Vital

Healthcare
Property Trust

CREATING CAPACITY TO MEET DEMAND

ANNUAL REPORT
2013

Portfolio valued at over

$618m

Providing enhanced portfolio diversification benefits.

With a portfolio valued at over $618m, Vital Healthcare Property Trust (NZSX: VHP) is Australasia's largest listed investor in healthcare real estate.

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, in 24 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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Well-executed strategy delivers **DPU** of

7.9 cents per unit

up 2.6%

ADDITIONAL DEVELOPMENTS creating capacity, yielding 10% p.a. on average

$41.7M

GROSS RENTAL INCOME up 18%

$59.9M

WALT more than twice the New Zealand listed property sector average

11.8 years

NET DISTRIBUTABLE INCOME up 21%

$28.2M

12MTH TOTAL RETURN to investors

20.1%

POSITIVE portfolio revaluation gain of

$10.3M

up 1.7%

10YR COMPOUND annual total return to investors

13.0%

CREATING CAPACITY TO MEET DEMAND

PRIVATE HOSPITALS TREAT

40% of all patients

in Australia.

PRIVATE HOSPITALS AND DAY SURGERIES PROVIDE

1 out of every 3

beds in Australia.

PRIVATE HOSPITALS AND DAY SURGERIES PERFORM

2 out of every 3

elective surgeries.

PRIVATE HOSPITALS TREAT MORE THAN

70%

of people admitted for rehabilitation.

Over **3,600,000**

patients treated in Australian private hospitals.

- In Australia, private hospitals play a key role in the provision of healthcare services and are an integral partner to the public sector.
- Healthcare is a unique industry in that its rising demand profile is more or less unlimited and yet it is generally capacity constrained.
- A structural ageing population is supported by rising hospital admission rates and increasing lengths of stay. Compounding this is the over 65 year demographic using healthcare services at around four times the rate of the rest of the population, effectively creating a compounding effect on demand.
- Overlaying all of these factors is a robust Australian private health insurance market.
- With 75% of its assets in Australia, Vital is well positioned to benefit from the positive underlying drivers of the healthcare sector.

FINANCIAL SUMMARY

All figures are in New Zealand dollars (NZD) unless otherwise stated	Restated 2009 $000s	Restated 2010 $000s	2011 $000s	2012 $000s	2013 $000s
Net property income	22,719	24,287	36,614	47,962	57,856
Profit before financial income/(expenses) and other gains/(losses)	19,401	21,156	33,922	40,908	46,709
Unrealised foreign exchange gain/(loss)	403	259	1,855	40	(3,929)
Revaluation gain/(loss)	(7,078)	10,476	(10,523)	(6,241)	10,337
Profit/(loss) for the year (after taxation)	(2,861)	18,199	7,380	8,977	34,721
Earnings per unit – cents per unit	(2.03)	12.77	3.34	3.08	11.56
Investment properties	286,227	291,990	513,945	567,226	618,727
Total assets	**295,287**	**299,545**	**533,433**	**580,790**	**629,476**
Bank loan drawn	105,376	97,675	196,690	245,769	266,650
Total equity	163,442	171,088	301,106	287,430	308,994
Debt-to-total-assets ratio	35.7%	32.6%	36.9%	42.3%	42.4%
Cash distribution to unitholders – cents per unit	8.50	8.50	8.10	7.70	7.90
Net assets backing per unit – cents per unit	1.12	1.19	1.04	0.98	1.01

DISTRIBUTABLE INCOME

	2009 $000s	2010 $000s	2011 $000s	2012 $000s	2013 $000s
Profit/(loss) before income tax	(3,614)	24,069	11,476	8,310	45,084
Adjusted for:					
Revaluation (gains)/losses on investment property	7,078	(10,476)	10,523	6,241	(10,337)
Unrealised gain on construction	(20)	–	–	–	–
Unrealised foreign exchange (gain)/loss	(403)	(259)	(1,855)	(40)	3,929
Internalisation costs	–	–	–	731	–
Fair value (gain)/loss on interest rate derivatives	8,736	51	(178)	10,050	(4,406)
Fair value (gain)/loss on foreign exchange rate derivatives	–	–	–	67	(656)
Manager's incentive fee	253	120	–	–	–
Gross distributable income	**12,030**	**13,505**	**19,966**	**25,359**	**33,614**
Current taxation	1,657	1,817	3,051	2,101	5,419
Other tax adjustment	(1,657)	(428)	(1,271)	–	–
Net distributable income	**12,030**	**12,116**	**18,186**	**23,258**	**28,195**

PORTFOLIO METRICS

	2009	2010	2011	2012	2013
Investment properties ($m)	286.2	292.0	513.9	567.2	618.7
Number of properties	16	14	25	25	24
Number of tenants	98	106	128	124	108
Occupancy factor	98.0%	99.5%	99.2%	99.3%	99.5%
Weighted average lease term (years)	9.0	8.6	11.4	11.9	11.8
12-month lease expiry	2.6%	2.6%	1.6%	2.5%	1.6%

STRATEGY DELIVERING RESULTS

Our strong performance over 2013 sees Vital further cement its position as a market leader in healthcare real estate.

Graeme Horsley MNZM
Independent Chairman

We have maintained our brownfield redevelopment momentum of the last two years and are well positioned to continue delivering secure, stable returns to investors.

I am delighted to present my second Annual Report as Independent Chairman of Vital's Manager, having been a Director for approximately six years now.

Delivering distributions at the high end of guidance

The Board is extremely pleased to deliver to investors a full year 2013 cash distribution per unit of 7.90 cents, at the top end of the forecast guidance range. This result has been achieved on the back of a strong operational performance and management's sound execution of the Board's growth and diversification strategy.

I am also happy to report to you that the forecast net distribution per unit for the 2014 financial year is also 7.90 cents. We are keen to ensure Vital's distribution grows from a sustainable base. Accordingly, we have taken a prudent and conservative approach to the forthcoming year's distribution noting there are some pending medium term lease expiry events which we have directed management to remain focused on.

It is also very satisfying that, once again, Vital has outperformed the listed property sector benchmarks both in New Zealand and Australia. Vital generated a compound total return of 13% per annum over the ten years to 30 June 2013, compared with the NZX Property Gross Index return of 8.9% and S&P/ASX 200 A-REIT return of -3.3%.

The Trust delivered another solid year of financial performance. Rental income grew 18% to $59.9m and our net distributable income for 2013 increased 21% to $28.2m, a very satisfying result.

I am particularly pleased with the strong annual independent revaluation of Vital's property portfolio which resulted in a 1.7% increase, or $10.3m. The fact that all the completed developments reported valuation uplifts is a positive endorsement of our strategy in recent years.

Sector leading portfolio metrics and premium to NTA

The Trust continues to deliver portfolio metrics which remain consistently among the highest in the listed property sector. Year-end occupancy was 99.5% and has averaged above 99% for the last 5 years. The Trust's weighted average lease term to expiry (WALT) was 11.8 years only slightly down from 11.9 years in 2012.

At around 40%, Vital has the highest trading premium to NTA of all the New Zealand listed property vehicles. There are several reasons for this in my view. First, Vital's underlying assets have twice the WALT of our peers with contracted rental increases through the high structured rent growth component. Second, Vital has also achieved attractive yields and initial revaluation uplifts on all of its completed development assets – something evident in the 2013 revaluations.

Lastly, investors remain attracted to yield and Vital's yield remains one of the highest in the listed property sector.

Asset vacancy risk, be it from lease termination or tenant default, is no greater than for other property classes. Our long WALT combined with our partnership model of asset management leads me to believe capitalisation rates being used in healthcare real estate valuations are conservative. We may, however, need to see a combination of improving transactional evidence and continued operating and financial improvements in our redeveloped assets before valuers begin to firm capitalisation rates and the unit price premium to NTA, starts to close.

By value, 75% of our assets are located in Australia. As a result of our highly successful redevelopment programme over the last 24 months we are seeing more opportunities in this market. Recognising this, we have appointed Richard Roos as Managing Director – Australia to complement our existing capable and experienced Australian management team. Richard brings a wealth of international healthcare real estate experience and is a welcome and valuable addition to our team. We expect this appointment to enhance our capability to deliver targeted real estate solutions to our operators, and attractive, sustainable returns to investors.

Treasury and capital management

In August 2013, following the financial year end, Vital successfully concluded a $39.2m capital raising via its 1-for-10 pro-rata renounceable rights issue. Strong investor support for the issue endorsed the Trust's growth strategy and the Board would again like to thank all of our investors for their on-going support.

The funds raised were immediately applied to reducing bank debt and the Trust's LVR is now around 38%. This means Vital is well positioned to undertake any on-going capital expenditure projects or strategic acquisitions.

Governance

The Board is pleased to see NorthWest Value Partners Inc. ('NWVP'), the owner of the Manager, continue to support the Trust's activities. Its interests remain strongly aligned with those of investors. NWVP brings to the table a wealth of international healthcare real estate, governance and financial experience.

The Board experienced a few changes last year, with a new combination of existing and new Directors, both independent and representatives of the Manager. Claire Higgins joins us as an Independent Director and chairs our audit committee. She has extensive corporate experience with expertise across a range of areas including governance, risk management, foreign exchange and interest-rate hedging, stakeholder communication and management. We have benefited from her broad experience and knowledge of Australian healthcare practices.

On behalf of the Board, I would like to thank management for their ongoing commitment and dedication. The small team, well led by David, has had a busy year with acquisitions, redevelopments, investigated opportunities and capital-raising post balance date. Thank you from the Board and investors.

Strategy and outlook

The healthcare real estate story continues to be one of rising demand and constrained capacity. This unique aspect is a key factor in Vital's strong operational and financial results.

Vital's growth and diversification strategy has delivered strong results. Our expertise in the sector and partnership-based approach to working with operators to deliver healthcare real estate solutions have been important elements to our success.

Over the coming twelve months, the Trust will have a more stabilised asset portfolio. We will continue to assess potential asset sales and recycling of capital into opportunities that align with the Trust's strategy. Strong underlying demographic and healthcare trends underpin a positive long term performance outlook.

I would like to thank all investors for their continued support through a busy 2013. Looking ahead to 2014, the Board remains confident in the Trust's ability to continue delivering secure, stable returns to investors.

Graeme Horsley MNZM
Independent Chairman
Vital Healthcare Management Limited

CREATING CAPACITY

Continued execution of Vital's strategy has delivered another solid year of operational and financial achievements.

David Carr
Chief Executive Officer

The brownfield value-add redevelopment programme, coupled with the acquisition of Vital's first South Australian private hospital acquisition, were key drivers of the Trust's 2013 performance.

Delivering strong performance

Gross rental income growth of 18% over the 2013 financial year was driven by a combination of completed developments over the prior period and the strategic acquisition of Sportsmed in Adelaide, South Australia, in the first half of the financial year.

The Trust's operating profit before tax and interest was $46.7m, up 14% due to the Trust's strong rent growth and stable expenses over the year. Lower interest costs also supported net distributable income for 2013 increasing 21% to $28.2m.

Vital delivered a total return of 20.1%[i] for the year to 30 June 2013, a very pleasing result.

Around one-third of the $10.3m revaluation uplift in 2013 came from the Trust's New Zealand portfolio with the balance from the Australian business. Sixteen of 24 assets recorded gains including all redeveloped properties.

The Trust's net tangible asset value per unit increased to $1.01 from $0.98 and the unit price traded at a significant premium to NTA through the financial year.

Capital and treasury management

Vital's debt-to-total-assets ratio ('LVR') year end of 42.4% was in line with last year and well within its Trust and bank covenants both set at 50%. The Trust's three underwritten quarterly distribution reinvestment plans through 2013 supported part of its growth and stable year end LVR position.

Vital's debt funding costs reduced further in 2013. The weighted average interest rate at year end was 6.52% compared to 6.87% for 2012. The lower average rate reflects Vital positioning itself at the lower end of its hedging policy range and taking advantage of a current low interest rate environment in Australia. The Trust's interest cover ratio as at 30 June 2013 was 2.8 times and well above the 2.0 times bank covenant requirement. The Trust's strong operating earnings together with a lower cost of funding helped improve this ratio.

At 30 June 2013 Vital's bank facility had a weighted average term to expiry of 2.9 years (2012: 3.8 years).

Following the financial year end Vital successfully concluded a $39.2m capital raising in August via a 1-for-10 pro-rata renounceable rights issue (the 'Issue'). The Issue received strong support with approximately 88% of the rights available under the Issue subscribed directly by existing investors.

With around 75% of the Trust's assets in Australia and its borrowings predominantly in Australian dollar denominated debt, the Trust

continues to have a natural currency hedge of approximately 62% at balance date. This natural hedge is supplemented with additional currency hedging through the use of foreign exchange contracts to take the Trust's effective hedging to around 86% as at 30 June. Management will continue to work within the Trust's established policy guidelines to minimise the impact of currency movements on equity.

Stabilised portfolio

The Trust's underlying performance remains driven by proactive property management. This is best illustrated by Vital's portfolio metrics which consistently rate among the highest in the sector. Year-end occupancy was 99.5% and has averaged above 99% for the last 5 years and the weighted average lease term to expiry was 11.8 years, only slightly less than 11.9 years in 2012. This is over twice the listed property sector average of 5.3[ii] years providing greater income certainty to investors.

The Trust completed around $42m of additional value-add brownfield redevelopment projects in 2013 with average yields of 10%. In addition to increasing portfolio quality, we have seen strong hospital performance post redevelopment. This was validated with each development asset having revaluation increases in 2013. We continue to be impressed by the professionalism and passion of the management and medical staff who continue to drive operational improvements at all the redeveloped assets.

During the year the Trust settled the sale of two properties, recycling the capital into more attractive value add opportunities in the portfolio. The Trust also completed its first strategic purchase in South Australia, acquiring Sportsmed, one of Australia's leading private hospitals. This acquisition further increases our scale and diversification in what is a very strong private healthcare market.

In 2014 around 85% of Vital's income is subject to structured rent reviews and only 1.6% of portfolio income is subject to lease expiry. Over the next four years, the average expiry profile is less than 2.1%.

The Board has tasked management to focus on the two key medium term expiry events at Allamanda Private Hospital on the Gold Coast and Ascot Hospital in Auckland (2018 and 2019 financial years respectively). Currently these expiries represent around 12.5% and 10.9% of Vital's total rent roll respectively. We remain in active discussions with both tenants, in addition to considering alternative tenancy and property strategies should all or part of one or both of these properties become vacant.

Sector fundamentals and performance

It's worth taking a moment to recap the underlying drivers of the Trust's performance.

Undeniably the healthcare sector continues to be one of rising demand, driven by a structural ageing of the population and constrained capacity to deliver healthcare services. This is why Vital's redevelopment programme to create capacity has been so successful.

A structural ageing population is also supported by rising hospital admission rates and a forecast rise in length of stay. Compounding this is the over 65 year demographic using healthcare services at around four-times the rate of the rest of the population, effectively creating a compounding effect on demand.

Overlaying all of these factors is a robust private health insurance (PHI) market. For example, in Australia, where 75% of our portfolio is located, the PHI market remains strong with 47%[iii] of the population with hospital treatment cover. This number grew by around 2.5% on the prior period or over 250,000 people with over one-third of this growth coming from the over 65 demographic. Overall, PHI levels are showing signs of resilience despite the introduction of means testing on 1 July last year. Unfortunately, the New Zealand PHI market is less resilient and sits at around 30%[iv] of the population.

The independent measurement of the Australian healthcare real estate sectors performance by IPD[v] showed no sign of deterioration. The results for the year to 30 June 2013 show healthcare annualised returns for the last 5 years of 10.5% p.a. outperforming all property returns of 5.7% p.a.

The performance of healthcare real estate remains underpinned by factors including an ageing population, forecast rising length of stay and life expectancy. These factors typically remain independent of economic cycles and will continue to support relatively stable investment performance.

Key focus for 2014

The fundamental drivers of the healthcare real estate sector are irrefutable and underpin a positive long term outlook.

Vital's strategy is well established, supported by investors and delivering strong results. Management's specialist expertise in healthcare real estate and partnership approach to working with operators will ensure we continue to focus on enhancing value. As the Chairman alluded to, we are absolutely focused on medium term expiry events and remain in discussion with these operators.

The Trust's portfolio is diversified with strong foundations. It is well positioned for the future and management expect to see more brownfield redevelopment activity to meet the growth demands of Vital's operators.

Unlocking healthcare real estate opportunities which will deliver enhanced portfolio and earnings diversification benefits, is essential. We continue to see opportunities with portfolio fundamentals aligning with Vitals and supported by similar underlying healthcare drivers of a structural ageing population and rising healthcare demand.

The management team remains committed to delivering on the Board's strategy. This has been further enhanced with the recent appointment of Richard Roos as Managing Director in Australia, further supporting the Trust's capability to deliver on these opportunities.

Lastly, I would also like to thank investors for their on-going support and engagement and my dedicated management team for their great work over the last 12 months. Their professionalism, commitment and team work continues to deliver strong results for Vital.

David Carr
Chief Executive Officer
Vital Healthcare Management Limited

ADDITIONAL CAPACITY

120 more beds

9 new hospital wards

4 new operating theatres

2 new hydrotherapy pools

1 new stand-alone medical centre

New rehabilitation areas

New patient recovery areas

New consultancy suites

Lingard Private Hospital, NSW

i Source: Craig's Investment Partners
ii Source: Forsyth Barr, Real Estate Reflections August 2013
iii Source: Private Health Insurance Administration Council (PHIAC)
iv Source: Health Funds Association of New Zealand (HFANZ)
v Source: Investment Property Databank (IPD)

AUSTRALIA

Allamanda Private Hospital
Southport | Queensland

MARKET VALUE A$50,100,000
MARKET CAPITALISATION RATE 10.5%
WALT 4.3 years
OCCUPANCY 100%
MAJOR TENANT Queensland Surgicentre Allamanda Pty Limited

Belmont Private Hospital
Carina Heights | Queensland

MARKET VALUE A$27,330,000
MARKET CAPITALISATION RATE 9.5%
WALT 17.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Belmont Pty Limited

Mayo Private Hospital
Taree | New South Wales

MARKET VALUE A$20,700,000
MARKET CAPITALISATION RATE 10.0%
WALT 18.5 years
OCCUPANCY 100%
MAJOR TENANT Mayo Healthcare Group Pty Limited

Palm Beach Currumbin Clinic
Currumbin | Queensland

MARKET VALUE A$22,580,000
MARKET CAPITALISATION RATE 9.8%
WALT 18.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Palm Beach Pty Limited

Epworth Eastern Medical Centre
Melbourne | Victoria

MARKET VALUE A$17,300,000
MARKET CAPITALISATION RATE 8.5%
WALT 3.6 years
OCCUPANCY 100%
MAJOR TENANT Peter MacCullum Cancer Institute

Epworth Rehabilitation
Melbourne | Victoria

MARKET VALUE A$16,200,000
MARKET CAPITALISATION RATE 8.5%
WALT 5.6 years
OCCUPANCY 100%
MAJOR TENANT
Epworth Foundation

Dubbo Private Hospital
Dubbo | New South Wales

MARKET VALUE A$6,700,000
MARKET CAPITALISATION RATE 10.0%
WALT 18.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Australia Pty Limited

Epworth Eastern Hospital
Melbourne | Victoria

MARKET VALUE A$58,800,000
MARKET CAPITALISATION RATE 8.5%
WALT 11.1 years
OCCUPANCY 100%
MAJOR TENANT Epworth Foundation

Lingard Private Hospital
Newcastle | New South Wales

MARKET VALUE A$45,200,000
MARKET CAPITALISATION RATE 10.5%
WALT 17.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Lingard Pty Limited

Sportsmed Hospital and Clinics
Adelaide | South Australia

MARKET VALUE A$29,200,000
MARKET CAPITALISATION RATE 9.1%
WALT 19.4 years
OCCUPANCY 100%
MAJOR TENANT Sportsmed Hospitals Pty Limited

Gold Coast Surgical Centre
Southport | Queensland

MARKET VALUE A$15,000,000
MARKET CAPITALISATION RATE 10.0%
WALT 8.7 years
OCCUPANCY 99%
MAJOR TENANT Queensland Surgicentre Southport Pty Limited

Hurstville Private Hospital
Sydney | New South Wales

MARKET VALUE A$14,700,000
MARKET CAPITALISATION RATE 9.8%
WALT 18.8 years
OCCUPANCY 100%
MAJOR TENANT Hurstville Private Pty Limited

AUSTRALIA (CONTINUED)

Toronto Private Hospital
Toronto | New South Wales

MARKET VALUE A$12,300,000
MARKET CAPITALISATION RATE 10.0%
WALT 19.5 years
OCCUPANCY 100%
MAJOR TENANT Central Lakes Hospitals Pty Limited

Maitland Private Hospital
Newcastle | New South Wales

MARKET VALUE A$28,670,000
MARKET CAPITALISATION RATE 9.5%
WALT 19.5 years
OCCUPANCY 100%
MAJOR TENANT East Maitland Private Hospital Pty Limited

Melbourne Pathology Building
Melbourne | Victoria

MARKET VALUE A$680,000
MARKET CAPITALISATION RATE 8.5%
WALT 17.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care South Eastern Pty Limited

North West Private Hospital
Burnie | Tasmania

MARKET VALUE A$12,000,000
MARKET CAPITALISATION RATE 10.0%
WALT 18.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Australia Pty Limited

South Eastern Private Hospital
Melbourne | Victoria

MARKET VALUE A$14,920,000
MARKET CAPITALISATION RATE 10.8%
WALT 17.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care South Eastern Pty Limited

NEW ZEALAND

Apollo Health and Wellness Centre
Albany | Auckland

MARKET VALUE	NZ$20,650,000
MARKET CAPITALISATION RATE	8.1%
WALT	5.5 years
OCCUPANCY	85%
MAJOR TENANT	Medical Centre @ Apollo

Ascot Central
Greenlane | Auckland

MARKET VALUE	NZ$21,900,000
MARKET CAPITALISATION RATE	8.0%
WALT	6.2 years
OCCUPANCY	100%
MAJOR TENANT	Fertility Associates Limited

Ascot Central Car Park
(ground lease)
Greenlane | Auckland

MARKET VALUE	NZ$1,500,000
MARKET CAPITALISATION RATE	11.0%
WALT	5.5 years
OCCUPANCY	98%
MAJOR TENANT	Fertility Associates Limited

Ascot Hospital and Clinics
Greenlane | Auckland

MARKET VALUE	NZ$80,500,000
MARKET CAPITALISATION RATE	8.1%
WALT	5.2 years
OCCUPANCY	100%
MAJOR TENANT	Ascot Hospital and Clinics Limited

Ascot Hospital Car Park
(ground lease)
Greenlane | Auckland

MARKET VALUE	NZ$1,380,000
MARKET CAPITALISATION RATE	12.0%
WALT	5.7 years
OCCUPANCY	100%
MAJOR TENANT	Fertility Associates Limited

Hibiscus Coast Community Health Centre
Whangaparaoa | Auckland

MARKET VALUE	NZ$3,800,000
MARKET CAPITALISATION RATE	9.0%
WALT	1.0 years
OCCUPANCY	100%
MAJOR TENANT	Waitemata District Health Board

Kensington Hospital
Whangarei | Northland

MARKET VALUE	NZ$15,000,000
MARKET CAPITALISATION RATE	8.5%
WALT	7.7 years
OCCUPANCY	100%
MAJOR TENANT	Kensington Hospital

Napier Health Centre
Napier | Hawke's Bay

MARKET VALUE	NZ$10,300,000
MARKET CAPITALISATION RATE	9.5%
WALT	6.5 years
OCCUPANCY	100%
MAJOR TENANT	Hawke's Bay District Health Board

LEADERSHIP, STRATEGY AND GOVERNANCE

- **Andrew Evans**
  Independent Director
- **Claire Higgins**
  Independent Director
- **Graeme Horsley MNZM**
  Chairman and Independent Director
- **Paul Dalla Lana**
  Director
- **Bernard Crotty**
  Director

Our Board has overall responsibility for managing the Trust. It is made up of three Independent Directors and two non-Independent Directors. Directors are chosen for their complementary skills and knowledge. They are committed to maintaining the highest ethical standards and accountability.

Graeme Horsley MNZM
Chairman and Independent Director

Graeme Horsley has over 40 years' property valuation and consultancy experience, including 14 years with Ernst & Young New Zealand, where he was Partner and National Director of the Real Estate Group.

A professional Director, Graeme is Chairman of the Niue Tourism Property Trust and an Independent Director of Precinct Properties New Zealand, Willis Bond Capital Partners and Accessible Properties Limited. He is a Member of the New Zealand Order of Merit, a Life Fellow of the Property Institute of New Zealand, an Eminent Fellow of the Royal Institution of Chartered Surveyors and an Accredited Fellow of the Institute of Directors.

Graeme has extensive experience in valuing specialised property and infrastructure assets and establishing and implementing corporate real estate strategies. He has written and presented extensively on public and private real estate matters.

Graeme has been an Independent Director of the Manager for approximately six years.

Andrew Evans
Independent Director

Andrew Evans has over 25 years' experience in commercial real estate and asset management, previously holding executive positions in listed and unlisted real estate investment businesses. Andrew is a Director of Argosy Property Limited, Holmes Group Limited, Holmes General Partner Fire Limited, Trust Investments Management Limited and Hughes and Cossar Limited. In addition, Andrew is a past National President of the Property Council of New Zealand, a foundation member of the New Zealand Property Institute and Member of the Institute of Directors.

Andrew has a Bachelor of Business Studies and MBA from Massey University and a Diploma in Finance from The University of Auckland.

Andrew has been a Director of the Manager for approximately six years.

Claire Higgins
Independent Director

Claire Higgins is a professional Director and consultant. She is Chair of the Victorian State Emergency Service and is on the board of the County Fire Authority and Ambulance Victoria. Claire is the Chair of the Comcare audit committee as well as serving on several other audit committees. Formerly Chair of Barwon Health, Claire has also had extensive executive experience with BHP and OneSteel. Claire's areas of expertise are in accounting, financial reporting, governance, risk management, remuneration practice, foreign exchange and interest-rate hedging, stakeholder communication and management. Claire has a Bachelor of Commerce (Accounting, Economics and Commercial Law) from The University of Melbourne and is a present Fellow at the Australian Institute of Company Directors, the Australian Society of Certified Practising Accountants and the Institute of Public Administration Australia.

Paul Dalla Lana
Director

Paul Dalla Lana is the founder and President of NorthWest Value Partners Inc. – the 100% owner of Vital Healthcare Management Limited, the Manager of Vital Healthcare Property Trust. Over the past 20 years, Paul has led NorthWest in the acquisition and development of over $2.5 billion worth of real estate transactions, with a significant focus on healthcare properties.

Before founding NorthWest, Paul was a professional in the Real Estate Capital Markets Group of Citibank, N.A. and an economist with B.C. Central Credit Union. Paul received his BA and MBA from The University of British Columbia.

Paul serves as Chairman of the Board of NorthWest subsidiaries NorthWest Healthcare Properties REIT and NorthWest International Healthcare Properties REIT. He is an Advisory Board member of the Dalla Lana School of Public Health and on the President's Advisory Council at the University of Toronto.

Bernard Crotty
Director

Bernard Crotty is currently a Principal of private investment firm Silver and White Management. He is a former Chairman and Chief Executive Officer of Certicom Corp, a provider of cryptographic software and services, and Comnetix, a provider of biometric identification and authorisation solutions. In addition, Bernard has served on a variety of public company boards. He spent two years as counsel to the law firm Gibson, Dunn & Crutcher LLP in Los Angeles and is a former Partner at the law firm McCarthy Tétrault, LLP in Toronto, Canada, and London, England.

Bernard received his Bachelor of Arts from the University of Alberta, LLB from the University of Toronto, LLM from The London School of Economics and MBA from Duke University.

Bernard is a trustee of NorthWest International Healthcare Properties REIT and NorthWest Healthcare Properties REIT.

OUR PEOPLE

- **Drugh Woods**
  New Zealand
  Asset Manager
- **Mark Norman**
  Australian
  Fund Manager
- **Stuart Harrison**
  Chief Financial
  Officer and
  Company Secretary
- **David Carr**
  Chief
  Executive Officer
- **Richard Roos**
  Australian
  Managing Director

Our small, successful management team come from a range of property investment, development and finance backgrounds. They understand the importance of partnering with tenants to deliver the best outcomes and results for investors.

David Carr
Chief Executive Officer

David has over 20 years' experience in property and capital markets including as the Chief Executive of Vital since October 2006. His role includes overall accountability for implementing and delivering the Trust's strategy and for its overall performance. He is responsible for all investment and capital initiatives and activities for Vital and leads a team of passionate professionals in New Zealand and Australia. David has extensive experience in property investment, management and development across a range of asset classes. He has a Bachelor of Business Studies in Property Valuation and Management.

With a focus on sustainable long-term performance, David and his team have delivered a 10 year compound total annual return of approximately 13%, exceeding both the NZX 50 Index and NZX Property Gross Index. Under David's leadership Vital is Australasia's largest listed healthcare investment vehicle with assets of over $618m and a current market capitalisation over $420m.

Stuart Harrison
Chief Financial Officer
and Company Secretary

Stuart has nearly three decades of financial reporting and management experience within the Chartered Accountancy, utilities and hospitality/property industries and joined the team in September 2008. As Chief Financial Officer, he has been responsible for overseeing the financial and management reporting, treasury management and tax compliance within both New Zealand and Australia. In his capacity as Company Secretary, he has been responsible for the on-going compliance requirements of the Trust and it's underlying subsidiary entities and for the corporate functions of the Trust.

Most recently, he was the Chief Financial Officer and Company Secretary for NZX-listed Argosy Property Trust and the Vice President – Finance for NZX-listed Millennium and Copthorne Hotels New Zealand Limited and CDL Investments Limited. Stuart holds a Bachelor of Commerce and Chartered Accountant qualifications.

Mark Norman
Australian Fund Manager

Mark is based in Melbourne and is responsible for managing the financial performance of our property assets in Australia. He also oversees all our development projects. Mark has more than 18 years' experience in the healthcare property industry. Before setting up our Australian office in 2011, he was an Asset Manager and Development Manager in New Zealand, involved in the delivery of most of our major assets, including Ascot Hospital, Epworth Eastern Campus and the Napier and Hibiscus Coast health centres.

Drugh Woods
New Zealand Asset Manager

Drugh has been with Vital for over five years and is responsible for managing the financial performance of the New Zealand portfolio. Drugh has over ten years of experience following the completion of a Bachelor of Property degree at Auckland University and was involved in a diverse range of property projects in Auckland and Christchurch prior to joining Vital.

Richard Roos
Managing Director – Australia

Richard has recently moved to Melbourne with his family after spending the last 6 years in a senior executive role with a Canadian healthcare property trust. As Regional Manager Richard was responsible for the management and development of the Trust's Western Canadian assets. He brings over 20 years of career experience in commercial real estate financing, acquisitions and management to his new role with Vital, in which he will provide valuable support to the ongoing growth and performance of the Australian portfolio.

THE TRUST

Vital Healthcare Property Trust is a unit trust established under the Unit Trust Act 1960 by a Trust Deed dated 11 February 1994, as amended by Deeds of Variation and Restatement dated 1 September 1999, 10 November 2003, 12 November 2007, 12 December 2007, 5 August 2008, 27 September 2010 and 1 November 2012.

Vital Healthcare Property Trust units are listed on the New Zealand Stock Exchange (NZSX code: VHP).

A consolidated copy of the amended Trust Deed is available from Vital Healthcare Management Limited (the 'Manager') on request or can be viewed at the Manager's registered office at Level 16, AIG Building, 41 Shortland Street, Auckland, during normal business hours. A copy has also been filed with the Companies Office of the Ministry of Business, Innovation and Employment and may be viewed on the Companies Office website at www.business.govt.nz/companies.

The Trustee

The Trustee of the Trust is Trustees Executors Limited ('Trustees Executors').

Trustees Executors is empowered as a statutory trust company by its own Act of Parliament and has been re-registered under the Companies Act 1993, and acts as trustee for unit trusts under the Unit Trust Act 1960.

The role of the Trustee is to supervise the administration and management of the Trust in accordance with the Trust Deed, and to ensure that the Manager complies with its duties and responsibilities under the Trust Deed. Where the approval of the Trustee is required, the Trustee is to have regard to the interests of unitholders and has the explicit obligation to veto any proposal that it does not consider to be in the interests of unitholders. The Trustee must also be satisfied that any proposal involves an investment of a type authorised under the Trust Deed and within the investment policies of the Trust.

The Trustee holds title to the assets of the Trust in trust for the unitholders, upon and subject to the terms and conditions of the Trust Deed. The Trustee also has certain discretions and powers to approve investment and divestment proposals recommended to it by the Manager and reviews and authorises all payments made by the Trust.

The Trustee is entitled to receive fees in respect of its services based on the average gross value of the assets of the Trust as follows: 0.10% per annum on the first $100 million, then 0.08% per annum on the next $25 million, then 0.05% per annum on the next $25 million and 0.03% per annum on any amount over $150 million. The Trustee is also entitled to reasonable reimbursement for special attendances.

The Manager

The Manager of the Trust is Vital Healthcare Management Limited, a wholly owned subsidiary of NorthWest Value Partners Inc.

The Manager has responsibility for the management of the Trust in accordance with the Trust Deed. As a Unit Trust managed by an external manager, the Trust does not engage any Directors or employees of its own.

The Manager provides professional management expertise in selecting assets and managing them on behalf of unitholders. The Manager's role and duties extend to the overall strategic direction of the Trust, portfolio management, selection and review, negotiation of acquisition and disposal of assets, treasury and funding management, property management, ensuring adherence to financial and reporting requirements, and liaison with unitholders.

Day-to-day management of the properties in the portfolio is carried out by NWI NZ Management Company Limited and NWI Australia Management Company Pty Limited, which provide tenancy management, account management, building management, risk management and property investigation services in respect of the Trust's properties. To facilitate the effective execution of its responsibilities, the Board has developed a delegated authority for Management. This clarifies which matters are dealt with by the Board and which matters are the responsibility of Management.

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 the Trust for the quarter ended on the last day of that month. The Incentive Fee is an amount equal to 10% per annum of the average annual increase in the Gross Value of the Trust over the relevant financial year and two preceding financial years. Should there be a distribution of Capital, that amount will be added back for the purposes of this calculation. Where an asset is acquired at any time during a financial year, it is deemed to have been purchased on the first day of that financial year. Any increase in the Gross Value of the assets of the Trust arising solely by subscriptions received for new units is ignored. The Manager is required to apply the incentive fee in subscribing for new Units in the Trust issued at the weighted average price. The remuneration of the Manager is subject to an overall limit of 1.75% per annum of the Gross Value of the Trust and includes the remuneration of the Chief Executive Officer and management team.

Corporate governance philosophy

Ultimate responsibility for corporate governance of the Trust resides with the Board of Directors of the Manager. The Board sees strong corporate governance and stewardship as fundamental to the strong performance of the Trust and, accordingly, their commitment is to the highest standards of business behaviour and accountability.

Outlined below are the main corporate governance practices in place throughout the year, which, in the Board's opinion materially comply with the NZX Corporate Governance Best Practice Code (NZX Code) and the Securities Commission's Principles of Corporate Governance and Guidelines, unless otherwise stated.

Ethical standards

The Board has adopted a Code of Ethics, which sets out the ethical and behavioural standards expected of the Manager's Directors, officers and employees. The purpose of the Code of Ethics is to uphold the highest ethical standards, acting in good faith and in the best interests of unitholders at all times. The Code of Ethics outlines the Manager's policies in respect of conflicts of interest, fair dealing, compliance with applicable laws and regulations, maintaining confidentiality of information, dealing with Trust assets and use of Trust information. Procedures for dealing with breaches of these policies are contained in the Code of Ethics, which forms part of every employee's conditions of employment with the Manager.

Composition of the Board

The Manager is committed to having a Board whose members have the capacity to act independently and have the composite skills to optimise the financial performance of the Trust and returns to unitholders. The Constitution of the Manager provides for there to be not more than seven Directors nor less than three Directors. All the members of the Board are Non Executive Directors. The members of the Board are listed in the table below. All bring a significant level of expertise to the Trust. Their brief resumés are included in the Board of Directors section on pages 14-15.

Attendance of Directors

Graeme Horsley (Chair)	6 of 6
Andrew Evans	6 of 6
Claire Higgins	6 of 6
Paul Dalla Lana	6 of 6
Bernard Crotty	6 of 6

The Board does not impose a restriction on the tenure of any Director as it considers that such a restriction may lead to the loss of experience and expertise from the Board.

Independent Directors

The Manager recognises that Independent Directors are important in assuring unitholders that the Board is properly fulfilling its role and is diligent in holding management accountable for its performance. The procedures in place for determining independence is whether the Director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement. As required under Rule 3.3.2, the Board has determined that Graeme Horsley (Chairman), Andrew Evans and Claire Higgins are considered to be Independent Directors under the NZSX Listing Rules as neither has a Disqualifying Relationship with the Trust. Paul Dalla Lana and Bernard Crotty are considered not to be independent.

In December 2007, the Manager announced a policy which provides unitholders with the opportunity to nominate the two Independent Directors of the Manager required by the NZSX Listing Rule 3.3.1.(c)

Unitholders are able to nominate and vote on one Independent Director of the Manager each year. The nominee receiving the most votes will be approved as a Director of the Manager by the Manager's shareholders, and will hold the position for a two-year term.

Diversity

The Manager is committed to providing a positive working environment where diversity in all its forms is respected and embraced. As at 30 June 2013, the Manager has one female Director out of the five currently appointed Directors and both of the officers of the Manager are male.

Board and Director performance

Assessment of individual Directors' performance is a process determined by the Chairman, taking into account the attendance, contribution and experience of each individual Director concerned.

Insider Trading and Restricted Persons Trading

The Manager's Directors, officers and employees, their families and related parties must comply with the Insider Trading policy and the Restricted Persons Trading policy. The Manager is committed to ensuring compliance with legal and regulatory requirements with respect to insider trading and restricted persons trading. To assist with such compliance, the Manager's Insider Trading and Restricted Persons Trading policies identify circumstances where Directors, officers and other restricted persons are permitted to trade, or are prohibited from trading, units in the Trust. Compliance with these policies is monitored by the Board. In addition, all trading by Directors and officers of the Manager is required to be reported to NZSX in accordance with the Securities Markets Act 1988. The holdings of Directors of the Manager is disclosed in the section headed Directors Disclosures on page 56.

Directors and officers indemnification and insurance

The Trust has arranged Directors' and Officers' liability insurance covering Directors, senior executives and employees for their personal liability arising out of duties as Directors and Officers and reimburse the Trust where it has indemnified its Directors.

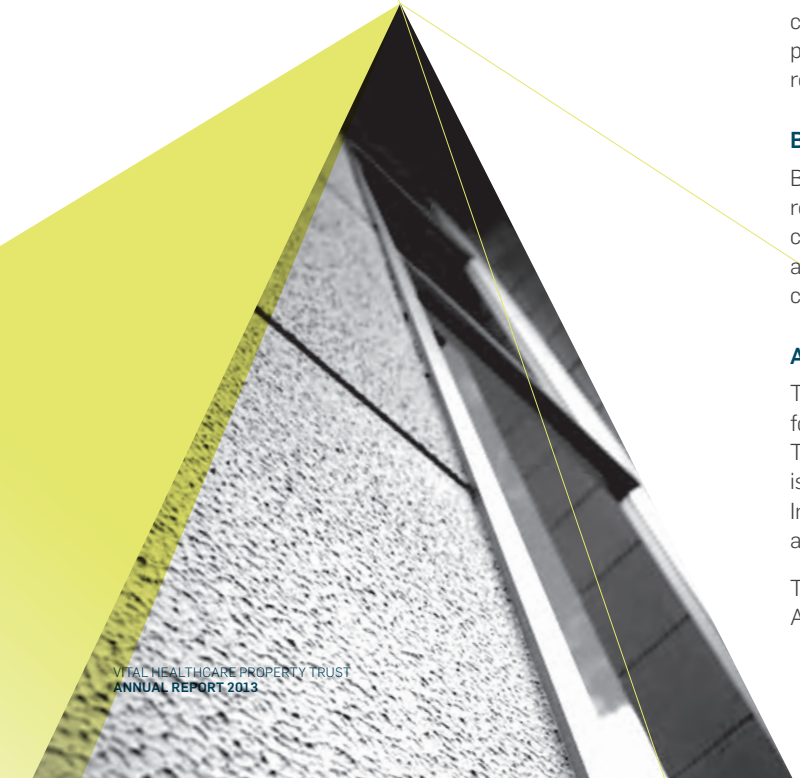
Board committees

Board committees assist with the execution of the Board's responsibilities to unitholders. Each committee operates under a charter agreed by the Board, setting out its role, responsibilities, authority, relationship with the Board, reporting requirements, composition, structure and membership.

Audit Committee

The Board has established an Audit Committee, which is responsible for overseeing the financial and accounting responsibilities of the Trust. The minimum number of members on the Audit Committee is three. All members must be Directors, the majority must be Independent Directors and at least one member must have an accounting or financial background.

The members of the Audit Committee are Claire Higgins (Chair), Andrew Evans and Bernard Crotty.



The Audit Committee assists the Board in fulfilling its corporate governance and disclosure responsibilities with particular reference to financial matters, and internal and external audit, and is specifically responsible for:

- The appointment of the external auditor of the Trust;
- Supervising and monitoring external audit requirements;
- Reviewing annual and interim financial statements prior to submission for Board approvals;
- Reviewing and approving quarterly distributions with recommendation of the same for Board approvals;
- Reviewing the performance and independence of the external auditor; and
- Monitoring compliance with the Unit Trusts Act 1960, Financial Reporting Act 1993, Companies Act 1993 and the NZSX Listing Rules.

Attendance at Audit Committee

Claire Higgins (Chair)	4 of 4
Andrew Evans	4 of 4
Bernard Crotty	4 of 4

External audit firm guidelines

In addition to the formal charter under which the Audit Committee operates, the Audit Committee has also developed a Charter of Audit Independence, which sets out the procedures that need to be followed to ensure the independence of the Trust's external auditor.

The Audit Committee is responsible for recommending the appointment of the external auditor and maintaining procedures for the rotation of the external audit engagement partner. Under the Audit Charter, the external audit engagement partner must be rotated every five years.

The charter covers provision of non-audit services with the general principle being applied that the external auditor should not have any involvement in the production of financial information or preparation of financial statements such that they might be perceived as auditing their own work. It is however appropriate for the external auditor to provide services of due diligence on proposed transactions and accounting policy advice.

External audit for Vital Healthcare Property Trust – following careful consideration and recommendation from the Audit Committee, the Board appointed the firm of Deloitte as the Trust's statutory auditor.

External audit of the Manager – the firm of BDO has been appointed as the auditor of the Manager – Vital Healthcare Management Limited.

Unitholder communications

The Board aims to ensure that unitholders are informed of all information necessary to assess the Trust's performance. It does so through a communication strategy which includes:

- Periodic and continuous disclosure to NZSX;
- Information provided to analysts and media;
- Annual and Interim Reports distributed to all unitholders;
- The Annual Meeting for the unitholders and any other meetings called to obtain approval for Manager actions as appropriate;
- Notices and explanatory memoranda for Annual and Special Meetings;
- Trust newsletters and investor roadshow; and
- The Trust's website www.vitalhealthcareproperty.co.nz.

Unitholders may raise matters for discussion at Annual and Special Meetings and have the opportunity to question the Directors, the Trustee and the external auditor at such meetings.

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Statement of Comprehensive Income

For the year ended 30 June 2013

	Note	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Gross property income from rentals		59,856	–	50,721	–
Gross property income from expense recoveries		6,150	–	5,435	–
Property expenses		(8,150)	–	(8,194)	–
Net property income	4	57,856	–	47,962	–
Distribution received from subsidiaries	5	–	13,650	–	10,605
Other income	5	–	14,262	81	1,548
Total income		57,856	27,912	48,043	12,153
Administration expenses	6	5,566	791	4,903	1,799
Other expenses	5	5,581	6,619	2,232	1,173
		11,147	7,410	7,135	2,972
Profit before finance income/(expense) and other gains/(losses)		46,709	20,502	40,908	9,181
Finance income/(expense)					
Finance income	7	236	3,653	176	4
Finance expense	7	(17,610)	(10,139)	(16,244)	(8,832)
Fair value gain/(loss) on interest rate derivatives		4,406	1,902	(10,050)	(738)
		(12,968)	(4,584)	(26,118)	(9,566)
Other gains/(losses)					
Revaluation gains/(losses) on investment property	12	10,337	–	(6,241)	–
Payments under transaction hedging foreign exchange contracts		349	4,248	(172)	(1,728)
Fair value gain/(loss) on foreign exchange derivatives		656	4,072	(67)	875
		11,342	8,320	(6,480)	(853)
Profit/(Loss) before income tax		45,084	24,238	8,310	(1,238)
Taxation (expense)/credit	8	(10,363)	(9,539)	667	2,221
Profit/(Loss) for the year attributable to unitholders of the Trust		34,721	14,699	8,977	983
Other comprehensive income					
Movement in foreign currency translation reserve		(25,840)	–	(4,911)	–
Realised foreign exchange gains/(losses) on hedges		3,884	–	(2,884)	–
– Current taxation (expense)/credit		(1,088)	–	807	–
Unrealised foreign exchange gain on hedges		3,465	–	3,014	–
– Deferred taxation (expense)/credit		(970)	–	(499)	–
Fair value gain on net investment hedges		18,950	–	1,116	–
– Deferred taxation (expense)/credit		(5,306)	–	(313)	–
Total other comprehensive (loss)/income after tax		(6,905)	–	(3,669)	–
Total comprehensive income after tax		27,816	14,699	5,308	983
All amounts are from continuing operations					
Earnings per unit					
Basic and diluted earnings per unit (cents)	9	11.56		3.08	

The notes on pages Fin-5 to Fin-32 form part of and are to be read in conjunction with these financial statements.

Statement of Financial Position

As at 30 June 2013

	Note	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Non-current assets					
Investment properties	12	618,727	–	567,226	–
Investments	13	–	330,171	–	330,171
Derivative financial instruments	14	1,424	1,424	–	–
Other non-current assets	15	500	152,286	804	114,564
Deferred tax	16	–	–	–	18
Total non-current assets		620,651	483,881	568,030	444,753
Current assets					
Cash and cash equivalents	11	1,372	46	1,332	5
Trade and other receivables	17	335	–	433	24
Other current assets	18	531	360	177	14
Derivative financial instruments	14	6,587	6,587	2,582	2,582
Taxation receivable		–	–	–	368
		8,825	6,993	4,524	2,993
Non-current assets classified as held for sale	19	–	–	8,236	–
Total current assets		8,825	6,993	12,760	2,993
Total assets		629,476	490,874	580,790	447,746
Unitholders' funds					
Units on issue	20	318,088	318,088	301,159	301,159
Reserves		(12,585)	–	(5,680)	–
Retained earnings/(accumulated losses)		3,491	(35,328)	(8,049)	(26,845)
Total unitholders' funds		308,994	282,760	287,430	274,314
Non-current liabilities					
Borrowings	21	266,101	195,362	244,468	169,514
Derivative financial instruments	14	11,342	1,759	15,324	2,423
Deferred tax	16	32,929	6,755	23,327	–
Total non-current liabilities		310,372	203,876	283,119	171,937
Current liabilities					
Trade and other payables	22	4,631	1,707	8,520	1,482
Derivative financial instruments	14	363	132	62	13
Taxation payable		5,116	2,399	1,659	–
Total current liabilities		10,110	4,238	10,241	1,495
Total liabilities		320,482	208,114	293,360	173,432
Total unitholders' funds and liabilities		629,476	490,874	580,790	447,746

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

G Horsley, **Chairman**

22 August 2013

C Higgins, **Director**

The notes on pages Fin-5 to Fin-32 form part of and are to be read in conjunction with these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2013

	Units on issue $000s	Retained earnings / (accumulated losses) $000s	Translation of foreign operations $000s	Foreign exchange hedges $000s	Total unitholders' funds $000s
Group					
For the year ended 30 June 2013:					
Balance at the start of the year	301,159	(8,049)	(8,203)	2,523	287,430
Changes in unitholders' funds	16,929	–	–	–	16,929
Profit for the period	–	34,721	–	–	34,721
Distributions to unitholders	–	(23,181)	–	–	(23,181)
Other comprehensive income for the year					
Movement in foreign currency translation reserve	–	–	(25,840)	–	(25,840)
Realised foreign exchange gains on hedges	–	–	–	2,796	2,796
Unrealised foreign exchange gain on hedges	–	–	–	2,495	2,495
Fair value gain on net investment hedges	–	–	–	13,644	13,644
Balance at the end of the year	318,088	3,491	(34,043)	21,458	308,994
For the year ended 30 June 2012:					
Balance at the start of the year	297,404	5,713	(3,292)	1,281	301,106
Changes in unitholders' funds	3,755	–	–	–	3,755
Profit for the period	–	8,977	–	–	8,977
Distributions to unitholders	–	(22,739)	–	–	(22,739)
Other comprehensive income for the year					
Movement in foreign currency translation reserve	–	–	(4,911)	–	(4,911)
Realised foreign exchange gains on hedges	–	–	–	(2,076)	(2,076)
Unrealised foreign exchange gain on hedges	–	–	–	1,148	1,148
Fair value gain on net investment hedges	–	–	–	2,170	2,170
Balance at the end of the year	301,159	(8,049)	(8,203)	2,523	287,430
Trust					
For the year ended 30 June 2013:					
Balance at the start of the year	301,159	(26,845)	–	–	274,314
Changes in unitholders' funds	16,929	–	–	–	16,929
Profit for the period	–	14,699	–	–	14,699
Distributions to unitholders	–	(23,182)	–	–	(23,182)
Balance at the end of the year	318,088	(35,328)	–	–	282,760
For the year ended 30 June 2012:					
Balance at the start of the year	297,404	(5,089)	–	–	292,315
Changes in unitholders' funds	3,755	–	–	–	3,755
Profit for the period	–	983	–	–	983
Distributions to unitholders	–	(22,739)	–	–	(22,739)
Balance at the end of the year	301,159	(26,845)	–	–	274,314

The notes on pages Fin-5 to Fin-32 form part of and are to be read in conjunction with these financial statements.

Statements of Cash Flows

For the year ended 30 June 2013

	Note	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Cash flows from operating activities					
Cash was provided from:					
Property income		59,628	–	52,224	–
Recovery of property expenses		6,086	–	5,611	–
Interest received		236	–	176	4
Other income		–	–	41	–
Dividends received from subsidiary		–	13,650	–	10,605
Cash was applied to:					
Property expenses		(8,331)	–	(10,193)	–
Management and trustee fees		(5,287)	(227)	(4,664)	(1,265)
Interest paid		(17,856)	(10,014)	(17,389)	(8,929)
Tax paid		(2,178)	(1,430)	(549)	–
Other trust expenses		(3,414)	(1,566)	(1,608)	(3,307)
Net cash from/(used in) operating activities	11	28,884	413	23,649	(2,892)
Cash flows from investing activities					
Cash was provided from:					
Sale of investment properties		12,800	–	14,436	–
Receipts from foreign exchange contracts		4,233	4,248	–	–
Loan repayments from tenants		111	–	–	–
Other		527	–	–	–
Cash was applied to:					
Capital additions on investment properties		(41,675)	–	(36,425)	–
Purchase of properties		(40,405)	–	(34,049)	–
Advances to subsidiaries		–	(39,396)	–	(47,453)
Other		–	–	(2,297)	–
Net cash (used in) investing activities		(64,409)	(35,148)	(58,232)	(47,453)
Cash flows from financing activities					
Cash was provided from:					
Debt drawdown		59,862	58,897	82,806	69,965
Loan repayments from tenants		–	–	103	–
Issue of units (net of issue costs)		11,629	11,629	–	–
Cash was applied to:					
Repayment of debt		(18,079)	(18,079)	(29,941)	–
Loan issue costs		–	211	(667)	(667)
Costs associated with Distribution Reinvestment Plan		(349)	(349)	–	–
Distributions paid to unitholders		(17,533)	(17,533)	(18,981)	(18,981)
Net cash from financing activities		35,530	34,776	33,320	50,317
Net increase/(decrease) in cash and cash equivalents		5	41	(1,366)	(28)
Effect of exchange rate changes on cash and cash equivalents		35	–	26	–
Cash and cash equivalents at the beginning of the year		1,331	5	2,671	33
Cash and cash equivalents at the end of the year		1,371	46	1,331	5

The notes on pages Fin-5 to Fin-32 form part of and are to be read in conjunction with these financial statements.

Notes to the Financial Statements

1 REPORTING ENTITY

The reporting entity is Vital Healthcare Property Trust ("VHP" or the "Trust"), a unit trust established under the Unit Trusts Act 1960 by a Trust Deed dated 11 February 1994 as subsequently amended and replaced, domiciled in New Zealand. The Trust is managed by Vital Healthcare Management Limited (the "Manager") and the address of its registered office is Level 16, AIG Building, 41 Shortland Street, Auckland.

These financial statements include those of the Trust and its controlled subsidiaries (together referred to as the "Group"). The Trust is an issuer for the purposes of the Financial Reporting Act 1993 and is listed on the New Zealand Stock Exchange ("NZX"). The Trust's principal activity is the investment in high quality health sector related properties.

These consolidated financial statements were approved by the Board of Directors of the Manager on 22 August 2013.

2 BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The Trust and Group financial statements comply with International Financial Reporting Standards ("IFRS").

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Critical accounting estimates and judgements

In the application of NZ IFRS, the Board and management are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from the estimates, judgements and assumptions made by the Board and management.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Judgements made by management in the application of NZ IFRS that have significant effects on the financial statements and estimates with a significant risk of a material adjustment in the next financial year are disclosed where applicable in the relevant notes to the financial statements. 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 12 – valuation of investment property
Note 14 – valuation of derivative financial instruments
Note 16 – deferred tax (and taxation in note 8)

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The Group's financial statements incorporate the financial statements of the Trust and entities controlled by the Trust (its subsidiaries) as set out in Note 24. Control is achieved where the Trust has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-group transactions, balances, income and expenses are eliminated on consolidation.

(b.1) Foreign currency transactions

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the Group financial statements, the results and financial position of each group entity are expressed in New Zealand dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the end of the reporting period.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedge accounting policies).

Notes to the Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b.2) Foreign operations

For the purposes of presenting the Group financial statements, the assets and liabilities of the Group's foreign operations are expressed in New Zealand Dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated as a separate component of equity in the Group's foreign currency translation reserve.

(c) Goods and service tax

The statement of comprehensive income and statement of cash flows have been prepared so that all components are stated exclusive of goods and services tax (GST) to the extent that GST is recoverable. All items in the statement of financial position are stated exclusive of GST with the exception of receivables and payables, which include GST invoiced. Cash flows are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(d.1) Investment properties

Investment property is property held either to earn rental income or capital appreciation or for both. Investment properties are initially stated at cost, including any related transaction costs. Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. Initial direct costs incurred in negotiating and arranging operating leases and lease incentives granted are added to the carrying amount of the leased asset.

After initial recognition, investment properties are stated at fair value as determined every year by independent valuers, with any change therein recognised in the statement of comprehensive income. In accordance with the valuation policy of the Trust complete property valuations are carried out by independent registered valuers having appropriately recognised professional qualifications and experience in the location and category of property being valued. The valuation policy stipulates that the same valuer may not value a building for more than two consecutive valuations. The fair values are based on market values being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In the absence of current prices in an active market, the valuations are prepared using a discounted cash flow methodology based on the estimated rental cash flows expected to be received from the property adjusted by a discount rate that appropriately reflects the risks inherent in the expected cash flows.

Investment properties are derecognised when they have been disposed of and any gains or losses incurred on disposal, being the difference between the carrying amount of the investment property at the time of disposal and the proceeds on disposal, are recognised in the statement of comprehensive income in the year in which the disposal occurred.

(d.2) Development of investment properties

Investment property that is being redeveloped for continuing use is measured at fair value and subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Borrowing costs are capitalised if they are directly attributable to the development of a qualifying property. Capitalisation of borrowing costs commences when the activities to prepare the property are in progress and expenditure and borrowing costs are being incurred. The amount capitalised is the actual rate payable on borrowings for development purposes. Capitalisation of borrowing costs may continue until the assets are substantially ready for their intended use.

(e) Investments

The Trust holds its investments in subsidiaries at cost, less any impairment.

(f) Financial instruments

(f.1) Non-derivative financial instruments

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

(f.2) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(f.3) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

(f.4) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(f.5) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference being recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Accrued interest is classified separately under trade and other payables.

(f.6.1) Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps and forward exchange contracts to reduce its exposure to interest rate risk and foreign exchange risk. Derivative financial instruments are initially recognised and subsequently measured, at fair value. Gains and losses arising from changes in fair value of a derivative are recognised as they arise in the profit and loss in the statement of comprehensive income unless the derivative is a hedging instrument in a qualifying hedge relationship, in which case the gains and losses are recognised in the statement of other comprehensive income. Derivatives are recognised on the date the contract is entered into.

(f.6.2) Hedge accounting

The Group has entered into hedge relationships for hedges of net investments in foreign operations. Hedge relationships are formally documented at the inception of the hedge and this documentation identifies the hedged item, hedging instrument, risks that are being hedged, strategies for undertaking the hedge, and the way effectiveness will be assessed.

In the hedge of a net investment in a foreign operation, the portion of foreign exchange differences arising on the hedging instrument determined to be an effective hedge is recognised directly in other comprehensive income. Any ineffective portion is recognised directly in the statement of comprehensive income. The Group uses derivative financial instruments and non-derivative financial instruments as hedging instruments of a net investment in a foreign operation. On disposal of the foreign operation, the cumulative value of such gains or losses recognised in other comprehensive income is reclassified to the profit and loss in the statement of comprehensive income.

(g) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale (principally investment property) are measured at the lower of their previous carrying amount and fair value less costs to sell.

(h) Recognition of income

Rental income from the investment properties held by the Group is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives provided in relation to letting the investment property are amortised on a straightline basis over the non-cancellable portion of the lease to which they relate, as a reduction of rental income. Operating expenses attributable to tenants are offset by recoveries from tenants. Operating expenses not attributable by tenants are offset by rental income.

Dividend income from investments is recognised when the Group's right to receive payment has been established.

(i) Finance income and expense

Interest income is recognised on a time-proportional basis using the effective interest rate.

Finance expense comprise interest payable on borrowings and gains and losses on hedging instruments that are recognised in the statement of comprehensive income. All borrowing costs (other than borrowing costs attributable to property under development) are recognised in the statement of comprehensive income using the effective interest method.

(j) Taxation

(j.1) Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity.

(j.2) Current tax

The tax currently payable is based on taxable profit for the reporting period, using tax rates enacted or substantively enacted at the reporting date in the countries where the Group operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Taxable profit differs from profit reported in the statement of comprehensive income because it excludes items that are never taxable or deductible.

Notes to the Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation

(j.3) Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax rules) that have been enacted or substantively enacted by the end of the reporting period.

(k) Operating lease commitments

The Trust has entered into commercial property leases on its investment properties. The Trust has determined that it retains all significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

(l) Capital

(l.1) Units

Units are classified as equity. External costs, net of tax, directly attributable to the issue of new units are deducted from unitholders' funds as permitted by the Trust Deed.

(l.2) Distributions

Distributions to the Groups unit holders are recognised as a liability in the Group's financial statements in the period in which the distributions are approved.

(m) Statement of cash flows

The statement of cash flows is prepared on a GST exclusive basis, which is consistent with the statement of comprehensive income.

The following terms are used in the statement of cash flows:

Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities.

Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

(n) Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements the following new standards, amendments and interpretations to existing standards have been published but are not yet effective, which have not been analysed but may affect presentation, measurement and disclosure:

NZ IFRS 9 Financial Instruments (changes to classification and measurement of financial assets and liabilities) is applicable for annual periods beginning on or after 1 January 2015.

NZ IFRS 10 Consolidated Financial Statements – (introduces a single definition of control that applies to all entities) is applicable for annual periods beginning on or after 1 January 2013.

NZ IFRS 12 Disclosures of Interest in Other Entities – (brings together disclosure requirements related to subsidiaries, associates and interest in other entities) is applicable for annual periods beginning on or after 1 January 2013.

NZ IFRS 13 Fair Value Measurements – (establishes a single source of guidance under NZ IFRS for determining the fair value of assets and liabilities, and also expands the disclosure requirements for all assets or liabilities carried at fair value) is applicable to Vital for the financial year commencing 1 July 2013. In addition to changes in disclosure requirements, NZ IFRS 13 requires an entity's own credit risk to be taken into account when valuing financial liabilities held at fair value, such as derivatives; i.e. what would another entity pay to take on the liability. In addition there may be an impact on the effectiveness of hedge accounting as a result of NZ IFRS 13. The significance of this change (and ongoing impact) on reported profit and other comprehensive income will depend on the assessed credit risk of Vital. Vital is currently working through a process to assess the impact of this change.

Other new standards, amendments and interpretations issued by the International Accounting Standards Board and the New Zealand Accounting Standards Board that are not yet effective and have not been early adopted by the Trust are not expected to materially impact the Trust's financial statements in the period of initial application.

(o) Changes in accounting policy

There have been no significant changes in accounting policies during the current financial year. All accounting policies have been applied on a basis consistent with the prior years financial statements.

4 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 year ended 30 June 2013:			
Net property income	43,563	14,293	57,856
Administration expenses	(3,560)	(2,006)	(5,566)
Other income/(expenses)	(784)	(4,797)	(5,581)
Finance income	59	177	236
Finance (expense)	(1,318)	(16,292)	(17,610)
	37,961	(8,625)	29,336
Fair value gain/(loss) on interest rate derivatives	914	3,492	4,406
Revaluation gain/(losses) on investment properties	6,775	3,562	10,337
Payments under transaction hedging foreign exchange contracts	–	349	349
Fair value gain/(loss) on foreign exchange derivatives	–	656	656
Total segment profit/(loss) before income tax	45,650	(566)	45,084
Taxation/(expense)			(10,363)
Profit for the year			34,721
Segment profit/(loss) for the year ended 30 June 2012:			
Net property income	33,202	14,760	47,962
Administration expenses	(2,778)	(2,125)	(4,903)
Other income/(expenses)	(863)	(1,288)	(2,151)
Finance income	73	103	176
Finance (expense)	(367)	(15,877)	(16,244)
	29,267	(4,427)	24,839
Fair value gain/(loss) on interest rate derivatives	(5,921)	(4,129)	(10,050)
Revaluation gain/(losses) on investment properties	(962)	(5,279)	(6,241)
Payments under transaction hedging foreign exchange contracts	–	(172)	(172)
Fair value gain/(loss) on foreign exchange derivatives	–	(67)	(67)
Total segment profit/(loss) before income tax	22,384	(14,074)	8,310
Taxation/(expense)			667
Profit for the year			8,977

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 $44.5m, one in New Zealand and 3 in Australia (2012: four tenants totalling $37.2m).

There were no inter-segment sales during the year (2012: nil).

Segment profit represents the profit earned by each segment including allocation of identifiable administration costs, finance costs, revaluation gains/(losses) on investment properties, and gains/(losses) on disposal of investment properties. This is the measure reported to the Board of Directors, who are the chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

Notes to the Financial Statements

4 SEGMENT INFORMATION (continued)

	Australia $000s	New Zealand $000s	Total $000s
Segment assets for the year ended 30 June 2013			
Investment properties	463,697	155,030	618,727
Other non-current assets	38	1,886	1,924
Other current assets	766	8,059	8,825
Non-current assets classified as held for sale	–	–	–
Consolidated assets	464,501	164,975	629,476
Segment assets for the year ended 30 June 2012			
Investment properties	410,726	156,500	567,226
Other non-current assets	128	676	804
Other current assets	899	3,625	4,524
Non-current assets classified as held for sale	–	8,236	8,236
Consolidated assets	411,753	169,037	580,790
Segment liabilities for the year ended 30 June 2013			
Borrowings	–	266,101	266,101
Other liabilities	34,484	19,897	54,381
Consolidated liabilities	34,484	285,998	320,482
Segment liabilities for the year ended 30 June 2012			
Borrowings	–	244,468	244,468
Other liabilities	35,104	13,788	48,892
Consolidated liabilities	35,104	258,256	293,360

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.

5 OTHER INCOME/(EXPENSES)

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Income				
Dividends received	–	13,650	–	10,605
Unrealised foreign exchange gain	–	14,262	40	1,548
Other income	–	–	41	–
Total other income	–	27,912	81	12,153
Expenses				
Unrealised foreign exchange loss	(3,929)	(5,869)	–	–
Internalisation expenses	–	–	(731)	–
Other operating expenses	(1,652)	(750)	(1,501)	(1,173)
Total other expenses	(5,581)	(6,619)	(2,232)	(1,173)

6 ADMINISTRATION EXPENSES

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Auditors' remuneration:				
Audit of financial statements	123	121	133	133
Other assurance services	3	3	–	–
Manager's fees	4,747	–	4,100	996
Manager's incentive fee	–	–	–	–
Property acquisition and investment evaluation costs	34	8	40	40
Registry fees	194	194	199	199
Trustee's fees	245	245	230	230
Unitholder communication costs	220	220	201	201
	5,566	791	4,903	1,799

7 FINANCE INCOME/(EXPENSE)

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Income				
Interest income	236	3,653	176	4
Total finance income	236	3,653	176	4
Expense				
Interest expense	(18,122)	(10,139)	(17,087)	(8,832)
Borrowing costs capitalised	512	–	843	–
Total finance expense	(17,610)	(10,139)	(16,244)	(8,832)

Notes to the Financial Statements

8 TAXATION

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Profit/(loss) before tax for the year	45,084	24,238	8,310	(1,238)
Taxation (charge)/credit – 28% on profit before income tax	(12,624)	(6,787)	(2,327)	347
Effect of different tax rates in foreign jurisdictions	3,923	–	3,952	–
Tax exempt income	(1,672)	–	(555)	–
Tax paid distributions from subsidiaries	–	3,822	–	2,970
Non deductible expenses	(141)	(3)	(1,325)	(208)
(Over)/under provided in prior periods	209	142	(887)	–
Foreign exchange translation	–	(5,204)	–	
Other adjustments	(3,402)	(1,509)	699	(887)
Taxation (expense)/credit	(10,363)	(9,539)	667	2,221
The taxation (charge)/credit is made up as follows:				
Current taxation	(5,419)	(2,766)	(2,101)	2,136
Deferred taxation	(4,944)	(6,773)	2,768	85
Total taxation (expense)/credit	(10,363)	(9,539)	667	2,221

Key assumptions in calculating income tax

The key assumptions used in the preparation of the Group's tax calculation are as follows:

Tax rate:

The New Zealand entities are subject to New Zealand tax on assessable income at the rate of 28%.

VHIT – The Australian Trust was established so that it qualifies as a Managed Investment Trust for Australian tax purposes and is subject to Australian tax on assessable income at the rate of 15% (2012: 7.5%). In May 2012, the Australian Federal Government announced an increase in the MIT tax rate to 15% with effect to the Group annual period from 1 July 2012. The deferred tax assets and liabilities on temporary differences at 30 June 2012 were calculated at 15%.

VHAPT – The Australian Trust is subject to Australian tax on assessable income at the rate of 30%.

Imputation credits				
Imputation credits at beginning of year	159	148	9	(2)
Prior period adjustment	–	–	–	–
New Zealand tax payments and tax provisions, net of refunds	3,964	3,964	554	554
Imputation credits attached to dividends received	1	1	–	–
Imputation credits attached to distributions paid	(1,706)	(1,706)	(404)	(404)
Imputation credits at end of year	2,418	2,407	159	148

9 EARNINGS PER UNIT

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

	Group 2013 $000s	Group 2012 $000s
Profit attributable to unitholders of the Trust ($000s)	34,721	8,977
Weighted average number of units on issue (000's of units)	300,469	291,637
Basic and diluted earnings per unit (cents)	11.56	3.08
Distributable income		
Profit before income tax	45,084	8,310
Revaluation losses/(gains)	(10,337)	6,241
Unrealised FX (gain)/loss	3,929	(40)
Unrealised FX (gain)/loss derivatives	(656)	67
Internalisation costs	–	731
Derivative fair value adjustment loss/(gain)	(4,406)	10,050
Managers Incentive fee	–	–
Profit used in calculating gross distributable income	33,614	25,359
Current tax charge/(credit)	5,419	2,101
Profit used in calculating net distributable income	28,195	23,257
Gross distributable income (cpu)*	11.19	8.70
Net distributable income (cpu)*	9.38	7.98

* Based on weighted average number of units on issue.

10 DISTRIBUTIONS PAID AND PROPOSED

The following distributions were paid during the year.

	Trust 2013 CPU	Trust 2013 $000s	Trust 2012 CPU	Trust 2012 $000s
Distribution to unitholders				
Quarter 4, 2012 Final Distribution	1.925	5,652	1.925	5,865
Quarter 1, 2013 Distribution	1.925	5,775	1.925	5,616
Quarter 2, 2013 Distribution	1.925	5,862	1.925	5,622
Quarter 3, 2013 Distribution	1.925	5,893	1.925	5,636
Total distribution paid	7.70	23,182	7.70	22,739

The fourth quarter distribution relating to each financial year is paid in September following the end of the financial year. After 30 June 2013 the 2013 final distribution was declared by the Directors. Distributions are recognised within the statement of changes in equity on a payment basis.

On 22 August 2013 a final gross distribution of 2.125 cents per unit was announced by the Trust.
Any continuation of the DRP programme will increase the number of units on issue.

Notes to the Financial Statements

11 STATEMENTS OF CASH FLOWS RECONCILIATION FROM OPERATING ACTIVITIES

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Cash and cash equivalents				
Australian financial institutions	539	–	460	–
New Zealand financial institutions	833	46	872	5
Cash at bank	1,372	46	1,332	5
Reconciliation of profit after income tax to net cash flows from operating activities				
Profit after tax for the year	34,721	14,699	8,977	983
Adjustments for non-cash items				
Change in fair value of investment properties	(10,337)	–	6,241	–
Fair value (gain)/loss on derivative financial instruments	(5,063)	(5,974)	10,117	(138)
Depreciation	1	–	1	–
Unrealised foreign exchange gain	3,928	(8,393)	(40)	(1,548)
Deferred taxation	4,944	6,773	(2,768)	(85)
Other	(1,555)	(3,792)	1,019	–
Effect of exchange rate changes on cash balances	35	–	26	–
Operating cash flow before changes in working capital	26,674	3,312	23,573	(788)
Change in trade and other payables	(851)	(137)	(591)	44
Change in taxation payable	3,213	1,541	(955)	(2,184)
Change in trade and other receivables	(152)	(329)	1,622	36
Items classified as investing activities	–	(4,248)	–	–
Net cash from operating activities	28,884	413	23,649	(2,892)

During the 2013 year, distributions of $5,649,032 (2012: $3,769,774) have been reinvested under the Distribution Reinvestment Plan ('DRP'), which is excluded from investing and financing activities.

12 INVESTMENT PROPERTIES

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Balance at the beginning of the year	567,226	–	513,945	–
Acquisition of properties	36,566	–	34,380	–
Capitalised costs	39,715	–	39,630	–
Capitalised interest costs	512	–	843	–
Net capitalised incentives	(238)	–	(172)	–
Disposals	(5,200)	–	(1,426)	–
Classified as held for sale	–	–	(8,236)	–
Foreign exchange translation difference	(30,191)	–	(5,497)	–
Change in fair value	10,337	–	(6,241)	–
Closing balance	618,727	–	567,226	–
Fair value of investment property at the beginning of the year	567,226	–	513,945	–
Fair value of investment property at the end of the year	618,727	–	567,226	–

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 30 June 2013 was $2,880,000 (2012: $2,950,000) representing 0.5% of the total investment property portfolio (2012: 0.5%). The weighted average lease length of leasehold property at 30 June 2013 was 5.8 years (2012: 6.8 years). The Group has an option to extend the ground lease for a further 20 years following expiry of the lease and expect to conclude an option for an additional right of renewal of 20 years.

Acquisition of properties

During the year, the Group acquired one healthcare property located in Adelaide, South Australia. (2012: two healthcare properties located in New South Wales, Australia). The purchase price included stamp duty and other transaction costs.

Valuation of investment properties

All investment properties were independently valued as at 30 June 2013 and 30 June 2012. The valuations were prepared by independent registered valuers as detailed below:

Darroch Limited	59,050	–	47,950	–
Colliers International Consultancy and Valuation Pty Limited	17,726	–	83,546	–
Colliers International New Zealand Limited	92,180	–	20,400	–
CBRE Limited	–	–	84,150	–
Jones Lang LaSalle New Zealand	3,800	–	4,000	–
CBRE Valuations Pty Limited	36,634	–	134,694	–
M3 Property Strategists	111,299	–	114,577	–
Ernst & Young	273,576	–	77,909	–
Knight Frank	24,462	–	–	–
	618,727	–	567,226	–

Investment properties are stated at fair value by independent valuers supported by market evidence of property sale transactions and leasing activity. The most common and accepted methods for assessing the current market value are the Direct Comparison, Discounted Cash Flow, Capitalisation of Contract and Market Income approaches. The major inputs and assumptions that are used in the valuation that require judgement include selection of discount rates and capitalisation rates, forecasts of the current and expected future market rentals and growth, maintenance and capital expenditure requirements, vacancy and leasing costs.

Notes to the Financial Statements

12 INVESTMENT PROPERTIES (continued)

Principal assumptions, the methodology of which are unchanged from last year in establishing the valuation include the capitalisation rate, occupancy and the weighted average lease term ("WALT") with the below table identifying the respective levels adopted by the Valuers within the Trust's segment:

Properties	Location	30 June 2013 Valuer
Ascot Hospital & Clinics	Greenlane, Auckland	Colliers International New Zealand Limited
Ascot Hospital Carpark, Auckland (ground lease)	Greenlane, Auckland	Colliers International New Zealand Limited
Epworth Rehabilitation	Brighton, Melbourne	Ernst & Young
Epworth Eastern Medical Centre	Box Hill, Melbourne	Ernst & Young
Epworth Eastern Hospital	Box Hill, Melbourne	Ernst & Young
Kensington Hospital	Whangarei, Northland	Darroch Limited
Hibiscus Coast Community Health Centre	Whangaparaoa, Rodney	Jones Lang LaSalle New Zealand
Napier Health Centre	Napier, Hawkes Bay	Colliers International New Zealand Limited
Apollo Health and Wellness Centre	Albany, Auckland	Darroch Limited
Pitman House, Auckland	Pt Chevalier, Auckland	
Ascot Central, Auckland	Greenlane, Auckland	Darroch Limited
Ascot Central Carpark, Auckland (ground lease)	Greenlane, Auckland	Darroch Limited
Allamanda Private Hospital	Southport, Queensland	Ernst & Young
Gold Coast Surgery Centre	Southport, Queensland	Colliers International Consultancy and Valuation Pty Limited
South Eastern Private Hospital	Noble Park, Victoria	M3 Property Strategists
Belmont Private Hospital	Carina Heights, Queensland	M3 Property Strategists
Dubbo Private Hospital	Dubbo, NSW	CBRE Valuations Pty Limited
North West Private Hospital	Burnie, Tasmania	CBRE Valuations Pty Limited
Palm Beach Currumbin Clinic	Currumbin, Queensland	M3 Property Strategists
Melbourne Pathology Building	Noble Park, Victoria	M3 Property Strategists
Lingard Private Hospital	Merewether, NSW	Ernst & Young
Toronto Private Hospital	Toronto, NSW	CBRE Valuations Pty Limited
Maitland Private Hospital	East Maitland, NSW	M3 Property Strategists
Mayo Private Hospital	Taree, NSW	Knight Frank
Hurstville Private Hospital	Sydney, NSW	Ernst & Young
Sportsmed Hospital & Clinic	Adelaide, South Australia	Ernst & Young
TOTAL PORTFOLIO		

Fair value		Market capitalisation rate		Occupancy		WALT	
NZD$000s 2013	NZD$000s 2012	% 2013	% 2012	% 2013	% 2012	Years 2013	Years 2012
80,500	77,500	8.1	8.4	99.6	100.0	5.2	6.1
1,380	1,450	12.0	12.0	100.0	100.0	5.7	6.8
19,144	20,408	8.5	8.0	100.0	100.0	5.6	6.6
20,444	23,724	8.5	8.2	100.0	100.0	3.6	4.3
69,488	70,663	8.5	8.4	100.0	100.0	11.1	11.9
15,000	15,400	8.5	8.5	100.0	100.0	7.7	8.7
3,800	4,000	9.0	9.0	100.0	100.0	1.0	2.0
10,300	10,250	9.5	9.0	100.0	100.0	6.5	7.5
20,650	20,400	8.1	8.4	84.9	78.0	5.5	6.2
–	5,200	–	8.8	–	100.0	–	3.2
21,900	20,800	8.0	8.3	100.0	99.0	6.2	5.4
1,500	1,500	11.0	12.5	98.0	96.6	5.5	6.2
59,206	64,413	10.5	9.8	100.0	100.0	4.3	5.3
17,726	19,133	10.0	10.0	98.6	97.6	8.7	7.3
17,632	15,472	10.8	11.0	100.0	100.0	17.7	18.7
32,297	30,626	9.5	10.3	100.0	100.0	17.6	18.6
7,918	8,418	10.0	10.0	100.0	100.0	18.6	19.6
14,181	15,306	10.0	10.0	100.0	100.0	18.6	19.6
26,684	20,830	9.8	10.3	100.0	100.0	18.6	19.6
804	804	8.5	9.0	100.0	100.0	17.7	18.7
53,415	45,773	10.5	10.8	100.0	100.0	17.7	18.7
14,536	13,833	10.0	9.8	100.0	100.0	19.5	20.5
33,881	26,437	9.5	9.5	100.0	100.0	19.5	20.5
24,462	18,304	10.0	9.8	100.0	100.0	18.5	19.5
17,372	16,582	9.8	9.5	100.0	100.0	18.8	19.8
34,507	–	9.1	–	100.0	–	19.4	–
618,727	567,226	9.1	9.3	99.5	99.2	11.8	11.9

Notes to the Financial Statements

13 INVESTMENTS

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Investment in Colma Services Limited	–	–	–	–
Investment in Vital Healthcare Property Limited	–	65,204	–	65,204
Investment in Vital Healthcare Investment Trust	–	264,967	–	264,967
Total investments	–	330,171	–	330,171

During the year, distributions received from the investments amounted to $13,650,079 (2012: $10,605,423).

14 DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Current assets				
Interest rate derivative assets	–	–	–	–
Foreign exchange derivative assets	6,587	6,587	2,582	2,582
Non-current assets				
Interest rate derivative assets	1,424	1,424	–	–
Foreign exchange derivative assets	–	–	–	–
Current liabilities				
Interest rate derivative liabilities	(363)	(132)	(62)	(13)
Foreign exchange derivative liabilities	–	–	–	–
Non-current liabilities				
Interest rate derivative liabilities	(11,342)	(1,759)	(15,324)	(2,423)
Foreign exchange derivative liabilities	–	–	–	–
Balance	(3,694)	6,120	(12,805)	146

Interest rate swaps

Interest rate swaps are measured using a valuation model based on the present value of estimated future cash flows and discounted based on the applicable yield curves derived from observable market interest rates. The Group has determined the interest rate swaps are level 2 fair value measurements (refer to note 23). There have been no reclassifications of fair value instruments between levels in the years ended 30 June 2013 and 2012.

Interest rate derivatives mature over the next 10 years and have fixed interest rates ranging from 3.19% to 6.91% (2012: from 3.86% to 6.91%).

Nominal value of interest rate swaps – AUD	245,000	133,500	145,000	33,500
Average fixed interest rate	4.73%	3.77%	6.30%	4.45%
Floating rates based on NZD BBR	3.82%	3.82%	5.25%	5.25%

Forward exchange contracts

Forward exchange contracts 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 are level 2 fair value measurements (refer to note 23). The forward prices used to determine the fair value of NZD versus AUD is 0.8450 (2012: 0.7819).

Nominal value of foreign exchange contracts – AUD	88,750	88,750	88,750	88,750
Average foreign exchange rate	0.7979	0.7979	0.7668	0.7668

15 OTHER NON-CURRENT ASSETS

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Loan advances	429	–	554	–
Advances to subsidiaries	–	152,286	–	114,564
Other	71	–	250	–
Total other non-current assets	**500**	**152,286**	804	114,564

16 DEFERRED TAX

	Interest rate swaps $000s	Revaluation of buildings $000s	Borrowings and other $000s	Total $000s
The following are the major deferred tax liabilities and (assets) recognised by the Group, and the movements thereon during the current and prior reporting years:				
At 1 July 2012	**(3,873)**	**25,913**	**1,287**	**23,327**
Charge to profit and loss for the year	602	3,372	970	4,944
Change in exchange rate	175	(1,803)	10	(1,618)
Charge to other comprehensive income	–	–	6,276	6,276
At 30 June 2013	**(3,096)**	**27,482**	**8,543**	**32,929**
At 1 July 2011	(1,577)	26,063	104	24,590
Charge to profit and loss for the year	(2,317)	202	(653)	(2,768)
Change in exchange rate	21	(352)	1,836	1,505
Charge to other comprehensive income	–	–	–	–
At 30 June 2012	(3,873)	25,913	1,287	23,327
The following are the major deferred tax liabilities and (assets) recognised by the Trust, and the movements thereon during the current and prior reporting years:				
At 1 July 2012	**678**	**–**	**(696)**	**(18)**
Charge to profit and loss for the year	(131)	–	6,904	6,773
At 30 June 2013	**547**	**–**	**6,208**	**6,755**
At 1 July 2011	–	–	67	67
Charge to profit and loss for the year	678	–	(763)	(85)
At 30 June 2012	678	–	(696)	(18)

Significant estimates and judgements in the determination of deferred tax (with an impact on current tax) include:

Deferred tax on depreciation – deferred tax is provided in respect of depreciation expected to be recovered on the sale of investment property at fair value.

Deferred tax on changes in fair value of investment properties – deferred tax is provided on New Zealand based properties for the building components of the fair value change to investment properties, being the taxable temporary difference. Deferred tax for Australian based properties is provided for on the capital gains tax expected to be recovered on the land and building component from the sale of investment properties at fair value. Investment properties are valued each year by independent valuers (as outlined in Note 12). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on depreciation recovered and capital gains tax is based on the split provided by the valuers.

Deferred tax on fixtures and fittings – it is assumed that all fixtures and fittings will be sold at their tax book value.

Notes to the Financial Statements

17 TRADE AND OTHER RECEIVABLES

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Trade receivables	344	–	387	–
Allowance for doubtful debts	(9)	–	(134)	–
	335	–	253	–
GST receivable	–	–	180	24
Total trade and other receivables	335	–	433	24

The average credit period on receivables is two days (2012: two days). The Group has provided for 50% of all receivables over 90 days that are considered doubtful. This amount increases to 100% of any receivable that is determined as being not recoverable. There are no significant past due trade debtors at balance date.

Movement in the allowance for doubtful debts				
Balance at the beginning of the year	134	–	26	–
Increase/(decrease) in allowance recognised in profit or loss	(125)	–	108	–
Balance at end of the year	9	–	134	–

18 OTHER CURRENT ASSETS

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Prepayments	289	353	–	–
Loan advances	121	–	113	–
Other current assets	121	7	64	14
Total other current assets	531	360	177	14

There are no loan advances aged past due but not impaired (2012: nil).

19 PROPERTY HELD FOR SALE

There were no properties held for sale as at 30 June 2013. (2012: Eastmed St Heliers, Auckland, New Zealand, subsequently sold on 30 September 2012).

20 UNITS ON ISSUE

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Balance at the beginning of the year	301,159	301,159	297,404	297,404
Issue of units under Distribution Reinvestment Plan	17,278	17,278	3,770	3,770
Issue costs of units	(349)	(349)	(15)	(15)
	16,929	16,929	3,755	3,755
Balance at the end of the year	318,088	318,088	301,159	301,159
Reconciliation of number of units				
Balance at the beginning of the year	293,345	293,345	290,006	290,006
Issue of units under the Distribution Reinvestment Plan	13,694	13,694	3,339	3,339
Balance at the end of the year	307,039	307,039	293,345	293,345

The number of units on issue at 30 June 2013 was 307,038,608 (2012: 293,345,275). 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.

There was no incentive fee during the year (2012: nil).

Capital risk management

The Group's capital includes units, reserves and retained earnings with Total Unitholders' Funds sitting at $309.0m (2012: $287.4m).

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%, (2012: 50%) of the fair market value of property at all times calculated to the New Zealand dollar equivalent. All banking covenants have been met during the year.

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

Notes to the Financial Statements

21 BORROWINGS

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
AUD denominated loans	265,850	195,818	245,769	170,181
NZD denominated loans	800	–	–	–
Borrowing costs	(549)	(456)	(1,301)	(667)
Total borrowings	266,101	195,362	244,468	169,514
Shown as:				
Current	–	–	–	–
Term	266,101	195,362	244,468	169,514

The Group has borrowings from the ANZ National Bank Limited. The A$225,000,000 and NZ$20,000,000 facility, a multi-currency facility, is split between Tranche A: A$125,000.000 which is due to expire on 31 March 2017 and Tranche B: A$100,000,000 / NZ$20,000,000 which is due to expire on 31 March 2015 (2012: no change to 2013).

The effective interest rate on the borrowings as at 30 June 2013 was 6.52% per annum (2012: 6.87%).

Borrowings are secured by a Security Trust Deed dated 1 April 2003 and as amended and restated on 4 April 2012. 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 as trustee for Vital Healthcare Australian Property Trust and Vital Healthcare Investment Trust.

22 TRADE AND OTHER PAYABLES

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Interest accrued on borrowings	1,681	1,257	1,370	1,133
Amount received from unsettled sale of properties	–	–	373	–
Other creditors and accruals	2,950	450	6,777	349
Total trade and other payables	4,631	1,707	8,520	1,482

23 FINANCIAL RISK MANAGEMENT

Financial risk management

The Group's activities expose it primarily to credit risk, market risk (interest rate risk and foreign exchange risk) and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses financial derivatives to manage market risks. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles that are consistent with the Group's risk management strategy. The Group does not use derivative financial instruments for speculative purposes.

Credit risk

In the normal course of business the Group incurs credit risk from trade receivables and transactions with financial institutions. The risk associated with trade receivables is managed with a credit policy which includes performing credit evaluations on customers requiring credit. Generally collateral is not required. The risk from financial institutions is managed by only entering into derivative transactions and placing cash and deposits with high credit quality financial institutions. The Group places its cash deposits with ANZ National Bank Limited and Australia and New Zealand Banking Group Limited.

The carrying amount of financial assets best represents the maximum exposure to credit risk at year end.

Interest rate risk

Interest rate risk arises from the variability in cash flows arising from floating rate bank loans. The Group's policy is to convert a portion of its floating rate debt to fixed rates using interest rate swaps to maintain 70% to 100% of its borrowings in fixed rate instruments. At 30 June 2013, 86.4% of borrowings were at fixed rates (2012: 62.3%). The Group does not apply hedge accounting to interest rate swaps. Any gains or losses arising on revaluation is recognised immediately in the statement of comprehensive income.

Notes to the Financial Statements

23 FINANCIAL RISK MANAGEMENT (continued)

Interest rate repricing analysis

The following table indicates the effective interest rates and the earliest period in which financial instruments reprice. Fixed rate balances are presented with the effect of hedging derivatives:

	Weighted effective interest rate %	Less than 1 year $000s	1–2 years $000s	2–3 years $000s	3+ years $000s	Total $000s
Group						
Year ended 30 June 2013						
Cash and cash equivalents (floating rates)	3.82%	1,372	–	–	–	1,372
Borrowings (floating rates)	4.83%	(36,208)	–	–	–	(36,208)
Borrowings (fixed rates)	5.74%	(35,453)	(47,270)	(49,043)	(98,676)	(230,442)
		(70,289)	(47,270)	(49,043)	(98,676)	(265,278)
Year ended 30 June 2012						
Cash and cash equivalents (floating rates)	2.50%	1,332	–	–	–	1,332
Borrowings (floating rates)	5.25%	(60,821)	–	–	–	(60,821)
Borrowings (fixed rates)	6.30%	–	(57,398)	–	(127,550)	(184,948)
		(59,489)	(57,398)	–	(127,550)	(244,437)
Trust						
Year ended 30 June 2013						
Cash and cash equivalents (floating rates)	3.82%	46	–	–	–	46
Borrowings (floating rates)	4.83%	(85,324)	–	–	–	(85,324)
Borrowings (fixed rates)	4.73%	(23,635)	(47,270)	–	(39,589)	(110,494)
		(108,913)	(47,270)	–	(39,589)	(195,772)
Year ended 30 June 2012						
Cash and cash equivalents (floating rates)	2.50%	5	–	–	–	5
Borrowings (floating rates)	5.25%	(127,451)	–	–	–	(127,451)
Borrowings (fixed rates)	5.35%	–	(25,510)	–	(17,220)	(42,730)
		(127,446)	(25,510)	–	(17,220)	(170,176)

23 FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity

The Group's sensitivity to interest rate risk can be expressed in two ways:

Fair value sensitivity

A change in interest rates impacts the fair value of the Group's fixed rate assets and liabilities, and its interest rate swaps. Fair value changes impact profit or loss or equity only where the instruments are carried at fair value. Accordingly, the fair value sensitivity to a 100 bps movement in interest rates (based on the assets and liabilities held at year end) is:

	Impact on profit/(loss) Group 2013 $000s	Impact on unitholders' funds Group 2013 $000s	Impact on profit/(loss) Group 2012 $000s	Impact on unitholders' funds Group 2012 $000s
Group				
If interest rates had been 100 bps higher:	10,736	10,736	1,095	1,095
If interest rates had been 100 bps lower:	(11,546)	(11,546)	(1,347)	(1,347)
Trust				
If interest rates had been 100 bps higher:	5,963	5,963	–	–
If interest rates had been 100 bps lower:	(6,349)	(6,349)	–	–

There are no impacts on the profit/(loss) and unitholders' funds for the Trust (2012: nil).

Cash flow sensitivity analysis

A change in interest rates would also impact on interest payments and receipts on the Group's floating rate assets and liabilities. Accordingly, the one-year cash flow sensitivity to a 100 bps movement in interest rates (based on assets and liabilities held at year end) is:

Group				
If interest rates had been 100 bps higher:	(354)	(354)	(2,458)	(2,458)
If interest rates had been 100 bps lower:	354	354	2,458	2,458
Trust				
If interest rates had been 100 bps higher:	(853)	(853)	(1,275)	(1,275)
If interest rates had been 100 bps lower:	853	853	1,275	1,275

Foreign Exchange Risk

Foreign exchange risk arises due to the exposure of Australian denominated assets and liabilities to movements in foreign exchange rates. The Group minimises foreign exchange risk by matching as far as possible, its foreign denominated assets and associated borrowings in the same currency and entering into forward exchange contracts where necessary.

Notes to the Financial Statements

23 FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange exposure

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

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Non-financial instrument assets and liabilities denominated in Australian dollars				
Investment properties	463,697	–	410,726	–
Investments in subsidiaries*	–	264,967	–	264,967
Other assets	1,697	–	158	–
Deferred tax	(21,416)	–	(19,647)	–
Total non-financial instrument assets and liabilities	443,978	264,967	391,237	264,967
Non-derivative financial instruments				
Cash and cash equivalents	539	–	460	–
Trade and other receivables	268	–	409	–
Trade and other payables	(1,681)	–	(5,273)	–
Borrowings	(265,850)	(195,818)	(245,769)	(170,181)
Total exposure from non-derivative financial instruments	(266,724)	(195,818)	(250,173)	(170,181)
Derivative financial instruments				
Forward exchange contracts	6,587	6,587	2,520	2,569
Interest rate swaps	(10,280)	(467)	(15,324)	(2,423)
Total exposure from derivative instruments	(3,693)	6,120	(12,804)	146
Net exposure to currency risk	173,561	75,269	128,260	94,932

* Accounted for in NZ dollars at the acquisition date.

Foreign currency sensitivity

The following table illustrates the sensitivity of the profit after tax for the year and equity in regard to the exchange rates for Australian Dollar. It assumes a 10% change in exchange rate (2012: 10%):

If the Australian Dollar was 10% higher for the year:				
Profit and loss	(5,021)	7,651	3,789	22,103
Other comprehensive income	(10,649)	–	(5,133)	–
Unitholders' funds	(15,490)	7,651	(1,344)	22,103
If the Australian Dollar was 10% lower for the year:				
Profit and loss	5,761	(9,702)	(4,632)	(27,015)
Other comprehensive income	12,839	–	6,273	–
Unitholders' funds	18,600	(9,702)	1,641	(27,015)

23 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations as they fall due. The Group's policy is to maintain unutilised credit facilities to meet contractual obligations when they fall due. The Group monitors its liquidity requirements on an on-going basis.

The Group has a multi-currency facility with ANZ National Bank Limited of A$225,000,000 and NZ$20,000,000. As at 30 June 2013, after translation to NZD $266,650,280 (2012: NZD $245,769,890) had been drawn-down. The effective interest rate was 6.52% (2012: 6.87%).

Liquidity risk exposure

The following table details the Group's exposure to liquidity risk based on the contractual undiscounted cash flows relating to financial liabilities and foreign exchange contracts:

	Carrying value $000s	Contractual cash flows $000s	Less than 1 year $000s	1–2 years $000s	2–3 years $000s	3+ years $000s
Group						
Year ended 30 June 2013						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(266,650)	(290,935)	(7,075)	(125,333)	(5,283)	(153,244)
Trade and other payables	(4,631)	(4,631)	(4,631)	–	–	–
	(271,281)	(295,566)	(11,706)	(125,333)	(5,283)	(153,244)
Derivative financial instruments						
Interest rate swaps	(10,280)	(10,129)	(4,496)	(3,966)	(2,575)	908
Forward exchange contracts	6,587	6,587	6,587	–	–	–
	(3,693)	(3,542)	2,091	(3,966)	(2,575)	908
Year ended 30 June 2012						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(245,769)	(277,730)	(7,847)	(7,833)	(135,470)	(126,580)
Trade and other payables	(8,520)	(8,520)	(8,520)	–	–	–
	(254,289)	(286,250)	(16,367)	(7,833)	(135,470)	(126,580)
Derivative financial instruments						
Interest rate swaps	(15,324)	(16,698)	(3,561)	(3,561)	(3,786)	(5,790)
Forward exchange contracts	2,520	2,520	2,520	–	–	–
	(12,804)	(14,178)	(1,041)	(3,561)	(3,786)	(5,790)

Notes to the Financial Statements

23 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

Liquidity risk exposure (continued)

	Carrying value $000s	Contractual cash flows $000s	Less than 1 year $000s	1–2 years $000s	2–3 years $000s	3+ years $000s
Trust						
Year ended 30 June 2013						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(195,818)	(211,315)	(5,195)	(123,221)	(2,763)	(80,136)
Trade and other payables	(1,707)	(1,707)	(1,707)	–	–	–
	(197,525)	(213,022)	(6,902)	(123,221)	(2,763)	(80,136)
Derivative financial instruments						
Interest rate swaps	(467)	131	(1,212)	(969)	(447)	2,759
Forward exchange contracts	6,587	6,587	6,587	–	–	–
	6,120	6,718	5,375	(969)	(447)	2,759
Year ended 30 June 2012						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(170,181)	(189,339)	(5,433)	(5,424)	(132,837)	(45,645)
Trade and other payables	(1,482)	(1,482)	(1,482)	–	–	–
	(171,663)	(190,821)	(6,915)	(5,424)	(132,837)	(45,645)
Derivative financial instruments						
Interest rate swaps	(2,423)	(2,609)	(545)	(475)	(323)	(1,266)
Forward exchange contracts	2,569	2,569	2,569	–	–	–
	146	(40)	2,024	(475)	(323)	(1,266)

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.

The Group has designated Australian denominated borrowings and forward exchange contracts 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 directly in other comprehensive income. Any ineffective portion is recognised in profit or loss.

There has been no ineffectiveness on the net investment hedges during the year ended 30 June 2013 (2012: nil). The face value of hedging instruments designated in net investment hedges is:

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Borrowings	243,737	–	204,082	–
Forward exchange contracts	104,881	–	113,202	–

23 FINANCIAL RISK MANAGEMENT (continued)

Categories of financial instruments

The Group's financial instruments are classified as:

	Loans and receivables $000s	Financial liabilities at amortised cost $000s	Financial assets at fair value through profit or loss $000s	Financial liabilities at fair value through profit or loss $000s	Total $000s
Group					
For the year ended 30 June 2013:	2,256	(270,732)	8,011	(11,705)	(272,170)
For the year ended 30 June 2012:	2,432	(252,988)	2,582	(15,386)	(263,361)
Trust					
For the year ended 30 June 2013:	152,331	(197,069)	8,011	(1,891)	(38,618)
For the year ended 30 June 2012:	114,592	(170,996)	2,582	(2,436)	56,258

Fair value of financial instruments

The financial instruments of the Group which are carried at fair value are classified into the following fair value measurement hierarchy:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Borrowings

The carrying value of these balances are approximately equivalent to their fair value because the loans have floating rates of interest that reset every 90 days.

Cash, cash equivalents, trade and other receivables, trade and other payables

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

Notes to the Financial Statements

24 INVESTMENT IN SUBSIDIARIES

The Trust has control over the following subsidiaries:

Name of subsidiary	Principal activity	Place of incorporation and operation	Holding 2013	Holding 2012
Vital Healthcare Australian Property Trust*	Property investment	Australia	100%	100%
Vital Healthcare Investment Trust**	Property investment	Australia	100%	100%
Vital Healthcare Property Limited	Property investment	New Zealand	100%	100%
Colma Services Limited	Holding company	New Zealand	100%	100%

* Vital Healthcare Australian Property Trust is a 100% owned subsidiary of Vital Healthcare Property Limited and Colma Services Limited 0.0%.

** Vital Healthcare Investment Trust is a 99.9% owned subsidiary of Vital Healthcare Property Limited and 0.1% owned by Colma Services Limited.

The subsidiaries have the same reporting date as the Trust.

25 COMMITMENTS

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Capital commitments				
The Group was party to contracts to purchase or construct property for the following amounts:	9,565	–	20,226	–
	9,565	–	20,226	–
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	240	–	225	–
Later than one year and not later than five years	960	–	900	–
Later than five years	185	–	398	–
	1,385	–	1,523	–

The Group has a variety of operating leases relating to the investment property it owns with lease terms of between one month and 20 years.

The property rental income 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	60,266	–	53,380	–
Later than one year and not later than five years	221,298	–	199,600	–
Later than five years	432,108	–	357,344	–
	713,672	–	610,324	–

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.

26 CONTINGENCIES

There were no contingencies as at 30 June 2013 (2012: nil).

27 SUBSEQUENT EVENTS

On 22 August 2013 a final gross distribution of 2.125 cents per unit was announced by the Trust. The record date for the final distribution is 11 September 2013 and a payment is scheduled to unitholders on 25 September 2013. There will be nil cents per unit of imputation credits attached to the distribution (2012: 0.0998).

On 4 July 2013 a simplified disclosure prospectus was issued, seeking to raise a maximum of $39.2m via a 1:10 renounceable rights issue. The offer was made to Eligible Unitholders based on the Record Date of 22 July 2013 and the offer closed on 16 August 2013 at 5.00pm. Allotment of New Units being issued under the rights issue is due to take place on the evening of 23 August 2013.

28 RELATED PARTY TRANSACTIONS

Fees paid to the Manager

The Trust is managed by Vital Healthcare Management Limited (the "Manager"). From the 17th of January 2012 North West Value Partners Inc. purchased the management rights from Medical Property Holding Company No.1 Limited a wholly owned subsidiary of OnePath (NZ) Limited (the "Former 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. Prior to 17 January 2012 the Trust was managed by the Former Manager.

Other related parties by virtue of common ownership and/or ownership and/or directorship to the Manager of the Trust include OnePath (NZ) Limited, (until 16th of January 2012), Australian Properties Limited and Vital Healthcare Australian Property Pty Limited ("VHAPPL").

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% per annum of the monthly average of the gross value of the assets of the Trust for the quarter ended on the last day of that month. Incentive fees are payable when there is an average annual increase in the Gross Value of the assets of the Trust Fund over the relevant financial year and the two preceding financial years. The incentive fee is 10% of the amount of the increase with payment being made by way of subscribing for new Units 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.

The Trust also reimbursed the Manager for fees paid to the Managers directors and shareholders.

Transactions with related parties include:

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Total fees incurred				
Management fees	4,747	–	4,100	996
Manager's incentive fees	–	–	–	–
Expenses charged by Vital Healthcare Management Limited	91	1	40	–
Expenses charged by OnePath (NZ) Limited – up to 16 January 2012	–	–	149	149
Expenses charged by Medical Property Holding Company No.1 Limited – up to 16 January 2012	–	–	3	3
	4,838	1	4,292	1,148

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.

Notes to the Financial Statements

28 RELATED PARTY TRANSACTIONS (continued)

Remuneration of the Manager (continued)

The amount paid to Vital Healthcare Management Limited was $90,510 (2012: $40,549). The amount not recovered from tenants was nil (2012: nil).

Included in the expenses charged by Vital Healthcare Management Limited this year were amounts paid to the following:

	Expenses		Amounts outstanding	
	2013 $000s	2012 $000s	2013 $000s	2012 $000s
Graeme Horsley	5	–	–	–
Andrew Evans	5	–	–	–
Claire Higgins	6	–	–	–

Other related party transactions

The Trust has a wholly-owned subsidiary, Vital Healthcare Property Limited. Vital Healthcare Property Limited holds title to certain of the Trust's real estate either directly or indirectly by way of its subsidiary, Vital Healthcare Australian Property Trust. Transactions between the Trust and Vital Healthcare Property Limited include:

	Group 2013 $000s	Trust 2013 $000s	Group 2012 $000s	Trust 2012 $000s
Advances to subsidiaries*	–	74,290	–	114,564
Advance to Vital Healthcare Investment Trust**	–	77,996	–	–
Project management fees to Vital Healthcare Australian Property Pty Limited	472	–	–	–
Fees recharged to subsidiaries	–	–	–	–
Distributions from subsidiaries	–	13,650	–	10,605
Interest from subsidiaries	–	3,653	–	–

* The loan is interest free and repayable on demand. The Directors of the Trust do not anticipate that the loan will be called upon within the next twelve months.

**These loans are interest bearing (weighted average interest rate of 7.3%) and repayable on demand. The Directors of the Manager do not anticipate that the loan will be repaid within the next twelve months.

(2012: The Group had a revolving multi-currency facility with ANZ National Bank Limited (the ultimate shareholder of the parent company of the Former Manager) in both New Zealand and Australia of A$225,000,000 and NZ$20,000,000. As at 16 January 2012, after translation to NZD $215,722,647 had been drawn-down. The Group paid $8,508,387 in interest and fees to ANZ National Bank Limited up until 16 January 2012).

Deloitte.

TO THE UNITHOLDERS OF VITAL HEALTHCARE PROPERTY TRUST

Report on the Financial Statements

We have audited the financial statements of Vital Healthcare Property Trust (the 'Trust') and Group (the 'Group') on pages FIN-1 to FIN-32, which comprise the consolidated and separate statements of financial position of Vital Healthcare Property Trust, as at 30 June 2013, the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Manager's Responsibility for the Financial Statements

The Manager of the Trust is responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements on pages FIN-1 to FIN-32:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Vital Healthcare Property Trust and group as at 30 June 2013, and their financial performance and cash flows for the year then ended.

Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 30 June 2013:

- we have obtained all the information and explanations we have required; and
- in our opinion proper accounting records have been kept by Vital Healthcare Property Trust as far as appears from our examination of those records.

Deloitte

Chartered Accountants
22 August 2013
Auckland, New Zealand

This audit report relates to the financial statements of Vital Healthcare Property Trust and group for the year ended 30 June 2013 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 financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these 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 audited financial statements and related audit report to confirm the information included in the audited 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.

Analysis of shareholding as at 31 August 2013

Holding Range	Number of unitholders	Total units	% of total units issued
1 to 99	23	1,094	–
100 to 199	22	3,222	–
200 to 499	52	14,941	–
500 to 999	40	29,022	–
1,000 to 1,999	124	170,405	0.1
2,000 to 4,999	573	2,064,207	0.6
5,000 to 9,999	1,145	8,489,294	2.5
10,000 to 49,999	2,522	54,761,200	16.2
50,000 to 99,999	286	18,781,186	5.6
100,000 to 499,999	140	25,357,699	7.5
500,000 to 999,999	6	4,449,608	1.3
1,000,000 to 9,999,999,999	19	223,621,622	66.2
Total	4,952	337,743,500	100.0

Substantial security holders as at 31 August 2013

Unitholder	Date notice filed	Number of units	% of total issued units
Macquarie Capital Markets Canada Ltd (MCMC)	29 August 2013	67,547,578	19.990
NorthWest International Healthcare Properties Real Estate Investment Trust ('NorthWest')	30 August 2013	76,616,382	22.685

Holdings of Directors of the Manager as at 30 June 2013

	non-beneficial	Holdings (number of units) beneficial	Associated persons
Graeme Horsley	42,000	177,609	
Andrew Evans		271,285	
Claire Higgins	15,672		
Paul Dalla Lana*	61,473,485		
Bernard Crotty*			

* Paul Dalla Lana and Bernard Crotty are Officers, Directors and/or shareholders of NorthWest Value Partners Inc. (an Ontario, Canada, corporation). NorthWest Value Partners Inc. directly or indirectly holds approximately 61.47 million units in Vital Healthcare Property Trust.

Twenty largest security holders as at 31 August 2013

Unitholder	Total	% total issued units
New Zealand Central Securities Depository Limited	101,415,680	30.03
Custodial Services Limited <A/C 3>	18,764,161	5.56
Investment Custodial Services Limited <A/C C>	18,652,253	5.52
FNZ Custodians Limited	18,070,323	5.35
Forsyth Barr Custodians Limited <1-33>	14,450,806	4.28
FNZ Custodians Limited <Dta Non Resident A/C>	9,625,140	2.85
Custodial Services Limited <A/C 2>	7,760,635	2.30
Forsyth Barr Custodians Limited <1-17.5>	6,791,000	2.01
Custodial Services Limited <A/C 18>	5,207,567	1.54
Forsyth Barr Custodians Limited <1-30>	3,922,656	1.16
Custodial Services Limited <A/C 4>	3,533,735	1.05
Custodial Services Limited <A/C 1>	3,353,153	0.99
Superlife Trustee Nominees Limited <Sl Prop A/C>	3,276,332	0.97
FNZ Custodians Limited <Drp Nz A/C>	1,741,562	0.51
Custodial Services Limited <A/C 16>	1,645,258	0.49
NZPT Custodians (Grosvenor) Limited	1,450,000	0.43
Forsyth Barr Custodians Limited <1-28>	1,431,478	0.42
New Zealand Depository Nominee Limited <A/C 1> Cash Account	1,279,883	0.38
James Harvey Mansell & Christine Anne Mansell & Douglas Tony Brown <Harvan A/C>	1,250,000	0.37
Jarden Custodians Limited	910,000	0.27
Totals	224,531,622	66.48
Total units on issue	337,743,500	

Unitholder	Number of units
Citibank Nominees (New Zealand) Limited	71,198,350
BNP Paribas Nominees (NZ) Limited	9,645,266
MFL Mutual Fund Limited	3,732,138
Mint Nominees Limited	2,791,404
National Nominees New Zealand Limited	2,580,351
HSBC Nominees (New Zealand) Limited	2,235,413
JPMorgan Chase Bank Na	2,113,221
Accident Compensation Corporation	1,410,412
Premier Nominees Limited – Onepath Wholesale Property Securities	1,280,491
HSBC Nominees (New Zealand) Limited A/C State Street	1,227,319
Tea Custodians Limited	1,167,294
New Zealand Superannuation Fund Nominees Limited	1,045,000
Sovereign Services Limited	525,455
Guardian Nominees No 2 Limited – Wpac Wholesale Property Trust	254,182
Premier Nominees Limited	111,616
Private Nominees Limited	97,768
Total	101,415,680

A. TRUST DEED

The Manager and the Trustee are parties to a trust deed relating to the Trust dated 11 February 1994 which was amended and replaced by a trust deed dated 1 September 1999 and which deed has subsequently been amended by deeds of amendment dated 10 November 2003, 12 November 2007, 12 December 2007, 5 August 2008, 27 September 2010 and 1 November 2012 (the "Trust Deed").

A full copy of the Trust Deed and the recent deeds of amendments can be obtained, free of charge, from the Manager of the Trust. The Trust Deed, together with all amendments thereto, is also filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment and is available there for public inspection. Copies are also available from the Companies Office website, www.business.govt.nz/companies.

2012 amendments

At the 2012 annual meeting, unitholders approved certain amendments to the Trust Deed, which came into effect on 1 November 2012 (by a deed of amendment dated the same date).

In summary, the amendments were to:

- improve the wording of the provisions relating to the election of independent directors of the Manager by unitholders; and
- remove from the Trust Deed the provisions which simply reflect the Listing Rules, and to incorporate by reference the Listing Rules that are in effect from time to time.

The amendments are set out in full in the deed of amendment referred to above, a copy of which is available on the Companies Office website, www.business.govt.nz/companies.

B. TRUSTEE INFORMATION

The Trustee is Trustees Executors Limited. In accordance with the Trust Deed, the Trustee will receive from the Trust in respect of each year, a fee determined on the basis previously agreed between the Trustee and the Manager. In addition to this agreed fee, the Trustee is entitled to such fee for convening and attending meetings of Unitholders and in respect of any other non-routine or abnormal matters as agreed with the Manager.

The Trustee and the Manager have currently agreed an annual fee based on the gross value of the assets of the Trust as follows:

- 0.10% per annum on the first $100 million of the average gross assets of the Trust in the preceding 12 months;
- 0.08% per annum on the next $25 million of the average gross assets of the Trust in the preceding 12 months;
- 0.05% per annum on the next $25 million of the average gross assets of the Trust in the preceding 12 months; and
- 0.03% per annum on the average gross assets of the Trust in the preceding 12 months over $150 million.

C. NZX WAIVERS

Rights issue

On 4 July 2013, NZX granted a waiver from Listing Rule 7.10.5 to allow eligible unitholders to apply for units in excess of their pro-rata entitlement under an oversubscription facility for the rights issue. The waiver was granted on the conditions that:

- additional new units were allocated to applicants under the oversubscription facility in accordance with the terms set out in the waiver decision;
- the terms of the oversubscription facility were sufficiently disclosed in the Prospectus for the rights issue; and
- the Prospectus stated that NZX had granted the waiver and the conditions of the waiver.

Corporate governance

On 7 November 2007, NZX granted the Trust waivers in respect of Listing Rules 3.1.1(a), 3.3.1B(a), 3.3.2 to 3.3.12, 3.4.3 and 3.5 in relation to the application of those Listing Rules to the Trust's corporate governance structure. The waivers were granted in light of the fact that those Listing Rules are not readily applicable to an issuer which is a unit trust where the directors, for the purposes of the Listing Rules, are the directors of the Manager. The waivers:

- Listing Rule 3.1.1(a): exempt the Trust from incorporating in the Trust Deed those Listing Rules for which waivers outlined in the decision were granted;
- Listing Rule 3.3.1B(a): exempt the Trust and the Manager from identifying which directors are independent no later than 10 business days following the Trust's annual meeting (the waiver being granted on the condition that when the shareholder of the Manager appoints a director, within 10 business days of such appointment, the Manager must make a determination as to whether that director is an independent director and announce to the market the names of those directors determined to be independent directors);
- Listing Rules 3.3.2 to 3.3.12: exempt the Trust from compliance with those Listing Rules which relate to the process for the appointment of an issuer's directors (the waiver being granted on the basis that, since listing, neither the Trust nor any other listed unit trust has been required to comply with these provisions);
- Listing Rule 3.4.3: permit directors of the Manager who are interested, solely due to being a director of the Manager, to vote on transactions into which the Manager is entering for the purposes of the day-to-day management of the Trust (the waiver being conditional upon the interested director abstaining from voting on any transaction entered into by the Manager, on behalf of the Trust, with another entity in respect of which that director would otherwise be interested); and

- Listing Rule 3.5: exempt the Trust from compliance with the director remuneration-fixing requirements in the Listing Rules (the waiver being granted on the conditions that the remuneration of directors of the Manager is paid directly from income of the Manager, income of the Trust is not applied in satisfaction of directors' remuneration and the Manager discloses in its annual report the income it has earned in respect of its management of the Trust for the prior financial year).

Distribution Reinvestment Plan

On 15 August 2008, the Trust obtained a waiver from Listing Rule 7.11.1 to allow units to be allotted under its distribution reinvestment plan ("DRP") later than five business days after applications to participate in the DRP are required to be submitted.

Applications to participate in the DRP are required to be submitted by the record date (being 5pm on the date fixed by the Manager to determine unitholder entitlements to a distribution). Under the then current terms of the DRP, the price per unit was determined with reference to the period of seven days immediately following the record date for the relevant distribution or, if no sale occurs during that period, the net asset value per unit on the day immediately following the record date. On the strict application of Listing Rule 7.11.1, units to be allotted under the DRP would need to be allotted within five business days of the record date, which would be before the price for the units had been determined.

The waiver was granted subject to the following conditions:

- The Trust allot units pursuant to the DRP on the same day that dividend distributions are paid to unitholders who do not elect to participate in the DRP; and
- That if the DRP does not proceed to allotment, and monies are returned to subscribers, the Trust will refund any interest accrued on such monies between the latest date on which applications for units close and the date of refund.

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Andrew Evans
Claire Higgins
Paul Dalla Lana
Bernard Crotty

Auditor

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Bankers to the Trust

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Auckland 1010
PO Box 6334
Auckland 1015
Telephone: 0800 103 123

Unit Registrar

Computershare Investor Services Limited
159 Hurstmere Road
Takapuna, Auckland 0622
Private Bag 92119
Auckland 1142
New Zealand

Managing your unitholding online

To change your address, update your payment instructions and view your investment portfolio including transactions, please visit www.computershare.co.nz/investorcentre

General enquiries can be directed to:

enquiry@computershare.co.nz
Private Bag 92119, Auckland 1142
Telephone: (09) 488 8777
Facsimile: (09) 488 8787

Please assist our registrar by quoting your CSN or shareholder number.

www.vitalhealthcareproperty.co.nz