Vital
Healthcare
Property Trust

ANNUAL REPORT 2014

CAUSEEFFECT

CREATING CAPACITY TO MEET DEMAND

A GROWING AND AGEING POPULATION IS DRIVING INCREASED DEMAND FOR HEALTHCARE SERVICES.

200%

AUSTRALIA'S OVER-65 DEMOGRAPHIC HAS GROWN FROM 1.1M TO 3.3M IN THE LAST 30 YEARS.

3.8 MILLION

PATIENTS TREATED IN AUSTRALIAN PRIVATE HOSPITALS (25% OF ALL PATIENTS)
200,000 MORE THAN THE PRIOR YEAR.

THIS IS PLACING RISING PRESSURE ON THE PUBLIC HEALTHCARE SECTOR AND DEMONSTRATES THE IMPORTANCE OF THE PRIVATE SECTOR CREATING CAPACITY AND WORKING IN TANDEM WITH THE PUBLIC SECTOR.

OVER

A$100MILLION

INVESTED IN VALUE-ADD BROWNFIELD DEVELOPMENT PROJECTS OVER THE LAST 2 ½ YEARS.

VITAL IS CREATING CAPACITY TO HELP MEET THIS RISING DEMAND FOR HEALTHCARE SERVICES.

Our brownfield development programme expands and modernises existing facilities delivering improved operator profitability and enhanced asset values.

NUMBER OF ASSETS

24

PORTFOLIO VALUED AT OVER

$613M

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

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

The 105 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.

HIGHLIGHTS

NET PROFIT AFTER TAX

$37.4M

UP 7.8%

NET DISTRIBUTABLE INCOME

$34.7M UP 23.1%

WELL-EXECUTED STRATEGY DELIVERS DPU

7.9 cents per unit

POSITIVE PORTFOLIO REVALUATION GAIN

$15.2M UP 2.5%

ADDITIONAL DEVELOPMENTS CREATING CAPACITY

A$20M

SECTOR LEADING WALT

15.1 years

TEN-YEAR COMPOUND ANNUAL TOTAL RETURN

12.1%

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FINANCIAL SUMMARY

All figures are in New Zealand dollars (NZD) unless otherwise stated	Restated 2010 $000s	2011 $000s	2012 $000s	2013 $000s	2014 $000s
Net property income	24,287	36,614	47,962	57,856	57,967
Profit before finance income/(expenses) and other gains/(losses)*	20,897	32,067	40,868	50,637	49,988
Unrealised foreign exchange gain/(loss)	259	1,855	40	(3,928)	(7,334)
Revaluation gain/(loss)	10,476	(10,523)	(6,241)	10,337	15,211
Profit/(loss) for the year (after taxation)	18,199	7,380	8,977	34,721	37,433
Earnings per unit – cents per unit	12.77	3.34	3.08	11.56	11.21
Investment properties	291,990	513,945	567,226	618,727	613,136
Total assets	**299,545**	**533,433**	**580,790**	**629,476**	**615,968**
Bank loan drawn	97,675	196,690	245,769	266,650	192,633
Total equity	171,088	301,106	287,430	308,994	353,520
Debt to total assets ratio	32.6%	36.9%	42.3%	42.4%	31.4%
Cash distribution to unitholders – cents per unit	8.50	8.10	7.70	7.90	7.90
Net assets backing per unit – cents per unit	1.19	1.04	0.98	1.01	1.04

DISTRIBUTABLE INCOME

	2010 $000s	2011 $000s	2012 $000s	2013 $000s	2014 $000s
Profit/(loss) before income tax	24,069	11,476	8,310	45,084	42,849
Adjusted for:					
Revaluation (gains)/losses on investment property	(10,476)	10,523	6,241	(10,337)	(15,211)
Unrealised foreign exchange (gain)/loss	(259)	(1,855)	(40)	3,929	7,334
Internalisation costs	–	–	731	–	–
Fair value (gain)/loss on interest rate derivatives	51	(178)	10,050	(4,406)	(805)
Fair value (gain)/loss on FX rate derivatives			67	(656)	219
Manager's incentive fee	120	–	–	–	542
Gross distributable income	**13,505**	**19,966**	**25,359**	**33,614**	**34,928**
Current taxation	1,817	3,051	2,101	5,419	226
Other tax adjustment	(428)	(1,271)	–	–	–
Net distributable income	**12,116**	**18,186**	**23,258**	**28,195**	**34,702**

PORTFOLIO METRICS

	2010	2011	2012	2013	2014
Investment properties ($m)	292.0	513.9	567.2	618.7	613.1
Number of properties	14	25	25	24	24
Number of tenants	106	128	124	108	105
Occupancy	99.5%	99.2%	99.3%	99.5%	99.3%
Weighted average lease term (yrs)	8.6	11.4	11.9	11.8	15.1
12 month lease expiry	2.6%	1.6%	2.5%	1.6%	3.8%

* Adjusted to reflect 2014 Financial Statement presentation format.

STRATEGY DELIVERING RESULTS

Vital has continued to deliver stronger financial and portfolio results in 2014. Our successful brownfield redevelopment programme continues to produce improved asset values creating a strong platform to deliver defensive, sustainable returns to investors.

Now in my seventh year as a Director it's a pleasure to present my third Annual Report as Independent Chairman of Vital's Manager.

Strong delivery on strategy, lift in 2015 distribution guidance

The Board is pleased to have delivered on its guidance at the start of the year and confirm a cash distribution of 7.90 cents per unit for the 2014 financial year.

We are also mindful of Vital's long-term strategy to deliver secure, stable and sustainable distributions to investors. Having successfully resolved one of Vital's two medium-term lease expiries, along with a generally positive outlook, the Board is comfortable guiding to a 2015 cash distribution of 8.0 cents per unit, an increase of 1.3% on 2014.

Healthcare real estate remains a very defensive long-term investment. Over the ten years to 30 June 2014, Vital delivered a compound total return of 12.1% per annum. This compares favourably to the NZX Property Gross Index return of 8.5% over the same period[1].

"Vital's brownfield redevelopment programme has been a **significant contributor** to our strong performance in recent years."

Australia's increasing and ageing population underpins rising demand

Australia is a significant and growing market for Vital. It has a population of over 23m and in the last 30 years the percentage of the population aged over 65 increased 200% from 1.1m to 3.3m or 14% of the total population[2]. By 2033 the over-65 demographic is forecast to increase further to 5.9m, or 18% of the total population.

On the back of a growing and ageing population driving demand for healthcare services, Australia's spending on healthcare has grown significantly. Since 2001-02 the cost of healthcare has grown from A$83bn to an estimated A$140bn in 2011-12 or around 9.5% as a proportion of GDP[2]. By 2033 this ratio is forecast to rise to 12.4% of GDP[3].

The combination of rising demand for healthcare services and high costs in treating the elderly does suggest further financial and operational constraints are imminent for an already strained public healthcare system. This problem aptly highlights the importance of an effective and efficient private sector working in tandem with the public sector.

Private health insurance levels and trends are considered a reliable proxy for hospital operator performance. Over 47%[4] of the Australian population has private health insurance compared to 30% for New Zealand. Whilst New Zealand has remained at or around 30% for several years, Australia has recorded 35[4] consecutive quarters of growth in those insured or around 2.3m people since September 2005. Notably, this was growth through a period of negative regulatory reform and the GFC. Given the importance of the private sector working alongside the public sector, we expect the regulatory environment around private health insurance to remain relatively benign.

Growth and demand creating healthcare real estate opportunities

The rising demand for healthcare services is creating a significant capital requirement for the sector. Private hospital operators in Australia alone have over A$1bn[5] of capital requirements over the next 2-3 years.

This demand will result in public and private hospital operators, including not-for-profit operators who own their assets to consider the most efficient sources and uses of capital. In a relatively capital starved sector this is where David and his team have clearly differentiated themselves by establishing a reputation as a leading manager and capital partner in providing healthcare real estate solutions.

We are also starting to see interest in greenfield development opportunities in some of Australia's largest cities. As part of the broader healthcare spectrum, aged care is also going through a period of consolidation and given the interest shown by aged care operators at Allamanda Private Hospital we will continue to monitor this space with interest.

Portfolio management focus

I know David and the rest of the management team continue to manage all activities on a proactive basis with a focus on extracting long-term value for investors. The team has a proven ability to enhance Vital's overall position and I expect to see more of this through 2015.

On behalf of the Board and you, the investors in Vital, I would like to pass on my sincere thanks to the management team for their efforts throughout the 2014 year.

Governance

Independent Director Claire Higgins retires by rotation this year and being eligible for re-election, has indicated a desire to stand again. Claire joined the Board two years ago and chairs the Audit Committee. Claire contributes significant corporate finance, accounting, capital markets and healthcare experience to Vital and brings a valuable insight and perspective to the Board table.

I would also like to acknowledge the valuable contribution of my fellow Independent Director, Mr Andrew Evans and also of Mr Paul Dalla Lana and Mr Bernard Crotty, both Directors of the Manager and NorthWest International Healthcare Properties REIT, Vital's largest investor. NorthWest brings a wealth of global healthcare real estate experience and perspective to the Board and continues to retain a strong alignment of interests with all investors, with their current holding of an approximate 24% interest in Vital.

Strategy and outlook

Looking forward, Management's execution capability and credibility continues to generate opportunities and underpin our long-term strategy to deliver secure, stable and sustainable returns to investors.

The healthcare real estate sector continues to experience rising investor demand. This demand is being driven by healthcare real estate's defensive qualities and positive underlying fundamentals, including a growing and ageing population, strong levels of private health insurance in Australia and a relatively capital constrained sector. These elements support our positive long-term view on the sector as we continue to build on Vital's market-leading position.

Finally, I would like to thank all investors for their continued support in 2014 and look forward to another great year in 2015.

Graeme Horsley MNZM
Independent Chairman
Vital Healthcare Management Limited

1 Bloomberg and Craig's Investment Partners. Returns as at 30 June 2014.
2 Australian Institute of Health and Welfare (AIHW), Australia's Health 2014 report
3 Australian Institute of Health & Welfare 2008
4 PHIAC June 2014 quarterly data
5 Industry reports

CREATING CAPACITY

Continued execution of our strategy in 2014 delivered another year of financial and portfolio improvements. Post balance date, Vital's first acquisition in Western Australia also provides a platform to deliver further growth and diversification benefits over time.

Delivering on strategy, delivering on performance

Following another strong year of operational and financial gains, the Board has confirmed a cash distribution of 7.90 cents per unit for the 2014 financial year.

Underlying gross rental income pre-currency was up 9%. Core elements of this comprised the full-year benefit of the Sportsmed SA acquisition of $1.5m, structured rent review growth of $1.1m and part-year contributions from four completed development projects of $3.1m. Post-currency impact on rental income produced a stable result at $59.4m

For the year ended 30 June 2014 Vital's annual portfolio revaluation resulted in an increase of $15.2m or 2.5%. The New Zealand portfolio contributed a $6.3m gain whilst the Australian portfolio delivered an $8.9m gain. Across the 24 assets, 20 had gains whilst four declined in value. The weighted average cap rate firmed by 31 bps to 8.95% with the portfolio now valued at $613.1m.

The key drivers for the current year's revaluation gains include: structured annual rent growth, close to full occupancy, continued firming in market capitalisation rates and notably, all post-development assets crystallising positive valuation margins in excess of development costs.

"Strong underlying healthcare trends **continue** to support our positive long-term view on the sector."

Vital's net tangible asset (NTA) backing of $1.04 was up 3.5% on the prior year. The increase was due to a combination of factors including portfolio revaluation gains, equity raisings and marked-to-market adjustments and receipts on derivatives.

Investment portfolio in great shape

Through the 2014 financial year we continued to focus on proactive portfolio management which has again supported our strong portfolio results.

Vital's year-end WALT of 15.1 years is almost three times the listed property sector average of 5.3 years and up substantially from 11.8 years in the prior year. A core driver of the improved result was the resolution of one of our medium-term lease expiry events, with a new 30-year lease with MercyAscot at Ascot Hospital and Clinics in Auckland.

For us as a management team, the outcome was very satisfying. The early resolution of this lease expiry and the retention of New Zealand's leading private hospital operator is testament to the long-term partnership between Vital and MercyAscot. To have extended the lease until 2043, which includes annual CPI reviews and periodic reviews to market, we believe is an outstanding result.

Our year-end occupancy of 99.3% consistently remains one of the highest in the sector and reflects high tenant retention rates across the portfolio. We continue to set ourselves apart from the market by maintaining a five-year average occupancy level above 99%.

We concluded four development projects at Lingard (A$7.5m), Maitland (A$9.9m), Toronto (A$1.9m) and Mayo (A$0.7m) private hospitals over the year.

The successful execution of the brownfield redevelopment programme provides a platform for us to deliver sustainable earnings to investors over the long term. We certainly see brownfield development continuing to be a core activity that fits directly into our key strategic theme of creating capacity to meet demand.

Looking ahead, Vital's redevelopment and expansion programme continues with the A$28m redevelopment at Hurstville Private Hospital in Sydney. The project will provide increased operating theatre capacity, from three theatres to seven and with three new in-patient wards take the total number of beds from 73 to 114, an increase of almost 60%.

Subsequent to the year-end we announced the acquisition of The Marian Centre, a 31-bed stand-alone private psychiatric hospital in the established medical precinct of Subiaco, Perth, Western Australia. Acquired for A$13.5m on an initial yield of approximately 8.5% we will undertake a A$10.8m redevelopment and expansion project over the next 12 months to meet growing demand for services in the area. The acquisition aligns perfectly with our strategy to acquire healthcare assets in established medical precincts and add further value by creating capacity to meet patient and operator demand. Western Australia has the highest levels of private health insurance in Australia and the transaction provides a catalyst for further opportunities in this attractive market.

As a team, Management remain focused on Vital's remaining medium-term lease expiry event in November 2017 at Allamanda Private Hospital in Southport on the Gold Coast. We have good preliminary interest in the facility from a range of potential healthcare partners including traditional private hospital operators and aged care providers. We remain in active discussions with all parties to determine the ultimate highest and best use for the asset.

Treasury and capital management

Vital's Loan to value ratio (LVR) at 30 June 2014 was 31.4% compared to 42.4% last year, and sits well below bank and Trust Deed covenants of 50%. The lower LVR is due to a combination of factors over the course of the year including a $39.2m rights issue at a 26% premium to NTA[1], payments received under the Translation Foreign Exchange Contracts during the year and revaluation gains.

The weighted average interest rate at year-end including line and margin fees was 5.7% (2013: 6.5%). The reduction reflects several factors including the competitive rates achieved under the new bank facility agreement where Vital welcomed the introduction of Bank of New Zealand (BNZ) as a new funding partner in addition to ANZ, our historic long-term funding partner.

Outlook and guidance

As we look ahead to 2015, the drivers of healthcare real estate remain strong and support our positive long-term view of the sector. Vital's portfolio and capital positions are robust and we are well positioned to take advantage of opportunities in the coming year.

Our strategy is firmly embedded, supported by the market and delivering solid results. The decision to strengthen the team in Australia continues to present a number of value-add opportunities that will further enhance Vital's overall position as a leading healthcare landlord.

Vital's successful brownfield development programme will continue and we expect more opportunities to materialise over the course of the year delivering enhanced portfolio and diversification benefits.

The management team are clearly focused on the lease expiry at Allamanda and will continue our active discussions with all interested parties.

In closing, I would echo our Chairman's thanks to all investors for their support but also would like to thank the management team for their dedication over the year. I look forward to communicating further positive outcomes to investors through 2015.

David Carr
Chief Executive Officer
Vital Healthcare Management Limited

1 At the time of issuance

Hurstville Private Hospital
Sydney | New South Wales

MARKET VALUE	A$23,376,544
MARKET CAPITALISATION RATE	9.5%
WALT	27.8 years
OCCUPANCY	100%
MAJOR TENANT	Hurstville Private Pty Limited

"The Hurstville development clearly illustrates Vital's strategy of creating **additional capacity** to meet the rising demand for healthcare services."
– Richard Roos, Managing Director – Australia

Hurstville Private Hospital development

114 UP 56%

THREE NEW INPATIENT WARDS TAKING THE TOTAL NUMBER OF BEDS TO 114

Hurstville is a 73 bed private hospital located approximately 16 kilometres south-west of the Sydney CBD specialising in surgical services and obstetrics.

Vital acquired Hurstville in May 2012 for A$12.3m with the intention at the time of acquisition that a major extension and redevelopment of the hospital would occur.

In September 2013 Vital commenced a A$28m redevelopment providing additional acute clinical services. This includes increased operating capacity and patient accommodation and a significant upgrade of the existing facilities as follows:

- Four new operating theatres (increasing the total to seven)
- An extended and modern day surgery facility, with improved patient flow
- Conversion of existing shared rooms to singles resulting in an increase in private room accommodation from 14 to 72 beds
- Consolidation of all current consulting suites
- An oncology day patient service

Value-add development opportunities

Looking ahead over the next 24 months there is additional capacity we are looking to create across the portfolio.

+200
14% GROWTH

GROWTH in bed numbers delivers economies of scale for the operator

+7
10% GROWTH

ADDITIONAL operating theatres deliver greater flexibility to meet demand

SURGEON AND DOCTOR SUPPORT key to initiating brownfield projects

+6

NEW wards and 2 new day oncology units provide specialist services

Belmont Private Hospital

Carina Heights | Queensland

MARKET VALUE A$28,500,000
MARKET CAPITALISATION RATE 9.3%
WALT 16.6 years
OCCUPANCY 100%
MAJOR TENANT
Healthe Care Belmont Pty Limited

Belmont Private Hospital is a general psychiatric hospital in Queensland, around 12 kilometres from Brisbane's CBD.

Belmont has very recently emerged as the largest of its type in Brisbane after a major 22-month A$12.6 million redevelopment and modernisation project by Vital.

The redevelopment project increased the total number of beds to 120 (up 31), of which 90 are private rooms (plus 62), added more consulting suites and car parks and included a new main entrance.

This year Belmont recorded a revaluation uplift of A$1.2m up 4.3%.

120 UP 34% FROM 89

Allamanda Private Hospital

Southport | Queensland

MARKET VALUE A$44,000,000
MARKET CAPITALISATION RATE 10.8%
WALT 3.3 years
OCCUPANCY 100%
MAJOR TENANT Queensland Surgicentre Allamanda Pty Limited

Dubbo Private Hospital

Dubbo | New South Wales

MARKET VALUE A$7,000,000
MARKET CAPITALISATION RATE 9.8%
WALT 17.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Australia Pty Limited

Epworth Eastern Hospital

Box Hill | Victoria

MARKET VALUE A$63,400,000
MARKET CAPITALISATION RATE 8.3%
WALT 10.1 years
OCCUPANCY 100%
MAJOR TENANT
Epworth Foundation

Epworth Eastern Medical Centre

Box Hill | Victoria

MARKET VALUE A$18,400,000
MARKET CAPITALISATION RATE 8.0%
WALT 2.7 years
OCCUPANCY 100%
MAJOR TENANT Peter MacCullum Cancer Institute

Maitland Private Hospital

East Maitland | New South Wales

MARKET VALUE A$32,750,000
MARKET CAPITALISATION RATE 9.5%
WALT 18.5 years
OCCUPANCY 100%
MAJOR TENANT Maitland Private Hospital Pty Limited

Mayo Private Hospital

Taree | New South Wales

MARKET VALUE A$22,000,000
MARKET CAPITALISATION RATE 9.8%
WALT 17.5 years
OCCUPANCY 100%
MAJOR TENANT Mayo Healthcare Group Pty Limited

Melbourne Pathology Building

Noble Park | Victoria

MARKET VALUE A$700,000
MARKET CAPITALISATION RATE 8.5%
WALT 26.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care South Eastern Pty Limited

South Eastern Private Hospital

Noble Park | Victoria

MARKET VALUE A$17,250,000
MARKET CAPITALISATION RATE 9.8%
WALT 26.7 years
OCCUPANCY 100%
MAJOR TENANT
Healthe Care South Eastern Pty Limited

South Eastern Private Hospital is located around 26 kilometres south-west of Melbourne's CBD. It is a two-storey hospital with several wings.

The hospital provides a range of general medicine and surgery services in addition to day surgery, oncology/haematology, orthopaedics, urology, radiology and pathology services.

In December 2012, Vital completed a A$4.3 million redevelopment which included a new rehabilitation centre, consulting rooms, hydrotherapy pool and gymnasium. The rehabilitation centre has been experiencing strong operational performances post development. As a result, South Eastern reported a positive revaluation uplift in the year to 30 June 2014.

$1.9M ↑ UP 12.6%
REVALUATION UPLIFT

Epworth Rehabilitation

Brighton | Victoria

MARKET VALUE A$16,600,000
MARKET CAPITALISATION RATE 8.0%
WALT 4.6 years
OCCUPANCY 100%
MAJOR TENANT
Epworth Foundation

Gold Coast Surgery Centre

Southport | Queensland

MARKET VALUE A$13,500,000
MARKET CAPITALISATION RATE 9.3%
WALT 8.0 years
OCCUPANCY 93.3%
MAJOR TENANT Queensland Surgicentre Southport Pty Limited

Hurstville Private Hospital

Sydney | New South Wales

MARKET VALUE A$23,376,544
MARKET CAPITALISATION RATE 9.5%
WALT 27.8 years
OCCUPANCY 100%
MAJOR TENANT Hurstville Private Pty Limited

Lingard Private Hospital

Merewether | New South Wales

MARKET VALUE A$50,400,000
MARKET CAPITALISATION RATE 10.5%
WALT 26.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Lingard Pty Limited

North West Private Hospital

Burnie | Tasmania

MARKET VALUE A$12,550,000
MARKET CAPITALISATION RATE 9.8%
WALT 17.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Australia Pty Limited

Palm Beach Currumbin Clinic

Currumbin | Queensland

MARKET VALUE A$23,700,000
MARKET CAPITALISATION RATE 9.3%
WALT 17.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care Palm Beach Pty Limited

Sportsmed SA

Adelaide | South Australia

MARKET VALUE A$31,000,000
MARKET CAPITALISATION RATE 8.9%
WALT 18.4 years
OCCUPANCY 100%
MAJOR TENANT Sportsmed SA Hospitals Pty Limited

Toronto Private Hospital

Toronto | New South Wales

MARKET VALUE A$14,400,000
MARKET CAPITALISATION RATE 9.8%
WALT 28.5 years
OCCUPANCY 100%
MAJOR TENANT Central Lakes Hospitals Pty Limited

FLAGSHIP NEW ZEALAND ASSET

Ascot Hospital & Clinics (Ascot) is our largest asset by value and is considered one of New Zealand's premier private surgical and medical facilities.

Ascot has 12 operating theatres, 88 inpatient beds, specialist consulting suites, an on-site radiology provider and a 24-hour accident and emergency clinic. It also has a high dependency unit and offers coronary care facilities.

During the year Vital announced a new 30 year lease with MercyAscot, the major tenant at Ascot and recorded an annual revaluation uplift of $4.5m or 5.6%.

Ascot Hospital and Clinics

Greenlane | Auckland

MARKET VALUE
NZ$85,000,000

MARKET CAPITALISATION RATE
7.4%

WALT
20.9 years

OCCUPANCY
99.7%

MAJOR TENANT
Ascot Hospital and Clinics Limited (MercyAscot)

"The early resolution of this lease expiry and the retention of New Zealand's leading private hospital operator is testament to the long-term partnership between Vital and MercyAscot."

David Carr – Chief Executive Officer

Apollo Health and Wellness Centre

Albany | Auckland

MARKET VALUE NZ$21,375,000

MARKET CAPITALISATION RATE 7.8%

WALT 5.2 years

OCCUPANCY 79.9%

MAJOR TENANT Apollo Health Limited

Ascot Central

Greenlane | Auckland

MARKET VALUE NZ$23,900,000

MARKET CAPITALISATION RATE 7.1%

WALT 5.4 years

OCCUPANCY 97%

MAJOR TENANT
Fertility Associates Limited

Ascot Central Car Park (ground lease)

Greenlane | Auckland

MARKET VALUE NZ$1,500,000

MARKET CAPITALISATION RATE 10.5%

WALT 4.7 years

OCCUPANCY 100%

MAJOR TENANT
Fertility Associates Limited

Ascot Hospital Car Park (ground lease)

Greenlane | Auckland

MARKET VALUE NZ$1,520,000

MARKET CAPITALISATION RATE 10.1%

WALT 29.0 years

OCCUPANCY 100%

MAJOR TENANT
Ascot Hospital & Clinics Limited

Hibiscus Coast Community Health Centre
Whangaparaoa | Auckland

MARKET VALUE NZ$4,200,000
MARKET CAPITALISATION RATE 8.8%
WALT 5.0 years
OCCUPANCY 100%
MAJOR TENANT
Waitemata District Health Board

Kensington Hospital
Whangarei | Northland

MARKET VALUE NZ$14,000,000
MARKET CAPITALISATION RATE 8.5%
WALT 6.7 years
OCCUPANCY 100%
MAJOR TENANT
Kensington Hospital Limited

Napier Health Centre
Napier | Hawke's Bay

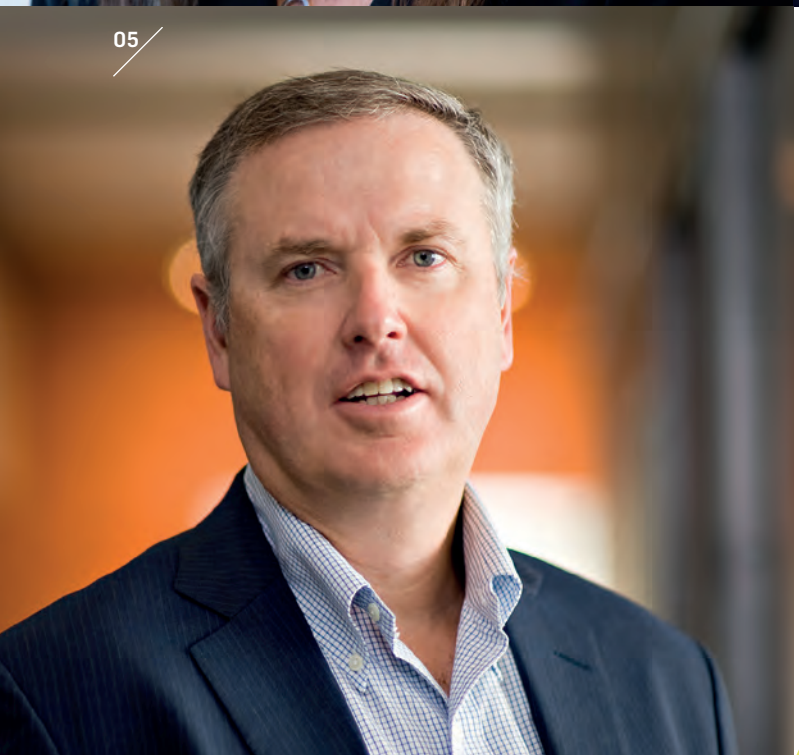
MARKET VALUE NZ$10,100,000
MARKET CAPITALISATION RATE 9.3%
WALT 5.5 years
OCCUPANCY 100%
MAJOR TENANT
Hawke's Bay District Health Board

01

02

03

04


05

OUR BOARD.

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.

01 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 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 a 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 seven years.

02 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 GP 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, a government appointee to the Land Valuation Tribunal (Waikato No.1) and sits on the board of Marist Brothers Old Boys Rugby club. He is a member of the Institute of Directors and is on the Auckland Branch Committee.

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 seven years.

03 CLAIRE HIGGINS
Independent Director

Claire Higgins is an Australian based professional Director and consultant. She is the Chair of the Country Fire Authority in Victoria and is a Director of RSL Care Limited, Ambulance Victoria, Portland District Health and the Victorian State Emergency Service, and acts as an independent member of several Audit Committees. Formerly the Chair of Barwon Health, Claire has also had extensive executive experience with BHP and Arrium Limited (formerly 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.

04 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 21 years Paul has led NorthWest in the acquisition and development of over $3.0 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.

05 BERNARD CROTTY
Director

Bernard Crotty is the President and a Trustee of NorthWest International Healthcare Properties REIT and a Trustee of NorthWest Healthcare Properties REIT.

Prior to 3 November 2013 Bernard's principal occupation was as principal of Silver and White Management, Inc., a private investment firm. From September 2001 to February 2008, Bernard acted as Chairman and/or Chief Executive Officer of Certicom Corp, a provider of cryptographic software and services that was acquired by Research in Motion Ltd. From January 2004 to February 2007, Bernard acted as Chairman and/or Chief Executive Officer of Comnetix Inc., a provider of biometric identification and authorisation solutions that was acquired by L-1 Identity Solutions, Inc.

In addition Bernard has served on a variety of public company boards and was counsel to the law firm Gibson, Dunn & Crutcher LLP in Los Angeles from April 1998 to March 2000. Prior to April 1998, Bernard was a partner at the law firm McCarthy Tétrault, LLP in Toronto and London, England.

Bernard received his B.A. from the University of Alberta, LL.B. from the University of Toronto, LL.M from the London School of Economics and his M.B.A. from Duke University. He is also a graduate of the Toronto ICD-Rotman Directors Education Program.

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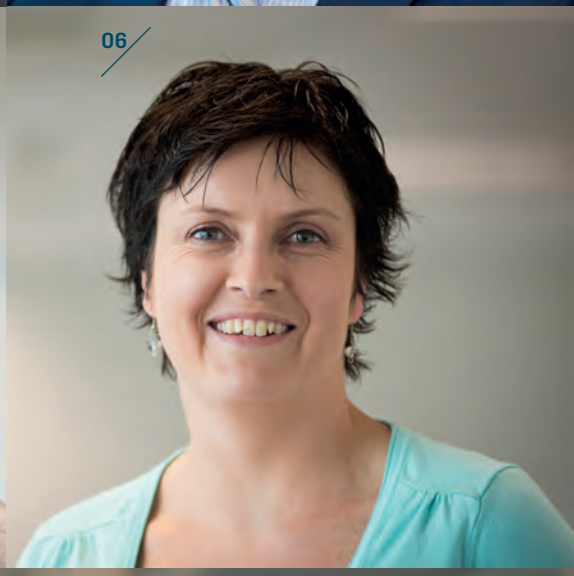
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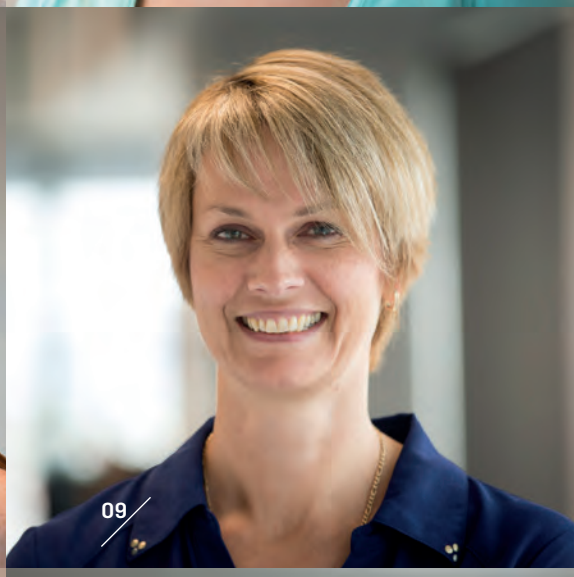
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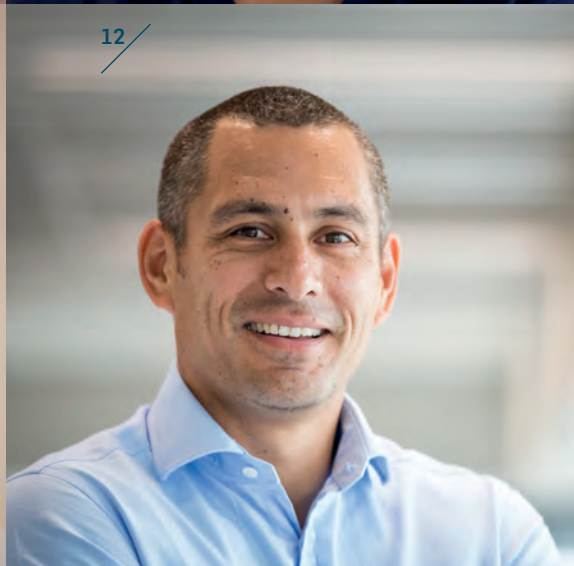
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OUR PEOPLE.

Our small, successful management team come from a diverse range of property investment, development and finance backgrounds. They understand the importance of partnering with operators to deliver long-term real estate solutions to them and sustainable returns to investors.

01 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. David has 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.

During David's tenure Vital has achieved a 10 year compound total annual return of approximately 12.1%, outperforming both the NZX 50 Index Gross and NZX Property Gross Index. David attributes Vital's success to the team's credibility and execution capability as specialist healthcare real estate managers and investors in the Australasian market. Vital remains Australasia's largest listed healthcare real estate investment vehicle with assets of over $613m and a market capitalisation of $470m.

02 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. The efficient implementation of these functions have been supportive of the Trust's operating performances in recent years.

In his capacity as Company Secretary, Stuart has been responsible for the ongoing compliance requirements of the Trust and its 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 Accountants Australia and New Zealand qualifications, as well as being a member of the New Zealand Institute of Directors.

03 RICHARD ROOS
Managing Director – Australia

Richard moved to Melbourne with his family to join Vital just over 12 months ago after spending the previous six years in a senior executive role with a Canadian healthcare property trust. He brings over 20 years of career experience in commercial real estate financing, acquisitions and management to the role of Managing Director with Vital, in which he is providing valuable support to the ongoing growth and performance of the Australian portfolio.

04 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 acquisitions and development projects. Mark has more than 19 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.

05 DRUGH WOODS
New Zealand Asset Manager

Drugh has been with Vital for over six 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 The University of Auckland and was involved in a diverse range of property projects in Auckland and Christchurch prior to joining Vital.

06 ALESHA PATTEN
Operations & Risk Manager

07 JADE MURPHY
Financial Controller

08 KATIE MURPHY
Executive Assistant

09 LISA CAVE
Management Accountant

10 MARGARET KNELL
Property Administrator

11 RACHEL BELJULJI
Property Manager

12 STEPHEN FREUNDLICH
Fund Analyst & Investor Relations Manager

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 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 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 16-17.

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 none have a Disqualifying Relationship with the Trust. Paul Dalla Lana and Bernard Crotty are considered not to be independent.

Unitholders have the opportunity to nominate two of the 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 2014, the Manager has one female Director out of the five currently appointed Directors and the three 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 Holdings of Directors on page 58.

Directors and officers indemnification and insurance

The Manager 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:

- Recommending to the Board 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.

FINANCIAL STATEMENTS CONTENTS

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Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Gross property income from rentals		59,432	–	59,856	–
Gross property income from expense recoveries		6,286	–	6,150	–
Property expenses		(7,751)	–	(8,150)	–
Net property income	4	57,967	–	57,856	–
Dividend received from subsidiaries	5	–	21,539	–	13,650
Other income	5	–	14,660	–	14,262
Total income		57,967	36,199	57,856	27,912
Other expenses	5	7,979	1,903	7,219	1,541
Profit before finance income/(expense) and other gains/(losses)		49,988	34,296	50,637	26,371
Finance income/(expense)					
Finance income	6	96	4,621	236	3,653
Finance expense	6	(17,537)	(8,743)	(17,610)	(10,139)
Fair value gain/(loss) on interest rate derivatives		805	(2,196)	4,406	1,902
		(16,636)	(6,318)	(12,968)	(4,584)
Other gains/(losses)					
Revaluation gains/(losses) on investment property	11	15,211	–	10,337	–
Receipts/(payments) under transaction hedging foreign exchange contracts		1,839	20,046	349	4,248
Fair value gain/(loss) on foreign exchange derivatives		(219)	(5,090)	656	4,072
Unrealised gain/(loss) on foreign exchange		(7,334)	(8,671)	(3,928)	(5,869)
		9,497	6,285	7,414	2,451
Profit/(Loss) before income tax		42,849	34,263	45,084	24,238
Taxation (expense)/credit	7	(5,416)	(5,062)	(10,363)	(9,539)
Profit/(Loss) for the year attributable to unitholders of the Trust		37,433	29,201	34,721	14,699
Other comprehensive income					
Items that may be reclassified subsequently to profit and loss:					
Movement in foreign currency translation reserve		(30,888)	–	(25,840)	–
Realised foreign exchange gains/(losses) on hedges		18,206	–	3,884	–
– Current taxation (expense)/credit		(5,098)	–	(1,088)	–
Unrealised foreign exchange gains/(losses) on hedges		(4,871)	–	3,465	–
– Deferred taxation (expense)/credit		1,364	–	(970)	–
Fair value gain on net investment hedges		19,932	–	18,950	–
– Deferred taxation (expense)/credit		550	–	(5,306)	–
– Current taxation (expense)/credit		(6,131)	–	–	–
Total other comprehensive (loss)/income after tax		(6,936)	–	(6,905)	–
Total comprehensive income after tax		30,497	29,201	27,816	14,699
All amounts are from continuing operations					
Earnings per unit					
Basic and diluted earnings per unit (cents)	8	11.21		11.56	

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 2014

	Note	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Non-current assets					
Investment properties	11	613,136	–	618,727	–
Investments	12	–	330,171	–	330,171
Derivative financial instruments	13	–	–	1,424	1,424
Other non-current assets	14	43	32,787	500	152,286
Total non-current assets		613,179	362,958	620,651	483,881
Current assets					
Cash and cash equivalents	10	839	19	1,372	46
Trade and other receivables	16	235	182	335	–
Other current assets	17	218	61	531	360
Derivative financial instruments	13	1,497	1,497	6,587	6,587
Total current assets		2,789	1,759	8,825	6,993
Total assets		615,968	364,717	629,476	490,874
Unitholders' funds					
Units on issue	18	359,480	359,480	318,088	318,088
Reserves		(19,521)	–	(12,585)	–
Retained earnings/(accumulated losses)		13,561	(33,491)	3,491	(35,328)
Total unitholders' funds		353,520	325,989	308,994	282,760
Non-current liabilities					
Borrowings	19	191,364	20,615	266,101	195,362
Income in advance	20	8,000	–	–	–
Derivative financial instruments	13	8,838	4,715	11,342	1,759
Deferred tax	15	34,100	2,660	32,929	6,755
Total non-current liabilities		242,302	27,990	310,372	203,876
Current liabilities					
Trade and other payables	20	7,017	1,697	4,631	1,707
Income in advance	20	2,000	–	–	–
Derivative financial instruments	13	57	57	363	132
Taxation payable		11,072	8,984	5,116	2,399
Total current liabilities		20,146	10,738	10,110	4,238
Total liabilities		262,448	38,728	320,482	208,114
Total unitholders' funds and liabilities		615,968	364,717	629,476	490,874

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

G Horsley, **Chairman**
14 August 2014

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 2014

	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 2014:					
Balance at the start of the year	318,088	3,491	(34,043)	21,458	308,994
Changes in unitholders' funds	41,392	–	–	–	41,392
Profit for the period	–	37,433	–	–	37,433
Distributions to unitholders	–	(27,363)	–	–	(27,363)
Other comprehensive income for the year					
Movement in foreign currency translation reserve	–	–	(30,888)	–	(30,888)
Realised foreign exchange gains on hedges	–	–	–	13,108	13,108
Unrealised foreign exchange gains/(losses) on hedges	–	–	–	(3,507)	(3,507)
Fair value gain on net investment hedges	–	–	–	14,351	14,351
Balance at the end of the year	359,480	13,561	(64,931)	45,410	353,520
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 gains/(losses) 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
Trust					
For the year ended 30 June 2014:					
Balance at the start of the year	318,088	(35,328)	–	–	282,760
Changes in unitholders' funds	41,392	–	–	–	41,392
Profit for the period	–	29,201	–	–	29,201
Distributions to unitholders	–	(27,364)	–	–	(27,364)
Balance at the end of the year	359,480	(33,491)	–	–	325,989
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

Statements of Cash Flows

For the year ended 30 June 2014

	Note	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Cash flows from operating activities					
Cash was provided from:					
Property income		69,556	–	59,628	–
Recovery of property expenses		6,464	–	6,086	–
Interest received		96	–	236	–
Dividends received from subsidiary		–	21,539	–	13,650
Cash was applied to:					
Property expenses		(7,845)	–	(8,331)	–
Management and trustee fees		(4,913)	(205)	(5,287)	(227)
Interest paid		(17,957)	(9,195)	(17,856)	(10,014)
Tax paid		(6,010)	(2,146)	(2,178)	(1,430)
Other trust expenses		(1,408)	(869)	(3,414)	(1,566)
Net cash from/(used in) operating activities	10	37,983	9,124	28,884	413
Cash flows from investing activities					
Cash was provided from:					
Sale of investment properties		–	–	12,800	–
Receipts from foreign exchange contracts		20,046	20,046	4,233	4,248
Loan repayments from tenants		449	–	111	–
Repayments to subsidiaries		–	9,963	–	–
Other		1,490	–	527	–
Cash was applied to:					
Capital additions on investment properties		(20,960)	–	(41,675)	–
Purchase of properties		–	–	(40,405)	–
Advances to subsidiaries		–	–	–	(39,396)
Net cash from/(used in) investing activities		1,025	30,009	(64,409)	(35,148)
Cash flows from financing activities					
Cash was provided from:					
Debt drawdown		22,739	22,704	59,862	58,897
Issue of units (net of issue costs)		39,149	39,149	11,629	11,629
Cash was applied to:					
Repayment of debt		(75,745)	(75,745)	(18,079)	(18,079)
Loan issue costs		(610)	(147)	–	211
Costs associated with Distribution Reinvestment Plan		(519)	(519)	(349)	(349)
Distributions paid to unitholders		(24,602)	(24,602)	(17,533)	(17,533)
Net cash from/(used in) financing activities		(39,588)	(39,160)	35,530	34,776
Net increase/(decrease) in cash and cash equivalents		(580)	(27)	5	41
Effect of exchange rate changes on cash and cash equivalents		48	–	35	–
Cash and cash equivalents at the beginning of the year		1,371	46	1,331	5
Cash and cash equivalents at the end of the year		839	19	1,371	46

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 14 August 2014.

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 11 – valuation of investment property
Note 13 – valuation of derivative financial instruments
Note 15 – deferred tax (and taxation in note 7)

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 22. Control is achieved where the Trust has the power over the investees; are exposed, or have rights, to variable returns from their involvement with the investees; and have the ability to use their power to affect their returns. 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 intra-group transactions, balances, income and expenses are eliminated on consolidation.

(b) 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).

(c) 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

Notes to the Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Foreign operations (continued)

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.

(d) 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.

(e) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or 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.

(f) 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.

(g) Investments

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

(h) Financial instruments

(h.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.

(h.2) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and call deposits.

(h.3) Trade and other receivables

Trade and other receivables are recognised initially at fair value 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.

(h.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.

(h.5) Bank Borrowings

Interest-bearing bank loans 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial instruments (continued)

(h.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 other comprehensive income. Derivatives are recognised on the date the contract is entered into.

(h.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 profit and loss 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.

(i) 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 straight line 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 to tenants are offset by rental income.

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

(j) 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 the interest rate hedging instruments that are recognised in profit or loss. 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.

(k) Taxation

(k.1) Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax expense is recognised in profit or loss 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.

(k.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.

(k.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.

(l) Items carried at fair value

The items which are carried at fair value include investment property and financial instruments. These items are classified into the following levels in the 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).

Notes to the Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) 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.

(n) Capital

(n.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.

(n.2) Distributions

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

(o) 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.

(p) 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:

IFRS 9 Financial Instruments has recently been finalised by the IASB. The standard incorporates requirements for classification and measurement of financial instruments, impairment, general hedge accounting and derecognition and is applicable for annual periods beginning on or after 1 January 2018.

NZ IFRS 15 Revenue from Contracts with Customers provides a single, comprehensive principles based model to be applied to most contracts with customers. Leases are excluded from the scope of the standard. This may change the timing of revenue recognition for certain revenue streams. The standard is effective for reporting periods beginning on or after 1 January 2017 with early application permitted.

NZ IFRIC 21 Levies – provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. Effective for annual periods beginning on or after 1 January 2014.

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.

(q) Standards, interpretations and amendments adopted by Vital Healthcare Property Trust

The following new standards, amendments and interpretations issued by the International Accounting Standards Board and the New Zealand Accounting Standards Board have been adopted by the Trust. The adoption of these standards, amendments and interpretations did not have a material impact the Trust's financial statements.

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). 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. The significance of this change (and ongoing impact) on reported profit and other comprehensive income depends on the assessed credit risk of Vital. This standard has not had a significant impact on the financial statements in the current period.

NZ IFRS 12 Disclosures of Interests in Other Entities – (brings together disclosure requirements related to subsidiaries, associates and interest in other entities).

NZ IFRS 10 Consolidated Financial Statements – (introduces a single definition of control that applies to all entities).

Other new standards, amendments and interpretations effective for the year ending 30 June 2014 did not have an impact on the Trust.

(r) Changes in accounting policy and presentation

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. In the current year, administration expenses and other expenses have been combined into a single line of other expenses within the statement of comprehensive income. Additionally, unrealised gain/(loss) on foreign exchange has been split from other expenses to a separate line item within the statement of comprehensive income, under the category other gains/(losses). The comparatives have been updated to reflect this change in presentation.

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 2014:			
Net property income	43,926	14,041	57,967
Other income	–	–	–
Other (expense)	(4,835)	(3,144)	(7,979)
Finance income	18	78	96
Finance (expense)	(4,342)	(13,195)	(17,537)
	34,767	(2,220)	32,547
Fair value gain/(loss) on interest rate derivatives	3,581	(2,776)	805
Revaluation gains/(losses) on investment properties	8,882	6,329	15,211
Receipts/(payments) under transaction hedging foreign exchange contracts	–	1,839	1,839
Fair value gain/(loss) on foreign exchange derivatives	–	(219)	(219)
Unrealised gain/(loss) on foreign exchange	–	(7,334)	(7,334)
Total segment profit/(loss) before income tax	47,230	(4,381)	42,849
Taxation (expense)			(5,416)
Profit for the year			37,433
Segment profit/(loss) for the year ended 30 June 2013:			
Net property income	43,563	14,293	57,856
Other income	–	–	–
Other (expense)	(4,344)	(2,874)	(7,218)
Finance income	59	177	236
Finance (expense)	(1,318)	(16,292)	(17,610)
	37,961	(4,696)	33,265
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
Receipts/(payments) under transaction hedging foreign exchange contracts	–	349	349
Fair value gain/(loss) on foreign exchange derivatives	–	656	656
Unrealised gain/(loss) on foreign exchange	–	(3,929)	(3,929)
Total segment profit/(loss) before income tax	45,650	(566)	45,084
Taxation (expense)			(10,363)
Profit for the year			34,721

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 $40.9m, one in New Zealand and 3 in Australia (2013: four tenants totalling $44.5m).

There were no inter-segment sales during the year (2013: nil).

Segment profit represents the profit earned by each segment including allocation of identifiable administration costs, finance costs, revaluation gains/(losses) on investment properties, and gains/(losses) on disposal of investment properties. This is the measure reported to the board of directors, 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 as at 30 June 2014			
Investment properties	451,541	161,595	613,136
Other non-current assets	9	34	43
Other current assets	179	2,610	2,789
Consolidated assets	451,729	164,239	615,968
Segment assets as at 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
Consolidated assets	464,501	164,975	629,476
Segment liabilities as at 30 June 2014			
Borrowings	106,965	84,399	191,364
Other liabilities	30,903	40,181	71,084
Consolidated liabilities	137,868	124,580	262,448
Segment liabilities as at 30 June 2013			
Borrowings	–	266,101	266,101
Other liabilities	34,484	19,897	54,381
Consolidated liabilities	34,484	285,998	320,482

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 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Income				
Dividends received	–	21,539	–	13,650
Other income	–	14,660	–	14,262
Total other income	–	36,199	–	27,912
Expenses				
Auditors' remuneration:				
Audit and review of financial statements	(108)	(108)	(123)	(121)
Other assurance services	(7)	(7)	(3)	(3)
Manager's fees	(4,625)	–	(4,747)	–
Manager's incentive fee	(542)	(542)	–	–
Other operating expenses	(2,697)	(1,246)	(2,346)	(1,417)
	(7,979)	(1,903)	(7,219)	(1,541)

6 FINANCE INCOME/(EXPENSES)

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Income				
Interest income	96	4,621	236	3,653
Total finance income	96	4,621	236	3,653
Expenses				
Interest expense	(17,726)	(8,743)	(18,122)	(10,139)
Borrowing costs capitalised	189	–	512	–
Total finance expenses	(17,537)	(8,743)	(17,610)	(10,139)

Notes to the Financial Statements

7 TAXATION

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Profit/(loss) before tax for the year	42,849	34,263	45,084	24,238
Taxation (charge)/credit – 28% on profit before income tax	(11,998)	(9,594)	(12,624)	(6,787)
Effect of different tax rates in foreign jurisdictions	2,091	–	3,923	–
Tax exempt income	3,027	–	1,672	–
Tax paid distributions from subsidiaries	–	6,031	–	3,822
Non deductible expenses	(9)	(1)	(141)	(3)
Over/(under) provided in prior periods	3,084	2,703	209	142
Tax charges on overseas investments	(3,535)	(3,535)	(3,882)	(3,882)
Other adjustments	1,924	(666)	480	(2,832)
Taxation (expense)/credit	(5,416)	(5,062)	(10,363)	(9,539)
The taxation (charge)/credit is made up as follows:				
Current taxation	(226)	(9,157)	(5,419)	(2,766)
Deferred taxation	(5,190)	4,095	(4,944)	(6,773)
Total taxation (expense)/credit	(5,416)	(5,062)	(10,363)	(9,539)

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%.

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

Imputation credits				
Imputation credits at end of year	9,448	9,437	2,418	2,407

8 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 2014 $000s	Group 2013 $000s
Profit attributable to unitholders of the Trust ($000s)	37,433	34,721
Weighted average number of units on issue (000's of units)	333,780	300,469
Basic and diluted earnings per unit (cents)	11.21	11.56
Distributable income		
Profit before income tax	42,849	45,084
Revaluation (gains)/losses	(15,211)	(10,337)
Unrealised FX (gain)/loss	7,334	3,929
Unrealised FX (gain)/loss derivatives	219	(656)
Derivative fair value adjustment (gain)/loss	(805)	(4,406)
Managers incentive fee	542	–
Profit used in calculating gross distributable income	34,928	33,614
Current tax charge/(credit)	226	5,419
Profit used in calculating net distributable income	34,702	28,195
Gross distributable income (cpu)*	10.46	11.19
Net distributable income (cpu)*	10.40	9.38

* Based on weighted average number of units on issue.

9 DISTRIBUTIONS PAID AND PROPOSED

The following distributions were paid during the year.

	Trust 2014 CPU	Trust 2014 $000s	Trust 2013 CPU	Trust 2013 $000s
Distribution to unitholders				
Quarter 4, 2013 Final Distribution	2.125	7,177	1.925	5,652
Quarter 1, 2014 Distribution	1.975	6,700	1.925	5,775
Quarter 2, 2014 Distribution	1.975	6,757	1.925	5,862
Quarter 3, 2014 Distribution	1.975	6,729	1.925	5,893
Total distribution paid	8.05	27,363	7.70	23,182

The fourth quarter distribution relating to each financial year is paid in September following the end of the financial year. After 30 June 2014 the 2014 final distribution was declared by the Directors. Distributions are recognised within the statement of changes in equity on a payment basis.

On 14 August 2014 a final gross distribution of 1.975 cents per unit was announced by the Trust. Any continuation of the Distribution Reinvestment Plan ("DRP") will increase the number of units on issue.

Notes to the Financial Statements

10 STATEMENTS OF CASH FLOWS RECONCILIATION FROM OPERATING ACTIVITIES

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Cash and cash equivalents				
Australian financial institutions	23	–	539	–
New Zealand financial institutions	816	19	833	46
Cash at bank	839	19	1,372	46
Reconciliation of profit after income tax to net cash flows from operating activities				
Profit after tax for the year	37,433	29,201	34,721	14,699
Adjustments for non-cash items				
Change in fair value of investment properties	(15,211)	–	(10,337)	–
Fair value (gain)/loss on derivative financial instruments	(586)	7,286	(5,063)	(5,974)
Depreciation	–	–	1	–
Unrealised foreign exchange gain	7,334	(5,989)	3,928	(8,393)
Deferred taxation	5,190	(4,095)	4,944	6,773
Other	983	(4,300)	(1,555)	(3,792)
Effect of exchange rate changes on cash balances	48	–	35	–
Operating cash flow before changes in working capital	35,191	22,103	26,674	3,312
Change in trade and other payables	10,233	129	(851)	137
Change in taxation payable	(5,784)	6,556	3,214	1,541
Change in trade and other receivables	181	288	(152)	(329)
Items classified as investing activities	(1,838)	(19,952)	–	(4,248)
Net cash from operating activities	37,983	9,124	28,884	413

During the 2014 year, distributions of $2,761,481 (2013: $5,649,032) have been reinvested under the DRP, which is excluded from investing and financing activities.

11 INVESTMENT PROPERTIES

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Balance at the beginning of the year	618,727	–	567,226	–
Acquisition of properties	–	–	36,566	–
Capitalised costs	20,960	–	39,715	–
Capitalised interest costs	189	–	512	–
Net capitalised incentives	(106)	–	(238)	–
Disposals	–	–	(5,200)	–
Foreign exchange translation difference	(41,845)	–	(30,191)	–
Change in fair value	15,211	–	10,337	–
Closing balance	613,136	–	618,727	–
Fair value of investment property at the beginning of the year	618,727	–	567,226	–
Fair value of investment property at the end of the year	613,136	–	618,727	–

Of the change in fair value, which is disclosed in the reconciliation above, $8,882,000 relates to Australian investment properties and $6,329,000 to New Zealand investment properties. Further, of the capitalised cost, $20,913,000 relates to Australia investment properties and $236,000 to New Zealand investment properties. The foreign exchange translation difference relates to Australian investment properties.

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 2014 was $3,020,000 (2013: $2,880,000) representing 0.5% of the total investment property portfolio (2013: 0.5%). The weighted average lease length of leasehold property at 30 June 2014 was 4.8 years (2013: 5.8 years). The Group has an option to extend the ground lease for a further 20 years following expiry of the lease, and has secured an additional right of renewal of 20 years. This will extend the final expiry to 2059.

Investment properties are classified as level 3 under the fair value hierarchy as adjustments need to be made to observable data on similar properties to derive fair value.

Acquisition of properties

During the year, the Group made no acquisitions. (2013: one healthcare property located in Adelaide, South Australia).

Valuation of investment properties

All investment properties were independently valued as at 30 June 2014 and 30 June 2013. The valuations were prepared by independent registered valuers as detailed below:

Darroch Limited	21,375	–	59,050	–
Colliers International Consultancy and Valuation Pty Limited	–	–	17,726	–
Colliers International New Zealand Limited	122,020	–	92,180	–
CBRE Limited	14,000	–	–	–
Jones Lang LaSalle New Zealand	–	–	3,800	–
Jones Lang LaSalle Australia	124,314	–	–	–
CBRE Valuations Pty Limited	–	–	36,634	–
M3 Property Strategists	–	–	111,299	–
Ernst & Young	270,183	–	273,576	–
Knight Frank	57,044	–	24,462	–
Absolute Value	4,200	–	–	–
	613,136	–	618,727	–

Notes to the Financial Statements

11 INVESTMENT PROPERTIES (continued)

Investment properties are stated at fair value by independent valuers supported by market evidence of property sale transactions and leasing activity. These valuations are reviewed by The Manager. The methods used for assessing the current market value are the Direct Comparison, Discounted Cash Flow, Capitalisation of Contract and Market Income approaches and are unchanged from the prior year.

Generally as occupancy and weighted average lease terms increase, yields firm, resulting in increased fair values for investment properties.

The principal assumptions 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 2014 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, Victoria	Ernst & Young
Epworth Eastern Medical Centre	Box Hill, Victoria	Ernst & Young
Epworth Eastern Hospital	Box Hill, Victoria	Ernst & Young
Kensington Hospital	Whangarei, Northland	CBRE Limited
Hibiscus Coast Community Health Centre	Whangaparaoa, Rodney	Absolute Value
Napier Health Centre	Napier, Hawkes Bay	Colliers International New Zealand Limited
Apollo Health and Wellness Centre	Albany, Auckland	Darroch Limited
Ascot Central, Auckland	Greenlane, Auckland	Colliers International New Zealand Limited
Ascot Central Carpark, Auckland (ground lease)	Greenlane, Auckland	Colliers International New Zealand Limited
Allamanda Private Hospital	Southport, Queensland	Ernst & Young
Gold Coast Surgery Centre	Southport, Queensland	Ernst & Young
South Eastern Private Hospital	Noble Park, Victoria	Jones Lang LaSalle Australia
Belmont Private Hospital	Carina Heights, Queensland	Ernst & Young
Dubbo Private Hospital	Dubbo, NSW	Ernst & Young
North West Private Hospital	Burnie, Tasmania	Ernst & Young
Palm Beach Currumbin Clinic	Currumbin, Queensland	Ernst & Young
Melbourne Pathology Building	Noble Park, Victoria	Jones Lang LaSalle Australia
Lingard Private Hospital	Merewether, NSW	Jones Lang LaSalle Australia
Toronto Private Hospital	Toronto, NSW	Jones Lang LaSalle Australia
Maitland Private Hospital	East Maitland, NSW	Jones Lang LaSalle Australia
Mayo Private Hospital	Taree, NSW	Knight Frank
Hurstville Private Hospital	Sydney, NSW	Ernst & Young
Sportsmed Hospital & Clinic	Adelaide, South Australia	Knight Frank
TOTAL PORTFOLIO		

Fair value		Market capitalisation rate		Occupancy		WALT	
NZD$000s 2014	NZD$000s 2013	% 2014	% 2013	% 2014	% 2013	Years 2014	Years 2013
85,000	80,500	7.4	8.1	99.7	99.6	20.9	5.2
1,520	1,380	10.1	12.0	100.0	100.0	29.0	5.7
17,867	19,144	8.0	8.5	100.0	100.0	4.6	5.6
19,804	20,444	8.0	8.5	100.0	100.0	2.7	3.6
68,238	69,488	8.3	8.5	100.0	100.0	10.1	11.1
14,000	15,000	8.5	8.5	100.0	100.0	6.7	7.7
4,200	3,800	8.8	9.0	100.0	100.0	5.0	1.0
10,100	10,300	9.3	9.5	100.0	100.0	5.5	6.5
21,375	20,650	7.8	8.1	79.9	84.9	5.2	5.5
23,900	21,900	7.1	8.0	97.0	100.0	5.4	6.2
1,500	1,500	10.5	11.0	100.0	98.0	4.7	5.5
47,358	59,206	10.8	10.5	100.0	100.0	3.3	4.3
14,530	17,726	9.3	10.0	93.3	98.6	8.0	8.7
18,566	17,632	9.8	10.8	100.0	100.0	26.7	17.7
30,675	32,297	9.3	9.5	100.0	100.0	16.6	17.6
7,534	7,918	9.8	10.0	100.0	100.0	17.6	18.6
13,508	14,181	9.8	10.0	100.0	100.0	17.6	18.6
25,509	26,684	9.3	9.8	100.0	100.0	17.6	18.6
753	804	8.5	8.5	100.0	100.0	26.7	17.7
54,246	53,415	10.5	10.5	100.0	100.0	26.7	17.7
15,499	14,536	9.8	10.0	100.0	100.0	28.5	19.5
35,249	33,881	9.5	9.5	100.0	100.0	18.5	19.5
23,679	24,462	9.8	10.0	100.0	100.0	17.5	18.5
25,160	17,372	9.5	9.8	100.0	100.0	27.8	18.8
33,366	34,507	8.9	9.1	100.0	100.0	18.4	19.4
613,136	618,727	8.9	9.1	99.3	99.5	15.1	11.8

Notes to the Financial Statements

12 INVESTMENTS

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $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, dividends received from the investments amounted to $21,538,982 (2013: $13,650,079).

13 DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Current assets				
Interest rate derivative assets	–	–	–	–
Foreign exchange derivative assets	1,497	1,497	6,587	6,587
Non-current assets				
Interest rate derivative assets	–	–	1,424	1,424
Foreign exchange derivative assets	–	–	–	–
Current liabilities				
Interest rate derivative liabilities	(57)	(57)	(363)	(132)
Foreign exchange derivative liabilities	–	–	–	–
Non-current liabilities				
Interest rate derivative liabilities	(8,838)	(4,715)	(11,342)	(1,759)
Foreign exchange derivative liabilities	–	–	–	–
Balance	(7,398)	(3,275)	(3,694)	6,120

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 3.(l)). There have been no reclassifications between levels in the years ended 30 June 2014 and 2013.

Interest rate derivatives mature over the next 10 years and have fixed interest rates ranging from 3.19% to 5.72% (2013: from 3.19% to 6.91%).

Nominal value of interest rate swaps – AUD	200,000	143,500	245,000	133,500
Average fixed interest rate	4.26%	4.09%	4.73%	3.77%
Floating rates based on NZD BBR	2.71%	2.71%	3.82%	3.82%

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 3.(l)). There have been no reclassifications between levels in the years ended 30 June 2014 and 2013.

Nominal value of foreign exchange contracts – AUD	106,250	106,250	88,750	88,750
Average foreign exchange rate	0.9199	0.9199	0.7979	0.7979

14 OTHER NON-CURRENT ASSETS

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Loan advances	6	–	429	–
Advances to subsidiaries	–	32,787	–	152,286
Other	37	–	71	–
Total other non-current assets	43	32,787	500	152,286

15 DEFERRED TAX

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:

	Interest rate swaps $000s	Revaluation of buildings $000s	Borrowings $000s	Other $000s	Total $000s
At 1 July 2013	(3,019)	27,482	6,541	1,923	32,927
Charge to profit and loss for the year	338	4,138	–	714	5,190
Change in exchange rate	175	(2,124)	–	(154)	(2,103)
Charge to other comprehensive income	–	–	(550)	(1,364)	(1,914)
At 30 June 2014	(2,506)	29,496	5,991	1,119	34,100
At 1 July 2012	(3,796)	25,913	1,235	(26)	23,327
Charge to profit and loss for the year	603	3,372	(970)	1,939	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	(3,019)	27,482	6,541	1,923	32,929

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 2013	547	–	4,797	1,411	6,755
Charge to profit and loss for the year	(1,883)	–	(2,026)	(186)	(4,095)
At 30 June 2014	(1,336)	–	2,771	1,225	2,660
At 1 July 2012	678	–	804	(1,500)	(18)
Charge to profit and loss for the year	(131)	–	3,993	2,911	6,773
At 30 June 2013	547	–	4,797	1,411	6,755

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 depreciation recovered on the building components, being the taxable temporary difference. Deferred tax for Australian based properties is provided on the capital gains tax expected to be assessable 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 11). 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

16 TRADE AND OTHER RECEIVABLES

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Trade receivables	235	–	344	–
Allowance for doubtful debts	–	–	(9)	–
	235	–	335	–
GST receivable	–	182	–	–
Total trade and other receivables	235	182	335	–

The average credit period on receivables is two days (2013: 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	9	–	134	–
Increase/(decrease) in allowance recognised in profit or loss	(9)	–	(125)	–
Balance at end of the year	–	–	9	–

17 OTHER CURRENT ASSETS

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Prepayments	99	65	289	353
Loan advances	27	–	121	–
Other current assets	92	(4)	121	7
Total other current assets	218	61	531	360

There are no loan advances aged past due but not impaired (2013: nil).

18 UNITS ON ISSUE

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Balance at the beginning of the year	318,088	318,088	301,159	301,159
Issue of units under Distribution Reinvestment Plan	2,761	2,761	17,278	17,278
Issue of units under Rights Issue	39,149	39,149	–	–
Issue of units to satisfy Manager's incentive fee	–	–	–	–
Issue costs of units	(518)	(518)	(349)	(349)
	41,392	41,392	16,929	16,929
Balance at the end of the year	359,480	359,480	318,088	318,088

	Group 2014 000s	Trust 2014 000s	Group 2013 000s	Trust 2013 000s
Reconciliation of number of units				
Balance at the beginning of the year	307,039	307,039	293,345	293,345
Units issued under Rights Issue	30,705	30,705	–	–
Issue of units under the Distribution Reinvestment Plan	2,107	2,107	13,694	13,694
Balance at the end of the year	339,851	339,851	307,039	307,039

The number of units on issue at 30 June 2014 was 339,851,030 (2013: 307,038,608). 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 were no units issued to satisfy the Manager's incentive fee during the year (2013: nil).

Capital risk management

The Group's capital includes units, reserves and retained earnings with Total Unitholders' Funds sitting at $353.5m (2013: $309.0m).

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% (2013: 50%) of the fair market value of property at all times calculated to Australian dollar equivalent (2013: 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 capital risk management strategy during the year.

Notes to the Financial Statements

19 BORROWINGS

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
AUD denominated loans	192,633	21,218	265,850	195,818
NZD denominated loans	–	–	800	–
Borrowing costs	(1,269)	(603)	(549)	(456)
Total borrowings	191,364	20,615	266,101	195,362
Shown as:				
Current	–	–	–	–
Term	191,364	20,615	266,101	195,362

The Group has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. The A$325,000,000 and NZ$20,000,000 (2013: A$225,000,000 and NZ$20,000,000) facility, a multi-currency facility, was split between Tranche A: A$125,000,000 and Tranche B: A$100,000,000 which are due to expire on 31 March 2019, and Tranche C: A$100,000,000 and NZ Dollar Facility: NZ$20,000,000 which are due to expire on 31 March 2017 (2013: The Group had 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 was due to expire on 31 March 2017 and Tranche B: A$100,000,000 / NZ$20,000,000 which was due to expire on 31 March 2015).

The effective interest rate on the borrowings as at 30 June 2014 was 5.66% per annum (2013: 6.52%).

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

20 TRADE AND OTHER PAYABLES

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Interest accrued on borrowings	1,183	680	1,681	1,257
Other creditors and accruals	5,834	1,017	2,950	450
Income in advance	10,000	–	–	–
Total trade and other payables	17,017	1,697	4,631	1,707
Shown as:				
Current	9,017	1,697	4,631	1,707
Term	8,000	–	–	–

21 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 Bank New Zealand 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 2014, 100.0% of borrowings were at fixed rates (2013: 86.4%). The Group does not apply hedge accounting to interest rate swaps. Any gains or losses arising on revaluation are recognised immediately in the statement of comprehensive income.

Notes to the Financial Statements

21 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						
30 June 2014						
Cash and cash equivalents (floating rates)	2.71%	839	–	–	–	839
Borrowings (floating rates)	3.27%	–	–	–	–	–
Borrowings (fixed rates)	4.82%	(43,053)	(23,141)	–	(126,439)	(192,633)
		(42,214)	(23,141)	–	(126,439)	(191,794)
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)
Trust						
30 June 2014						
Cash and cash equivalents (floating rates)	2.71%	19	–	–	–	19
Borrowings (floating rates)	3.27%	–	–	–	–	–
Borrowings (fixed rates)	4.47%	(21,218)	–	–	–	(21,218)
		(21,199)	–	–	–	(21,199)
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)

21 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 2014 $000s	Impact on unitholders' funds Group 2014 $000s	Impact on profit/(loss) Group 2013 $000s	Impact on unitholders' funds Group 2013 $000s
Group				
If interest rates had been 100 bps higher:	8,893	8,893	10,736	10,736
If interest rates had been 100 bps lower:	(9,506)	(9,506)	(11,546)	(11,546)
Trust				
If interest rates had been 100 bps higher:	7,425	7,425	5,963	5,963
If interest rates had been 100 bps lower:	(7,843)	(7,843)	(6,349)	(6,349)

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:	11	11	(354)	(354)
If interest rates had been 100 bps lower:	(11)	(11)	354	354
Trust				
If interest rates had been 100 bps higher:	1,117	1,117	(853)	(853)
If interest rates had been 100 bps lower:	(1,117)	(1,117)	853	853

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

21 FINANCIAL RISK MANAGEMENT (continued)

Foreign exchange exposure

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

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Non-financial instrument assets and liabilities denominated in Australian dollars				
Investment properties	451,541	–	463,697	–
Investments in subsidiaries*	–	264,967	–	264,967
Other assets	2,050	–	1,697	–
Deferred tax	(25,578)	–	(21,416)	–
Total non-financial instrument assets and liabilities	428,013	264,967	443,978	264,967
Non-derivative financial instruments				
Cash and cash equivalents	38	–	539	–
Trade and other receivables	108	–	268	–
Trade and other payables	(2,398)	–	(1,681)	–
Borrowings	(192,633)	(21,218)	(265,850)	(195,818)
Total exposure from non-derivative financial instruments	(194,885)	(21,218)	(266,724)	(195,818)
Derivative financial instruments				
Forward exchange contracts	1,497	1,497	6,587	6,587
Interest rate swaps	(8,895)	(4,772)	(10,280)	(467)
Total exposure from derivative instruments	(7,398)	(3,275)	(3,693)	6,120
Net exposure to currency risk	225,730	240,474	173,561	75,269

*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 (2013: 10%):

If the New Zealand Dollar versus the Australian Dollar was 10% higher for the year:				
Profit and loss	1,326	8,543	(5,021)	7,651
Other comprehensive income	(9,879)	–	(10,469)	–
Unitholders' funds	(8,553)	8,543	(15,490)	7,651
If the New Zealand Dollar versus the Australian Dollar was 10% lower for the year:				
Profit and loss	(1,621)	(10,442)	5,761	(9,702)
Other comprehensive income	12,075	–	12,839	–
Unitholders' funds	10,454	(10,442)	18,600	(9,702)

21 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 Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand of A$325,000,000 and NZ$20,000,000 (2013: ANZ National Bank Limited A$225,000,000 and NZ$20,000,000). As at 30 June 2014, after translation to NZD $192,632,691 (2013: NZD $266,650,280) had been drawn-down. The effective interest rate was 5.66% (2013: 6.52%).

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						
30 June 2014						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(192,633)	(214,479)	(5,083)	(5,478)	(113,192)	(90,726)
Trade and other payables	(7,017)	(7,017)	(7,017)	–	–	–
	(199,650)	(221,496)	(12,100)	(5,478)	(113,192)	(90,726)
Derivative financial instruments						
Interest rate swaps	(8,895)	(10,112)	(3,285)	(3,118)	(1,855)	(1,854)
Forward exchange contracts	1,497	1,497	1,497	–	–	–
	(7,398)	(8,615)	(1,788)	(3,118)	(1,855)	(1,854)
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

Notes to the Financial Statements

21 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						
30 June 2014						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(21,218)	(24,483)	(560)	(603)	(673)	(22,647)
Trade and other payables	(1,697)	(1,697)	(1,697)	–	–	–
	(22,915)	(26,180)	(2,257)	(603)	(673)	(22,647)
Derivative financial instruments						
Interest rate swaps	(4,772)	(5,087)	(1,583)	(1,540)	(1,134)	(830)
Forward exchange contracts	1,497	1,497	1,497	–	–	–
	(3,275)	(3,590)	(86)	(1,540)	(1,134)	(830)
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

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 2014 (2013: nil). The face value of hedging instruments designated in net investment hedges is:

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Borrowings	75,342	–	243,737	–
Forward exchange contracts (nominal amount)	114,358	–	104,881	–

21 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
Group				
30 June 2014:	1,107	(199,381)	1,497	(8,895)
30 June 2013:	2,256	(270,732)	8,011	(11,705)
Trust				
30 June 2014:	32,989	(22,312)	1,497	(4,772)
30 June 2013:	152,331	(197,069)	8,011	(1,891)

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.

22 INVESTMENT IN SUBSIDIARIES

The Trust has control over the following subsidiaries:

			Holding	
Name of subsidiary	Principal activity	Place of incorporation and operation	2014	2013
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.

Notes to the Financial Statements

23 COMMITMENTS

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Capital commitments				
The Group was party to contracts to purchase or construct property for the following amounts:	24,024	–	9,565	–
	24,024	–	9,565	–

Lease commitments

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

Not later than one year	245	–	240	–
Later than one year and not later than five years	1,007	–	960	–
Later than five years	–	–	185	–
	1,252	–	1,385	–

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	58,446	–	60,266	–
Later than one year and not later than five years	250,767	–	221,298	–
Later than five years	610,230	–	432,108	–
	919,443	–	713,672	–

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.

24 CONTINGENCIES

There were no contingencies as at 30 June 2014 (2013: nil).

25 SUBSEQUENT EVENTS

On 12 August 2014 Vital acquired the property occupied by The Marian Centre psychiatric hospital in Perth, Western Australia, for A$13,500,000 excluding stamp duty. Vital will also undertake a A$10.8m redevelopment and expansion project.

On 14 August 2014 a final cash distribution of 1.975 cents per unit was announced by the Trust. The record date for the final distribution is 11 September 2014 and a payment is scheduled to unitholders on 25 September 2014. There will be 0.7681 cents per unit of imputation credits attached to the distribution (2013: nil).

26 RELATED PARTY TRANSACTIONS

Fees paid to the Manager

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

Other related parties by virtue of common ownership and/or ownership and/or directorship to the Manager of the Trust include Australian Properties Limited and 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 Manager's directors and shareholders.

Transactions with related parties include:

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Total fees incurred				
Management fees	4,625	–	4,747	–
Manager's incentive fees	542	542	–	–
Expenses charged by Vital Healthcare Management Limited	168	1,260	91	1
Expenses charged by Vital Healthcare Australian Property Pty Limited	440	–	–	–
	5,775	1,802	4,838	1

Properties owned by the Trust have been managed on normal commercial terms by Vital Healthcare Management Limited, a subsidiary of North West Value Partners Inc. Property management fees charged are either included in property expenses or capitalised. The amount paid to Vital Healthcare Management Limited for reimbursement of expenses was $167,982 (2013: $90,510) and Vital Healthcare Australian Property Pty Limited was $30,921 (2013: nil). The amount not recovered from tenants was nil (2013: nil).

Amounts outstanding				
Management fees	–	–	–	–
Manager's incentive fees	542	542	–	–
Expenses charged by Vital Healthcare Management Limited	8	8	–	–
Expenses charged by Vital Healthcare Australian Property Pty Limited	42	–	–	–
	592	550	–	–

Expenses charged by related parties include salary, property related costs and other operating expenses.

Expenses capitalised to projects				
Vital Healthcare Australian Property Pty Limited - management fees	409	–	–	–
	409	–	–	–

Notes to the Financial Statements

26 RELATED PARTY TRANSACTIONS (continued)

Remuneration of the Manager (continued)

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

	Expenses		Amounts outstanding	
	2014 $000s	2013 $000s	2014 $000s	2013 $000s
Graeme Horsley	4	5	–	–
Andrew Evans	0	5	–	–
Claire Higgins	2	6	–	–
Bernard Crotty	5	–	–	–

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 and Vital Healthcare Management Limited include:

	Group 2014 $000s	Trust 2014 $000s	Group 2013 $000s	Trust 2013 $000s
Balances:				
Advances to subsidiaries*	–	32,787	–	74,290
Advance to Vital Healthcare Investment Trust**	–	–	–	77,996
Transactions:				
Project management fees to Vital Healthcare Australian Property Pty Limited	409	–	472	–
Fees recharged to subsidiaries	–	542	–	–
Distributions from subsidiaries	–	21,539	–	13,650
Interest from subsidiaries	–	4,621	–	3,653

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

** This loan was interest bearing (weighted average interest rate of 7.3%) and repayable on demand. This loan was repaid on 26 June 2014.

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 on pages FIN-01 to FIN-32, which comprise the consolidated and separate statements of financial position of Vital Healthcare Property Trust, as at 30 June 2014, 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.

Managers' 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-01 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 2014, 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 2014:

- 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.

Chartered Accountants
14 August 2014
Auckland, New Zealand

This audit report relates to the financial statements of Vital Healthcare Property Trust and group for the year ended 30 June 2014 included on Vital Healthcare Property Trust's website. Vital Healthcare Property Trust is responsible for the maintenance and integrity of Vital Healthcare Property Trust's website. We have not been engaged to report on the integrity of Vital Healthcare Property Trust's website. We accept no responsibility for any changes that may have occurred to the 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 2014

Holding Range	Number of unitholders	Total units	% of total units issued
1 to 99	24	1,163	0.0
100 to 199	24	3,558	0.0
200 to 499	59	16,957	0.0
500 to 999	46	34,285	0.01
1,000 to 1,999	126	174,957	0.05
2,000 to 4,999	603	2,162,347	0.64
5,000 to 9,999	1,172	8,646,120	2.54
10,000 to 49,999	2,487	53,925,895	15.85
50,000 to 99,999	300	19,939,748	5.86
100,000 to 499,999	138	24,631,431	7.24
500,000 to 999,999	5	3,620,221	1.06
1,000,000 to 9,999,999,999,999	19	227,099,384	66.75
Total	5,003	340,256,066	100.0

Substantial security holders as at 31 August 2014

Unitholder	Date notice filed	Number of units	% of total issued units
Macquarie Group Limited	21 March 2014	67,547,578	19.99
NorthWest International Healthcare Properties Real Estate Investment Trust ('NorthWest')	19 March 2014	81,659,865	24.11

Holdings of Directors of the Manager as at 30 June 2014

	Holdings (number of units) non-beneficial	Holdings (number of units) beneficial	Associated persons
Graeme Horsley	48,972	211,949	
Andrew Evans		312,688	
Claire Higgins	41,164		
Paul Dalla Lana*	81,659,865		
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 81.66 million units in Vital Healthcare Property Trust.

Twenty largest security holders as at 31 August 2014

Unitholder	Total	% total issued units
New Zealand Central Securities Depository Limited	102,515,136	30.12
Custodial Services Limited <A/C 3>	19,567,482	5.75
FNZ Custodians Limited	19,180,111	5.63
Investment Custodial Services Limited <A/C C>	15,819,087	4.64
FNZ Custodians Limited <Dta Non Resident A/C>	14,689,628	4.31
Forsyth Barr Custodians Limited <1-33>	12,876,765	3.78
Custodial Services Limited <A/C 2>	8,585,121	2.52
Forsyth Barr Custodians Limited <1-17.5>	6,407,793	1.88
Custodial Services Limited <A/C 18>	5,240,832	1.54
Custodial Services Limited <A/C 4>	4,260,309	1.25
Superlife Trustee Nominees Limited <Sl Prop A/C>	3,268,432	0.96
Forsyth Barr Custodians Limited <1-30>	3,244,755	0.95
Custodial Services Limited <A/C 1>	2,760,832	0.81
FNZ Custodians Limited <Drp Nz A/C>	2,430,199	0.71
Custodial Services Limited <A/C 16>	1,675,283	0.49
James Harvey Mansell & Christine Anne Mansell & Douglas Tony Brown <Harvan A/C>	1,250,000	0.36
New Zealand Depository Nominee Limited <A/C 1> Cash Account	1,181,761	0.34
NZPT Custodians (Grosvenor) Limited	1,080,169	0.31
Forsyth Barr Custodians Limited <1-28>	1,065,689	0.31
Jarden Custodians Limited	910,000	0.26
Totals	228,009,384	66.92
Total units on issue	340,256,066	

Breakdown of security holders within the New Zealand Central Securities Depository Limited

Unitholder	Number of units
Citibank Nominees (New Zealand) Limited	73,999,388
BNP Paribas Nominees (NZ) Limited	5,956,568
HSBC Nominees (New Zealand) Limited	5,361,217
National Nominees New Zealand Limited	3,688,368
MFL Mutual Fund Limited	3,627,708
JPMorgan Chase Bank NA NZ Branch–Segregated Clients Acct	2,871,956
HSBC Nominees (New Zealand) Limited A/C State Street	1,344,912
ANZ Wholesale Property Securities	1,225,043
Mint Nominees Limited	1,099,176
Accident Compensation Corporation	988,646
Tea Custodians Limited	839,688
Sovereign Services Limited	436,125
ANZ Wholesale Trans–Tasman Property Securities Fund	357,100
Generate Kiwisaver Public Trust Nominees Limited	275,750
Private Nominees Limited	201,360
Guardian Nominees No 2 Limited – Wpac Wholesale Property Trust	110,450
BNP Paribas Nominees (NZ) Limited	69,183
BNP Paribas Nominees (NZ) Limited	62,498
Total	102,515,136

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).

Manager

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Andrew Evans
Claire Higgins
Paul Dalla Lana
Bernard Crotty

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Auckland 1010

Australia and New Zealand Banking Group Limited
27/100 Queen Street
Melbourne, Victoria 3000
Australia

Bank of New Zealand
Deloitte Centre
80 Queen Street
Auckland 1010

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: +64 9 488 8777
Facsimile: +64 9 488 8787

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

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