

# Vital

Healthcare  
Property Trust

ANNUAL REPORT 2017



ORMISTON HOSPITAL, AUCKLAND





VITAL CONTINUES  
DELIVERING ON  
STRATEGY TO KEEP  
BUILDING A HEALTHY  
FUTURE.

VALUE OF INVESTMENT PORTFOLIO

**\$1.38B**

8 YEAR AVERAGE OCCUPANCY ABOVE

**99%**

AVERAGE ANNUAL LEASE EXPIRY (BY INCOME) OVER THE  
NEXT 10-YEARS

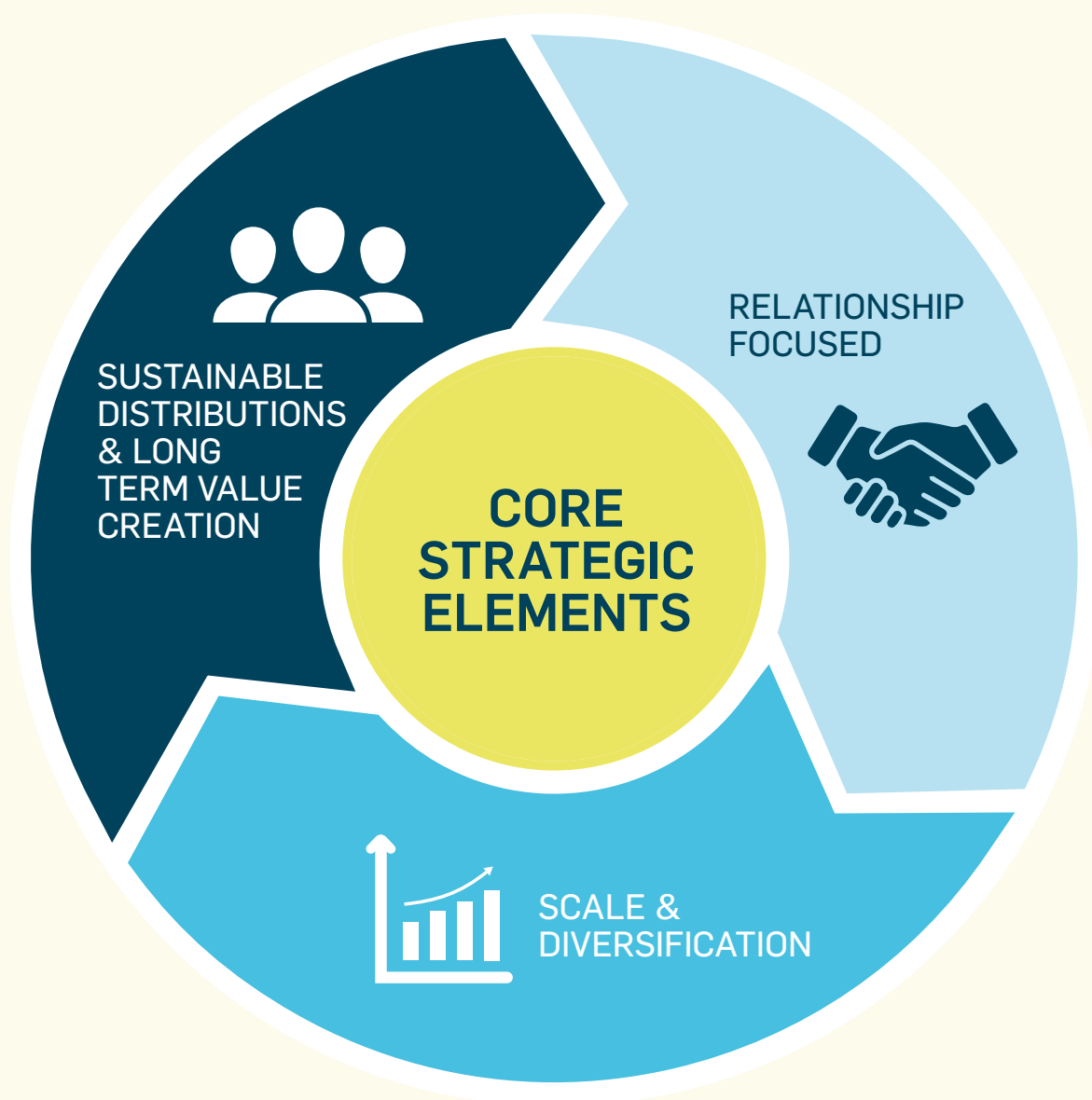
**2.1%**

WEIGHTED AVERAGE LEASE TERM TO EXPIRY (WALE)

**17.7 YEARS**

# BUILDING A HEALTHY FUTURE

Three core elements  
to strategy



“We’ve continued to deliver on all elements of our strategy to achieve consistently strong outcomes for investors.”

DAVID CARR, CHIEF EXECUTIVE OFFICER

# 2017 ACHIEVEMENTS

## Snapshot of 2017



### DELIVER STRONG OPERATIONAL, FINANCIAL AND PORTFOLIO RESULTS

#### Strong financial year, executing to plan

The 2017 financial year was one of the busiest and most successful in Vital's history. Vital delivered revenue and earnings growth whilst keeping the portfolio in fantastic shape. Vital raised \$160m in equity from investors executing on its stated scale and diversification strategy.



### EXECUTE ON DEVELOPMENT PIPELINE, CONTINUATION OF INCREMENTAL VALUE-ADD OPPORTUNITIES

#### Five projects underway totalling A\$63m

Vital reasonably expects to see a continuation of its value-add brownfield development programme. Subject to required internal and external approvals, a number of new developments are likely to be announced over the next 12-24 months.



### DELIVER STRATEGIC ACQUISITIONS TO SUPPORT OPERATOR GROWTH

#### Strategic sites remain key to supporting long-term partner success

Vital continued to acquire sites adjacent to existing assets to protect and enhance long-term value. Our partners continue to experience demand for healthcare services across their businesses and we remain committed to ensuring we support and facilitate that growth as required.



### WIDEN AND STRENGTHEN RELATIONSHIPS THAT SUPPORT SCALE & DIVERSIFICATION

#### New partnerships established and existing ones strengthened

Through 2017, Vital completed acquisitions that introduced new partners to the portfolio. This further builds and diversifies the breadth of quality healthcare partnerships Vital has and positions it very well for the future.



### PRUDENTLY DEPLOY BALANCE SHEET TO APPROPRIATE OPPORTUNITIES

#### Successful \$160m capital raising delivered flexibility to act on opportunities

Vital made seven major acquisitions during FY17 totalling \$190m. Given the current development pipeline and potential projects and opportunities on the horizon, we remain focused on prudently managing our capital requirements, assessing and utilising available levers and tools as required.



### FOCUS ON SUSTAINABLE DISTRIBUTIONS TO INVESTORS

#### Earnings quality and distribution sustainability remains core to Vital's position

Vital has delivered to strategy in 2017 which has supported sustainable distributions to investors. The FY17 distribution of 8.5cpcu was an increase of 2.4% on the prior year and Vital remains focused on maintaining its prudent and conservative payout ratio.

## HIGHLIGHTS FOR 2017

NET DISTRIBUTABLE INCOME

**\$61.8m**

 UP 53.6%

ANNUAL CASH DISTRIBUTION

**8.5cpu**

 UP 2.4%

NET TANGIBLE ASSET INCREASE TO

**\$2.05**

 UP 36%

CONSERVATIVE ADJUSTED NDI  
DISTRIBUTION PAYOUT OF

**72%**

SUCCESSFUL CAPITAL RAISING  
SUPPORTING STRATEGY

**\$160m**

87% TAKE UP BY INVESTORS

CONSERVATIVE GEARING

**29.3%**

SEVEN ACQUISITIONS INCLUDING  
MENTAL HEALTH, AGED CARE AND MOB'S

**\$190m**

TEN YEAR COMPOUND ANNUAL TOTAL  
RETURN

**12.5%**

OUTPERFORMING THE SECTOR  
BY 6.5%

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# FINANCIAL SUMMARY

All figures are in New Zealand dollars (NZD) unless otherwise stated

All figures are in New Zealand dollars (NZD) unless otherwise stated	2013 \$000s	2014 \$000s	2015 \$000s	2016 \$000s	2017 \$000s
<b>FINANCIAL PERFORMANCE</b>					
Net property income	57,856	57,967	59,430	68,274	89,657
Revaluation gain/(loss) on investment properties	10,337	15,211	84,031	101,869	168,549
Profit for the year (after taxation)	34,721	37,433	96,506	117,208	217,622
Earnings per unit - (cents)	11.56	11.21	28.31	34.00	51.68
<b>DISTRIBUTABLE INCOME</b>					
Gross distributable income	33,614	34,928	40,950	45,038	65,347
Net distributable income	28,195	34,702	36,290	40,243	61,821
Net distributable income - cents per unit	9.38	10.40	10.64	11.67	14.68
Cash distribution to unitholders - cents per unit	7.90	7.90	8.00	8.30	8.50
Payout ratio (%)	84%	76%	75%	71%	58%
<b>FINANCIAL POSITION</b>					
Total assets	629,476	615,968	784,565	978,174	1,392,228
Borrowings	266,650	192,633	257,340	345,310	402,649
Total equity	308,994	353,520	439,756	523,719	879,821
Debt to total assets ratio	42.4%	31.4%	32.9%	36.3%	29.3%
Net tangible assets - dollars per unit	1.01	1.04	1.27	1.51	2.05

# PORTFOLIO METRICS

	2013	2014	2015	2016	2017
Investment properties (\$m)	618.7	613.1	781.9	951.9	1,376.2
Number of investment properties <sup>1</sup>	24	24	25	29	37
Number of tenants	108	105	108	114	136
Occupancy (%)	99.5	99.3	99.4	99.6	99.1
Weighted average lease term to expiry (years)	11.8	15.1	17.1	18.4	17.7
12 month lease expiry (% of income)	1.6	3.8	1.1	2.5	1.7

<sup>1</sup> Excludes properties held for development



# BUILDING A HEALTHY FUTURE

**After a decade of serving as a Director and my sixth as Independent Chairman of Vital's Manager, I am pleased to present Vital's 2017 Annual Report.**

On 10 August Vital Healthcare Property Trust (Vital) announced its audited 2017 full year results with a reported net profit after tax of \$217.6m, up 85.6%. Vital will pay investors a final quarter cash distribution of 2.125 cpu and the Board will prudently maintain its 2018 cash distribution guidance at 8.5 cpu.

## 2017 highlights include;

- Operating profit before tax of \$53.0m up 37.0%;
- Net distributable income of \$61.8m, up 53.6%;
- Distribution of 8.5 cpu, up 2.4% on FY16, adjusted<sup>1</sup> payout ratio of 72%;
- Cash earnings (or AFFO<sup>2</sup>) of 14.5cpu, up 24.3%;
- Successful \$160m capital raising with 87% take up;
- LVR at 29.3%;
- Revaluation gain of \$168.5m for the year, like for like increase of 17%;
- Portfolio WACR firmed 113 basis points (bps) to 6.04%;
- NTA of \$2.05, up 36.0%;
- Occupancy maintained at over 99% for the eighth consecutive year, WALE of 17.7 years;
- Seven major acquisitions across Australasia totalling \$190m, five have future brownfield potential;
- Spent \$31.9m on brownfield developments, A\$34.6m still to be completed.

## DELIVERING ON STRATEGY

Vital has had another outstanding year. The successful \$160m rights issue allowed us to consider and execute on a range of opportunities in 2017, with many of these acquisitions also offering future brownfields potential, an area of expertise Vital has excelled in over the last decade, delivering great results for investors. The portfolio and balance sheet are in good shape heading into 2018.

With a relatively optimistic outlook as it relates to our scale and diversification strategy we continue to adopt a conservative and prudent capital management plan. Recognising market support for distribution sustainability, or a conservative payout ratio, and the prudent application of retained earnings to ongoing growth initiatives, the Board has determined to maintain cash distribution guidance at 8.5 cpu for the 2018 financial year.

## NTA GROWTH DRIVEN BY REVALUATION GAINS

Following the strong revaluation gains achieved in 2017, Vital's NTA increased to \$2.05, an increase of 36% on the prior year NTA of \$1.51. At \$2.05, the current NTA is the highest in Vital's history and is underpinned by a large diversified portfolio of high quality healthcare real estate with attractive long term characteristics.

<sup>1</sup> Adjusting for the one-off \$13.8m lease termination receipt

<sup>2</sup> Adjusted funds from operations

## ACQUISITION AND DEVELOPMENT

With seven acquisitions totalling \$190m in 2017, Vital has further diversified its portfolio investing across medical office buildings, aged care facilities and private hospitals. Most importantly, it has strengthened relationships across both existing and new operators.

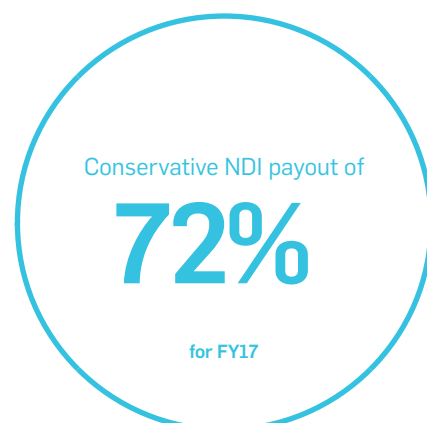
Recognising ongoing healthcare demand forecasts, Vital has continued to invest in acquisitions adjacent to our existing facilities to protect their long term value. Vital made eight of these strategic acquisitions totalling A\$17m in 2017 and expects to continue with this investment philosophy to support the long term growth of our partners.

The brownfield pipeline continues with five projects totalling A\$62.6m currently underway. Three developments, totalling A\$29.4m are expected to be completed prior to the 2017 calendar year end. The largest current development is the A\$23.6m expansion at Lingard Private in Newcastle and once completed will result in an aggregate total investment of A\$55m since 2013.

One of the highlights in 2017, was the announcement that Vital had become Acurity Health Group's exclusive real estate partner in New Zealand with the conditional acquisition of its Wellington Hospitals for \$68m on 30 year initial lease terms. The acquisition of Wakefield and Bowen Private Hospitals remains subject to pre-settlement conditions including Overseas Investment Office and development approvals. With a potential development pipeline in the order of \$100m over the next 3-5 years, this is a significant opportunity for Vital in the New Zealand market.

**"We see plenty of opportunities in 2018 which over time will add real value to Vital"**

GRAEME HORSLEY







#### FOURTH QUARTER 2017 DISTRIBUTION

For the fourth quarter of the 2017 financial year, the Board has confirmed that investors will receive a distribution of 2.125 cpu with no imputation credits attached. The record date for the distribution is 7 September 2017 and payment will be made on 21 September 2017. This final quarter payment means that the full year cash distribution of 8.5 cpu has been achieved, a 2.4% increase on 2016.

Vital's Distribution Reinvestment Plan will remain available to investors for this distribution with a 1.0% discount being applied when determining the strike price.

“Vital has continued to execute on its strategy, delivering great results across the business”

GRAEME HORSLEY

#### STRATEGY

The relationship focused strategy continues delivering great results for Vital and investors.

More institutional investors have realised the attractive long term fundamentals of our sector and Vital's achievements over recent years. While we expect competition to remain firm for the foreseeable future we will continue to add value by leveraging our relationships and networks to secure off-market opportunities while adding to our existing development pipeline.

Vital has a growing pool of quality operator partners and a strong portfolio and capital position. These factors provide solid foundations to deliver sustainable distributions and create long term value for investors.

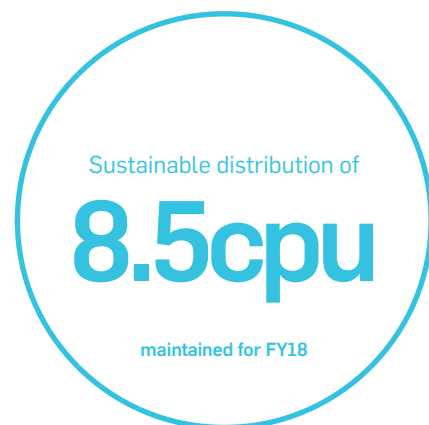
#### 2018 CASH DISTRIBUTION GUIDANCE

The Board has also confirmed that the 2018 financial year cash distribution will be maintained at 8.5 cpu.

**Graeme Horsley MNZM**

*Independent Chairman*

*Vital Healthcare Management Limited*



# BUSINESS IN GREAT SHAPE

## POSITIVE RESULTS ACROSS THE BOARD

The 2017 financial year has been a positive and productive one for Vital. We have enhanced almost every aspect of the business with solid portfolio performance underpinning the financial position. Execution to plan was validated with the successful \$160m rights issue last July and again at year end with the strong revaluation results. Population and ageing demographic drivers continue to support demand for healthcare services, and with a stable platform we look ahead to 2018 with confidence as we continue to execute on our long term strategy.

We continued to widen and strengthen our core partnerships across Australasia irrespective of a number of new entrants looking to build healthcare real estate portfolios. Having secured a number of off-market opportunities in 2017, we expect to see sector consolidation continue, which remains a core focus of our established scale and diversification strategy.

## FINANCIAL PERFORMANCE

Gross rental income grew 10.9% during 2017 after adjusting for a one-off lease termination receipt of \$13.8m. This receipt along with a combination of development income and acquisitions over the period contributed to gross rents of \$91.8m, which was 30.6% ahead of the prior period. After property expenses, net income grew 31.3% for the year.

Finance expenses of \$14.6m were down slightly from the prior year despite slightly higher overall debt levels at year end. This reflects the \$160m capital raised in July 2016 which initially reduced borrowings before the gradual drawdown on facilities during the year for acquisitions and developments. Vital acquired seven investment properties during 2017 totalling \$190m.

Other expenses of \$22.1m were up 52.1% driven primarily by management and incentive fees on the back of strong revaluations. The incentive fee of \$12.3m is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over book value for the last three years, and is payable by Vital issuing units to the Manager. Vital's Manager has confirmed that it will (as part of the issuance of units pursuant to the 2017 incentive fee) manage its unit holdings accordingly so as not to breach Vital's PIE status.

As a result of Australian tax legislation changes Vital now has access to the Managed Investment Trust tax status across all of its Australian based income, giving rise to a tax rate of 15% and having a favourable impact on the deferred tax expense.

Net distributable income for the year was \$61.8m (up 53.6%) equating to 14.7 cpu and a 25.8% increase on the prior year. This

includes the benefit of the one off lease termination receipt and associated tax expense. Adjusting for this, net distributable income per unit was approximately 11.7 cpu and allows for the increase in units issued following the capital raise. Vital's cash earnings (or AFFO), which adjusts for maintenance capital expenditure and lease incentives, was broadly in line with net distributable income on a cents per unit basis.

The 2017 full year distribution of 8.5 cpu reflects a prudent and sustainable 72% payout ratio on an adjusted basis.

## STRONG REVALUATION GAINS

Vital's sustained portfolio and financial performance over many years has resulted in a new wave of investors being attracted to the sectors unique characteristics. This increased demand has driven a structural shift in healthcare real estate capitalisation rates.

Whilst this structural shift has coincided with a cyclical firming of market capitalisation rates, our conviction to Vital's strategy remains focused on creating long term value. The best example of this has been following acquisitions, where value-add brownfield development has enhanced returns and created high quality healthcare infrastructure. Supporting this investment thesis are the undeniable trends of a growing and ageing population adding greater pressure on an already stretched public and private healthcare system.

With this context, Vital's independent annual portfolio revaluations resulted in a \$168.5m increase over book value. Vital's investment portfolio is now valued at \$1.38bn. For the twelve months to 30 June 2017 Vital's portfolio WACR firmed 113 bps to 6.04%, with the Australian portfolio firming 120 bps to 6.03% and the New Zealand portfolio firming 84 bps to 6.09%. Approximately 90% of the overall revaluation increase was driven by capitalisation rate firming with rental growth the other key contributor.

**"We are pleased to have delivered across all elements of our strategy and position Vital very well for 2018"**

DAVID CARR



#### TREASURY AND CAPITAL

Vital's LVR at 30 June of 29.3% (2016: 36.3%) remains well below bank and Trust Deed covenants of 50%. In August the Vital Board executed documentation for an additional AS\$175.0m tranche from its existing Banks (ANZ and BNZ), further evidence of market support of Vital's strategy. The tranche expires in November 2021.

Vital's weighted average cost of debt was 4.34% as at 30 June (2016: 4.38%) and includes bank line and margin fees. Vital's overall cost of funding remains amongst the lowest in the sector.

At year end Vital had a hedged interest rate position of 79.5% (2016: 62.2%). An increase in market interest rates over the period saw the unrealised marked-to-market valuation on those interest rate swaps improve by \$9.0m.

#### PORTFOLIO POSITION REMAINS IN GREAT SHAPE

Along with an active acquisition programme in 2017, the management team has continued to ensure Vital's portfolio metrics remain strong. Vital has had its eighth consecutive year with occupancy above 99% (99.1% at year end) and a year end WALE of 17.7 years. Vital's long WALE was supported by the early resolution of a 30 year lease extension at Kensington Hospital and a six year extension to the existing lease at Epworth Eastern Hospital.

With 83% of total income subject to review in 2017, average rent growth of 1.5% was achieved. Approximately 90% of total income is subject to review through the 2018 financial year, with 88% subject to structured or CPI based reviews.

Of the 2.5% of income forecast to expire in 2017, 2.1% of this was renewed. As a percentage of total income, Vital's 10 year average annual lease expiry sits at 2.1%, which provides long term earnings visibility.

"The portfolio continues to go from strength to strength, providing solid foundations to deliver sustainable distributions to investors"

DAVID CARR

#### POSITIVE OUTLOOK FOR 2018

Vital starts the 2018 financial year in a great position, with 2017 one of our busiest ever. Backed by undeniable healthcare trends we retain a positive outlook.

Our scale and diversification strategy remains a core focus as we continue to execute on acquisition opportunities, complete the balance of the current brownfield development pipeline and aim to announce further projects through the year.

We continue to strengthen established partnerships and look to develop new ones. Supporting the growth aspirations of our existing partners remains extremely important and enables us to drive strong operating, portfolio and financial results, delivering sustainable distributions and creating long term value for investors. I look forward to updating investors over coming months.

David.













David Carr

Chief Executive Officer

Vital Healthcare Management Limited



# AUSTRALIAN PORTFOLIO

<p><b>BELMONT PRIVATE HOSPITAL</b> Brisbane / Queensland</p>  <p><b>MARKET VALUE</b> A\$64,200,000</p> <p><b>MARKET CAPITALISATION RATE</b> 5.75%</p> <p><b>WALE</b> 18.7 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Healthe Care</p>	<p><b>CLOVER LEA AGED CARE</b> Sydney / New South Wales</p>  <p><b>MARKET VALUE</b> A\$11,500,000</p> <p><b>MARKET CAPITALISATION RATE</b> 7.50%</p> <p><b>WALE</b> 18.7 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Hall &amp; Prior</p>	<p><b>DUBBO PRIVATE HOSPITAL</b> Dubbo / New South Wales</p>  <p><b>MARKET VALUE</b> A\$15,100,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.75%</p> <p><b>WALE</b> 14.6 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Healthe Care</p>	<p><b>EPWORTH EASTERN HOSPITAL</b> Melbourne / Victoria</p>  <p><b>MARKET VALUE</b> A\$143,000,000</p> <p><b>MARKET CAPITALISATION RATE</b> 5.25%</p> <p><b>WALE</b> 22.2 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Epworth Foundation</p>
<p><b>EPWORTH EASTERN MEDICAL CENTRE</b> Melbourne / Victoria</p>  <p><b>MARKET VALUE</b> A\$29,650,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.25%</p> <p><b>WALE</b> 10.1 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Epworth Foundation</p>	<p><b>EPWORTH REHABILITATION</b> Melbourne / Victoria</p>  <p><b>MARKET VALUE</b> A\$22,300,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.25%</p> <p><b>WALE</b> 1.6 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Epworth Foundation</p>	<p><b>FAIRFIELD AGED CARE</b> Sydney / New South Wales</p>  <p><b>MARKET VALUE</b> A\$15,686,517</p> <p><b>MARKET CAPITALISATION RATE</b> 7.50%</p> <p><b>WALE</b> 18.7 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Hall &amp; Prior</p>	<p><b>GOLD COAST SURGERY CENTRE</b> Gold Coast / Queensland</p>  <p><b>MARKET VALUE</b> A\$14,250,000</p> <p><b>MARKET CAPITALISATION RATE</b> 7.00%</p> <p><b>WALE</b> 1.8 YEARS</p> <p><b>OCCUPANCY</b> 68.2%</p> <p><b>MAJOR TENANT</b> Radioloadmin Services</p>
<p><b>GRAFTON AGED CARE</b> Sydney / New South Wales</p>  <p><b>MARKET VALUE</b> A\$9,000,000</p> <p><b>MARKET CAPITALISATION RATE</b> 8.00%</p> <p><b>WALE</b> 19.8 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Hall &amp; Prior</p>	<p><b>HAMERSLEY AGED CARE</b> Perth / Western Australia</p>  <p><b>MARKET VALUE</b> A\$11,300,000</p> <p><b>MARKET CAPITALISATION RATE</b> 7.50%</p> <p><b>WALE</b> 18.7 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Hall &amp; Prior</p>	<p><b>HIRONDELLE PRIVATE HOSPITAL</b> Sydney / New South Wales</p>  <p><b>MARKET VALUE</b> A\$23,000,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.00%</p> <p><b>WALE</b> 24.9 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Healthe Care</p>	<p><b>HURSTVILLE PRIVATE HOSPITAL</b> Sydney / New South Wales</p>  <p><b>MARKET VALUE</b> A\$82,000,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.25%</p> <p><b>WALE</b> 24.8 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Healthe Care</p>

**LINGARD PRIVATE HOSPITAL**  
Newcastle / New South Wales



**MARKET VALUE** A\$102,241,856

**MARKET CAPITALISATION RATE**  
6.25%

**WALE** 23.7 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care

**MAITLAND PRIVATE HOSPITAL**  
Newcastle / New South Wales



**MARKET VALUE** A\$78,971,470

**MARKET CAPITALISATION RATE**  
6.25%

**WALE** 20.5 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care

**MARIAN CENTRE**  
Perth / Western Australia



**MARKET VALUE** A\$39,200,000

**MARKET CAPITALISATION RATE**  
6.25%

**WALE** 17.1 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care

**MAYO PRIVATE HOSPITAL**  
Taree / New South Wales



**MARKET VALUE** A\$35,200,000

**MARKET CAPITALISATION RATE**  
6.50%

**WALE** 14.5 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care

**NORTH WEST PRIVATE HOSPITAL**  
Burnie / Tasmania



**MARKET VALUE** A\$19,573,391

**MARKET CAPITALISATION RATE**  
6.50%

**WALE** 14.6 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care

**PALM BEACH CURRUMBIN CLINIC**  
Gold Coast / Queensland



**MARKET VALUE** A\$44,130,824

**MARKET CAPITALISATION RATE**  
6.00%

**WALE** 14.6 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care

**ROCKINGHAM AGED CARE**  
Perth / Western Australia



**MARKET VALUE** A\$5,780,000

**MARKET CAPITALISATION RATE**  
7.75%

**WALE** 18.7 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Hall & Prior

**SPORTSMED CONSULTING**  
Adelaide / South Australia



**MARKET VALUE** A\$6,524,599

**MARKET CAPITALISATION RATE**  
6.00%

**WALE** 18.6 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Sportsmed SA

**SPORTSMED HOSPITAL AND CLINICS**  
Adelaide / South Australia



**MARKET VALUE** A\$49,600,000

**MARKET CAPITALISATION RATE**  
6.00%

**WALE** 17.9 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Sportsmed SA

**SPORTSMED OFFICE**  
Adelaide / South Australia



**MARKET VALUE** A\$3,660,000

**MARKET CAPITALISATION RATE**  
6.75%

**WALE** 18.6 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Sportsmed SA

**THE SOUTHPORT PRIVATE HOSPITAL (FORMERLY ALLAMANDA PRIVATE HOSPITAL)**



**MARKET VALUE** A\$40,600,000

**MARKET CAPITALISATION RATE**  
5.75%

**WALE** 20.6 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Ramsay

**TORONTO PRIVATE HOSPITAL**  
Newcastle / New South Wales



**MARKET VALUE** A\$29,036,092

**MARKET CAPITALISATION RATE**  
6.25%

**WALE** 25.5 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Healthe Care



# Mons Road Medical Centre

Sydney / New South Wales

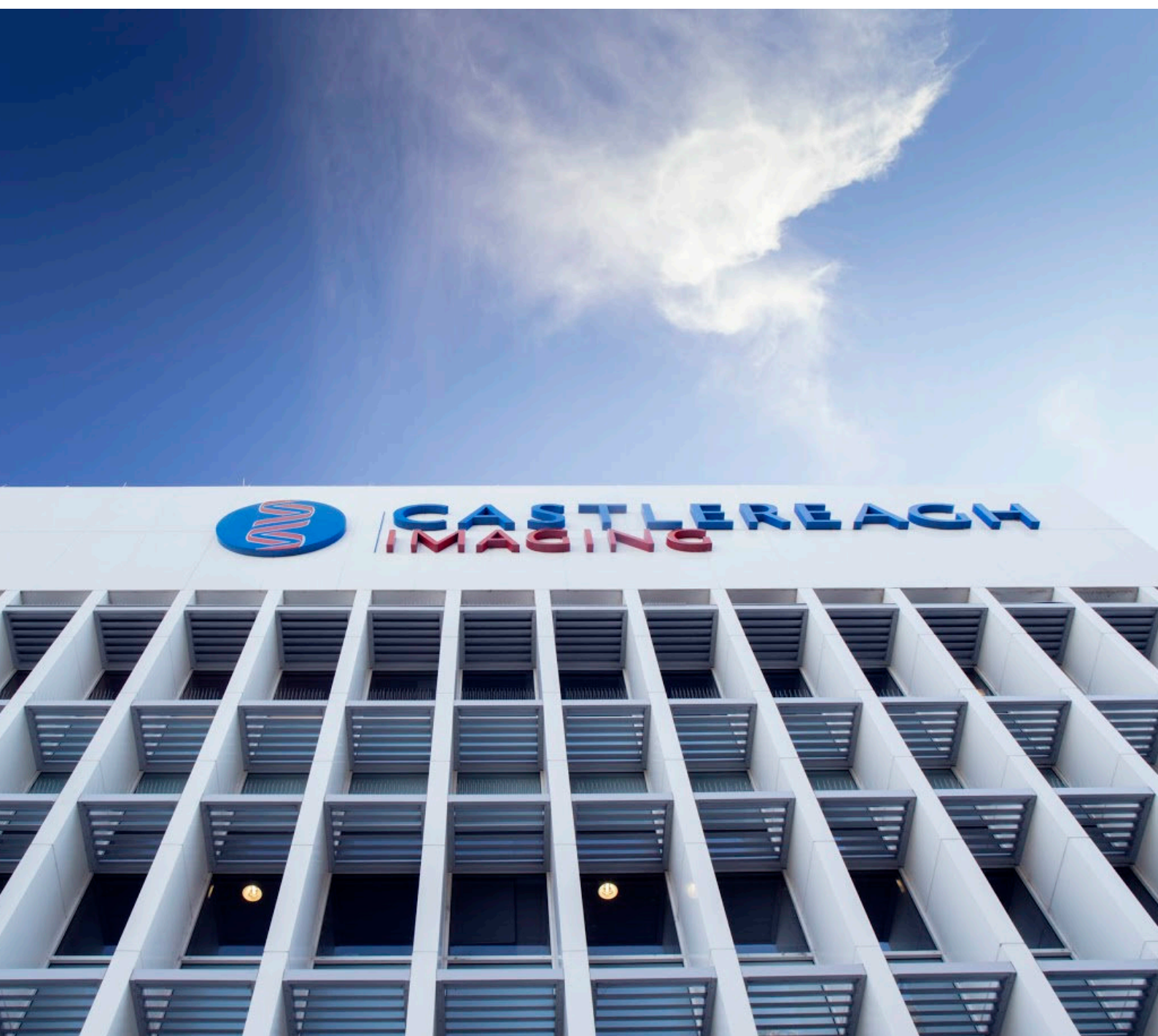
MARKET VALUE A\$32,300,000

MARKET CAPITALISATION RATE 6.00%

WALE 5.4 YEARS

OCCUPANCY 100.0%

MAJOR TENANT Castlereagh Imaging





Completed in 2010, Mons Road is a modern, multi-tenanted, four-level medical office building adjacent to Ramsay Health Care's Westmead Private Hospital. It is approximately 26km west of the Sydney CBD within the Westmead medical precinct, considered Australia's largest health services precinct. The precinct also includes the Westmead Public Hospital, Westmead Children's Hospital and Cumberland Public Hospital.

The Westmead precinct is set to grow further over the medium-term with the NSW Premier announcing in September 2015 an A\$900m Westmead Public Hospital redevelopment funding package to take place over the next five years. In addition, approximately A\$5.8b of investment is either underway, planned or proposed for Westmead over the next decade in transport infrastructure, health, education or research to create the Westmead Innovation District.

Mons Road comprises a mix of high quality healthcare tenants including:

- Castlereagh Imaging, one of the largest networks of radiology practices in NSW and a subsidiary of ASX-listed Sonic Healthcare
- IVF Australia, owned by ASX-listed Virtus Health
- NSW Health's Sydney Children's Hospital's Network
- Ramsay Health Care





# South Eastern Private Hospital

## Melbourne / Victoria

**MARKET VALUE** A\$50,800,000

**MARKET CAPITALISATION RATE** 6.00%

**WALE** 23.7 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT** Health Care

This year Vital completed a A\$14.5m development at South Eastern Private Hospital in Victoria. South Eastern is located around 26 kilometres south-west of Melbourne's CBD. This development has resulted in a brand new unit with 60 mental health beds and 79 car parks.

This is the second development at the facility within the last five years reflecting the rising demand for healthcare services in the catchment. A A\$4.3 million redevelopment was completed in December 2012 which included a new rehabilitation centre, consulting rooms, hydrotherapy pool and gymnasium.





MARKET VALUE	A\$28,400,000
MARKET CAPITALISATION RATE	6.50%
WALE	3.6 YEARS
OCCUPANCY	92.1%
MAJOR TENANT	Imaging Associates

# Eker Medical Centre

Melbourne / Victoria

Constructed in 2014, Eker is a modern, multi-tenanted four level medical office building comprising a total area of 3,605 sqm with basement parking for 133 cars. Eker's major tenant is Imaging Associates, representing approximately 40% of rental income. Other tenants include Sonic Healthcare, Monash IVF and Sportsmed Biologic.

With over A\$170m invested in two properties comprising the Epworth Eastern Campus, Vital is the largest private healthcare real estate investor in the Box Hill precinct. With the expansion undertaken at Epworth Eastern Hospital last year, Eker provides a modern asset to support future masterplan initiatives.



MARKET VALUE	A\$22,400,000
MARKET CAPITALISATION RATE	6.25%
WALE	24.7 YEARS
OCCUPANCY	100.00%
MAJOR TENANT	Health Care

# Abbotsford Private Hospital









Perth / Western Australia

Abbotsford is situated within the inner Perth suburb of West Leederville, approximately 3km north-west of the Perth CBD. It is a modern 30-bed inpatient private mental health hospital that also regularly caters for up to 40 day patients at any one time. Abbotsford specialises in mental health treatment programs with a focus on drug and alcohol rehabilitation services.

In 2012 Abbotsford was redeveloped into its current configuration, comprising 30 private overnight en-suite rooms. A future expansion is proposed to increase the facility from 30 to 60 beds and incorporate additional consulting suites.



# NEW ZEALAND PORTFOLIO

<p><b>APOLLO HEALTH &amp; WELLNESS CENTRE</b> Auckland</p>  <p><b>MARKET VALUE</b> \$27,000,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.50%</p> <p><b>WALE</b> 3.3 YEARS</p> <p><b>OCCUPANCY</b> 91.5%</p> <p><b>MAJOR TENANT</b> Apollo Health Limited</p>	<p><b>ASCOT CENTRAL</b> Auckland</p>  <p><b>MARKET VALUE</b> \$29,000,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.38%</p> <p><b>WALE</b> 2.9 YEARS</p> <p><b>OCCUPANCY</b> 98.4%</p> <p><b>MAJOR TENANT</b> Fertility Associates Limited</p>	<p><b>ASCOT CENTRAL CARPARK (GROUND LEASE)</b> Auckland</p>  <p><b>MARKET VALUE</b> \$1,530,000</p> <p><b>MARKET CAPITALISATION RATE</b> 10.90%</p> <p><b>WALE</b> 2.5 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Fertility Associates Limited</p>	<p><b>ASCOT HOSPITAL</b> Auckland</p>  <p><b>MARKET VALUE</b> \$102,500,000</p> <p><b>MARKET CAPITALISATION RATE</b> 5.63%</p> <p><b>WALE</b> 18.5 YEARS</p> <p><b>OCCUPANCY</b> 99.5%</p> <p><b>MAJOR TENANT</b> Ascot Hospital and Clinics Limited</p>
<p><b>ASCOT HOSPITAL CARPARK (GROUND LEASE)</b> Auckland</p>  <p><b>MARKET VALUE</b> \$1,700,000</p> <p><b>MARKET CAPITALISATION RATE</b> 9.75%</p> <p><b>WALE</b> 26.0 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Ascot Hospital and Clinics Limited</p>	<p><b>BOULCOTT PRIVATE HOSPITAL</b> Lower Hutt</p>  <p><b>MARKET VALUE</b> \$35,800,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.00%</p> <p><b>WALE</b> 21.0 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Healthe Care</p>	<p><b>KENSINGTON HOSPITAL</b> Whangarei</p>  <p><b>MARKET VALUE</b> \$18,900,000</p> <p><b>MARKET CAPITALISATION RATE</b> 6.00%</p> <p><b>WALE</b> 29.0 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Kensington Hospital Limited</p>	<p><b>NAPIER HEALTH CENTRE</b> Napier</p>  <p><b>MARKET VALUE</b> \$11,476,985</p> <p><b>MARKET CAPITALISATION RATE</b> 7.88%</p> <p><b>WALE</b> 2.5 YEARS</p> <p><b>OCCUPANCY</b> 100.0%</p> <p><b>MAJOR TENANT</b> Hawke's Bay District Health Board</p>

TOTAL PROPERTIES HELD FOR DEVELOPMENT

**\$30.9M**

ACROSS AUSTRALIA AND NZ



# Ormiston Hospital

## Auckland

**MARKET VALUE** \$33,000,000

**MARKET CAPITALISATION RATE** 6.25%

**WALE** 5.2 YEARS

**OCCUPANCY** 100.0%

**MAJOR TENANT**

Ormiston Surgical & Endoscopy Limited

Ormiston is situated in Flat Bush, 25km south of the Auckland CBD and was purpose built in 2008. Ormiston is approximately 5km east of Auckland's largest public hospital – Middlemore, and serves a significant catchment in one of Auckland's strongest population growth corridors, with a resident population of approximately 540,000 people. Ormiston is the only private surgical hospital in the Counties Manukau District Health Board catchment.

Ormiston is subject to various tenancy arrangements anchored by Ormiston Surgical and Endoscopy Limited – a business whose cornerstone shareholder is Southern Cross Hospitals Limited, New Zealand's largest private hospital operator. Other tenants include TRG Imaging, medical consulting rooms, pharmacy and café.

The facility comprises 5,000sqm of floor area across three levels over basement car parking, and currently has over 70 leading medical specialists and surgeons utilising the facility across a range of specialties. In addition to the hospital acquisition, Vital has acquired a further 1,000sqm of adjacent land to provide for future growth.

## OUR BOARD

Our Board has overall responsibility for setting the strategic direction and 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.



### **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 Willis Bond Capital Partners and Accessible Properties Limited. He was the deputy chair of the Bay of Plenty DHB for nine years. 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 Chartered Fellow of the Institute of Directors.



### **CLAIRE HIGGINS**

Independent Director

Claire Higgins is an Australian based professional Director. She is the Chair of REI Superannuation Pty Ltd. Claire is also a Director of Ryman Healthcare Limited, RT Health Fund Ltd, Pancare Foundation Inc and the Helen Macpherson Smith Trust. Formerly the Chair of Barwon Health, the Victorian State Emergency Service and the County Fire Authority in Victoria, Claire has also had extensive executive experience with BHP and OneSteel Limited.

Claire's areas of expertise are in governance, accounting, finance, economics and healthcare. 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.



### **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, Hughes and Cossar Group Holdings Limited, Infinity Investment Group Limited, Accessible Properties Limited and Westbrooke Capital Partners Limited. In addition, Andrew is a past National President of the Property Council of New Zealand, a fellow of the New Zealand Property Institute, a government appointee to the Land Valuation Tribunal (Waikato No.1) and a Trustee of the Marist Brothers Old Boys Rugby Charitable Trust. Andrew is a Chartered Fellow of the Institute of Directors and is on the Auckland Branch Committee.

Andrew has a Bachelor of Business Studies and MBA (with distinctions) from Massey University and a Graduate Diploma in Finance from the University of Auckland.



Committed to maintaining the highest ethical standards and accountability.



**PAUL DALLA LANA**

Director

Paul Dalla Lana is the founder and CEO of NorthWest Healthcare Properties REIT – the 100% owner of Vital Healthcare Management Limited, the Manager of Vital Healthcare Property Trust. Over the past 25 years, Paul has led NorthWest in the acquisition and development of over \$5.0 billion worth of real estate transactions, with a significant focus on healthcare properties.

Prior to 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 B.A. (Economics) and his M.B.A. (Finance and Real Estate) from The University of British Columbia.

Paul serves as Chairman of the Board of NorthWest Healthcare Properties REIT. Additionally, he is actively involved in addressing public health and education issues in Canada and around the world. He is an Advisory Board member of the Dalla Lana School of Public Health and on the President's Advisory Council at the University of Toronto.

**BERNARD CROTTY**

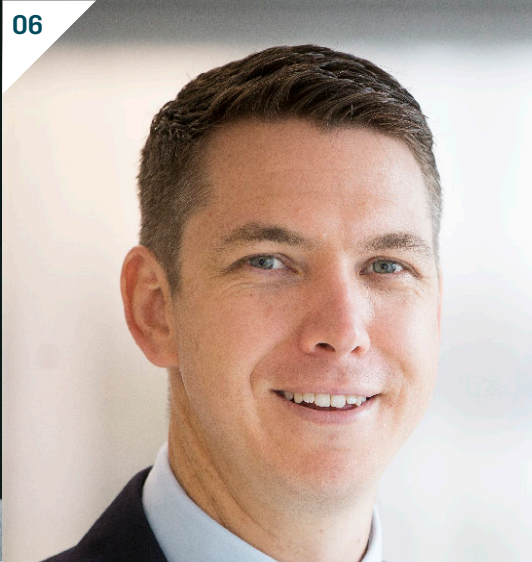
Director

Bernard Crotty is the President and a Trustee of NorthWest Healthcare Properties REIT and a Director of Vital Healthcare Management Ltd.

Bernard is a Principal of Silver and White Management, Inc., a private investment firm and previously was the Chairman and/or CEO of two TSX/Nasdaq listed software companies and has served on a variety of public company boards. In addition Bernard was a partner in an international law firm and has qualified and practiced law in Ontario and Alberta in Canada, the United Kingdom and California in the USA.

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, his M.B.A. from Duke University and is also a graduate of the Toronto ICD-Rotman Directors Education Program.







# 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 distributions to investors.

## 01 // DAVID CARR

Chief Executive Officer

David has over 23 years' experience in property and capital markets including as the Chief Executive of Vital since October 2006.

David has accountability for implementing and delivering the Trust's strategy and for its overall performance. He leads a team of passionate healthcare real estate professionals in New Zealand and Australia that have been instrumental in Vital's performance. Vital remains Australasia's largest listed healthcare real estate investment vehicle with investment assets of NZ\$1.38 billion and a market capitalisation of approximately NZ\$975m.

During David's tenure Vital has delivered a ten-year compound annual total return of 12.5%, outperforming both the S&P/NZX All RE Gross Index and the S&P NZX50 Index.

## 02 // STUART HARRISON

Chief Financial Officer and Company Secretary

Stuart has 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 – including equity raising, debt facility renewals and strategic acquisitions.

In his capacity as Company Secretary, Stuart has been responsible for the on-going compliance requirements of the Trust and its underlying subsidiary entities and for the corporate functions of the Trust. This has recently included the Manager requirements to become licensed under the Financial Markets Conduct Act 2013 as the manager of a registered Managed Investment Scheme (MIS).

Stuart holds a Bachelor of Commerce and Chartered Accountants Australia and NZ qualifications. He is also 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 four years ago after spending the previous six years in a senior executive role with NorthWest Healthcare Properties REIT, a Canadian healthcare property trust. He has over 20 years of career experience in commercial real estate financing, acquisitions and property management.

In his role as Managing Director, Richard is responsible along with his Melbourne based team for the asset management of the Australian portfolio, including acquisitions, development, leasing and tenant relationships.

## 04 // MARK NORMAN

National Development Manager

Mark has more than 20 years' experience in the healthcare property industry. He has delivered over 40 development projects for the Trust

with a total value in excess of \$350 million. This includes the development of several key greenfield hospitals along with numerous projects, in partnership with our operators, to enhance Vital's existing facilities.

Based in Melbourne, Mark has also been involved in the majority of Vital's acquisitions over the last 6 years and also plays a significant role in the asset management of our Australian properties.

## 05 // CAMERON RAMSAY

National Acquisitions Manager

Cameron joined Vital in April 2016 as National Acquisitions Manager. He has over 10 years' experience in the property industry having formerly worked with Ernst & Young's Real Estate Advisory team in Melbourne.

Cameron's previous role as Associate Director at EY involved primarily managing freehold and going concern private hospital and medical centre valuations, acquisition due diligence and transaction management engagements for institutions, REIT's, syndicates, not for profit organisations, governments and high net worth individuals.

Cameron has a Graduate Diploma in Valuations and Masters of Business (Property) from RMIT University. He is a Certified Practising Valuer, member of the Australian Property Institute and is an Agents Representative.

Based in Vital's Melbourne office, Cameron has significant knowledge of the healthcare sector and plays a key role in the continued growth of the Australian portfolio.

## 06 // DRUGH WOODS

New Zealand Asset Manager

Drugh has been with Vital for over nine years and is responsible for managing the financial performance of the New Zealand portfolio including asset acquisitions and disposals. Drugh has over 14 years of experience following the completion of a Bachelor of Property degree at Auckland University and was involved in a diverse range of property projects in Auckland and Christchurch prior to joining Vital.

## 07 // VICKI LI

Property Accountant

## 08 // JADE MURPHY

Financial Controller

## 09 // KATIE MURPHY

Marketing Co-ordinator and Executive Assistant

## 10 // STEPHEN FREUNDLICH

Fund Analyst and Investor Relations Manager

## 11 // MARGARET KNELL

Property Administrator

## 12 // RACHEL KNEZ

Property Administrator



# CORPORATE GOVERNANCE

## INTRODUCTION

Corporate governance is the systems under which an organisation is guided, managed and measured. Good corporate governance is important to promote market and investor confidence. Ultimate responsibility for corporate governance of Vital resides with the Board of Directors of the Manager. The Board acknowledges strong corporate governance and stewardship as fundamental to the strong performance of Vital. As a result, they have a commitment to the highest standards of business behaviour, transparency and accountability wherever possible.

With these objectives in mind the Board has adopted its current framework which, in the Board's opinion materially complies with the NZX Corporate Governance Code (NZX Code) and the Financial Markets Authority (FMA) corporate governance principles and guidelines, unless otherwise stated.

## THE TRUST AND TRUSTEE

Vital Healthcare Property Trust (Vital) is a unit trust established under the Unit Trust Act 1960 by a Trust Deed dated 11 February 1994 as subsequently amended and replaced. Vital became a registered managed investment scheme under the Financial Markets Conduct Act 2013 on 29 November 2016. Vital units are listed on the New Zealand Stock Exchange (NZX code: VHP).

The Trustee of Vital is Trustees Executors Limited. The Trustee is required to be licensed by the FMA under the Financial Markets Supervisors Act 2011 to act as a trustee of a unit trust. The Trustee's role is to supervise the administration and management of Vital in accordance with the Trust Deed, and to ensure that the Manager complies with its duties and responsibilities under the Trust Deed.

The Trustee holds title to the assets of Vital in trust for the unitholders, 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 Vital.

## THE MANAGER

The Manager of Vital is Vital Healthcare Management Limited, a wholly owned subsidiary of NWI Healthcare Properties LP. The Manager has responsibility for the management of Vital in accordance with the Trust Deed.

The Manager's responsibilities include the day-to-day management of Vital's portfolio of properties and assets, negotiating the acquisition and disposal of assets, development and construction planning and management, treasury and funding management, ensuring Vital meets its financial, reporting and other statutory and regulatory obligations and communicating with unitholders and the market.

Vital does not engage or employ any Directors or employees of its own. The Manager provides a highly experienced and diverse range of professionals with expertise across a range of areas.

## PRINCIPLE 1 - ETHICAL BEHAVIOUR

*Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.*

The Board considers it particularly important to manage all real or perceived conflicts of interest that may arise during the ordinary course of business. From a corporate governance perspective managing conflicts of interest, perceived or otherwise, typically attracts some of the greatest levels of scrutiny.

The Manager has established internal policies and procedures that govern behaviour of its Directors and employees. The aim of these policies is to support good corporate governance and promote investor and market confidence.

### Code of Conduct

All Directors and employees of the Manager must abide by its Code of Conduct policy. The Manager recognises the importance of a work environment which actively promotes best practice and does not compromise business ethics or principles. The purpose of the Code of Conduct is to uphold the highest ethical standards, acting in good faith and in the best interests of unitholders at all times. The Code of Conduct 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 Vital's assets and use of Vital's information.

The policy provides a practical set of guiding principles and operates in conjunction with other policies relating to minimum standards of behaviour and conduct. Compliance with this policy is a condition of employment with the Manager.

## PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

*To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.*

### The Board of Directors

The role of the Board of Directors is to set the strategic direction of Vital and to support management in monitoring the delivery of this against specific performance objectives. The Board also ensures that all business risks are appropriately identified and managed and that all regulatory, statutory, financial, health and safety and social responsibilities of the Manager are complied with.

### Board Composition

The Manager is committed to having an effective Board providing a balance of independent skills, knowledge, experience and perspectives. The Constitution of the Manager provides for there to be not more than seven Directors, or less than three Directors. All the members of the Board are Non-Executive Directors. All bring a significant breadth and depth of expertise and have the composite skills to optimise the financial and portfolio performance of Vital and returns to unitholders.

## Attendance and Appointment Dates

Attendance at Board Meetings	Date of Appointment	
Graeme Horsley (Chair)	7 of 7	20 August 2007
Andrew Evans	7 of 7	20 August 2007
Claire Higgins	7 of 7	16 January 2012
Paul Dalla Lana	7 of 7	16 January 2012
Bernard Crotty	7 of 7	16 January 2012

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.

## Appointments

Unitholders have the opportunity to nominate two of the Independent Directors of the Manager required by NZX 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.

The terms of a Directors appointment are contained within the Board Charter. The purpose of the Charter is to set out the role, composition and responsibilities of the Board, and how its powers and responsibilities will be exercised and discharged. The Charter reaffirms that the Directors must comply with their duties as set out in the Companies Act 1993, including to act in good faith, together with other duties which include (but are not limited to) conducting themselves in an appropriate manner.

The table below shows all relevant interests of Directors in Units including legal and beneficial interests.

	Holdings (number of units) non-beneficial	Holdings (number of units) beneficial
Graeme Horsley	48,972	284,304
Andrew Evans	284,304	418,433
Claire Higgins	73,676	
Paul Dalla Lana <sup>1</sup>	105,977,178	
Bernard Crotty		

1 Paul Dalla Lana (Chairman, CEO and trustee) and Bernard Crotty (President and trustee) are Officers and/or shareholders of NorthWest Healthcare Properties Real Estate Investment Trust (a trust organised under the laws of Ontario, Canada). NorthWest Healthcare Properties Real Estate Investment Trust directly or indirectly holds approximately 106.0 million units in Vital Healthcare Property Trust.

## 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. Directors Independence is

determined by whether they are independent of management and free of any business or other relationships that could materially interfere with, or could reasonably be perceived to materially interfere with, exercising their unfettered and independent judgement.

As defined in the NZX Listing Rules, the Board has determined that three of its members: Graeme Horsley (Chairman), Claire Higgins and Andrew Evans are Independent Directors. Paul Dalla Lana and Bernard Crotty are considered not to be independent.

Biographies of each Board member including their skills, experience and expertise are included in the Board of Directors section on pages 20-21.

## Diversity

At a Board level diversity of experience is critical to ensure a healthy exchange of ideas and opinions to deliver higher quality decision making and outcomes. All Board appointments are based on merit and diversity (including gender and ethnicity).

A key feature of Vital's external management structure is that all employee costs are the responsibility of the Manager, not Vital. The Manager is committed to providing a positive working environment where diversity in all its forms is respected and embraced.

As at 30 June 2017 the Manager has one female Director out of the five appointed Directors and both of the Officers of the Manager are male. This is unchanged from the prior period.

Healthcare real estate is a specialised sector and the Board believes it is important to have members with a diverse range of backgrounds, skills and experience to ensure robust discussion. It is also important to balance skills and knowledge gained through length of tenure on the Board and the value of fresh ideas in decision-making. The table on the following page summarises the skills, experience and length of service of the current Board.

A majority of the Directors are members of professional organisations such as the Institute of Directors (or equivalent) and other industry specific and relevant organisations that support the ongoing education and training of professional directors.

## Board and Director Performance

Assessment of the Board and each Directors' performance is determined by the Chairman and takes into account overall attendance, contribution and experience of each individual member concerned.

## Chairman and Chief Executive Officer

The role of Chairman and Chief Executive Officer (CEO) are separated to increase accountability and facilitate more effective monitoring and oversight of management. At the financial year-

Gender diversity	2017				2016			
	Male	Female	Proportion Male	Proportion Female	Male	Female	Proportion Male	Proportion Female
Directors	4	1	80%	20%	4	1	80%	20%
Officers	3	0	100%	0%	3	0	100%	0%
Leadership	4	0	100%	0%	4	0	100%	0%
All Employees	9	4	69%	31%	8	5	62%	38%

Skills & Experience	Graeme Horsley	Andrew Evans	Claire Higgins	Bernard Crotty	Paul Dalla Lana
Accounting / finance / economics		•	•	•	•
Commercial real estate / asset management / valuation	•	•	•	•	•
Corporate governance	•	•	•	•	•
Legal / regulatory	•		•	•	•
International business	•	•	•	•	•
Tenure (years)	10	10	5.5	5.5	5.5

end and at the date of this report, Graeme Horsley is Chairman and David Carr is CEO of the Manager. Graeme's role as Chairman is to provide leadership to the Board of Directors and is accountable to the Board. David's primary role is to ensure management's delivery on the strategy approved by the Board.

### PRINCIPLE 3 – BOARD COMMITTEES

*The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.*

The Board uses a number of committees to assist in the delivery of its duties and responsibilities. Board committees support 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 Audit Committee is responsible for overseeing the financial and accounting responsibilities of Vital. 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/removal of Vital's external auditor
- 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
- Monitoring compliance with the Unit Trusts Act 1960, Financial Reporting Act 2013, Companies Act 1993 and the NZX Listing Rules

#### Attendance at Audit Committee

#### Date of Appointment

Claire Higgins (Chair)	4 of 4	16 January 2012
Andrew Evans	4 of 4	14 November 2011
Bernard Crotty	4 of 4	16 January 2012

Employees and Directors who are not members may attend the audit committee meetings on an invitation only basis.

#### Remuneration Committee

The NZX Code recommends that a Remuneration Committee be established to benchmark remuneration packages for Directors and senior employees and that the information be disclosed to investors. A key feature of the external management structure that Vital operates under is that all employment expenses are the responsibility of the Manager, not Vital. Consequently, a Remuneration Committee is not considered necessary by the Board at this time.

#### Nominations Committee

Unitholders have the opportunity to nominate two of the Independent Directors of the Manager and can nominate and vote on one Independent Director of the Manager each year. As a result of this current structure a nominations committee is not considered necessary by the Board at this time.

#### Due Diligence Committee

From time to time the Board establishes Due Diligence Committees (DDC) to report on the due diligence process in relation to any potential transaction for Vital of material size or complexity. An example would be a material portfolio acquisition or equity capital raising. A DDC will normally include all Directors, relevant management staff and external consultants appropriate for the transaction.

### PRINCIPLE 4 – REPORTING & DISCLOSURE

*The Board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures.*

#### Continuous Disclosure

It is important that the market and investors feel confident in the timing or manner of any buying or selling of Vital Units. As a NZX issuer, the Manager is acutely aware of the need to ensure the market, investors and regulators remain fully informed of any and all material or price sensitive information relevant to Vital. The Board and all management employees are aware of the NZX Continuous Disclosure requirements and Vital has internal procedures in place to ensure compliance with them.



All governance documents are available on Vital's website.

Environment & the community

Vital is in the process of reviewing the most appropriate non-financial reporting framework for its business.

#### **PRINCIPLE 5 – REMUNERATION**

*The remuneration of directors and executives should be transparent, fair and reasonable.*

Manager's Remuneration

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

Management fees are charged, in respect of each month, a base fee equal to 0.75% per annum of the monthly average of the Gross Value of the assets of Vital for the quarter ended on the last day of that month. The incentive fee is an amount equal to 10% per annum of the average annual increase in the Gross Value of Vital over the relevant financial year and two preceding financial years.

The Manager is required to apply the incentive fee in subscribing for new Units in Vital issued at the weighted average price. The remuneration of the Manager is subject to an overall limit of 1.75% per annum of the Gross Value of Vital and includes the remuneration of the CEO and management team.

The Manager and the Trustee are each entitled to be reimbursed out of the Trust Fund for all expenses, costs or liabilities incurred by them respectively in acting as Manager or Trustee.

Trustee's Remuneration

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

Directors remuneration

The basis for Directors fees are set out in the Board Charter which seeks to pay market level remuneration which is fair and reasonable. The Manager believes it is important to attract and retain high quality directors who can bring a valuable and diverse set of skills and experience to the trust.

A key feature of the external management structure that Vital operates under is that all Directors expenses are the responsibility of the Manager, not Vital.

Insurance and Indemnities

In accordance with the Board Charter, the Manager has provided insurance and indemnities to, its directors and officers for any liability / losses arising in respect of actions or omissions occurring during the normal carrying out of their duties.

#### **PRINCIPLE 6 – RISK MANAGEMENT**

*Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.*

Risk Management

The Board of Directors maintains a sound understanding of key risks faced by Vital. Effective management of all financial and non-financial risks is fundamental to the delivery of the Board's strategy.

As part of its framework, the Board and Audit Committee work closely with management and external auditors to support the identification, management and reporting of certain financial and non-financial risks to Vital. In addition, the Manager will engage other external advisers as appropriate to deal with specific risks.

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 Vital. 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 NZX in accordance with the Financial Markets Conduct Act 2013. The holdings of Directors of the Manager are disclosed on page 25.

Health and Safety

The Directors and Manager of the Trust are committed to ensuring that as far as practical, it provides a safe and healthy working environment for all employees, tenants, contractors and others who may visit our properties. The Audit Committee monitors the ongoing implementation of and adherence to the health and safety policy guidelines. The Trust's Health & Safety policy which can be found on our website, aims to reflect this commitment.

#### **PRINCIPLE 7 – AUDITORS**

*The Board should ensure the quality and independence of the external audit process.*

EXTERNAL AUDITORS

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 at least 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 – 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 KPMG has been appointed as the auditor of the Manager.

#### **PRINCIPLE 8 – UNITHOLDER RIGHTS & COMMUNICATION**

*The Board should respect the rights of unitholders and foster constructive relationships with unitholders that encourage them to engage with the issuer.*

A key focus of investor relations is to ensure the market and investors are informed of all details necessary to assess their investment and Vital's performance as specified by NZX Listing Rules. The Board aims to foster constructive communications and encourages all stakeholders to engage with Vital.

##### **Website**

A key element of corporate communication is the Trust's website at [www.vhpt.co.nz](http://www.vhpt.co.nz). The website enables all existing and potential new unitholders to view information including: an overview of the business and corporate structure, a history of financial and investment performance, key calendar dates and the ability to access and download all NZX announcements, presentations and investor forms. The website also includes key corporate governance documents including the Board Charter, Statement of Investment Objectives (SIPO) and other key policy documentation.

The Manager also actively encourages engagement through a communication strategy which includes:

- The Annual Meeting for the unitholders to meet with and ask questions of the Board, the Trustee, management and external auditors
- Any other meetings called to obtain approval for the Managers action as appropriate
- Results webcasting providing all investors with the ability to listen and ask questions of management
- Various investor communications including Annual and Interim Reports
- Newsletters and periodic investor roadshows
- Regular reminding to unitholders they have the option to receive communications electronically
- Periodic and continuous disclosure to NZX
- Notices and explanatory memoranda for Annual and Special Meetings

Vital also has a toll-free contact number (0800 225 264) and general service and enquiry email address ([enquiry@vhpt.co.nz](mailto:enquiry@vhpt.co.nz)) for the Manager to receive any market or investor enquiries.



SOUTH EASTERN PRIVATE HOSPITAL, VIC.



KENSINGTON HOSPITAL, WHANGAREI



MONS ROAD MEDICAL CENTRE, NSW.





**BUILDING A HEALTHY  
FUTURE**

**FINANCIAL STATEMENTS**

**2017**

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Note	2017 \$000s	2016 \$000s
Gross property income from rentals		91,849	70,351
Gross property income from expense recoveries		7,620	6,768
Property expenses		(9,812)	(8,845)
<b>Net property income</b>	4	<b>89,657</b>	68,274
Other income and expenses	5	(22,070)	(14,510)
Finance income		96	110
Finance expense	6	(14,650)	(15,153)
<b>Operating profit</b>		<b>53,033</b>	38,721
<b>Other gains/(losses)</b>			
Revaluation gain on investment property	10	168,549	101,869
Fair value gain/(loss) on foreign exchange derivatives		(342)	1,741
Fair value gain/(loss) on interest rate derivatives		9,023	(6,180)
Unrealised gain/(loss) on foreign exchange		885	2,104
		<b>178,115</b>	99,534
<b>Profit before income tax</b>		<b>231,148</b>	138,255
Taxation expense	7	(13,526)	(21,047)
<b>Profit for the year attributable to unitholders of the Trust</b>		<b>217,622</b>	117,208
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss:</b>			
Movement in foreign currency translation reserve		(2,183)	(33,848)
Realised foreign exchange gain/(loss) on hedges		9,605	7,462
Current taxation (expense)/credit		(2,689)	(2,089)
Unrealised foreign exchange gain/(loss) on hedges		(6,549)	12,572
Deferred taxation (expense)/credit		1,834	(3,520)
Fair value gain/(loss) on net investment hedges		(267)	7,587
Deferred taxation (expense)/credit		75	(2,124)
<b>Total other comprehensive income/(loss) after tax</b>		<b>(174)</b>	(13,960)
<b>Total comprehensive income after tax</b>		<b>217,448</b>	103,248
<b>Earnings per unit</b>			
Basic and diluted earnings per unit (cents)	8	<b>51.68</b>	34.00

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	2017 \$000s	2016 \$000s
<b>Non-current assets</b>			
Investment properties	10	1,376,243	951,879
Derivative financial instruments	11	1,499	-
Other non-current assets		327	358
<b>Total non-current assets</b>		<b>1,378,069</b>	<b>952,237</b>
<b>Current assets</b>			
Cash and cash equivalents	9	3,352	12,980
Trade and other receivables		367	358
Other current assets		7,886	3,113
Derivative financial instruments	11	2,554	9,486
<b>Total current assets</b>		<b>14,159</b>	<b>25,937</b>
<b>Total assets</b>		<b>1,392,228</b>	<b>978,174</b>
<b>Unitholders' funds</b>			
Units on issue	13	538,469	369,220
Reserves		(11,295)	(17,118)
Retained earnings		352,647	171,617
<b>Total unitholders' funds</b>		<b>879,821</b>	<b>523,719</b>
<b>Non-current liabilities</b>			
Borrowings	14	401,879	344,159
Income in advance		1,541	3,656
Derivative financial instruments	11	12,142	19,764
Deferred tax	12	71,719	63,669
<b>Total non-current liabilities</b>		<b>487,281</b>	<b>431,248</b>
<b>Current liabilities</b>			
Trade and other payables	15	11,537	9,629
Income in advance		2,407	3,569
Derivative financial instruments	11	97	41
Taxation payable		11,085	9,968
<b>Total current liabilities</b>		<b>25,126</b>	<b>23,207</b>
<b>Total liabilities</b>		<b>512,407</b>	<b>454,455</b>
<b>Total unitholders' funds and liabilities</b>		<b>1,392,228</b>	<b>978,174</b>

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



G Horsley, **Chairman**  
10 August 2017



C Higgins, **Director**

The notes on pages 35 to 53 form part of and are to be read in conjunction with these financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Units on issue \$000s	Retained earnings \$000s	Translation of foreign operations \$000s	Foreign exchange hedges \$000s	Share based payments \$000s	Total unitholders' funds \$000s
<b>For the year ended</b>						
<b>30 June 2016</b>						
Balance at the start of the period	362,853	82,605	(47,682)	38,207	3,773	439,756
Changes in unitholders' funds	6,367	-	-	-	(3,773)	2,594
Manager's incentive fee	-	-	-	-	6,317	6,317
Profit for the period	-	117,208	-	-	-	117,208
Distributions to unitholders	-	(28,196)	-	-	-	(28,196)
<b>Other comprehensive income for the period</b>						
Movement in foreign currency translation reserve	-	-	(33,848)	-	-	(33,848)
Realised foreign exchange gains on hedges	-	-	-	5,373	-	5,373
Unrealised foreign exchange gains/ (losses) on hedges	-	-	-	9,052	-	9,052
Fair value gains on net investment hedges	-	-	-	5,463	-	5,463
<b>Balance at the end of the year</b>	<b>369,220</b>	<b>171,617</b>	<b>(81,530)</b>	<b>58,095</b>	<b>6,317</b>	<b>523,719</b>
<b>For the year ended</b>						
<b>30 June 2017</b>						
Balance at the start of the period	<b>369,220</b>	<b>171,617</b>	<b>(81,530)</b>	<b>58,095</b>	<b>6,317</b>	<b>523,719</b>
Changes in unitholders' funds	<b>169,249</b>	-	-	-	<b>(6,317)</b>	<b>162,932</b>
Manager's incentive fee	-	-	-	-	<b>12,314</b>	<b>12,314</b>
Profit for the period	-	<b>217,622</b>	-	-	-	<b>217,622</b>
Distributions to unitholders	-	<b>(36,592)</b>	-	-	-	<b>(36,592)</b>
<b>Other comprehensive income for the period</b>						
Movement in foreign currency translation reserve	-	-	<b>(2,183)</b>	-	-	<b>(2,183)</b>
Realised foreign exchange gains on hedges	-	-	-	<b>6,916</b>	-	<b>6,916</b>
Unrealised foreign exchange gains/ (losses) on hedges	-	-	-	<b>(4,715)</b>	-	<b>(4,715)</b>
Fair value gains on net investment hedges	-	-	-	<b>(192)</b>	-	<b>(192)</b>
<b>Balance at the end of the year</b>	<b>538,469</b>	<b>352,647</b>	<b>(83,713)</b>	<b>60,104</b>	<b>12,314</b>	<b>879,821</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

	Note	30 June 2017 \$000s	30 June 2016 \$000s
<b>Cash flows from operating activities</b>			
Property income		90,271	70,146
Recovery of property expenses		7,478	6,712
Interest received		84	97
Property expenses		(10,094)	(8,628)
Management and trustee fees		(8,438)	(6,870)
Interest paid		(14,072)	(15,255)
Tax paid		(4,995)	(4,552)
Other trust expenses		(2,407)	(1,378)
<b>Net cash provided by/(used in) operating activities</b>	9	<b>57,827</b>	40,272
<b>Cash flows from investing activities</b>			
Receipts from foreign exchange derivatives		11,115	11,826
Capital additions on investment properties		(30,575)	(48,483)
Purchase of properties		(223,292)	(69,958)
Prepaid acquisition costs		(3,394)	(2,173)
Tenant incentives		(3,316)	(576)
Payments for foreign exchange derivatives		(445)	(3,896)
Other		-	(37)
<b>Net cash provided by/(used in) investing activities</b>		<b>(249,907)</b>	(113,297)
<b>Cash flows from financing activities</b>			
Debt drawdown		219,989	143,635
Issue of units (net of issue costs)		157,004	-
Repayment of debt		(163,843)	(33,019)
Loan issue costs		-	(568)
Costs associated with Distribution Reinvestment Plan		(31)	(29)
Distributions paid to unitholders		(30,665)	(25,045)
<b>Net cash from/(used in) financing activities</b>		<b>182,454</b>	84,974
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(9,626)</b>	11,949
Effect of exchange rate changes on cash and cash equivalents		(2)	9
Cash and cash equivalents at the beginning of the period		12,980	1,022
<b>Cash and cash equivalents at the end of the year</b>		<b>3,352</b>	12,980

The notes on pages 35 to 53 form part of and are to be read in conjunction with these financial statements.

## NOTES TO THE CONSOLIDATED 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.

The consolidated financial statements of VHP for the year ended 30 June 2017 comprise VHP and its subsidiaries (together referred to as the "Group"). VHP is listed on the New Zealand Stock Exchange (NZX) and is a FMC reporting entity for the purpose of the Financial Markets Conduct Act 2013. The 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 10 August 2017.

### 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 consolidated 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 ongoing 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 10 – valuation of investment properties

Note 12 – 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 17. Control is achieved where the Trust has the power over the investees; is exposed, or has rights, to variable returns from its involvement with the investees; and has the ability to use its power to affect its 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 that time.

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 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Goods and services 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 part of 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 years. The fair values are based on market values being the estimated amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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) Financial instruments

##### (g.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.

##### (g.2) Cash and cash equivalents

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

##### (g.3) Trade and other receivables

Trade and other receivables are recognised initially at fair value. 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.

##### (g.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.

##### (g.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.

##### (g.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.

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Financial instruments (continued)

##### (g.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.

#### (h) Recognition of income

Rental income from the investment properties held by the Group is recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives provided in relation to letting the investment property are amortised on a 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.

#### (i) Finance expense

Finance expense comprises interest payable on borrowings and realised 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.

#### (j) Taxation

##### (j.1) Income tax expense

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

##### (j.2) Current tax

The tax currently payable is based on taxable profit for the reporting period, using tax rates enacted or substantively enacted at the reporting date in the countries where the Group operates. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, and establishes provisions where

appropriate on the basis of amounts expected to be paid to the tax authorities. Taxable profit differs from profit reported in the statement of comprehensive income because it excludes items that are never taxable or deductible.

##### (j.3) Deferred tax

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

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

#### (k) 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).

#### (l) Operating lease commitments

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

#### (m) Capital

##### (m.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.

##### (m.2) Distributions

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (m) Capital (continued)

##### *(m.3) Share based payments*

The Trust receives management services from the Manager and pays the Manager an asset management fee and an incentive fee. The management fee is recorded in the statement of comprehensive income and is settled in cash. The incentive fee, as set out in the Trust Deed, is settled in newly issued units. The incentive fee arrangements are considered a share based payment. The Trust recognises the incentive fee as the services are provided. The incentive fee not yet settled as newly issued units is reflected within the share based payment reserve until such time as it has been settled.

#### (n) 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.

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

At the date of authorisation of these financial statements the following relevant standards and interpretations were in issue but not yet effective and have not been applied in preparing these financial statements. These changes are not expected to have a material impact on the financial statements but may affect presentation and disclosure:

NZ IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2018) introduces a new classification and measurement regime for financial assets and liabilities.

NZ IFRS 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018) provides revenue recognition criteria in relation to the nature, amount and timing of revenue associated with contracts from customers.

NZ IFRS 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019) eliminates the distinction between the operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets, with the exception of certain short term leases and leases of low value assets. There are minimal changes from the current NZ IAS 17 requirements for lessors.

Other standards and interpretations in issue but not yet effective are not expected to have an impact on the financial statements of the Group in the period of initial application.

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

There were no new standards, amendments or interpretations adopted in the current year that impacted the Group.

#### (q) Changes in accounting policy and presentation

All accounting policies have been applied on a basis consistent with the prior years' financial statements.



#### 4 SEGMENT INFORMATION

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

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

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

	Australia \$000s	New Zealand \$000s	Total \$000s
<b>Segment profit/(loss) for the year ended 30 June 2017:</b>			
<b>Net property income</b>	<b>73,956</b>	<b>15,701</b>	<b>89,657</b>
Other (expense)	(7,588)	(14,482)	(22,070)
Finance expense	(6,290)	(8,264)	(14,554)
	<b>60,078</b>	<b>(7,045)</b>	<b>53,033</b>
Fair value gain/(loss) on interest rate derivatives	-	9,023	9,023
Revaluation gains on investment properties	<b>143,436</b>	<b>25,113</b>	<b>168,549</b>
Other foreign exchange gains/(losses)	(3)	546	543
<b>Total segment profit before income tax</b>	<b>203,511</b>	<b>27,637</b>	<b>231,148</b>
Taxation (expense)			(13,526)
<b>Profit for the year</b>			<b>217,622</b>
<b>Segment profit/(loss) for the year ended 30 June 2016:</b>			
<b>Net property income</b>	55,053	13,221	68,274
Other (expense)	(6,016)	(8,962)	(14,978)
Finance (expense)	(6,677)	(8,366)	(15,043)
	42,360	(4,107)	38,253
Fair value gain/(loss) on interest rate derivatives	9	(6,189)	(6,180)
Revaluation gains on investment properties	90,950	10,919	101,869
Other foreign exchange gains/(losses)	(8)	4,321	4,313
<b>Total segment profit before income tax</b>	<b>133,311</b>	<b>4,944</b>	<b>138,255</b>
Taxation (expense)			(21,047)
<b>Profit for the period</b>			<b>117,208</b>

Net property income consists of revenue generated from external tenants less property operating expenditure. The Group has two tenants with over 10% of gross property income from rentals totalling \$47.4m, all in Australia (2016: three tenants totalling \$54.8m).

Included in net property income for the year ended 30 June 2017 is a lease termination receipt of \$13.8m.

There were no inter-segment sales during the year (2016: 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 CONSOLIDATED FINANCIAL STATEMENTS

### 4 SEGMENT INFORMATION (continued)

	Australia \$000s	New Zealand \$000s	Total \$000s
<b>Segment assets at 30 June 2017:</b>			
Investment properties	1,110,530	265,713	1,376,243
Other non-current assets	286	1,540	1,826
Current assets	4,813	9,346	14,159
<b>Consolidated assets</b>	<b>1,115,629</b>	<b>276,599</b>	<b>1,392,228</b>
<b>Segment assets at 30 June 2016:</b>			
Investment properties	777,109	174,770	951,879
Other non-current assets	296	62	358
Current assets	3,027	22,910	25,937
<b>Consolidated assets</b>	<b>780,432</b>	<b>197,742</b>	<b>978,174</b>
<b>Segment liabilities at 30 June 2017:</b>			
Borrowings	270,855	131,024	401,879
Other liabilities	77,907	32,621	110,528
<b>Consolidated liabilities</b>	<b>348,762</b>	<b>163,645</b>	<b>512,407</b>
<b>Segment liabilities at 30 June 2016:</b>			
Borrowings	213,679	130,480	344,159
Other liabilities	69,553	40,743	110,296
<b>Consolidated liabilities</b>	<b>283,232</b>	<b>171,223</b>	<b>454,455</b>

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

- all assets are allocated to reportable segments, and
- all liabilities are allocated to reportable segments.

### 5 OTHER INCOME AND EXPENSES

	2017 \$000s	2016 \$000s
<b>Expenses</b>		
<i>Auditor's remuneration:</i>		
Audit and review of financial statements	139	135
Manager's fees	8,073	6,200
Manager's incentive fee	12,314	6,317
Other operating income/expenses	1,544	1,858
<b>Total other expenses</b>	<b>22,070</b>	<b>14,510</b>

### 6 FINANCE EXPENSES

	2017 \$000s	2016 \$000s
<b>Expenses</b>		
Interest expense	14,952	15,581
Borrowing costs capitalised	(302)	(428)
<b>Total finance expenses</b>	<b>14,650</b>	<b>15,153</b>

## 7 TAXATION

	2017 \$000s	2016 \$000s
Profit/(loss) before tax for the period	231,148	138,255
Taxation (charge)/credit - 28% on profit before income tax	(64,722)	(38,711)
Effect of different tax rates in foreign jurisdictions	26,475	12,061
Change in tax rate	17,201	-
Tax exempt income	6,941	6,328
Foreign tax credits	5,019	3,792
Tax charges on overseas investments	(5,337)	(4,682)
Over/(under) provided in prior periods	75	(219)
Other adjustments	822	384
<b>Taxation (expense)/credit</b>	<b>(13,526)</b>	<b>(21,047)</b>
The taxation (charge)/credit is made up as follows:		
Current taxation	(3,526)	(4,795)
Deferred taxation	(10,000)	(16,252)
<b>Total taxation (expense)</b>	<b>(13,526)</b>	<b>(21,047)</b>

### 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 – This Australian Trust was established so that it qualifies as a Managed Investment Trust (MIT) for Australian tax purposes and is subject to Australian tax on assessable income at the rate of 15%.

VHAPT – This Australian Trust is subject to Australian tax on assessable income at the rate of 15% after qualifying as a MIT for Australian tax purposes. The applicable tax rate in 2016 was 30%. Accordingly the deferred tax liability relating to this entity has reduced by \$17.2m. This has been recognised as a reduction in tax expense in 2017.

### Imputation credits

Imputation (deficit)/credits at end of year	196	97
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## 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.

	2017	2016
Profit attributable to unitholders of the Trust (\$000s)	217,622	117,208
Weighted average number of units on issue (000's of units)	421,117	344,721
<b>Basic and diluted earnings per unit (cents)</b>	<b>51.68</b>	<b>34.00</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8 EARNINGS PER UNIT (continued)

	2017 \$000s	2016 \$000s
<b>Distributable income</b>		
Profit before income tax	231,148	138,255
Revaluation (gains)	(168,549)	(101,869)
Unrealised foreign exchange (gain)/loss	(885)	(2,104)
Unrealised foreign exchange (gain)/loss derivatives	342	(1,741)
Unrealised interest rate (gain)/loss derivatives	(9,023)	6,180
Manager's incentive fee	12,314	6,317
<b>Profit used in calculating gross distributable income</b>	<b>65,347</b>	<b>45,038</b>
Current tax charge	3,526	4,795
<b>Profit used in calculating net distributable income</b>	<b>61,821</b>	<b>40,243</b>
<b>Gross distributable income (cpu)</b>	<b>15.52</b>	<b>13.07</b>
<b>Net distributable income (cpu)</b>	<b>14.68</b>	<b>11.67</b>

Distributions paid in the financial year were 8.50 cents per unit (2016: 8.20).

### 9 STATEMENT OF CASH FLOWS RECONCILIATION FROM OPERATING ACTIVITIES

	2017 \$000s	2016 \$000s
<b>Cash and cash equivalents</b>		
Australian financial institutions	2,529	1,845
New Zealand financial institutions	823	11,135
<b>Cash at bank</b>	<b>3,352</b>	<b>12,980</b>
<b>Reconciliation of profit after income tax to net cash flows from operating activities</b>		
<b>Profit after tax for the year</b>	<b>217,622</b>	<b>117,208</b>
<i>Adjustments for non-cash items</i>		
Change in fair value of investment properties	(168,549)	(101,869)
Fair value (gain)/loss on derivative financial instruments	(8,682)	4,439
Unrealised foreign exchange (gain)/loss	(885)	(2,104)
Deferred taxation	10,000	16,252
Income in advance	(2,115)	(2,210)
Manager's incentive fee	12,314	6,317
Other	348	(443)
Effect of exchange rate changes on cash balances	(3)	9
<b>Operating cash flow before changes in working capital</b>	<b>60,050</b>	<b>37,599</b>
Change in trade and other payables	1,907	1,597
Change in taxation payable	1,117	1,972
Change in trade and other receivables	(4,782)	(2,220)
Items classified as investing activities	(465)	1,324
<b>Net cash from operating activities</b>	<b>57,827</b>	<b>40,272</b>

During the 2017 year, distributions of \$5,927,848 (2016: \$3,150,679) have been reinvested under the Distribution Reinvestment Plan (DRP), which is excluded from investing and financing activities.

## 10 INVESTMENT PROPERTIES

	2017 \$000s	2016 \$000s
<b>Carrying value of investment property at the beginning of the year</b>	<b>951,879</b>	781,862
Acquisition of properties	223,562	71,225
Capitalised costs	31,637	47,667
Capitalised interest costs	302	428
Net capitalised incentives	2,048	(191)
Foreign exchange translation difference	(1,734)	(50,981)
Change in fair value	168,549	101,869
<b>Carrying value of investment property at the end of the year</b>	<b>1,376,243</b>	951,879
<b>Carrying value of investment property includes:</b>		
Fair value of investment properties	1,372,587	946,109
Income in advance	3,656	5,770
<b>Carrying value of investment property at the end of the year</b>	<b>1,376,243</b>	951,879

The capitalised costs consist of \$31.4m relating to Australian investment properties and \$0.2m relating to New Zealand investment properties. The foreign exchange translation difference relates to Australian investment properties. Interest was capitalised at an average of 3.6%.

The Group holds the freehold title 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 2017 was \$3.2m (2016: \$3.4m) representing 0.4% of the total investment properties portfolio (2016: 0.4%). The weighted average lease length of leasehold property at 30 June 2017 was 1.8 years (2016: 2.8 years). The Group has an option to extend the ground lease, with two further rights of renewal of 20 years each. This will extend the final expiry to 2059.

Income in advance relates to a termination payment received of \$10.0m, and will be amortised over a five year period to March 2019.

Investment properties are classified as Level 3 under the fair value hierarchy.

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. The principal assumptions in establishing the valuation include the capitalisation rate, occupancy and the weighted average lease term to expiry (WALE) with the following table identifying the respective levels adopted by the Valuers within the Group's segment.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10 INVESTMENT PROPERTIES (continued)

Properties	Location	30 June 2017 Valuer
<b>Australia</b>		
Abbotsford Private Hospital	West Leederville, New South Wales	Ernst & Young
Belmont Private Hospital	Carina Heights, Queensland	Jones Lang LaSalle Australia
Clover Lea Aged Care	Burwood Heights, New South Wales	M3
Dubbo Private Hospital	Dubbo, New South Wales	Jones Lang LaSalle Australia
Ekeru Medical Centre	Box Hill, Victoria	Ernst & Young
Epworth Eastern Hospital	Box Hill, Victoria	Ernst & Young
Epworth Eastern Medical Centre	Box Hill, Victoria	Ernst & Young
Epworth Rehabilitation	Brighton, Victoria	Ernst & Young
Fairfield Aged Care	Fairfield, New South Wales	M3
Gold Coast Surgery Centre	Southport, Queensland	Ernst & Young
Grafton Aged Care	South Grafton, New South Wales	M3
Hamersley Aged Care	Subiaco, Western Australia	Ernst & Young
Hirondelle Private Hospital	Chatswood, New South Wales	Jones Lang LaSalle Australia
Hurstville Private Hospital	Sydney, New South Wales	Jones Lang LaSalle Australia
Lingard Private Hospital	Merewether, New South Wales	Jones Lang LaSalle Australia
Maitland Private Hospital	East Maitland, New South Wales	Jones Lang LaSalle Australia
Marian Centre	Perth, Western Australia	Ernst & Young
Mayo Private Hospital	Taree, New South Wales	M3
Mons Road Medical Centre	Westmead, New South Wales	M3
North West Private Hospital	Burnie, Tasmania	M3
Palm Beach Currumbin Clinic	Currumbin, Queensland	M3
Rockingham Aged Care	Rockingham, Western Australia	Ernst & Young
South Eastern Private Hospital	Noble Park, Victoria	Ernst & Young
Sportsmed Consulting	Adelaide, South Australia	M3
Sportsmed Hospital & Clinic	Adelaide, South Australia	M3
Sportsmed Office	Adelaide, South Australia	M3
The Southport Private Hospital *	Southport, Queensland	Ernst & Young
Toronto Private Hospital	Toronto, New South Wales	Jones Lang LaSalle Australia
<b>New Zealand</b>		
Apollo Health and Wellness Centre	Albany, Auckland	Jones Lang LaSalle New Zealand
Ascot Central	Greenlane, Auckland	Jones Lang LaSalle New Zealand
Ascot Central Carpark (ground lease)	Greenlane, Auckland	Jones Lang LaSalle New Zealand
Ascot Hospital & Clinics	Greenlane, Auckland	Colliers International New Zealand Limited
Ascot Hospital Carpark (ground lease)	Greenlane, Auckland	Colliers International New Zealand Limited
Boulcott Private Hospital	Lower Hutt, Wellington	Ernst & Young
Kensington Hospital	Whangarei, Northland	Colliers International New Zealand Limited
Napier Health Centre	Napier, Hawkes Bay	Absolute Value
Ormiston Hospital	Flatbush, Auckland	Colliers International New Zealand Limited
<b>Properties held for development</b>		
<b>TOTAL FAIR VALUE OF INVESTMENT PROPERTIES</b>		
Income in advance		
<b>TOTAL CARRYING VALUE</b>		

\* Formerly named Allamanda Private Hospital



Fair value \$000s 2017	\$000s 2016	Market capitalisation rate		Occupancy		WALE	
		% 2017	% 2016	% 2017	% 2016	Years 2017	Years 2016
23,517	-	6.3	-	100.0	-	24.7	-
67,402	50,147	5.8	7.2	100.0	100.0	18.7	19.6
12,073	11,202	7.5	8.0	100.0	100.0	18.7	19.7
15,853	9,986	6.8	8.5	100.0	100.0	14.6	15.6
29,816	-	6.5	-	92.1	-	3.6	-
150,129	103,843	5.3	6.8	100.0	100.0	22.2	17.5
31,129	28,894	6.3	6.8	100.0	100.0	10.1	10.9
23,412	20,310	6.3	7.0	100.0	100.0	1.6	2.6
16,469	14,761	7.5	8.0	100.0	100.0	18.7	19.7
14,961	19,263	7.0	7.5	68.2	96.0	1.8	1.4
9,449	-	8.0	-	100.0	-	19.8	-
11,864	11,097	7.5	8.0	100.0	100.0	18.7	19.7
24,147	-	6.0	-	100.0	-	24.9	-
86,089	73,148	6.3	7.5	100.0	100.0	24.8	25.8
107,341	87,731	6.3	7.2	100.0	100.0	23.7	24.7
82,910	63,339	6.3	7.2	100.0	100.0	20.5	21.5
41,155	33,107	6.3	7.8	100.0	100.0	17.1	18.1
36,955	29,313	6.5	8.0	100.0	100.0	14.5	15.5
33,911	-	6.0	-	100.0	-	5.4	-
20,549	15,494	6.5	8.5	100.0	100.0	14.6	15.6
46,332	32,035	6.0	7.2	100.0	100.0	14.6	15.6
6,068	5,863	7.8	8.0	100.0	100.0	18.7	19.7
53,333	40,826	6.0	7.2	100.0	100.0	23.7	24.7
6,850	1,790	6.0	7.0	100.0	100.0	18.6	19.6
52,073	39,981	6.0	7.6	100.0	100.0	17.9	18.9
3,843	3,591	6.8	7.0	100.0	100.0	18.6	19.6
42,625	45,121	5.8	6.5	100.0	100.0	20.6	21.6
30,484	19,786	6.3	7.8	100.0	100.0	25.5	26.5
<b>1,080,739</b>	<b>760,628</b>						
27,000	22,600	6.5	7.5	91.5	91.4	3.3	3.9
29,000	26,600	6.4	6.8	98.4	100.0	2.9	3.8
1,530	1,600	10.9	10.4	100.0	100.0	2.5	3.5
102,500	90,000	5.6	6.4	99.5	99.5	18.5	19.1
1,700	1,750	9.8	11.6	100.0	100.0	26.0	27.0
35,800	-	6.0	-	100.0	-	21.0	-
18,900	15,300	6.0	7.5	100.0	100.0	29.0	30.0
11,477	11,150	7.9	9.1	100.0	100.0	2.5	3.5
33,000	-	6.3	-	100.0	-	5.2	-
<b>260,907</b>	<b>169,000</b>						
30,941	16,481						
<b>1,372,587</b>	<b>946,109</b>	<b>6.0</b>	7.2	<b>99.1</b>	99.6	<b>17.7</b>	18.4
3,656	5,770						
<b>1,376,243</b>	<b>951,879</b>						

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 \$000s	2016 \$000s
<b>Current assets</b>		
Foreign exchange derivative assets	2,554	9,486
<b>Non-current assets</b>		
Interest rate derivative assets	1,499	-
<b>Current liabilities</b>		
Interest rate derivative liabilities	(97)	-
Foreign exchange derivative liabilities	-	(41)
<b>Non-current liabilities</b>		
Interest rate derivative liabilities	(12,142)	(19,764)
<b>Total</b>	<b>(8,186)</b>	<b>(10,319)</b>

#### 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.(k)). There have been no reclassifications between levels in the year ended 30 June 2017 (2016: nil).

Interest rate derivatives mature over the next nine years and have fixed interest rates ranging from 2.41% to 4.99% (2016: from 2.64% to 4.99%).

	2017 \$000s	2016 \$000s
Nominal value of interest rate swaps - AUD	305,000	205,000
Average fixed interest rate	3.37%	3.76%
Floating rates based on AUD BBSW	1.78%	2.04%

#### Foreign exchange derivatives

Foreign exchange derivatives are measured using a valuation model based on the applicable forward price curves derived from observable forward prices. The Group has determined the foreign exchange derivatives are Level 2 fair value measurements (refer to Note 3.(k)). There have been no reclassifications between levels in the year ended 30 June 2017 (2016: nil).

	2017 \$000s	2016 \$000s
Nominal value of foreign exchange contracts - AUD	50,000	130,000
Nominal value of foreign exchange options - AUD	50,000	-
Average foreign exchange rate	0.9252	0.8974
Nominal value of foreign exchange contracts - NZD	-	100,000
Average foreign exchange rate	-	0.9538

## 12 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 investment properties \$000s	Borrowings \$000s	Other \$000s	Total \$000s
<b>At 1 July 2016</b>	<b>(5,534)</b>	<b>60,618</b>	<b>7,211</b>	<b>1,374</b>	<b>63,669</b>
Charge to profit and loss for the year	2,527	7,036	-	437	10,000
Change in exchange rate	-	(40)	-	(1)	(41)
Charge to other comprehensive income	-	-	(75)	(1,834)	(1,909)
<b>At 30 June 2017</b>	<b>(3,007)</b>	<b>67,614</b>	<b>7,136</b>	<b>(24)</b>	<b>71,719</b>
<b>At 1 July 2015</b>	(4,011)	47,218	5,087	(3,043)	45,251
Charge to profit and loss for the year	(1,536)	16,895	-	893	16,252
Change in exchange rate	13	(3,495)	-	4	(3,478)
Charge to other comprehensive income	-	-	2,124	3,520	5,644
<b>At 30 June 2016</b>	<b>(5,534)</b>	<b>60,618</b>	<b>7,211</b>	<b>1,374</b>	<b>63,669</b>

Significant estimates and judgements made 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 recovery 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 10).

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

## 13 UNITS ON ISSUE

	2017 \$000s	2016 \$000s
Balance at the beginning of the year	369,220	362,853
Issue of units under Distribution Reinvestment Plan	5,928	3,150
Issue of units under Rights Issue	159,932	-
Issue of units to satisfy Manager's incentive fee	6,317	3,773
Issue costs of units	(2,928)	(556)
	169,249	6,367
<b>Balance at the end of the year</b>	<b>538,469</b>	<b>369,220</b>
	2017 000s	2016 000s
<b>Reconciliation of number of units</b>		
Balance at the beginning of the year	345,998	342,080
Issue of units under the Distribution Reinvestment Plan	2,795	2,289
Units issued under Rights Issue	76,891	-
Units issued to satisfy Manager's incentive fee	2,878	1,629
<b>Balance at the end of the year</b>	<b>428,562</b>	<b>345,998</b>

The number of units on issue at 30 June 2017 was 428,562,486 (2016: 345,997,825). The units have no par value and are fully paid. Fully paid ordinary units carry one vote per unit and carry the right to distributions.

On 22 August 2016, 2,877,727 units were issued against the 2016 Manager's incentive fee of \$6,316,611 (2016: 2,289,196 were issued against the 2015 Manager's incentive fee).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13 UNITS ON ISSUE (continued)

#### Capital risk management

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

The Group's banking covenants require that the aggregate principal amount of the loan outstanding does not exceed 50% (2016: 50%) of the fair market value of property at all times calculated to the New Zealand dollar equivalent. All banking covenants have been met during the year.

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

### 14 BORROWINGS

	2017 \$000s	2016 \$000s
AUD denominated loans	402,649	345,310
Borrowing costs	(770)	(1,151)
<b>Total borrowings</b>	<b>401,879</b>	<b>344,159</b>
Shown as:		
Current	-	-
Term	401,879	344,159

The Group has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. The A\$425.0m and NZ\$20.0m facility, a multi-currency facility, is split between Tranche A: A\$125.0m and Tranche B: A\$100.0m which are due to expire on 31 March 2019, and Tranche C: A\$100.0m, Tranche D: A\$100.0m and NZ Dollar Facility: NZ\$20.0m which are due to expire on 30 October 2020 (2016: Tranche A: A\$125.0m and Tranche B: A\$100.0m which are due to expire on 31 March 2019, and Tranche C: A\$100.0m and NZ Dollar Facility: NZ\$20.0m which are due to expire on 31 March 2019).

The effective interest rate on the borrowings as at 30 June 2017 was 4.34% per annum (2016: 4.38%).

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.

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

### 15 TRADE AND OTHER PAYABLES

	2017 \$000s	2016 \$000s
Interest accrued on borrowings	1,884	1,532
Other creditors and accruals	9,653	8,097
<b>Total trade and other payables</b>	<b>11,537</b>	<b>9,629</b>

### 16 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.

## 16 FINANCIAL RISK MANAGEMENT (continued)

### 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 2017, 79.5% of borrowings were at fixed rates as approved by the Board of Directors (2016: 62.2%). 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.

### 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
<b>30 June 2017</b>						
Cash and cash equivalents (floating rates)	1.78%	3,352	-	-	-	3,352
Borrowings (floating rates)	2.29%	(82,438)	-	-	-	(82,438)
Borrowings (fixed rates)	3.89%	(15,748)	(10,499)	(52,493)	(241,470)	(320,210)
		(94,834)	(10,499)	(52,493)	(241,470)	(399,296)
<b>30 June 2016</b>						
Cash and cash equivalents (floating rates)	1.75%	12,980	-	-	-	12,980
Borrowings (floating rates)	2.55%	(130,695)	-	-	-	(130,695)
Borrowings (fixed rates)	4.27%	-	(15,704)	(10,469)	(188,442)	(214,615)
		(117,715)	(15,704)	(10,469)	(188,442)	(332,330)

### 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) 2017 \$000s	Impact on unitholders' funds 2017 \$000s	Impact on profit/(loss) 2016 \$000s	Impact on unitholders' funds 2016 \$000s
If interest rates had been 100 bps higher:	15,148	15,148	9,397	9,397
If interest rates had been 100 bps lower:	(16,533)	(16,533)	(10,215)	(10,215)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16 FINANCIAL RISK MANAGEMENT (continued)

#### Interest rate sensitivity (continued)

##### 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:

	Impact on profit/(loss) 2017 \$000s	Impact on unitholders' funds 2017 \$000s	Impact on profit/(loss) 2016 \$000s	Impact on unitholders' funds 2016 \$000s
If interest rates had been 100 bps higher:	(824)	(824)	(1,412)	(1,412)
If interest rates had been 100 bps lower:	824	824	1,412	1,412

#### 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 foreign exchange derivatives where necessary.

#### Foreign exchange exposure

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

	2017 \$000s	2016 \$000s
<b>Non-financial instrument assets and liabilities denominated in Australian dollars</b>		
Investment properties	1,110,530	777,109
Other assets	12,170	4,690
Deferred tax	(63,723)	(56,981)
<b>Total non-financial instrument assets and liabilities</b>	<b>1,058,977</b>	<b>724,818</b>
<b>Non-derivative financial instruments</b>		
Cash and cash equivalents	2,529	1,845
Trade and other receivables	152	234
Trade and other payables	(14,184)	(12,572)
Borrowings	(402,649)	(345,310)
<b>Total exposure from non-derivative financial instruments</b>	<b>(414,152)</b>	<b>(355,803)</b>
<b>Derivative financial instruments</b>		
Foreign exchange derivatives	2,554	9,445
Interest rate swaps	(10,741)	(19,764)
<b>Total exposure from derivative instruments</b>	<b>(8,187)</b>	<b>(10,319)</b>
<b>Net exposure to currency risk</b>	<b>636,638</b>	<b>358,696</b>

#### 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 the Australian Dollar. It assumes a 10% change in exchange rate (2016: 10%) based on year end exposures:

	2017 \$000s	2016 \$000s
If the New Zealand Dollar versus the Australian Dollar was 10% higher for the year:		
Profit and loss	4,621	(1,794)
Other comprehensive income	(57,519)	(30,411)
Unitholders' funds	(52,898)	(32,205)
If the New Zealand Dollar versus the Australian Dollar was 10% lower for the year:		
Profit and loss	(5,648)	2,192
Other comprehensive income	70,301	37,169
Unitholders' funds	64,653	39,361

## 16 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 ongoing 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\$425.0m and NZ\$20.0m (2016: A\$425.0m and NZ\$20.0m). As at 30 June 2017, after translation to NZD \$402.6m (2016: NZD \$345.3m) had been drawn-down. The effective interest rate was 4.34% (2016: 4.38%).

#### 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
<b>30 June 2017</b>						
<b>Non-derivative financial instruments</b>						
Borrowings (excluding borrowing costs)	(402,649)	(422,299)	(7,112)	(243,244)	(3,886)	(168,057)
Trade and other payables	(11,537)	(11,537)	(11,537)	-	-	-
	<b>(414,186)</b>	<b>(433,836)</b>	<b>(18,649)</b>	<b>(243,244)</b>	<b>(3,886)</b>	<b>(168,057)</b>
<b>Derivative financial instruments</b>						
Interest rate swaps	(10,741)	(11,114)	(4,987)	(4,039)	(2,547)	459
Foreign exchange derivatives	-	-	-	-	-	-
	<b>(10,741)</b>	<b>(11,114)</b>	<b>(4,987)</b>	<b>(4,039)</b>	<b>(2,547)</b>	<b>459</b>
<b>30 June 2016</b>						
<b>Non-derivative financial instruments</b>						
Borrowings (excluding borrowing costs)	(345,310)	(364,874)	(6,363)	(5,844)	(240,287)	(112,380)
Trade and other payables	(9,629)	(9,629)	(9,629)	-	-	-
	<b>(354,939)</b>	<b>(374,503)</b>	<b>(15,992)</b>	<b>(5,844)</b>	<b>(240,287)</b>	<b>(112,380)</b>
<b>Derivative financial instruments</b>						
Interest rate swaps	(19,764)	(21,368)	(4,069)	(4,307)	(4,026)	(8,966)
	<b>(19,764)</b>	<b>(21,368)</b>	<b>(4,069)</b>	<b>(4,307)</b>	<b>(4,026)</b>	<b>(8,966)</b>

### Hedge accounting

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

The Group has designated Australian denominated borrowings and foreign exchange derivatives as hedges of a net investment in a foreign operation (net investment hedge). The Group prospectively and retrospectively tests the hedges for effectiveness on a semi-annual basis. The portion of the foreign exchange differences arising on the hedging instruments determined to be an effective hedge is recognised 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 2017 (2016: nil). The face value of hedging instruments designated in net investment hedges is:

	2017 \$000s	2016 \$000s
Borrowings	94,488	94,221
Foreign exchange derivatives (nominal amount)	104,987	136,097



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16 FINANCIAL RISK MANAGEMENT (continued)

#### Categories of financial instruments

The Group's financial instruments are classified as:

	Cash, 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
<b>30 June 2017</b>	<b>3,719</b>	<b>(413,415)</b>	<b>4,054</b>	<b>(12,240)</b>
30 June 2016	13,338	(353,788)	9,486	(19,805)

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

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

### 17 INVESTMENT IN SUBSIDIARIES

The Trust has control over the following subsidiaries:

Name of subsidiary	Principal activity	Place of incorporation and operation	Holding	
			2017	2016
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 owns 0.0%.

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

The subsidiaries have the same reporting date as the Trust.

### 18 COMMITMENTS

	2017 \$000s	2016 \$000s
<b>Capital commitments</b>		
The Group was party to contracts to purchase or construct property for the following amounts:	<b>78,234</b>	45,221

The property rental income to be earned by the Group from its investment property, all of which is leased out under operating leases, is set out in the table below:

	2017 \$000s	2016 \$000s
Not later than one year	<b>80,901</b>	81,256
Later than one year and not later than five years	<b>293,850</b>	242,059
Later than five years	<b>1,059,951</b>	902,882
	<b>1,434,702</b>	1,226,197

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.

### 19 CONTINGENCIES

There were no contingencies as at 30 June 2017 (2016: nil).

## 20 SUBSEQUENT EVENTS

On 31 July 2017 Vital acquired The Hills Clinic property in Kellyville, Sydney for A\$30,300,000.

On 3 August 2017 Vital acquired a parcel of land adjacent to Ormiston Hospital, Flatbush, Auckland.

On 10 August 2017 a final cash distribution of 2.125 cents per unit was announced by the Trust. The Record Date for the final distribution is 7 September 2017 and a payment is scheduled to unitholders on 21 September 2017. There will be no imputation credits attached to the distribution.

## 21 RELATED PARTY TRANSACTIONS

### The Manager

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

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 calculation may give rise to an excess or deficit to be applied in the calculation of future incentive fees.

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

Transactions with related parties include:

	2017 \$000s	2016 \$000s
<b>Total fees incurred</b>		
Management fees	8,073	6,200
Manager's incentive fees	12,314	6,317
Expenses charged by Vital Healthcare Management Limited	2,088	525
Expenses charged by Vital Healthcare Australian Property Pty Limited	2,949	1,732
	<b>25,424</b>	<b>14,774</b>
<b>Amounts outstanding</b>		
Manager's incentive fees	12,314	6,317
Expenses charged by Vital Healthcare Management Limited	1,212	-
Expenses charged by Vital Healthcare Australian Property Pty Limited	318	-
	<b>13,844</b>	<b>6,317</b>

Expenses charged by related parties includes property related costs, acquisitions and development fees and other operating expenses.

	2017 \$000s	2016 \$000s
<b>Expenses capitalised to projects</b>		
Expenses charged by Vital Healthcare Australian Property Pty Limited	2,395	1,245
Expenses charged by Vital Healthcare Management Limited	1,563	317
	<b>3,958</b>	<b>1,562</b>

Properties owned by the Trust have been managed on normal commercial terms by Vital Healthcare Management Limited, a subsidiary of NWI Healthcare Properties LP. Property management fees charged are either included in property expenses or capitalised. The amount paid to Vital Healthcare Management Limited for reimbursement of expenses was \$188,670 (2016: \$168,709) and Vital Healthcare Australian Property Pty Limited was \$560,207 (2016: \$447,001). The amount not recovered from tenants was nil (2016: nil).

# Deloitte.

## Independent Auditor's Report

### To the Unitholders of Vital Healthcare Property Trust

#### Opinion

We have audited the consolidated financial statements of Vital Healthcare Property Trust and its controlled entities (the 'Group' or 'Trust'), which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, on pages 31 to 53, present fairly, in all material respects, the financial position of the Group as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS').

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Group.

#### Audit materiality

We consider materiality primarily in terms of the magnitude of misstatement in the financial statements of the Group that in our judgement would make it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced (the 'quantitative' materiality). In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of such a person (the 'qualitative' materiality). We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be \$2.56 million.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter and results
<p><b>Valuation of Investment Properties</b></p> <p>The Group's investment properties consist of health sector properties totalling \$1,376.2 million as at 30 June 2017. Revaluation gains on the Group's investment properties for the year ended 30 June 2017 of \$168.5 million were recognised in profit or loss. Information about the Group's property portfolio and valuation are set out in Note 10.</p> <p>The valuation of investment properties is important to our audit as determining the fair value requires significant judgement and the balance represents the majority of the total assets of the Group.</p> <p>Investment properties are carried at fair value. Where significant development is in progress at a property, this is carried at cost, until the development is sufficiently close to completion where fair value is estimated with reference to expected future rental streams and costs to complete the</p>	<p>We have evaluated the appropriateness of the valuation of investment property by performing the following:</p> <ul style="list-style-type: none"> <li>• Obtaining metrics for each property, including capitalisation rate, market rent and contract rent. We considered these metrics on a property and portfolio basis for year on year movements to identify possible outliers.</li> <li>• Agreeing property specific information supplied to the external valuer, including occupancy data, current rentals, and lease terms, to the underlying records held by the Group on a sample basis;</li> <li>• Reviewing the external valuers' valuation reports, holding discussions with the valuers on a sample basis and challenging assumptions where, on a year on year basis, the movements represented a possible outlier compared with the rest of the portfolio;</li> <li>• Evaluating the objectivity, independence and expertise of the external valuers;</li> </ul>

<p>development.</p> <p>The valuation of investment property is highly dependent on forecasts and estimates including a number of unobservable inputs to take into account property-specific attributes.</p> <p>The Group's policy is to engage external valuers to perform valuations for each of the properties on an annual basis. The valuation methods used for assessing the fair value include a combination of direct comparison, discounted cash flow and market capitalisation approaches.</p> <p>The external valuers, amongst other matters, take into consideration occupancy rates, weighted average lease term to expiry ('WALE') and capitalisation rates.</p>	<ul style="list-style-type: none"> <li>• With respect to significant property developments, <ul style="list-style-type: none"> <li>◦ where management has determined the development is sufficiently close to completion, obtaining evidence supporting management's estimates of the expected future rental cash flows that will apply upon completion and the costs to complete the development;</li> <li>◦ where property developments are carried at cost, testing the cost incurred to date on a sample basis;</li> </ul> </li> <li>• Involving our valuation specialists to consider and challenge, on a sample basis, the reasonableness of the assumptions and valuation methodology applied, including comparing assumptions to market-available data where available; and</li> <li>• Assessing the adequacy of the disclosures made in respect of the valuation of investment property.</li> </ul>
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#### Other information

The Board of Directors of Vital Healthcare Management Limited (the 'Manager') is responsible on behalf of the Trust for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

#### Board of Directors' responsibilities for the consolidated financial statements

The Board of Directors of the Manager is responsible on behalf of the Trust for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Board of Directors of the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Manager is responsible on behalf of the Trust for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Manager either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor's report.

#### Restriction on use

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.

*Deloitte Limited*



## UNITHOLDER STATISTICS

### Analysis of shareholding as at 30 June 2017

Holding range	Number of unitholders	Total units	% of total units issued
1 to 1,999	417	352,370	0.08
2,000 to 4,999	703	2,438,545	0.57
5,000 to 9,999	1132	8,183,498	1.91
10,000 to 49,999	2407	52,211,105	12.18
50,000 to 99,999	323	21,655,643	5.05
100,000 to 499,999	137	24,355,659	5.68
500,000 to 999,999	10	6,887,699	1.61
1,000,00 and above	16	312,477,967	72.92
<b>Total</b>	<b>5,145</b>	<b>428,562,486</b>	<b>100.0</b>

### Substantial security holders as at 30 June 2017

Unitholder	Date notice files	Number of units	% of total units issued
Northwest Healthcare Properties Real Estate Investment Trust	6 July 2015	82,064,900	24.02%

### Twenty largest security holders as at 30 June 2017

Unitholder	Total	% of total units issued
BAINCOR NOMINEES PTY LTD	105,977,178	24.72
NEW ZEALAND CENTRAL SECURITIES DEPOSITORY LIMITED	92,206,305	21.51
FORSYTH BARR CUSTODIANS LIMITED	30,211,625	7.04
CUSTODIAL SERVICES LIMITED	18,989,561	4.43
INVESTMENT CUSTODIAL SERVICES LIMITED	14,439,713	3.36
FNZ CUSTODIANS LIMITED	14,085,604	3.28
CUSTODIAL SERVICES LIMITED	9,230,158	2.15
CUSTODIAL SERVICES LIMITED	7,771,295	1.81
CUSTODIAL SERVICES LIMITED	5,470,465	1.27
CUSTODIAL SERVICES LIMITED	3,266,811	0.76
PT (BOOSTER INVESTMENTS) NOMINEES LIMITED	2,680,393	0.62
JBWERE (NZ) NOMINEES LIMITED	2,146,333	0.5
CUSTODIAL SERVICES LIMITED	1,789,171	0.41
CHRISTINE ANNE MANSELL & DOUGLAS TONY BROWN	1,545,000	0.36
NEW ZEALAND DEPOSITORY NOMINEE LIMITED	1,452,943	0.33
FORSYTH BARR CUSTODIANS LIMITED	1,215,412	0.28
FNZ CUSTODIANS LIMITED	988,512	0.23
JARDEN CUSTODIANS LIMITED	910,000	0.21
FNZ CUSTODIANS LIMITED	905,448	0.21
CHRISTOPHER CORNELIUS FITZGERALD	740,000	0.17
<b>Totals</b>	<b>316,021,927</b>	<b>73.65</b>
<b>Total units on issue</b>	<b>428,562,486</b>	

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

Unitholder	Number of units
ACCIDENT COMPENSATION CORPORATION	19,563,786
HSBC NOMINEES (NEW ZEALAND) LIMITED	13,477,975
CITIBANK NOMINEES (NEW ZEALAND) LIMITED	11,457,869
BNP PARIBAS NOMINEES (NZ) LIMITED	11,231,306
JPMORGAN CHASE BANK NA NZ BRANCH	6,173,897
GUARDIAN NOMINEES NO 2 A/C	4,635,117
ANZ WHOLESALE TRANS-TASMAN PROPERTY SECURITIES FUND	4,154,160
ANZ WHOLESALE PROPERTY SECURITIES	3,449,535
BNP PARIBAS NOMINEES (NZ) LIMITED	3,397,142
BNP PARIBAS NOMINEES (NZ) LIMITED	2,570,690
MFL MUTUAL FUND LIMITED	2,530,592
HSBC NOMINEES (NEW ZEALAND) LIMITED A/C STATE STREET	2,424,025
TEA CUSTODIANS LIMITED CLIENT PROPERTY TRUST ACCOUNT	2,421,718
MINT NOMINEES LIMITED	2,254,988
NATIONAL NOMINEES NEW ZEALAND LIMITED	1,167,361
ANZ CUSTODIAL SERVICES NEW ZEALAND LIMITED	452,992
SOVEREIGN SERVICES LIMITED	302,534
PUBLIC TRUST CLASS 10 NOMINEES LIMITED	244,276
GENERATE KIWISAVER PUBLIC TRUST NOMINEES LIMITED	200,000
NEW ZEALAND PERMANENT TRUSTEES LIMITED	79,376
PUBLIC TRUST RIF NOMINEES LIMITED	16,966
<b>Totals</b>	<b>92,206,305</b>

## DIRECTORY

### MANAGER

#### Vital Healthcare Management Limited

Level 16, AIG Building 41 Shortland Street  
Auckland 1010  
PO Box 6945, Wellesley Street  
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Telephone: 0800 225 264  
Facsimile: +64 9 377 2776

### DIRECTORS OF THE MANAGER

Graeme Horsley - Chairman  
Andrew Evans  
Claire Higgins  
Paul Dalla Lana  
Bernard Crotty

### AUDITOR

#### Deloitte

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Auckland 1010  
Private Bag 115-033  
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Telephone: +64 9 303 0700  
Facsimile: +64 9 303 0701

### LEGAL ADVISERS TO THE TRUST AND THE MANAGER

#### Harmos Horton Lusk

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Facsimile: +64 9 921 4319

#### Bell Gully

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#### Ashurst Australia

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GPO Box 4958  
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Australia  
Telephone: +61 3 9679 3000  
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### TRUSTEE

#### Trustees Executors Limited

Level 7, 51 Shortland Street  
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PO Box 4197  
Auckland 1140  
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Facsimile: +64 9 308 7101

### BANKERS TO THE TRUST

#### ANZ Bank New Zealand Limited

ANZ Centre  
23-29 Albert Street  
Auckland 1010

#### Australia and New Zealand Banking Group Limited

2/100 Queen Street  
Melbourne, Victoria 3000  
Australia

#### Bank of New Zealand

Deloitte Centre  
80 Queen Street  
Auckland 1010

### UNIT REGISTRAR

#### Computershare Investor Services Limited

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