Vital

Healthcare
Property Trust

ANNUAL REPORT 2016

BUILDING
A HEALTHY
FUTURE.

APOLLO HEALTH AND WELLNESS CENTRE, AUCKLAND.

LINGARD PRIVATE HOSPITAL, MEREWETHER, NSW.

VITAL'S GREAT PORTFOLIO AND CAPITAL POSITION PROVIDES THE PLATFORM FOR BUILDING A HEALTHY FUTURE.

VALUE OF PORTFOLIO

$951.9M

OCCUPANCY

99.6%

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

1.8%

WEIGHTED AVERAGE LEASE TERM TO EXPIRY (WALE)

18.4 YEARS

REVALUATIONS

Reflecting larger, more modern, better performing assets

The annual portfolio revaluation resulted in an increase of $101.9m on carrying book value, a 12.2% increase. The strong uplift demonstrates that the brownfield development programme continues to create long-term value. Investment properties are now valued at $951.9m.

$101.9M

STRATEGIC ACQUISITIONS

Securing long-term value, strengthening relationships

Vital's strategy of acquiring land and properties surrounding existing assets will facilitate growth to meet demand. Six properties are currently held for development, all part of our long-term planning for building a healthy future.

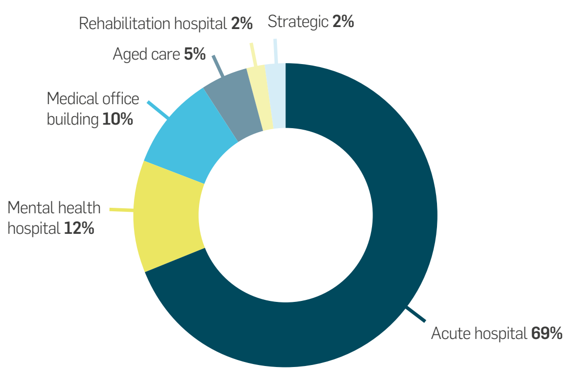
BUILDING A HEALTHY FUTURE

AGED CARE

Tenant and asset diversification

Vital settled the acquisition of four aged care properties, two in New South Wales and two in Western Australia. The properties are leased to Hall & Prior, one of Australia's leading private aged care operators, on 20-year leases. At 5% by value, they bring additional tenant and asset diversification to the portfolio.

Asset type by value



CAPITAL RAISING

Supporting delivery of strategy

Post-balance date Vital completed the $160m capital raise. These funds will be used to reduce Vital's bank debt and to pursue development, acquisition and growth opportunities.

$160M

PEOPLE

Additional resourcing, experience and expertise

As opportunities across the market continue to grow, Vital's manager has expanded its team. In April Cameron Ramsay was appointed as National Acquisitions Manager in Australia to help deliver on the Board's scale and diversification strategy.

NEW ZEALAND ACQUISITION

Reaffirms commitment to New Zealand

In 2016 we announced the $30.7m conditional acquisition* of the 38-bed Boulcott Private Hospital in Lower Hutt. The hospital is leased to ASX-listed Pulse Health Group on a 22-year lease and is Vital's first asset co-located with a major public hospital in New Zealand.

* Settled on 1 July 2016

"With the business in great shape, we'll continue to focus on delivering sustainable distributions to investors".

DAVID CARR, CHIEF EXECUTIVE OFFICER

PORTFOLIO METRICS

Income certainty and stability

Proactive portfolio management has resulted in Vital's average annual lease expiry over the next decade reduced to just 1.8% p.a. The portfolio WALE has also increased to 18.4 years, over three times the NZ listed property sector average and the longest in Australasia.

HIGHLIGHTS FOR 2016

12-MONTH TOTAL RETURN
43%

LIFT IN ANNUALISED CASH DISTRIBUTION PER UNIT FROM 2016 Q3 TO
8.5CENTS

GROSS RENTAL INCOME
$70.4M
UP 15.7%

NET DISTRIBUTABLE INCOME
$40.2M
UP 10.9%

PAYOUT RATIO
71%

DEVELOPMENT PROGRAMME SUPPORTS REVALUATION UPLIFT ON 30 JUNE 2016 BOOK VALUE
$101.9M
UP 12.2%

NET TANGIBLE ASSET INCREASE TO
$1.51
UP 18.9%

CONTINUED INVESTOR SUPPORT FOR STRATEGY DELIVERS
13.9%
10-YEAR COMPOUND ANNUAL GROWTH RATE

CONTENTS

FINANCIAL SUMMARY

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

	2012 $000s	2013 $000s	2014 $000s	2015 $000s	2016 $000s
FINANCIAL PERFORMANCE					
Net property income	47,962	57,856	57,967	59,430	68,274
Profit before financial income/(expenses) and other gains/(losses)*	40,868	50,637	49,988	48,490	53,296
Revaluation gain/(loss) on investment property	(6,241)	10,337	15,211	84,031	101,869
Profit for the year (after taxation)	8,977	34,721	37,433	96,506	117,208
Earnings per unit (cents)	3.08	11.56	11.21	28.31	34.00
DISTRIBUTABLE INCOME					
Gross distributable income	25,359	33,614	34,928	40,950	45,038
Net distributable income	23,258	28,195	34,702	36,290	40,243
Net distributable income – cents per unit	7.98	9.38	10.40	10.64	11.67
Cash distribution to unitholders – cents per unit	7.70	7.90	7.90	8.00	8.30
FINANCIAL POSITION					
Total assets	580,790	629,476	615,968	784,565	978,174
Borrowings	245,769	266,650	192,633	257,340	345,310
Total equity	287,430	308,994	353,520	439,756	523,719
Debt to total assets ratio (%)	42.3	42.4	31.4	32.9	36.3
Net tangible assets – dollars per unit	0.98	1.01	1.04	1.27	1.51

PROPERTY METRICS

	2012	2013	2014	2015	2016
Investment properties ($m)	567.2	618.7	613.1	781.9	951.9
Number of investment properties**	25	24	24	25	29
Number of tenants	124	108	105	108	114
Occupancy (%)	99.3	99.5	99.3	99.4	99.6
Weighted average lease term to expiry (years)	11.9	11.8	15.1	17.1	18.4
12 month lease expiry (% of income)	2.5	1.6	3.8	1.1	2.5

*Adjusted to reflect 2014 Financial Statement presentation format.

**Excludes properties held for development.

BUILDING A HEALTHY FUTURE

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

Vital had an audited net profit after tax for the full year to 30 June 2016 of $117.2m, up 21.4% from the prior year. NTA increased 18.9% to $1.51 and the portfolio WALE[1] is now 18.4 years. Vital will pay investors a final quarter cash distribution of 2.125 cpu and confirmed its 2017 cash distribution guidance at 8.5 cpu.

2016 HIGHLIGHTS INCLUDE:

- 12 month total return of 43%, outperforming the S&P / NZX All Real Estate Index return of 17.4%
- Annualised cash distribution increased to 8.5 cpu (+5%) from FY16 third quarter, 71% payout ratio
- Gross rental income of $70.4m, up 15.7%
- Operating profit before tax of $53.3m, up 9.9%
- Net distributable income of $40.2m, up 10.9%
- Revaluation gain of $101.9m, a 12.2% increase on carrying book value
- Portfolio WACR[2] firmed 80 basis points to 7.2%
- Announced A$83.1m of brownfield development projects and A$20m of targeted strategic acquisitions
- Acquisition of four Australian residential aged care properties for A$41m on an 8.0% initial yield
- Post balance date, successful $160m capital raising and settlement of Boulcott Private Hospital for $31.7m

STRONG PERFORMANCE

Brownfield development activity over the last few years has been transformational in delivering significant financial and portfolio outcomes for investors. The long-term characteristics of the healthcare sector and strong real estate fundamentals continue to be drivers of the portfolio revaluation gains achieved in 2016. These gains have directly strengthened the balance sheet and underpinned solid net tangible asset growth for investors. Vital's ever improving asset quality and operator performance adds to a great platform for the continued delivery of our strategy. All of these factors support the Board's guidance around the sustainability of the current annual distribution of 8.5 cents per unit.

NTA GROWTH DELIVERED

As at 30 June 2016, Vital's NTA per unit was $1.51 or 18.9% higher compared to the prior period (2015: $1.27). The NTA change was driven by a range of factors but predominantly driven by the value add development programme, giving rise to strong portfolio revaluation gains over the year.

ACQUISITION AND DEVELOPMENT ACTIVITY

Over the financial year Vital undertook acquisitions and development activities to support delivery of its strategy.

In March Vital settled its first acquisition of residential aged care assets for A$41.0m on an 8.0% initial yield. Hall & Prior are one of Australia's leading private aged care providers and our partnership adds diversification to Vital's healthcare real estate assets and underpins the long-term sustainability of earnings to investors.

Post year-end, Vital also settled the acquisition of Boulcott Private Hospital in Lower Hutt, adjacent to the public Hutt Hospital, delivering further tenant and geographic diversification benefits. An adjacent property was also purchased, future proofing the long-term strategic value of Boulcott.

Strategic acquisitions, included Hopkins Street (adjacent to Lingard Private Hospital, Merewether, New South Wales) for A$7.8m and A$5.2m for two parcels of land adjacent to Sportsmed Private Hospital in Adelaide, South Australia. These and other targeted strategic acquisitions as previously announced of A$20m will provide long-term incremental benefits to Vital as we expand existing facilities or collaborate with new operator partners.

Vital has a strong pipeline of brownfield development projects to deliver over the next 18 months with A$83.1m of projects committed or underway across six hospitals. This follows the completion of A$69.5m of developments during the year at Hurstville Private (A$34.5m), Belmont Private (A$9.5m), Maitland Private (A$13.0m) and Marian Centre (A$12.5m). Vital expects to see a continuation of the development pipeline due to rising demand for healthcare services, underpinned by a growing and ageing population.

FOURTH QUARTER 2016 DISTRIBUTION

For the fourth quarter of the 2016 financial year the Board has confirmed that investors will receive a distribution of 2.125 cpu with 0.2831 cpu of imputation credits attached.

"Vital has had another outstanding result in 2016. Vital's 12-month total return of 43% was two and a half times the S&P / NZX All Real Estate Index and a clear endorsement by the market of our activities and direction".

INCREASE IN ANNUALISED CASH DISTRIBUTION TO

8.5 CPU

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.

All new units issued under the renounceable rights offer that closed in July will participate in the fourth quarter distribution.

STRATEGY & OUTLOOK

2016 has been another excellent year of delivering results across all parts of the business. All operational, financial and portfolio elements are in great shape providing a sound platform for the year ahead. The successfully completed $160m capital raise post year-end with strong investor support was especially pleasing. Looking ahead, the team will ensure the continued delivery of strategy. This means a healthcare real estate focus to leverage the sector's attractive fundamentals of a growing and ageing population.

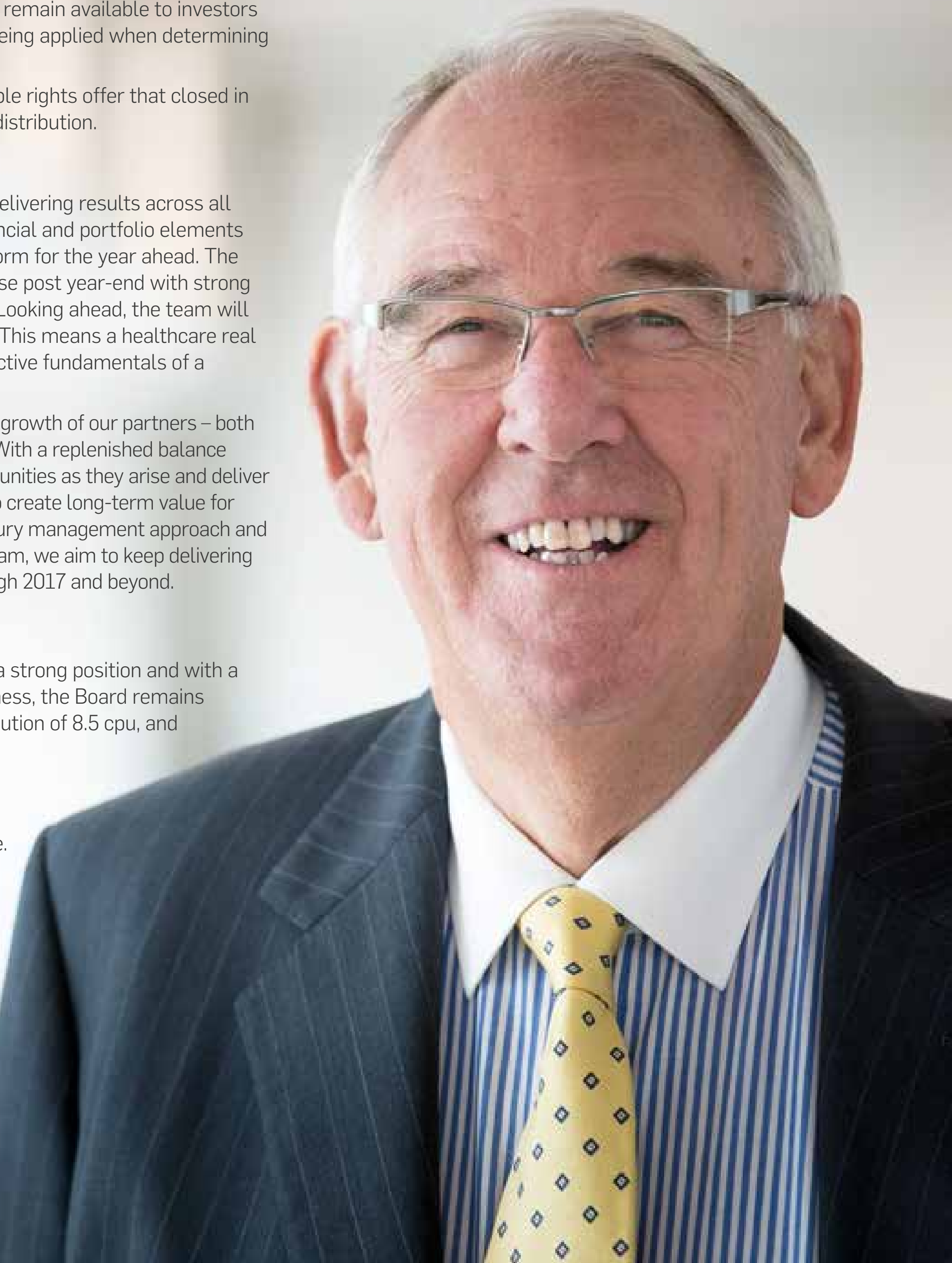
Enhancing our relationships to support the growth of our partners – both existing and new, remains a focus in 2017. With a replenished balance sheet we will execute on acquisition opportunities as they arise and deliver our brownfield development programme to create long-term value for investors. Combined with a proactive treasury management approach and an experienced and stable management team, we aim to keep delivering sustainable distributions to investors through 2017 and beyond.

2017 CASH DISTRIBUTION GUIDANCE

Having finished the 2016 financial year in a strong position and with a good measure of stability across the business, the Board remains comfortable guiding to a 2017 cash distribution of 8.5 cpu, and views this as a sustainable distribution.

Vital's Annual Meeting will be held on 10 November 2016 in Auckland and I look forward to updating you further at this time.

I would also like to thank all investors for their continued strong support in 2016 and look forward to another great year in 2017.



Graeme Horsley MNZM
Independent Chairman
Vital Healthcare Management Limited

1. Weighted average lease term to expiry
2. Weighted average capitalisation rate

PORTFOLIO IN GREAT SHAPE

STRONG OPERATING, FINANCIAL AND PORTFOLIO RESULTS

The Trust continues to perform very well, with the portfolio in the best shape ever. This has been driven by events like the new 30-year lease at Kensington Hospital in Whangarei, and the 10-year lease extension, back to a 20-year term at Epworth Eastern Hospital in Melbourne. As a result Vital's WALE has further eclipsed recent highs and remains market leading at 18.4 years, with the team's ability to proactively execute on portfolio management matters key to this performance. The incremental brownfield development programme continues to deliver excellent outcomes, providing our established operating partners with new, high quality facilities to deliver exceptional patient care.

Following the success of the recent capital raising we see another busy year ahead. We remain focused on maintaining the quality portfolio characteristics we have worked hard to attain and execute on further acquisitions and developments as part of the Board's scale and diversification strategy.

MARKET LEADING PORTFOLIO METRICS

Vital's core portfolio metrics remain market leading, with occupancy at 99.6% and a portfolio WALE of 18.4 years.

Approximately 88% of the 2016 financial year lease expiries were renewed. With 2.5% of total income forecast to expire in 2017, we envisage a continuation of Vital's high tenant retention rate.

A long dated WALE remains a clear point of difference for Vital's investors. While Vital has achieved strong leasing outcomes through the year including at Kensington (30-year lease) and Epworth Eastern (10 years, extending lease term back to 20 years) we continue to proactively review future lease expiries to retain a market leading WALE. Vital's average lease expiry now sits at approximately 1.8% per annum over the next ten years, providing investors with a long-term low risk income expiry profile. Over the next ten years, the single largest tenant expiry accounts for only 2.2% of total income.

Over the year Vital achieved an average rental increase of 1.9% across total rent subject to review. For 2017 83% of total income is subject to structured, fixed or CPI related reviews.

REVALUATIONS

The independently assessed annual portfolio revaluation resulted in an increase of $101.9m, with the investment properties now valued at $951.9m.

The Australian portfolio delivered approximately 90% of the increase. Of this, approximately 55% was attributable to assets which have been redeveloped, with the balance of the gains achieved from stabilised assets. These gains can be attributed to structured rent growth, continued high occupancy levels, long WALEs and a sector-wide firming of capitalisation rates. Firming capitalisation rates have been driven by several factors including lower interest rates, strong transactional evidence, increased investor appetite and strong capital inflows.

The Australian WACR as at 30 June was 7.2%, firming 90 basis points on last year. The New Zealand portfolio delivered a total revaluation gain of $10.9m above the 30 June carrying book value and has a WACR of 6.9%, firming 60 basis points over the 12 month period. Vital's portfolio WACR firmed by 80 basis points to 7.2% as at 30 June.

All things being equal we envisage a continuation of the sector-wide firming of capitalisation rates, backed by a lower for longer interest rate outlook and some recent healthcare real estate transaction evidence further supporting this view. There remains a favourable differential between healthcare real estate capitalisation rates and those in the wider commercial property sector for quality assets. This highlights the ongoing relative attraction of healthcare real estate as a long term investment, particularly when supported by strong underlying demand characteristics including a growing and ageing population.

FINANCIAL PERFORMANCE

Gross rental income increased 15.7% on the prior year driven principally by development rents which commenced during the period. After property expenses, net property income rose 14.9% for the year.

Finance expenses of $15.2m were 25.3% higher than last year reflecting higher overall debt levels over the year compared to the prior period.

> "It's great to have again delivered on our strategy and achieved some fantastic results in 2016".

LONGEST WALE IN AUSTRALASIA

18.4 YEARS

Vital renewed its bank facility in December 2015 and will continue to benefit from the revised terms over the respective tranche durations.

Other expenses of $15.0m were up $4.0m and include management and incentive fees of $12.5m. The incentive fee of $6.3m is calculated in accordance with the Trust Deed and based on the average growth in the value of the Trust's assets over the past three years, and is payable by the Trust issuing units to the Manager.

TREASURY & CAPITAL MANAGEMENT

Vital's loan-to-value ratio (LVR) as at 30 June 2016 was 36.3% (2015: 32.9%) well below bank and Trust Deed covenants of 50%. Although Vital had a higher drawn debt position at year-end, LVR remained relatively stable due to the strong portfolio revaluation gains achieved during the period.

Vital's LVR post year-end is now approximately 21% with the acquisition of Boulcott Private Hospital and the successful completion of the $160m capital raising the main factors contributing to this change. This provides approximately $300m of balance sheet capacity at a 40% LVR.

The interest rate environment continues to be described as lower for longer. This environment has seen Vital's weighted average interest rate reduce to 4.38% inclusive of bank line and margin fees (2015: 5.32%). The continued improvement in funding position also reflects the continued low Australian interest rates where Vital's debt is sourced and a hedged position of 62% compared to the prior year-end of 84%.

I would like to thank all investors for their ongoing support. Also, thank you to my team for their fantastic efforts over the year. I look forward to updating investors on activities through 2017.

David.

David Carr
Chief Executive Officer
Vital Healthcare Management Limited

AUSTRALIAN PORTFOLIO

ALLAMANDA PRIVATE HOSPITAL
Southport / Queensland

MARKET VALUE A$43,100,000
MARKET CAPITALISATION RATE 6.5%
WALE 21.6 years
OCCUPANCY 100%
MAJOR TENANT Healthscope

BELMONT PRIVATE HOSPITAL
Carina Heights / Queensland

MARKET VALUE A$47,900,000
MARKET CAPITALISATION RATE 7.3%
WALE 19.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care

CLOVER LEA AGED CARE
Burwood Heights / New South Wales

MARKET VALUE A$10,700,000
MARKET CAPITALISATION RATE 8.0%
WALE 19.7 years
OCCUPANCY 100%
MAJOR TENANT Hall & Prior

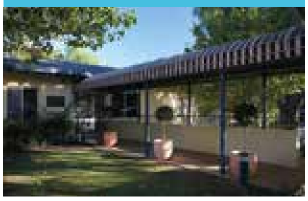
DUBBO PRIVATE HOSPITAL
Dubbo / New South Wales

MARKET VALUE A$9,539,000
MARKET CAPITALISATION RATE 8.5%
WALE 15.6 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care

GOLD COAST SURGERY CENTRE
Southport / Queensland

MARKET VALUE A$18,400,000
MARKET CAPITALISATION RATE 7.5%
WALE 1.4 years
OCCUPANCY 96%
MAJOR TENANT Healthscope

HAMERSLEY AGED CARE
Subiaco / Western Australia



MARKET VALUE A$10,600,000
MARKET CAPITALISATION RATE 8.0%
WALE 19.7 years
OCCUPANCY 100%
MAJOR TENANT Hall & Prior

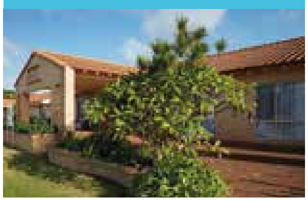
HURSTVILLE PRIVATE HOSPITAL
Sydney / New South Wales

MARKET VALUE A$69,871,000
MARKET CAPITALISATION RATE 7.5%
WALE 25.8 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care

LINGARD PRIVATE HOSPITAL
Merewether / New South Wales

MARKET VALUE A$83,800,000
MARKET CAPITALISATION RATE 7.3%
WALE 24.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care

ROCKINGHAM AGED CARE
Rockingham / Western Australia



MARKET VALUE A$5,600,000
MARKET CAPITALISATION RATE 8.0%
WALE 19.7 years
OCCUPANCY 100%
MAJOR TENANT Hall & Prior

SOUTH EASTERN PRIVATE HOSPITAL
Noble Park / Victoria

MARKET VALUE A$38,997,000
MARKET CAPITALISATION RATE 7.3%
WALE 24.7 years
OCCUPANCY 100%
MAJOR TENANT Healthe Care

SPORTSMED CONSULTING
Adelaide / South Australia

MARKET VALUE A$1,710,000
MARKET CAPITALISATION RATE 7.0%
WALE 19.6 years
OCCUPANCY 100%
MAJOR TENANT Sportsmed SA

SPORTSMED OFFICE
Adelaide / South Australia

MARKET VALUE A$3,430,000
MARKET CAPITALISATION RATE 7.0%
WALE 19.6 years
OCCUPANCY 100%
MAJOR TENANT Sportsmed SA

EPWORTH EASTERN HOSPITAL
Box Hill / Victoria

MARKET VALUE A$99,191,000

MARKET CAPITALISATION RATE 6.8%

WALE 17.5 years

OCCUPANCY 100%

MAJOR TENANT
Epworth Foundation

EPWORTH EASTERN MEDICAL CENTRE
Box Hill / Victoria

MARKET VALUE A$27,600,000

MARKET CAPITALISATION RATE 6.8%

WALE 10.9 years

OCCUPANCY 100%

MAJOR TENANT
Peter MacCallum Cancer Institute

EPWORTH REHABILITATION
Brighton / Victoria

MARKET VALUE A$19,400,000

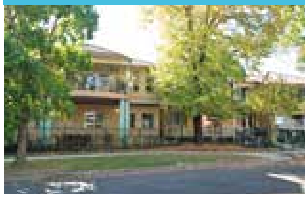
MARKET CAPITALISATION RATE 7.0%

WALE 2.6 years

OCCUPANCY 100%

MAJOR TENANT
Epworth Foundation

FAIRFIELD AGED CARE
Fairfield / New South Wales



MARKET VALUE A$14,100,000

MARKET CAPITALISATION RATE 8.0%

WALE 19.7 years

OCCUPANCY 100%

MAJOR TENANT
Hall & Prior

MAITLAND PRIVATE HOSPITAL
East Maitland / New South Wales

MARKET VALUE A$60,500,000

MARKET CAPITALISATION RATE 7.3%

WALE 21.5 years

OCCUPANCY 100%

MAJOR TENANT Healthe Care

MAYO PRIVATE HOSPITAL
Taree / New South Wales

MARKET VALUE A$28,000,000

MARKET CAPITALISATION RATE 8.0%

WALE 15.5 years

OCCUPANCY 100%

MAJOR TENANT Healthe Care

NORTH WEST PRIVATE HOSPITAL
Burnie / Tasmania

MARKET VALUE A$14,800,000

MARKET CAPITALISATION RATE 8.5%

WALE 15.6 years

OCCUPANCY 100%

MAJOR TENANT Healthe Care

PALM BEACH CURRUMBIN CLINIC
Currumbin / Queensland

MARKET VALUE A$30,600,000

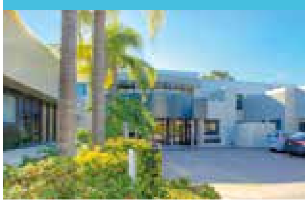
MARKET CAPITALISATION RATE 7.3%

WALE 15.6 years

OCCUPANCY 100%

MAJOR TENANT Healthe Care

TORONTO PRIVATE HOSPITAL
Toronto / New South Wales



MARKET VALUE A$18,900,000

MARKET CAPITALISATION RATE 7.8%

WALE 26.5 years

OCCUPANCY 100%

MAJOR TENANT Healthe Care

A FURTHER FIVE PROPERTIES IN AUSTRALIA ARE HELD FOR DEVELOPMENT WITH A TOTAL VALUE OF

A$15,743,000

MARIAN WAS MOST RECENTLY VALUED AT

A$31.6M

AN UPLIFT OF A$4.5M (OR 16.5%) ON 30 JUNE BOOK VALUE.

Marian Centre

Perth / Western Australia

MARKET VALUE A$31,624,000

MARKET CAPITALISATION RATE 7.8%

WALE 18.1 years

OCCUPANCY 100%

MAJOR TENANT Healthe Care

The Marian Centre is a 66-bed stand-alone private psychiatric hospital in the established medical precinct of Subiaco, approximately six kilometres north-west from the Perth central business district.

The Marian Centre provides both inpatient and outpatient services along with a range of therapy programs.

The facility forms part of the larger Subiaco medical precinct. The precinct includes a mixture of for-profit and not-for-profit operators offering a diverse range of medical services including pathology, neurology, oral & dental, orthopaedics, sports medicine, fertility and oncology.

Vital recently completed a A$12.9m redevelopment at Marian to meet growing demand for services in the area. As a result, bed numbers have increased from 31 to 66, existing wards have been refurbished and additional consulting suites have been provided.

Marian has most recently been valued at A$31.6m, an uplift of A$4.5m (or 16.5%) on 30 June book value.


MARIAN CENTRE


THE
LONE
TRAVELLER

Sportsmed SA

Adelaide / South Australia

MARKET VALUE	A$38,190,000
MARKET CAPITALISATION RATE	7.6%
WALE	18.9 years
OCCUPANCY	100%
MAJOR TENANT	Sportsmed SA

SPORTSMED SA WAS RECENTLY VALUED AT

A$38.2M

AN UPLIFT OF A$1.5M (OR 4.2%) ON 30 JUNE BOOK VALUE.

Sportsmed SA incorporates a state of the art dedicated orthopaedic facility and is the largest of its type in Australia.

It is located in the suburb of Stepney, approximately four kilometres north-east of Adelaide's CBD, in South Australia.

With 13 dedicated orthopaedic surgeons Sportsmed SA employs over 300 staff treating approximately 130,000 patients each year. The hospital has five operating theatres, 45 individual private rooms and a four-bed High Dependency Unit. Associated with the hospital is a two-level clinic comprising 29 consulting rooms, treatment rooms and a small procedure room.

The Trust recently acquired two adjacent properties, Sportsmed consulting and Sportsmed office, which complement the activities of the hospital. The consulting building will be integral to an upcoming development.

Sportsmed SA was recently valued at A$38.2m, an uplift of A$1.5m (or 4.2%) on 30 June book value.

NEW ZEALAND PORTFOLIO

Kensington Hospital is a two-level property comprising three theatres and 19 beds, along with an adjoining primary care, general practice facility.

The hospital undertakes both inpatient and day-stay surgery and is centrally located in the Whangarei suburb of Kensington, approximately 2.5 kilometres from the Whangarei CBD.

As part of management's proactive approach to mitigating future lease expiries, Vital negotiated a new 30-year lease with the hospital operators, Kensington Hospital Limited, effective 1 July 2016.

Kensington hospital was most recently valued at $15.3m, an uplift of $1.8m (or 12.9%) on 30 June book value.

APOLLO HEALTH AND WELLNESS CENTRE
Albany / Auckland

MARKET VALUE $22,600,000

MARKET CAPITALISATION RATE 7.5%

WALE 3.9 years

OCCUPANCY 91.4%

MAJOR TENANT
Apollo Health Limited

ASCOT CENTRAL, AUCKLAND
Greenlane / Auckland

MARKET VALUE $26,600,000

MARKET CAPITALISATION RATE 6.8%

WALE 3.8 years

OCCUPANCY 100%

MAJOR TENANT
Fertility Associates Limited

ASCOT CENTRAL CAR PARK (GROUND LEASE)
Greenlane / Auckland

MARKET VALUE $1,600,000

MARKET CAPITALISATION RATE 10.4%

WALE 3.5 years

OCCUPANCY 100%

MAJOR TENANT
Fertility Associates Limited

ASCOT HOSPITAL
Greenlane / Auckland

MARKET VALUE $90,000,000

MARKET CAPITALISATION RATE 6.4%

WALE 19.1 years

OCCUPANCY 99.5%

MAJOR TENANT
Ascot Hospital & Clinics Limited

Kensington Hospital

Whangarei / Northland

MARKET VALUE $15,300,000

MARKET CAPITALISATION RATE 7.5%

WALE 30 years

OCCUPANCY 100%

MAJOR TENANT Kensington Hospital Limited

ASCOT HOSPITAL CAR PARK (GROUND LEASE)

Greenlane / Auckland

MARKET VALUE $1,750,000

MARKET CAPITALISATION RATE 11.6%

WALE 27.0 years

OCCUPANCY 100%

MAJOR TENANT
Ascot Hospital & Clinics Limited

NAPIER HEALTH CENTRE

Napier / Hawke's Bay

MARKET VALUE $11,150,000

MARKET CAPITALISATION RATE 9.1%

WALE 3.5 years

OCCUPANCY 100%

MAJOR TENANT
Hawke's Bay District Health Board

KENSINGTON HOSPITAL WAS RECENTLY VALUED AT

$15.3M

AN UPLIFT OF $1.8M (OR 12.9%) ON 30 JUNE BOOK VALUE.

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 Fund Pty Ltd. Claire is also a Director of Ryman Healthcare Limited, RT Health Fund Ltd, Pancare Foundation Inc and the Victorian State Emergency Service Authority. Formerly the Chair of Barwon Health 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 and Hughes and Cossar Group Holdings 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. He 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 Diploma in Finance from Auckland University.

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 24 years, Paul has led NorthWest in the acquisition and development of over $3.0 billion worth of real estate transactions, with a significant focus on healthcare properties.

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 BA (Economics) and his MBA (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 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 from October 2013 until June 2015 was President of NorthWest International Healthcare Properties REIT.

From September 2001 to February 2008, Bernard acted as Chairman and/or Chief Executive Officer of Certicom Corp, a provider of cryptographic software and services that was acquired by Research in Motion Ltd. From January 2004 to February 2007, Bernard acted as Chairman and/or Chief Executive Officer of Comnetix Inc., a provider of biometric identification and authorisation solutions that was acquired by L-1 Identity Solutions, Inc.

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

Bernard received his B.A. from the University of Alberta, LL.B. from the University of Toronto, LL.M from the London School of Economics, 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 21 years' experience in property and capital markets including as the Chief Executive of Vital since October 2006.

David has overall accountability for implementing and delivering the Trust's strategy and for its overall performance. He leads a team of passionate healthcare real estate professionals in New Zealand and Australia. Vital remains Australasia's largest listed healthcare real estate investment vehicle with assets of approximately $1.0bn and a market capitalisation of over $950m.

During David's tenure Vital has delivered a ten-year compound annual total return of 13.9%, 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 nearly three decades of financial reporting and management experience within the Chartered Accountancy, utilities and hospitality/property industries and joined the team in September 2008. As Chief Financial Officer, he has been responsible for overseeing the financial and management reporting, treasury management and tax compliance within both New Zealand and Australia.

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

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 three 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 six 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 ten 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 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.

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He has also worked on a wide range of asset classes including aged care, major commercial office buildings, retail, industrial, residential development sites and subdivisions, car parks and retirement villages. Cameron has a Graduate Diploma in Valuations and Masters of Business (Property) from RMIT University. He is a Certified Practicing 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 will play 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 eight years and is responsible for managing the financial performance of the New Zealand portfolio including asset acquisitions and disposals. Drugh has over 13 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 // ALESHA PATTEN
Operations and Risk Manager

08 // JADE MURPHY
Financial Controller

09 // KATIE MURPHY
Marketing Co-ordinator and Executive Assistant

10 // LISA PARNELL
Group Accountant

11 // MARGARET KNELL
Property Administrator

12 // RACHEL KNEZ
Property Manager

13 // STEPHEN FREUNDLICH
Fund Analyst and Investor Relations Manager

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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 and, accordingly, their commitment is to the highest standards of business behaviour and accountability. It is with these objectives in mind that the Board has adopted its current framework, which, in the Board's opinion materially comply with the NZX Corporate Governance Best Practice Code (NZX Code) and the Financial Markets Authority 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. Before 1 December 2016 Vital expects to become a registered managed investment scheme under the Financial Markets Conduct Act 2013. 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.

CORPORATE GOVERNANCE POLICIES, PRACTICES AND PROCEDURES

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.

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-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.

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, nor 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. Their resumés are included in the Board of Directors section on pages 18-19.

Attendance of Directors	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.

Appointment

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

Independent Directors

The Manager recognises that Independent Directors are important in assuring unitholders that the Board is properly fulfilling its role and is diligent in holding management accountable for its performance. The procedures in place for determining independence is whether the Director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

As 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.

Diversity

A key feature of the external management structure that Vital operates under 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 2016, the Manager has one female Director out of the five currently appointed Directors and both of the Officers of the Manager are male.

Board and Director Performance

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

BOARD COMMITTEES

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

Audit Committee

The Board has established an Audit Committee, which is responsible for overseeing the financial and accounting responsibilities of 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

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.

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.

POLICIES AND PROCEDURES

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.

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.

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.

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 is disclosed on page 25.

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.

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 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.

INVESTOR RELATIONS

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. The Board aims to foster constructive communications and encourages all stakeholders to engage with Vital. The Manager 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
- Vital's website www.vhpt.co.nz
- 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) for the Manager to receive any market or investor enquiries.

Holdings of Directors of the Manager as at 31 August 2016

	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*	105,977,178	
Bernard Crotty*		

* Paul Dalla Lana (Chairman, CEO and trustee) and Bernard Crotty (trustee) are Officers and/or shareholders of NorthWest Healthcare Properties Real Estate Investment Trust (an Ontario, Canada, corporation). NorthWest Healthcare Properties Real Estate Investment Trust directly or indirectly holds approximately 106.0 million units in Vital Healthcare Property Trust.

Vital
Healthcare
Property Trust

BUILDING A HEALTHY FUTURE

FINANCIAL STATEMENTS

2016

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 $000s	2015 $000s
Gross property income from rentals		70,351	60,786
Gross property income from expense recoveries		6,768	6,925
Property expenses		(8,845)	(8,281)
Net property income	4	68,274	59,430
Other expenses	5	14,978	10,940
Profit before finance income/(expense) and other gains/(losses)		53,296	48,490
Finance income/(expense)			
Finance income		110	103
Finance expense	6	(15,153)	(12,095)
Fair value gain/(loss) on interest rate derivatives		(6,180)	(5,345)
		(21,223)	(17,337)
Other gains/(losses)			
Revaluation gain/(loss) on investment property	10	101,869	84,031
Receipts/(payments) under transaction hedging foreign exchange derivatives		468	679
Fair value gain/(loss) on foreign exchange derivatives		1,741	(1,167)
Unrealised gain/(loss) on foreign exchange		2,104	(1,792)
		106,182	81,751
Profit/(Loss) before income tax		138,255	112,904
Taxation expense	7	(21,047)	(16,398)
Profit/(Loss) for the year attributable to unitholders of the Trust		117,208	96,506
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss:			
Movement in foreign currency translation reserve		(33,848)	17,249
Realised foreign exchange gains/(losses) on hedges		7,462	(772)
– Current taxation (expense)/credit		(2,089)	216
Unrealised foreign exchange gains/(losses) on hedges		12,572	(5,197)
– Deferred taxation (expense)/credit		(3,520)	1,455
Fair value gain/(loss) on net investment hedges		7,587	(4,036)
– Deferred taxation (expense)/credit		(2,124)	904
– Current taxation (expense)/credit		–	227
Total other comprehensive income/(loss) after tax		(13,960)	10,046
Total comprehensive income after tax		103,248	106,552
All amounts are from continuing operations			
Earnings per unit			
Basic and diluted earnings per unit (cents)	8	34.00	28.31

The notes on pages Fin-5 to Fin-27 form part of and are to be read in conjunction with these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2016

	Note	2016 $000s	2015 $000s
Non-current assets			
Investment properties	10	951,879	781,862
Other non-current assets		358	407
Total non-current assets		952,237	782,269
Current assets			
Cash and cash equivalents	9	12,980	1,022
Trade and other receivables		358	1,073
Other current assets		3,113	178
Derivative financial instruments	11	9,486	23
Total current assets		25,937	2,296
Total assets		978,174	784,565
Unitholders' funds			
Units on issue	13	369,220	362,853
Reserves		(17,118)	(5,702)
Retained earnings		171,617	82,605
Total unitholders' funds		523,719	439,756
Non-current liabilities			
Borrowings	14	344,159	256,384
Income in advance		3,656	5,866
Derivative financial instruments	11	19,764	13,475
Deferred tax	12	63,669	45,251
Total non-current liabilities		431,248	320,976
Current liabilities			
Trade and other payables	15	9,629	8,032
Income in advance		3,569	2,115
Derivative financial instruments	11	41	5,690
Taxation payable		9,968	7,996
Total current liabilities		23,207	23,833
Total liabilities		454,455	344,809
Total unitholders' funds and liabilities		978,174	784,565

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

G Horsley, **Chairman**
11 August 2016

C Higgins, **Director**

The notes on pages Fin-5 to Fin-27 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 2016

	Units on issue $000s	Retained earnings $000s	Translation of foreign operations $000s	Foreign exchange hedges $000s	Share based payments $000s	Total unitholders' funds $000s
For the year ended 30 June 2016						
Balance at the start of the year	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)
Other comprehensive income for the year						
– Movement in foreign currency translation reserve	–	–	(33,848)	–	–	(33,848)
– Realised foreign exchange gains/(losses) on hedges	–	–	–	5,373	–	5,373
– Unrealised foreign exchange gains/(losses) on hedges	–	–	–	9,052	–	9,052
– Fair value gains/(losses) on net investment hedges	–	–	–	5,463	–	5,463
Balance at the end of the year	369,220	171,617	(81,530)	58,095	6,317	523,719
For the year ended 30 June 2015						
Balance at the start of the year	359,480	13,561	(64,931)	45,410	542	354,062
Changes in unitholders' funds	3,373	–	–	–	(542)	2,831
Manager's incentive fee	–	–	–	–	3,773	3,773
Profit for the period	–	96,506	–	–	–	96,506
Distributions to unitholders	–	(27,462)	–	–	–	(27,462)
Other comprehensive income for the year						
– Movement in foreign currency translation reserve	–	–	17,249	–	–	17,249
– Realised foreign exchange gains/(losses) on hedges	–	–	–	(556)	–	(556)
– Unrealised foreign exchange gains/(losses) on hedges	–	–	–	(3,742)	–	(3,742)
– Fair value gains/(losses) on net investment hedges	–	–	–	(2,905)	–	(2,905)
Balance at the end of the year	362,853	82,605	(47,682)	38,207	3,773	439,756

The notes on pages Fin-5 to Fin-27 form part of and are to be read in conjunction with these financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Note	30 June 2016 $000s	30 June 2015 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		70,146	58,380
Recovery of property expenses		6,712	6,711
Interest received		97	103
Cash was applied to:			
Property expenses		(8,628)	(8,043)
Management and trustee fees		(6,870)	(5,117)
Interest paid		(15,255)	(13,269)
Tax paid		(4,552)	(7,834)
Other trust expenses		(1,378)	(5,822)
Net cash from/(used in) operating activities	9	40,272	25,109
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		–	4,139
Receipts from foreign exchange derivatives		11,826	–
Cash was applied to:			
Capital additions on investment properties		(48,483)	(37,516)
Purchase of properties		(69,958)	(20,027)
Tenant incentives		(576)	–
Property deposits		(2,173)	–
Payments for foreign exchange derivatives		(3,896)	(93)
Other		(37)	–
Net cash from/(used in) investing activities		(113,297)	(53,497)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		143,635	85,901
Cash was applied to:			
Repayment of debt		(33,019)	(32,696)
Loan issue costs		(568)	–
Costs associated with Distribution Reinvestment Plan		(29)	(16)
Distributions paid to unitholders		(25,045)	(24,616)
Net cash from/(used in) financing activities		84,974	28,573
Net increase/(decrease) in cash and cash equivalents		11,949	185
Effect of exchange rate changes on cash and cash equivalents		9	(2)
Cash and cash equivalents at the beginning of the year		1,022	839
Cash and cash equivalents at the end of the year		12,980	1,022

The notes on pages Fin-5 to Fin-27 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 2016 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 Manager is an issuer for the purposes of the Financial Reporting Act 2013. The Trust's principal activity is the investment in high quality health sector related properties.

These consolidated financial statements were approved by the Board of Directors of the Manager on 11 August 2016.

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"). The accounting policies have been consistently applied, when compared to those used in the 2015 Annual Report except for the accounting policy on the incentive fee. The incentive fee is now recognised as a component of equity as management have determined this better reflects that the fee is settled in units. The comparative incentive fee amount of $3,773,000 for the period ended 30 June 2015, has been reclassified from a current liability to a component in equity.

(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 11 – valuation of derivative financial instruments
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 it's 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

Notes to the Consolidated Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions (continued)

exchange prevailing at the dates of the transactions. At the end of each reporting period monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the end of the reporting period.

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

(c) Foreign operations

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

(d) Goods and service tax

The statement of comprehensive income and statement of cash flows have been prepared so that all components are stated exclusive of goods and services tax (GST) to the extent that GST is recoverable. All items in the statement of financial position are stated exclusive of GST with the exception of receivables and payables, which include GST invoiced. Cash flows are included in the statement of cash flows on a net basis. The GST component of cash flows arising from investing and financing, which is recoverable from, or payable to, the taxation authority, is classified as 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 valuations. The fair values are based on market values being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. In the absence of current prices in an active market, the valuations are prepared using a discounted cash flow methodology based on the estimated rental cash flows expected to be received from the property adjusted by a discount rate that appropriately reflects the risks inherent in the expected cash flows.

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

(f) Development of investment properties

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

(g) 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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial instruments (continued)

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.

(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.

Notes to the Consolidated Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation (continued)

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

(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 new standards, amendments and interpretations to existing standards have been published but are not yet effective, which have not been analysed but may affect presentation, measurement and disclosure:

NZ IFRS 9 Financial Instruments (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 contract with customers is effective for annual reporting periods beginning on or after 1 January 2018. It is not practical to provide a reasonable estimate of the effect until a detailed review has been completed.

NZ IFRS 16 Leases eliminates the distinction between the operating and finance leases for lessees and will result in lessees bringing most leases onto their balance sheets. The accounting by lessors will remain largely unchanged. This standard is effective for periods beginning on or after 1 January 2019, although early adoption is permitted.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(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

There have been no significant changes in accounting policies during the current financial year, except as disclosed in note 2(a). All accounting policies have been applied on a basis consistent with the prior years financial statements.

4 SEGMENT INFORMATION

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

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

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

	Australia $000s	New Zealand $000s	Total $000s
Segment profit/(loss) for the year ended 30 June 2016:			
Net property income	55,053	13,221	68,274
Other (expense)	(6,016)	(8,962)	(14,978)
Finance income	4	106	110
Finance (expense)	(6,681)	(8,472)	(15,153)
	42,360	(4,107)	38,253
Fair value gain/(loss) on interest rate derivatives	9	(6,189)	(6,180)
Revaluation gain/(loss) on investment properties	90,950	10,919	101,869
Receipts/(payments) under transaction hedging foreign exchange derivatives	–	468	468
Fair value gain/(loss) on foreign exchange derivatives	–	1,741	1,741
Unrealised gain/(loss) on foreign exchange	(8)	2,112	2,104
Total segment profit/(loss) before income tax	133,311	4,944	138,255
Taxation (expense)			(21,047)
Profit for the year			117,208
Segment profit/(loss) for the year ended 30 June 2015:			
Net property income	45,986	13,444	59,430
Other (expense)	(4,673)	(6,267)	(10,940)
Finance income	10	93	103
Finance (expense)	(4,515)	(7,580)	(12,095)
	36,808	(310)	36,498
Fair value gain/(loss) on interest rate derivatives	90	(5,435)	(5,345)
Revaluation gain/(loss) on investment properties	77,896	6,135	84,031
Receipts/(payments) under transaction hedging foreign exchange derivatives	–	679	679
Fair value gain/(loss) on foreign exchange derivatives	–	(1,167)	(1,167)
Unrealised gain/(loss) on foreign exchange	(3)	(1,789)	(1,792)
Total segment profit/(loss) before income tax	114,791	(1,887)	112,904
Taxation (expense)			(16,398)
Profit for the year			96,506

Notes to the Consolidated Financial Statements

4 SEGMENT INFORMATION (continued)

Net property income consists of revenue generated from external tenants less property operating expenditure. The Group has three tenants with over 10% of gross property income from rentals totalling $54.8m, all in Australia (2015: four tenants totalling $46.8m).

There were no inter-segment sales during the year (2015: 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.

	Australia $000s	New Zealand $000s	Total $000s
Segment assets as at 30 June 2016			
Investment properties	777,109	174,770	951,879
Other non-current assets	296	62	358
Current assets	3,027	22,910	25,937
Consolidated assets	780,432	197,742	978,174
Segment assets as at 30 June 2015			
Investment properties	618,174	163,688	781,862
Other non-current assets	320	87	407
Current assets	912	1,384	2,296
Consolidated assets	619,406	165,159	784,565
Segment liabilities as at 30 June 2016			
Borrowings	213,679	130,480	344,159
Other liabilities	69,553	40,743	110,296
Consolidated liabilities	283,232	171,223	454,455
Segment liabilities as at 30 June 2015			
Borrowings	139,309	117,075	256,384
Other liabilities	54,285	34,140	88,425
Consolidated liabilities	193,594	151,215	344,809

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

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

5 OTHER EXPENSES

	2016 $000s	2015 $000s
Expenses		
Auditors' remuneration:		
Audit and review of financial statements	135	120
Manager's fees	6,200	4,863
Manager's incentive fee	6,317	3,773
Other operating expenses	2,326	2,184
Total other expenses	14,978	10,940

6 FINANCE EXPENSES

	2016 $000s	2015 $000s
Expenses		
Interest expense	15,581	13,066
Borrowing costs capitalised	(428)	(971)
Total finance expenses	15,153	12,095

Notes to the Consolidated Financial Statements

7 TAXATION

	2016 $000s	2015 $000s
Profit/(loss) before tax for the year	138,255	112,904
Taxation (charge)/credit – 28% on profit before income tax	(38,711)	(31,614)
Effect of different tax rates in foreign jurisdictions	12,061	11,441
Tax exempt income	6,328	2,167
Foreign tax credits	3,792	4,384
Over/(under) provided in prior periods	(219)	275
Tax charges on overseas investments	(4,682)	(3,399)
Other adjustments	384	348
Taxation (expense)/credit	(21,047)	(16,398)
The taxation (charge)/credit is made up as follows:		
Current taxation	(4,795)	(4,660)
Deferred taxation	(16,252)	(11,738)
Total taxation (expense)/credit	(21,047)	(16,398)

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 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 30%.

Imputation credits		
Imputation (deficit)/credits at end of year	97	(242)

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.

	2016	2015
Profit attributable to unitholders of the Trust ($000s)	117,208	96,506
Weighted average number of units on issue (000's of units)	344,721	340,940
Basic and diluted earnings per unit (cents)	34.00	28.31

	$000s	$000s
DISTRIBUTABLE INCOME		
Profit before income tax	138,255	112,904
Revaluation (gains)/losses	(101,869)	(84,031)
Unrealised foreign (gain)/loss	(2,104)	1,792
Unrealised foreign (gain)/loss derivatives	(1,741)	1,167
Unrealised interest rate (gain)/loss derivatives	6,180	5,345
Managers incentive fee	6,317	3,773
Profit used in calculating gross distributable income	45,038	40,950
Current tax charge	4,795	4,660
Profit used in calculating net distributable income	40,243	36,290
Gross distributable income (cpu) *	13.07	12.01
Net distributable income (cpu) *	11.67	10.64

* Based on weighted average number of units on issue.

Distributions paid in the financial year were 8.20 cents per unit (2015: 7.975).

Notes to the Consolidated Financial Statements

9 STATEMENT OF CASH FLOWS RECONCILIATION FROM OPERATING ACTIVITIES

	2016 $000s	2015 $000s
Cash and cash equivalents		
Australian financial institutions	1,845	98
New Zealand financial institutions	11,135	924
Cash at bank	12,980	1,022
Reconciliation of profit after income tax to net cash flows from operating activities		
Profit after tax for the year	117,208	96,506
Adjustments for non-cash items		
Change in fair value of investment properties	(101,869)	(84,031)
Fair value (gain)/loss on derivative financial instruments	4,439	6,512
Unrealised foreign exchange (gain)/loss	(2,104)	1,792
Deferred taxation	16,252	11,738
Income in advance	(2,210)	(2,019)
Manager's incentive fee	6,317	3,773
Other	(443)	(1,121)
Effect of exchange rate changes on cash balances	9	(2)
Operating cash flow before changes in working capital	37,599	33,148
Change in trade and other payables	1,597	(3,492)
Change in taxation payable	1,972	(2,847)
Change in trade and other receivables	(2,220)	(118)
Items classified as investing activities	1,324	(1,582)
Net cash from operating activities	40,272	25,109

During the 2016 year, distributions of $3,150,679 (2015: $2,847,433) have been reinvested under the Distribution Reinvestment Plan ('DRP'), which is excluded from investing and financing activities.

10 INVESTMENT PROPERTIES

	2016 $000s	2015 $000s
Carrying value of investment properties at the beginning of the year	781,862	613,136
Acquisition of properties	71,225	20,027
Capitalised costs	47,667	42,007
Capitalised interest costs	428	971
Net capitalised incentives	(191)	904
Disposals	–	(4,200)
Foreign exchange translation difference	(50,981)	24,986
Change in fair value	101,869	84,031
Carrying value of investment properties at the end of the year	951,879	781,862
Carrying value of investment properties includes:		
Fair value of investment properties	946,109	773,881
Income in advance	5,770	7,981
Carrying value of investment properties at the end of the year	951,879	781,862

The capitalised costs consist of $47.4m relating to Australian investment properties and $0.3m 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 2016 was $3.4m (2015: $3.3m) representing 0.4% of the total investment properties portfolio (2015: 0.4%). The weighted average lease length of leasehold property at 30 June 2015 was 2.8 years (2015: 3.8 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 as adjustments need to be made to observable data on similar properties to derive fair value.

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 2016 Valuer
Australia		
Allamanda Private Hospital	Southport, Queensland	Knight Frank
Belmont Private Hospital	Carina Heights, Queensland	Knight Frank
Clover Lea Aged Care	Burwood Heights, New South Wales	M3
Dubbo Private Hospital	Dubbo, New South Wales	Jones Lang LaSalle Australia
Epworth Eastern Hospital	Box Hill, Victoria	Ernst & Young
Epworth Eastern Medical Centre	Box Hill, Victoria	Ernst & Young
Epworth Rehabilitation	Brighton, Victoria	M3
Fairfield Aged Care	Fairfield, New South Wales	M3
Gold Coast Surgery Centre	Southport, Queensland	Knight Frank
Hamersley Aged Care	Subiaco, Western Australia	M3
Hurstville Private Hospital	Sydney, New South Wales	M3
Lingard Private Hospital	Merewether, New South Wales	Ernst & Young
Maitland Private Hospital	East Maitland, New South Wales	Ernst & Young
Marian Centre	Perth, Western Australia	Jones Lang LaSalle Australia
Mayo Private Hospital	Taree, New South Wales	Jones Lang LaSalle Australia
Melbourne Pathology Building*	Noble Park, Victoria	
North West Private Hospital	Burnie, Tasmania	Knight Frank
Palm Beach Currumbin Clinic	Currumbin, Queensland	Knight Frank
Rockingham Aged Care	Rockingham, Western Australia	M3
South Eastern Private Hospital*	Noble Park, Victoria	M3
Sportsmed Consulting	Adelaide, South Australia	Knight Frank
Sportsmed Hospital & Clinic	Adelaide, South Australia	Ernst & Young
Sportsmed Office	Adelaide, South Australia	Knight Frank
Toronto Private Hospital	Toronto, New South Wales	Jones Lang LaSalle Australia
New Zealand		
Apollo Health and Wellness Centre	Albany, Auckland	Colliers International New Zealand Limited
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	Absolute Value
Ascot Hospital Carpark (ground lease)	Greenlane, Auckland	Absolute Value
Kensington Hospital	Whangarei, Northland	Colliers International New Zealand Limited
Napier Health Centre	Napier, Hawkes Bay	Absolute Value
Properties held for development – Australia		
TOTAL FAIR VALUE OF INVESTMENT PROPERTIES		
Income in advance		
TOTAL CARRYING VALUE		

* On 1 April 2016, Melbourne Pathology Building was consolidated with South Eastern Private Hospital, as a result of development activities.

Fair value		Market capitalisation rate		Occupancy		WALE	
$000s 2016	$000s 2015	% 2016	% 2015	% 2016	% 2015	Years 2016	Years 2015
45,121	46,605	6.5	7.3	100.0	100.0	21.6	22.7
50,147	45,057	7.3	8.0	100.0	100.0	19.6	20.6
11,202	–	8.0	–	100.0	–	19.7	–
9,986	8,484	8.5	9.3	100.0	100.0	15.6	16.6
103,843	91,288	6.8	7.5	100.0	100.0	17.5	9.8
28,894	16,176	6.8	8.3	100.0	98.6	10.9	6.1
20,310	19,344	7.0	8.0	100.0	100.0	2.6	3.6
14,761	–	8.0	–	100.0	–	19.7	–
19,263	15,837	7.5	10.0	96.0	92.2	1.4	9.3
11,097	–	8.0	–	100.0	–	19.7	–
73,148	65,881	7.5	8.3	100.0	100.0	25.8	26.8
87,731	79,750	7.3	8.0	100.0	100.0	24.7	25.7
63,339	50,027	7.3	8.0	100.0	100.0	21.5	17.5
33,107	19,840	7.8	9.0	100.0	100.0	18.1	19.1
29,313	29,128	8.0	8.5	100.0	100.0	15.5	16.5
–	792	–	8.3	–	100.0	–	25.7
15,494	15,271	8.5	9.3	100.0	100.0	15.6	16.6
32,035	31,617	7.3	8.0	100.0	100.0	15.6	16.6
5,863	–	8.0	–	100.0	–	19.7	–
40,826	23,820	7.3	8.3	100.0	100.0	24.7	25.7
1,790	–	7.0	–	100.0	–	19.6	–
39,981	36,821	7.6	8.7	100.0	100.0	18.9	17.4
3,591	–	7.0	–	100.0	–	19.6	–
19,786	18,325	7.8	9.0	100.0	100.0	26.5	27.5
760,628	614,063						
22,600	21,403	7.5	7.9	91.4	90.6	3.9	4.6
26,600	25,600	6.8	6.9	100.0	100.0	3.8	4.6
1,600	1,550	10.4	10.8	100.0	100.0	3.5	4.1
90,000	81,505	6.4	7.0	99.5	99.5	19.1	20.3
1,750	1,700	11.6	9.8	100.0	100.0	27.0	28.0
15,300	13,550	7.5	8.5	100.0	100.0	30.0	5.7
11,150	10,400	9.1	10.3	100.0	100.0	3.5	4.5
169,000	155,708						
16,481	4,110						
946,109	773,881	7.2	8.0	99.6	99.4	18.4	17.1
5,770	7,981						
951,879	781,862						

Notes to the Consolidated Financial Statements

11 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 $000s	2015 $000s
Current assets		
Foreign exchange derivative assets	9,486	23
Current liabilities		
Interest rate derivative liabilities	–	(800)
Foreign exchange derivative liabilities	(41)	(4,890)
Non-current liabilities		
Interest rate derivative liabilities	(19,764)	(13,475)
Balance	(10,319)	(19,142)

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 years ended 30 June 2016 and 2015.

Interest rate derivatives mature over the next nine years and have fixed interest rates ranging from 2.64% to 4.99% (2015: from 2.69% to 5.72%)

	2016	2015
Nominal value of interest rate swaps – AUD	205,000	190,000
Average fixed interest rate	3.76%	4.24%
Floating rates based on AUD BBSW	2.04%	2.20%

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 years ended 30 June 2016 and 2015.

	2016	2015
Nominal value of foreign exchange contracts – AUD	130,000	153,000
Nominal value of foreign exchange options – AUD	–	80,000
Average foreign exchange rate	0.8974	0.9004
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
At 1 July 2015	(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
At 30 June 2016	(5,534)	60,618	7,211	1,374	63,669
At 1 July 2014	(2,506)	29,496	5,991	1,119	34,100
Charge to profit and loss for the year	(1,494)	15,935	–	(2,702)	11,739
Change in exchange rate	(11)	1,787	–	(5)	1,771
Charge to other comprehensive income	–	–	(904)	(1,455)	(2,359)
At 30 June 2015	(4,011)	47,218	5,087	(3,043)	45,251

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). These values include an allocation of the valuation between the land and building components. The calculation of deferred tax on depreciation recovered and capital gains tax is based on the split provided by the valuers.

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

Notes to the Consolidated Financial Statements

13 UNITS ON ISSUE

	2016 $000s	2015 $000s
Balance at the beginning of the year	362,853	359,480
Issue of units under Distribution Reinvestment Plan	3,150	2,847
Issue of units to satisfy Manager's incentive fee	3,773	542
Issue costs of units	(556)	(16)
	6,367	3,373
Balance at the end of the year	369,220	362,853

	2016 000s	2015 000s
Reconciliation of number of units		
Balance at the beginning of the year	342,080	339,851
Units issued to satisfy Manager's incentive fee	2,289	405
Issue of units under the Distribution Reinvestment Plan	1,629	1,824
Balance at the end of the year	345,998	342,080

The number of units on issue at 30 June 2016 was 345,997,825 (2015: 342,080,378). The units have no par value and are fully paid. Fully paid ordinary units carry one vote per unit and carry the right to distributions.

On 19 August 2015, 2,289,196 units were issued against the 2015 Manager's incentive fee of $3,773,053 (2015: 405,036 were issued against the 2014 Manager's incentive fee).

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% (2015: 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

	2016 $000s	2015 $000s
AUD denominated loans	345,310	257,340
Borrowing costs	(1,151)	(956)
Total borrowings	344,159	256,384
Shown as:		
Current	–	–
Term	344,159	256,384

The Group has a syndicated revolving multi-currency facility with ANZ Bank New Zealand Limited, Australia and New Zealand Banking Group Limited and Bank of New Zealand. The A$425.0m and NZ$20.0m facility, 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 (2015: 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 2017).

The effective interest rate on the borrowings as at 30 June 2016 was 4.38% per annum (2015: 5.32%).

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

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

	2016 $000s	2015 $000s
Interest accrued on borrowings	1,532	1,387
Other creditors and accruals	8,097	6,645
Total trade and other payables	9,629	8,032

Notes to the Consolidated Financial Statements

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.

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 2016, 62.2% of borrowings were at fixed rates as approved by the Board of Directors (2015: 83.5%). 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
30 June 2016						
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)
30 June 2015						
Cash and cash equivalents (floating rates)	2.20%	1,022	–	–	–	1,022
Borrowings (floating rates)	2.76%	(42,412)	–	–	–	(42,412)
Borrowings (fixed rates)	4.81%	(24,321)	–	(22,624)	(167,983)	(214,928)
		(65,711)	–	(22,624)	(167,983)	(256,318)

16 FINANCIAL RISK MANAGEMENT (continued)

Interest rate sensitivity

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

Fair value sensitivity

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

	Impact on profit/(loss) 2016 $000s	Impact on unitholders' funds 2016 $000s	Impact on profit/(loss) 2015 $000s	Impact on unitholders' funds 2015 $000s
If interest rates had been 100 bps higher:	9,397	9,397	8,965	8,965
If interest rates had been 100 bps lower:	(10,215)	(10,215)	(9,548)	(9,548)

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:

If interest rates had been 100 bps higher:	(1,412)	(1,412)	(424)	(424)
If interest rates had been 100 bps lower:	1,412	1,412	424	424

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:

	2016 $000s	2015 $000s
Non-financial instrument assets and liabilities denominated in Australian dollars		
Investment properties	777,109	618,174
Other assets	4,690	3,185
Deferred tax	(56,981)	(43,468)
Total non-financial instrument assets and liabilities	724,818	577,891
Non-derivative financial instruments		
Cash and cash equivalents	1,845	98
Trade and other receivables	234	734
Trade and other payables	(12,572)	(10,023)
Borrowings	(345,310)	(257,340)
Total exposure from non-derivative financial instruments	(355,803)	(266,531)
Derivative financial instruments		
Foreign exchange derivatives	9,445	(4,867)
Interest rate swaps	(19,764)	(14,274)
Total exposure from derivative instruments	(10,319)	(19,141)
Net exposure to currency risk	358,696	292,219

Notes to the Consolidated Financial Statements

16 FINANCIAL RISK MANAGEMENT (continued)

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 (2015: 10%) based on year end exposures:

	2016 $000s	2015 $000s
If the New Zealand Dollar versus the Australian Dollar was 10% higher for the year:		
Profit and loss	(1,794)	2,708
Other comprehensive income	(30,411)	(3,631)
Unitholders' funds	(32,205)	(923)
If the New Zealand Dollar versus the Australian Dollar was 10% lower for the year:		
Profit and loss	2,192	(3,309)
Other comprehensive income	37,169	4,438
Unitholders' funds	39,361	1,129

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 (2015: A$325.0m and NZ$20.0m). As at 30 June 2016, after translation to NZD $345.3m (2015: NZD $257.3m) had been drawn-down. The effective interest rate was 4.38% (2015: 5.32%).

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
30 June 2016						
Non-derivative financial instruments						
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)	–	–	–
	(354,939)	(374,503)	(15,992)	(5,844)	(240,287)	(112,380)
Derivative financial instruments						
Interest rate swaps	(19,764)	(21,368)	(4,069)	(4,307)	(4,026)	(8,966)
	(19,764)	(21,368)	(4,069)	(4,307)	(4,026)	(8,966)
30 June 2015						
Non-derivative financial instruments						
Borrowings (excluding borrowing costs)	(257,340)	(277,205)	(5,493)	(119,223)	(3,772)	(148,717)
Trade and other payables	(8,032)	(8,032)	(8,032)	–	–	–
	(265,372)	(285,237)	(13,525)	(119,223)	(3,772)	(148,717)
Derivative financial instruments						
Interest rate swaps	(14,274)	(15,131)	(4,651)	(3,536)	(2,832)	(4,112)
Foreign exchange derivatives	(4,867)	(4,867)	(4,867)	–	–	–
	(19,141)	(19,998)	(9,518)	(3,536)	(2,832)	(4,112)

16 FINANCIAL RISK MANAGEMENT (continued)

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 2016 (2015: nil). The face value of hedging instruments designated in net investment hedges is:

	2016 $000s	2015 $000s
Borrowings	94,221	101,808
Foreign exchange derivatives (nominal amount)	136,097	263,570

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
30 June 2016	13,338	(353,788)	9,486	(19,805)
30 June 2015	2,095	(264,416)	23	(19,165)

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 2016	Holding 2015
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.

Notes to the Consolidated Financial Statements

18 COMMITMENTS

	2016 $000s	2015 $000s
Capital commitments		
The Group was party to contracts to purchase or construct property for the following amounts:	45,221	44,051

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:

Not later than one year	81,256	64,867
Later than one year and not later than five years	242,059	238,938
Later than five years	902,882	790,236
	1,226,197	1,094,041

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

19 CONTINGENCIES

There were no contingencies as at 30 June 2016 (2015: nil).

20 SUBSEQUENT EVENTS

On 28 June an Offer Document was issued for a 2 for 9 renounceable rights offer of units in the Trust, seeking to raise $160 million. The rights offer was underwritten and made to Eligible Unitholders based on the Record Date of 29 June 2016. The offer closed on 19 July 2016 at 5.00pm and allotment of New Units under the rights offer took place on 25 July 2016 when 76,890,712 units were issued at $2.08.

On 1 July 2016 Vital acquired the Boulcott Hospital in Lower Hutt, Wellington for $30,660,000 and an adjacent residential property for $1,000,000 for future development.

On 11 August 2016 a final cash distribution of 2.125 cents per unit was announced by the Trust. The Record Date for the final distribution is 9 September 2016 and a payment is scheduled to unitholders on 23 September 2016. There will be 0.2831 cents per unit of 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:

	2016 $000s	2015 $000s
Total fees incurred		
Management fees	6,200	4,863
Manager's incentive fees	6,317	3,773
Expenses charged by Vital Healthcare Management Limited	525	146
Expenses charged by Vital Healthcare Australian Property Pty Limited	1,732	889
	14,774	9,671
Amounts outstanding		
Manager's incentive fees	6,317	3,773
	6,317	3,773

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

Expenses capitalised to projects		
Expenses charged by Vital Healthcare Australian Property Pty Limited	1,245	553
Expenses charged by Vital Healthcare Management Limited	317	–
	1,562	553

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 $168,709 (2015: $145,652) and Vital Healthcare Australian Property Pty Limited was $447,001 (2015: $312,346). The amount not recovered from tenants was nil (2015: nil).

Deloitte.

TO THE UNIT HOLDERS OF VITAL HEALTHCARE PROPERTY TRUST

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Vital Healthcare Property Trust and its controlled entities (together referred to as the 'Trust') on pages FIN-1 to FIN-27, which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the Trust's unit holders, as a body. Our audit has been undertaken so that we might state to the Trust's unit holders 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 unit holders as a body, for our audit work, for this report, or for the opinions we have formed.

Manager's Responsibility for the Consolidated Financial Statements

The Board of Directors of Vital Healthcare Management Limited (the 'Manager') is responsible on behalf of the Manager for the preparation and fair presentation of these consolidated financial statements, in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards, 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.

Auditor's Responsibilities

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

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

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

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

Opinion

In our opinion, the consolidated financial statements on pages FIN-1 to FIN-27 present fairly, in all material respects, the financial position of Vital Healthcare Property Trust and its controlled entities as at 30 June 2016, and their financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Deloitte

Chartered Accountants
11 August 2016
Auckland, New Zealand

Analysis of shareholding as at 31 August 2016

Holding Range	Number of unitholders	Total units	% of total units issued
1 to 1,999	383	326,268	0.07
2,000 to 4,999	670	2,329,932	0.55
5,000 to 9,999	1,137	8,261,351	1.94
10,000 to 49,999	2,515	54,609,863	12.83
50,000 to 99,999	340	22,805,764	5.36
100,000 to 499,999	141	24,949,100	5.86
500,000 to 999,999	9	5,635,551	1.32
1,000,000 and above	18	306,848,435	72.07
Total	**5,213**	**425,766,264**	**100.0**

Substantial security holders as at 31 August 2016

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

Twenty largest security holders as at 31 August 2016

Unitholder	Total	% total issued units
Baincor Nominees Pty Ltd	99,806,501	23.44
New Zealand Central Securities Depository Limited	77,096,673	18.10
Forsyth Barr Custodians Limited	27,744,449	6.51
Custodial Services Limited	22,046,834	5.17
FNZ Custodians Limited	20,610,738	4.84
Investment Custodial Services Limited	16,092,190	3.77
Custodial Services Limited	10,402,938	2.44
Custodial Services Limited	6,625,770	1.55
Custodial Services Limited	5,962,901	1.40
FNZ Custodians Limited	3,785,316	0.88
Custodial Services Limited	3,754,819	0.88
Deutsche Securities New Zealand Limited	3,292,950	0.77
NZPT Custodians (Grosvenor) Limited	2,498,393	0.58
Custodial Services Limited	1,917,239	0.45
New Zealand Depository Nominee Limited	1,579,219	0.37
James Harvey Mansell & Christine Anne Mansell & Douglas Tony Brown	1,527,778	0.35
FNZ Custodians Limited	1,080,695	0.25
Forsyth Barr Custodians Limited	1,023,032	0.24
Jarden Custodians Limited	910,000	0.21
Christopher Cornelius Fitzgerald	740,000	0.17
Totals	308,498,435	72.37
Total units on issue	425,766,264	

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

Unitholder	Number of units
Accident Compensation Corporation	15,753,298
BNP Paribas Nominees (NZ) Ltd	10,494,304
Citibank Nominees (NZ) Ltd	9,954,710
HSBC nominees (NZ) Ltd	9,805,674
JPMorgan Chase Bank NA NZ Branch	7,481,550
Guardian Nominees No 2 A/C	4,769,999
BNP Paribas Nominees (NZ) Ltd	2,629,010
National Nominees (NZ) Ltd	2,591,732
Tea Custodians Ltd	2,373,211
HSBC Noms (NZ) Ltd State Street	2,278,206
ANZ Wholesale Property Securities	2,203,413
Mint Nominees Ltd	1,880,583
MFL Mutual Fund Ltd	1,648,694
BNP Paribas Nominees (NZ) Ltd	1,336,442
Public Trust Class 30 Nominees Ltd	576,118
ANZ Wholesale Trans-Tasman Property	458,419
Sovereign Services Ltd	361,475
Public Trust Class 10 Nominees Ltd	282,276
ANZ Custodial Services NZ Ltd	201,257
Public Trust RIF Nominees Ltd	16,302
Total	77,096,673

Manager

Vital Healthcare Management Limited
Level 16, AIG Building
41 Shortland Street
Auckland 1010
PO Box 6945, Wellesley Street
Auckland 1141
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
Deloitte Centre
80 Queen Street
Auckland 1010
Private Bag 115-033
Auckland 1140
Telephone: +64 9 303 0700
Facsimile: +64 9 303 0701

Legal advisers to the Trust and the Manager

Harmos Horton Lusk
Vero Centre
48 Shortland Street
PO Box 28
Auckland 1140
Telephone: +64 9 921 4300
Facsimile: +64 9 921 4319

Bell Gully
Vero Centre
48 Shortland Street
PO Box 4199
Auckland 1140
Telephone: +64 9 916 8800
Facsimile: +64 9 916 8801

Ashurst Australia
Level 26
181 William Street
GPO Box 4958
Melbourne, Victoria 3001
Australia
Telephone: +61 3 9679 3000
Facsimile: +61 3 9679 3111

Trustee

Trustees Executors Limited
Level 12, 45 Queen Street
Auckland 1010
PO Box 4197
Auckland 1140
Telephone: +64 9 308 7100
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
27/100 Queen Street
Melbourne, Victoria 3000
Australia

Bank of New Zealand
Deloitte Centre
80 Queen Street
Auckland 1010

Unit Registrar

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

vital@computershare.co.nz
Telephone: +64 9 488 8777
Facsimile: +64 9 488 8787

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