $000s
AUD denominated loans	**217,680**	192,633
Borrowing costs	**(1,079)**	(1,269)
Total borrowings	**216,601**	191,364

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$325,000,000 and NZ$20,000,000 facility, a multi-currency facility, was split between Tranche A: A$125,000,000 and Tranche B: A$100,000,000 which are due to expire on 31 March 2019, and Tranche C: A$100,000,000 and NZ Dollar Facility: NZ$20,000,000 which are due to expire on 31 March 2017.

The effective interest rate on the borrowings as at 31 December 2014 was 5.52% per annum (30 June 2014: 5.66%).

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.

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

10 COMMITMENTS

	Unaudited Dec-14 $000s	Audited Jun-14 $000s
Capital Commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	**40,522**	24,024
	40,522	24,024

Lease Commitments

Vital Healthcare Property Limited has non-cancellable operating lease rentals (these relate to a ground lease from the Auckland Racing Club on the rear car park at Ascot Hospital and Ascot Central) which are payable as follows:

Not later than one year	**245**	245
Later than one year and not later than five years	**866**	1,007
	1,111	1,252

The Group has a variety of operating leases relating to the investment property it owns with lease terms of between one month and 29 years.

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	**55,832**	58,446
Later than one year and not later than five years	**239,362**	250,767
Later than five years	**546,813**	610,230
	842,007	919,443

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.

11 CONTINGENCIES

There were no contingencies as at 31 December 2014 (30 June 2014: nil).

12 SUBSEQUENT EVENTS

On 26 February 2015 a gross distribution of 2 cents per unit was announced by the Trust. The record date for the distribution is 12 March 2015 and a payment is scheduled to unitholders on 26 March 2015. There will be 0.2298 cents per unit of imputation credits attached to the distribution.

On 1 January 2015, NorthWest International Healthcare Properties Real Estate Investment Trust acquired all the shares in the Manager from its previous owner, NorthWest Value Partners Inc.

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

13 RELATED PARTY TRANSACTIONS

Fees paid to the Manager

The Trust is managed by Vital Healthcare Management Limited (the "Manager"). The Manager is a wholly owned subsidiary of North West Value Partners Inc. The Manager is related to the Trust and its subsidiaries as the manager of the Trust.

The Trust reimbursed the Manager for fees paid to the Manager's directors and shareholders.

Transactions with related parties include:

	Unaudited Dec-14 $000s	Unaudited Dec-13 $000s
Total fees incurred		
Management fees	**2,414**	2,319
Manager's incentive fees	**–**	–
Expenses charged by Vital Healthcare Management Limited	**115**	51
Expenses charged by Vital Healthcare Australian Property Pty Limited	**505**	287
	3,034	2,657

Properties owned by the Trust have been managed, on normal commercial terms by Vital Healthcare Management Limited, a subsidiary of North West Value Partners Inc. Property management fees charged are either included in property expenses or capitalised. The amount paid to Vital Healthcare Management Limited was $115,174 (31 December 2013: $51,257). The amount not recovered from tenants was nil (31 December 2013: nil).

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 is 10% of the amount of the increase with payment being made by way of subscribing for new Units issued at the weighted average price. The management and incentive fees shall not exceed an amount equal to 1.75% per annum of the gross value of the Trust.

Deloitte.

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 Group") which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the 6 month period ended on that date, and a summary of significant accounting policies and other explanatory information on pages FIN-1 to FIN-15.

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 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 2014 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

26 February 2015
Chartered Accountants
Auckland, New Zealand

This review report relates to the unaudited condensed consolidated interim financial statements of Vital Healthcare Property Trust and group for the six months ended 31 December 2014 included on Vital Healthcare Property Trust's website. Vital Healthcare Property Trust 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 26 February 2015 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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