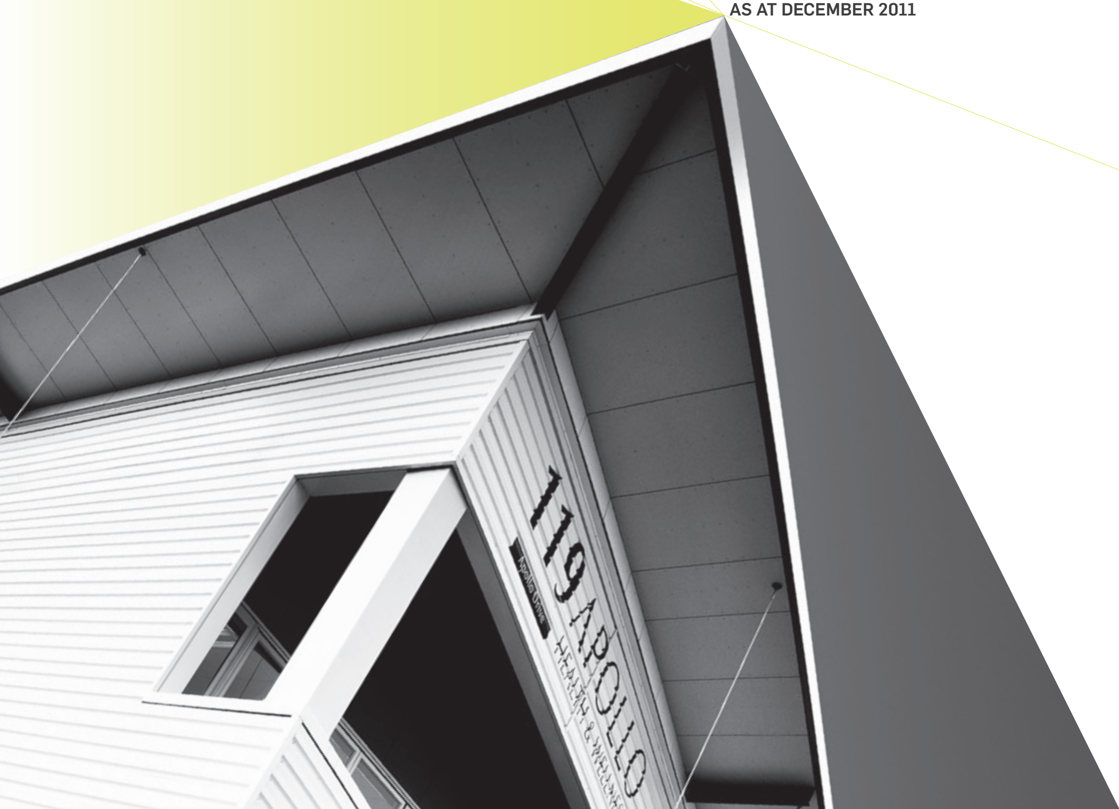
Vital

Healthcare
Property Trust

INTERIM REPORT
AS AT DECEMBER 2011



HIGHLIGHTS

INTERIM REPORT AS AT DECEMBER 2011

With a portfolio value of over NZ$550m, Vital Healthcare Property Trust (NZSX: VHP) is New Zealand's largest listed entity investing in medical and healthcare properties in Australasia. With an expert understanding of the needs of healthcare tenants on both sides of the Tasman, we actively select, develop and manage quality properties to meet the growing demand for medical and healthcare services. Our 124 tenants, in 25 properties, provide essential healthcare services to thousands of patients while also undertaking research and providing support services that will make a difference to many more lives in the future.

The Manager of Vital Healthcare Property Trust, Vital Healthcare Management Limited is owned by NorthWest Value Partners Inc., a private real estate investment firm based in Canada with a healthcare real estate interests in Canada, Australia, New Zealand, Brazil and Germany.

The interim results further entrench the Trust's leading specialist position in the sector supported by strong relationships between the management team and the Trust's tenants.

- Average rent increase
  4.0%
- Full-year cash distribution guidance
  7.70 cents per unit
- Profit before income tax
  $5.87 million
- Increase in operating profit
  62.0%
- Debt-to-total-asset ratio
  39.0%
- Portfolio occupancy
  99.1%
- Gross rental over prior period up
  80.9%
- Weighted average lease term
  11.4 years

The strong interim results reflect the benefits of a diversified healthcare property portfolio supported by strong underlying population growth, ageing demographic and relatively stable industry trends.

For the six months to 31 December, Vital Healthcare Property Trust reported an unaudited profit before income tax of $5.87m.

The Trust's operating profit before tax was up 62% to $11.29m (2010: $6.98m). In calculating the operating profit before tax, the impact of unrealised items including foreign exchange gains/(losses), interest rate swaps movement and revaluation losses on investment properties have been removed.

Mark-to-market adjustments on interest rate hedges gave rise to a loss of $4.97m (2010: gain of $2.24m) and foreign currency exchange movements principally on the unhedged portion of Australian dollar denominated borrowings, gave rise to a loss of $0.38m (2010: gain of $0.61m). These adjustments are made in accordance with International Financial Reporting Standards and the accounting treatment of these unrealised items has no effect on the Trust's cash distributions to unitholders.

Treasury and capital management

As a result of sales, development capital expenditure and the Mayo Private Hospital acquisition the Trust's debt-to-total-assets ratio is 39.0% as at 31 December 2011 (taking into account financing costs offset against borrowings), well below the Trust Deed covenant limit of 50% and bank facility covenant of 45%.

Gearing as at 30 June 2012, not allowing for any further asset sales or revaluation gains and making provision for the current development programme, is forecast at 42.9%. Notwithstanding this headroom to Trust Deed and bank facility covenants, the Board maintains the view that over the medium to long term the Trust's gearing is targeted to remain below 40%. The Trust's bank facility is secured until September 2013.

The Trust continues with its foreign exchange policy of seeking to minimise the impact of movements in the Australian versus the New Zealand dollar.

Portfolio performance

Gross rental income for the period was $24.44m (2010: $13.51m), an increase of 80.9% on the prior period, reflecting the positive contribution from the Australian portfolio acquisition in December 2010.

Portfolio occupancy sits at 99.1%, having been maintained at greater than 99% now for more than two years, with the Trust's weighted average lease term of 11.4 years more than double the listed property sector average in New Zealand. Over the six months to 31 December 2011 70 rent reviews were completed resulting in an average increase over passing rent of 4.0%. This includes the early renewal of the lease at Epworth Rehabilitation, Melbourne.

Distribution

The Trust will deliver a second quarter distribution of 1.925 cents per unit to unitholders. This distribution is comprised entirely of cash and has no imputation credits attached. The record date for the distribution was 8 March 2012, and the payment date was 22 March 2012.

As detailed in the first quarter distribution announcement, it is the view of the Board of the Manager that costs incurred investigating the internalisation proposals should not form part of the calculation of net distributable income.

The discount applicable to any units issued pursuant to the Distribution Reinvestment Plan was 1%.

Outlook

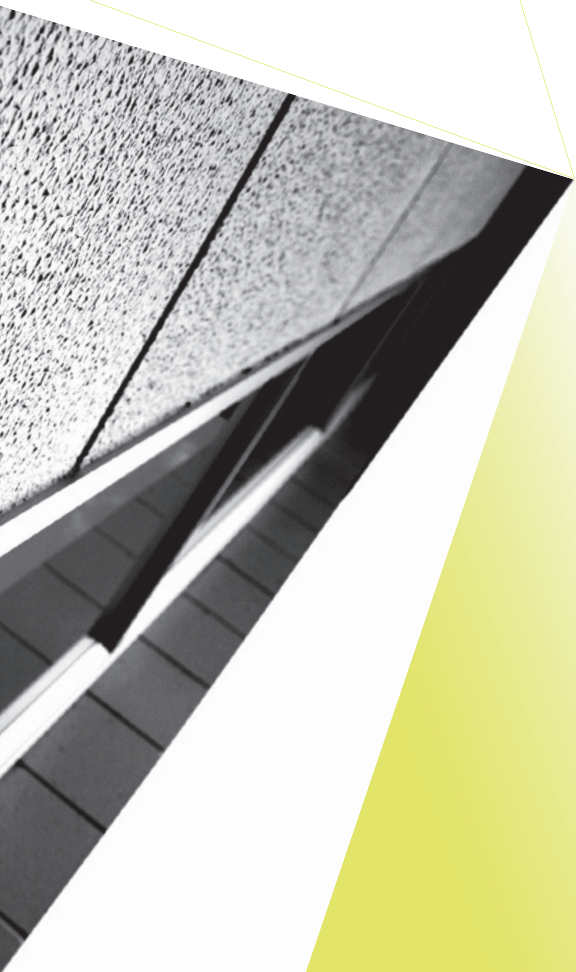
The Manager's focus remains on delivering on core asset management activities and extracting full value from the 2010 Australian acquisitions, including the completion of a number of value-add development projects through the remainder of 2012.

The Trust has 3.4% of leases by income expiring over the next two years with less than 1% of leases by income due to expire in the period to 30 June 2012. The Manager is in discussions with a number of tenants around their longer term operational requirements and actively seeks to secure tenants with strong covenants, on long lease terms with a structured rent review profile. Of the 131 rent reviews to complete in the 12 months to 30 June 2012 approximately 60 remain, with the majority of these subject to review by reference to the consumer price index.

The Board has re-confirmed its full year guidance for a net distributable income of 7.7 cents per unit for the 12 months to 30 June 2012.

Our healthy numbers reflect the strong track record we've developed in understanding and delivering on the needs of our healthcare tenants both sides of the Tasman.

VITAL HEALTHCARE PROPERTY TRUST
INTERIM FINANCIAL STATEMENTS AS AT DECEMBER 2011



Condensed Consolidated Interim Statement of Financial Position

As at 31 December 2011 (unaudited)

	Note	Group (unaudited) 31 December 2011 $000s	Group (unaudited & restated) 31 December 2010 $000s	Group (audited) 30 June 2011 $000s
Non-current assets				
Investment properties	4	551,191	517,483	513,945
Derivative financial instruments	5	83	–	–
Other non-current assets		734	5,417	843
Total non-current assets		**552,008**	522,900	514,788
Current assets				
Cash and cash equivalents		712	9,302	2,671
Trade and other receivables		249	205	1,502
Other current assets		445	1,987	307
Derivative financial instruments	5	173	–	1,640
		1,579	11,494	6,120
Non-current assets classified as held for sale	10	1,377	–	12,525
Total current assets		**2,956**	11,494	18,645
Total assets	3	**554,964**	534,394	533,433
Unitholders' funds				
Units on issue	6	299,691	294,530	297,404
Foreign currency translation reserve		(1,726)	779	(2,011)
Retained earnings		(567)	6,415	5,713
Total unitholders' funds		**297,398**	301,724	301,106
Non-current liabilities				
Borrowings	7	215,723	199,394	195,513
Derivative financial instruments	5	10,732	3,100	5,087
Deferred tax		22,387	22,015	24,590
Total non-current liabilities		**248,842**	224,509	225,190
Current liabilities				
Trade and other payables		4,676	5,811	4,285
Derivative financial instruments	5	261	201	241
Taxation payable		3,787	2,149	2,611
Total current liabilities		**8,724**	8,161	7,137
Total liabilities	3	**257,566**	232,670	232,327
Total unitholders' funds and liabilities		**554,964**	534,394	533,433

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

G Horsley, **Chairman**

C Higgins, **Director**

23 February 2012

The notes to the accounts form part of and are to be read in conjunction with these interim financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income

For the six months ended 31 December 2011 (unaudited)

	Note	Group (unaudited) Six months to 31 December 2011 $000s	Group (unaudited & restated) Six months to 31 December 2010 $000s
Gross property income from rentals		24,442	13,508
Gross property income from expense recoveries		2,723	1,687
Property expenses		(3,965)	(2,424)
Net property income	3	**23,200**	12,771
Other income		127	612
Total income		**23,327**	13,383
Administration expenses		2,428	1,395
Other expenses		999	222
Total expenses before finance income/(expense) and other gains/(losses)		**3,427**	1,617
Profit before finance income/(expense) and other gains/(losses)		**19,900**	11,766
Finance income/(expense)			
Finance income		103	239
Finance expense		(8,508)	(4,416)
Fair value (loss)/gain on interest rate derivatives		(4,969)	2,244
		(13,374)	(1,933)
Other gains/(losses)			
Revaluation losses on investment property	4	(68)	(12,316)
Payments under transaction hedging foreign exchange contracts		(117)	–
Fair value gain/(loss) on foreign exchange derivatives		(467)	–
		(652)	(12,316)
Profit/(loss) before income tax		5,874	(2,483)
Taxation expense	8	(677)	(1,094)
Profit/(loss) for the period attributable to unitholders of the Trust		5,197	(3,577)
Other comprehensive income			
Movement in foreign currency translation reserve		4,809	(2,216)
Realised foreign exchange loss on hedges		(2,884)	–
Unrealised foreign exchange loss on hedges		(2,717)	–
Fair value gain on net investment hedges		(246)	–
Income tax expense relating to other comprehensive income		1,323	–
Total other comprehensive gain/(loss) after tax		285	(2,216)
Total comprehensive income/(loss) after tax		5,482	(5,793)

All amounts are from continuing operations.

Earnings per unit			
Basic and diluted earnings per unit (cents)	11	1.79	(2.32)

The notes to the accounts form part of and are to be read in conjunction with these interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2011 (unaudited)

	Units on issue $000s	Foreign currency translation reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 31 December 2011 (unaudited)				
Unitholders' funds at the beginning of the period	297,404	(2,011)	5,713	301,106
Profit for the period	–	–	5,197	5,197
Other comprehensive income	–	285	–	285
Total comprehensive income for the period	–	285	5,197	5,482
Contributions by and distributions to unitholders				
Units issued under the Distribution Reinvestment Plan	2,280	–	–	2,280
Issue costs of units	7	–	–	7
Distributions to unitholders	–	–	(11,477)	(11,477)
Unitholders' funds at the end of the period	299,691	(1,726)	(567)	297,398
For the six months ended 31 December 2010 (unaudited & restated)				
Unitholders' funds at the beginning of the period	152,148	2,995	15,945	171,088
Loss for the period	–	–	(3,577)	(3,577)
Other comprehensive loss	–	(2,216)	–	(2,216)
Total comprehensive loss for the period	–	(2,216)	(3,577)	(5,793)
Contributions by and distributions to unitholders				
Units issued under the Distribution Reinvestment Plan	352	–	–	352
Issue of units	150,870	–	–	150,870
Issue costs of units	(8,840)	–	–	(8,840)
Distributions to unitholders	–	–	(5,953)	(5,953)
Unitholders' funds at the end of the period	294,530	779	6,415	301,724

Condensed Consolidated Interim Statements of Cash Flows

For the six months ended 31 December 2011 (unaudited)

	Note	Group (unaudited) Six months to 31 December 2011 $000s	Group (unaudited) Six months to 31 December 2010 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		25,385	13,536
Recovery of property expenses		2,852	1,741
Interest received		103	239
Other income		36	21
Cash was applied to:			
Property expenses		(3,236)	(1,990)
Management and Trustee fees		(2,261)	(1,222)
Interest paid		(8,171)	(3,877)
Tax paid		(549)	(558)
Other trust expenses		(1,718)	(333)
Net cash from operating activities	9	**12,441**	7,557
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		12,978	4,000
Cash was applied to:			
Capital additions on investment properties		(15,446)	(1,894)
Purchase of properties		(18,165)	(231,362)
Investment in units		–	(300)
Lease incentives		(17)	(745)
New lease costs		(15)	(62)
Disposal costs		(56)	(76)
Payments under transaction hedging foreign exchange contracts		(1,823)	–
Net cash used in investing activities		**(22,544)**	(230,439)
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		36,070	196,270
Loan repayments from tenants		51	41
Issue of units (net of issue costs)		2,294	145,066
Cash was applied to:			
Repayment of debt		(18,771)	(97,014)
Loan advance to tenant		–	(5,840)
Loan issue costs		–	(1,367)
Costs associated with Distribution Reinvestment Plan		(7)	(6)
Distributions paid to unitholders		(11,481)	(5,961)
Net cash from financing activities		**8,156**	231,189
Net (decrease)/increase in cash and cash equivalents		**(1,947)**	8,307
Effect of exchange rate changes on cash and cash equivalents		(12)	(29)
Cash and cash equivalents at the beginning of the period		2,671	1,024
Cash and cash equivalents at the end of the period		**712**	9,302

The notes to the accounts form part of and are to be read in conjunction with these interim financial statements.

Notes to the condensed consolidated interim financial statements

1 GENERAL INFORMATION

Vital Healthcare Property Trust (the "Trust") is a unit trust established under the Unit Trusts Act 1960 by a Trust Deed dated 11 February 1994 which was amended and replaced by Deed of Trust dated 1 September 1999 and which was subsequently amended by Deeds of Amendments dated 10 November 2003, 12 November 2007, 12 December 2007, 5 August 2008 and 27 September 2010. The Trust is an issuer under the Financial Reporting Act 1993. The Trust is incorporated and domiciled in New Zealand.

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

The Trust is managed by Vital Healthcare Management Limited (the "Manager"). On 16 January 2012, NorthWest Value Partners Inc acquired all the shares in the Manager from its previous owner, Medical Properties Holding Company No.1 Limited (formerly Argosy Property Management Limited).

These condensed consolidated interim financial statements include those of the Trust and its controlled subsidiaries (the "Group").

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

These condensed consolidated interim financial statements were approved by the Board of Directors of the Manager on 23 February 2012.

2 BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with NZ IAS 34 and IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements for the year ended 30 June 2011.

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

The preparation of condensed consolidated interim financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the condensed consolidated interim financial statements are as follows:

Note 4 – valuation of investment property

Note 5 – valuation of derivative financial instruments

Note 8 – deferred tax

Notes to the condensed consolidated interim financial statements (continued)

Amendments to NZ IFRS

The following amended accounting standard is mandatory for application for annual periods beginning on or after 1 January 2012. The Trust has adopted these amendments early for the year ended 30 June 2011. These financial statements have been prepared under the revised reporting requirements. The amendment has been retrospectively applied to the comparative period ending 31 December 2010 with adjustments initially being made to the opening balances of Retained Earnings, Foreign Currency Translation Reserve and Deferred Tax Liability.

NZ IAS 12 (Amendment): Income Taxes – The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in NZ IAS 40 Investment Property. Under NZ IAS 12, the amendments introduce a presumption that an investment property is recovered entirely through sale. An exception is applied if the investment property is intended to be held for the objective of consuming substantially all of its useful life, rather than recovering through sale.

The impact on the Group is as follows:

The increase to deferred tax liabilities arising from investment properties totalling $12.9m as at 31 December 2010.

		Previously reported ($000s)	Restatement ($000s)	Restated ($000s)
Statement of financial position				
Deferred tax	– 31 December 2010	9,120	12,895	22,015
Statement of changes in equity				
Foreign currency translation reserve	– 31 December 2010	1,373	(594)	779
Retained earnings	– 31 December 2010	18,716	(12,301)	6,415
Basic and diluted earnings per unit	– 31 December 2010	(1.67)		(2.32)

3 SEGMENT INFORMATION

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

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

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

Notes to the condensed consolidated interim financial statements (continued)

3 SEGMENT INFORMATION (CONTINUED)

	Australia (unaudited) $000s	New Zealand (unaudited) $000s	Total (unaudited) $000s
Segment profit/(loss) for the period ended 31 December 2011:			
Net property income	15,592	7,608	23,200
Administration expenses	(1,387)	(1,041)	(2,428)
Other income/(expenses)	(178)	(2,012)	(2,190)
Finance income/(expense)	(551)	(7,854)	(8,405)
Unrealised interest rate swaps loss	(2,985)	(1,984)	(4,969)
Revaluation losses on investment properties	(68)	–	(68)
Total segment profit/(loss)	**10,423**	**(5,283)**	**5,140**
Unallocated:			
Other income/(expenses)			1,318
Payments under transaction hedging foreign exchange contracts			(117)
Fair value loss on foreign exchange derivatives			(467)
Profit before income tax			**5,874**
Taxation			(677)
Profit for the period			**5,197**
Segment profit/(loss) for the period ended 31 December 2010:			
Net property income	4,800	7,971	12,771
Administration expenses	(423)	(972)	(1,395)
Other income/(expenses)	(81)	471	390
Finance income/(expense)	(1,584)	(2,593)	(4,177)
Unrealised interest rate swaps gain	2,244	–	2,244
Revaluation losses on investment properties	(12,316)	–	(12,316)
Total segment (loss)/profit	(7,360)	4,877	(2,483)
Taxation			(1,094)
Loss for the period			(3,577)

Net property income consists of revenue generated from external tenants less property operating expenditure. The Group has two tenants with over 10% of gross property income from rentals totalling $14.1m (31 December 2010: two tenants totalling $11.9m).

There were no inter-segment sales during the period (31 December 2010: 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 is the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the condensed consolidated interim financial statements (continued)

3 SEGMENT INFORMATION (CONTINUED)

	Australia (unaudited) $000s	New Zealand (unaudited) $000s	Total (unaudited) $000s
Segment assets for the period ended 31 December 2011			
Investment properties	381,193	169,998	551,191
Other non-current assets	152	582	734
Cash and cash equivalents	809	(97)	712
Trade and other receivables	73	176	249
Other current assets	74	371	445
Derivative financial instruments	–	256	256
Non-current assets classified as held for sale	1,377	–	1,377
Consolidated assets	**383,678**	**171,286**	**554,964**
Segment assets for the period ended 31 December 2010			
Investment properties	331,619	185,864	517,483
Other non-current assets	4,518	899	5,417
Cash and cash equivalents	4,041	5,261	9,302
Trade and other receivables	73	132	205
Other current assets	136	1,851	1,987
Consolidated assets	340,387	194,007	534,394
Segment liabilities for the period ended 31 December 2011			
Borrowings	–	215,723	215,723
Derivative financial instruments	7,438	3,555	10,993
Deferred tax	19,761	2,626	22,387
Trade and other payables	1,684	2,992	4,676
Taxation payable	2,818	969	3,787
Consolidated liabilities	**31,701**	**225,865**	**257,566**
Segment liabilities for the period ended 31 December 2010			
Borrowings	–	199,394	199,394
Derivative financial instruments	3,301	–	3,301
Deferred tax	17,934	4,081	22,015
Trade and other payables	456	5,355	5,811
Taxation payable	–	2,149	2,149
Consolidated liabilities	21,691	210,979	232,670

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

– all assets are allocated to reportable segments.

– all liabilities are allocated to reportable segments other than foreign exchange movement on intercompany balance.

Notes to the condensed consolidated interim financial statements (continued)

4 INVESTMENT PROPERTIES

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Movement in investment properties		
Balance at the beginning of the period	509,790	289,076
Acquisition of properties	18,165	233,684
Capitalised costs	15,915	2,191
Classified as held for sale	(1,377)	–
Foreign exchange translation difference	4,750	1,330
Change in fair value	(68)	(12,316)
Closing balance	**547,175**	513,965
Deferred initial direct costs/lease incentives		
Opening balance	4,155	2,914
Change during the period	(139)	604
Closing balance	**4,016**	3,518
Balance at the end of the period	**551,191**	517,483

The Group holds the freehold to all properties except the car parks at the rear of Ascot Hospital and Ascot Central. The total value of leasehold property at 31 December 2011 was $3,050,000 (31 December 2010: $3,000,000) representing 0.6% of the total investment property portfolio (31 December 2010: 0.6%). The weighted average lease length of leasehold property at 31 December 2011 was 7.23 years (31 December 2010: 8.23 years). The Group has an option to extend the ground lease for a further 20 years following expiry of the lease and expect to conclude an option for an additional right of renewal of 20 years.

Deferred initial direct costs/lease incentives

This amount represents costs incurred with the negotiation of operating leases for the Group's investment property portfolio and which are being amortised over the term of those leases.

Notes to the condensed consolidated interim financial statements (continued)

5 DERIVATIVE FINANCIAL INSTRUMENTS

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Nominal value of forward exchange contracts – AUD	100,050	–
Nominal value of interest rate swaps – AUD	120,000	65,000
Nominal value of interest rate swaps – NZD	–	4,000
Average fixed interest rate	5.60%	6.79%
Floating rates based on NZD BBR	5.63%	6.15%

Hedge Accounting

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

The Group has designated Australian denominated borrowings and forward exchange contracts as hedges of a net investment in a foreign operation (net investment hedge). The Group prospectively and retrospectively tests the hedges for effectiveness on a semi-annual basis. The portion of the foreign exchange differences arising on the hedging instruments determined to be an effective hedge is recognised directly in equity. Any ineffective portion is recognised in profit or loss.

There has been no ineffectiveness on the net investment hedges during the period ended 31 December 2011 (31 December 2010: nil). The face value of hedging instruments designated in net investment hedges is:

Borrowings	190,564	–
Forward exchange contracts	116,638	–

6 UNITS ON ISSUE

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Balance at the beginning of the period	297,404	152,148
Issue of units under the Distribution Reinvestment Plan	2,280	352
Issue of units under Rights Issue	–	150,870
Issue costs of units	7	(8,840)
Balance at the end of the period	**299,691**	294,530

	000s	000s
Reconciliation of number of units		
Balance at the beginning of the period	290,006	143,300
Issue of units under the Distribution Reinvestment Plan	2,056	287
Issue of units under Rights Issue	–	143,686
Issue of units to satisfy Manager's incentive fee	–	98
Balance at the end of the period	**292,062**	287,371

Notes to the condensed consolidated interim financial statements (continued)

6 UNITS ON ISSUE (CONTINUED)

The number of units on issue at 31 December 2011 was 292,062,012 (31 December 2010: 287,371,428). All units have no par value and are fully paid up. Fully paid units carry one vote per unit and carry the right to distributions as declared by the Trust.

The 2011 Manager's incentive fee was nil therefore there were no units issued (on 3 September 2010, 98,322 units were issued against the 2010 Manager's incentive fee of $120,161).

Capital risk management

The Group's capital includes units, reserves and retained earnings with Total Unitholders' Funds sitting at $297.4m (31 December 2010: $301.7m).

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

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

The Group's banking covenants require that the aggregate principal amount of the loan outstanding does not exceed 45% 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 period.

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

7 BORROWINGS

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
AUD denominated loans	213,127	199,080
NZD denominated loans	3,500	1,711
Borrowing costs	(904)	(1,397)
ANZ National Bank Limited	**215,723**	199,394

The Group has borrowings from the ANZ National Bank Limited in New Zealand and Australia. The A$200,000,000/NZ$20,000,000 facility is a multi-currency revolving credit facility currently due to expire on 1 September 2013.

The effective interest rate on the borrowings as at 31 December 2011 was 7.51% per annum margin (31 December 2010: 7.42%).

Borrowings are secured by first ranking mortgages over the respective investment properties by a General Security Deed over the assets and undertakings of Vital Healthcare Property Limited and Colma Services Limited, subsidiaries of the Trust, and fixed and floating charges over the assets and undertakings of Vital Healthcare Australian Property Pty Limited, as trustee for Vital Healthcare Australian Property Trust and Vital Healthcare Investment Trust.

Notes to the condensed consolidated interim financial statements (continued)

8 TAXATION

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Profit/(loss) before tax for the period	5,874	(2,483)
Taxation charge/(credit) – 28% for 2011, 30% for 2010	1,645	(745)
Deferred tax on investment properties	(4)	(2,695)
Tax exempt income	22	3,718
Non deductible expenses	1,485	(533)
Effect of tax rates in foreign jurisdictions	(2,574)	–
Under provided in prior periods	–	1,429
Other adjustments	103	(80)
Taxation charge	**677**	1,094
The taxation charge/(credit) is made up as follows:		
Current taxation	2,182	2,759
Deferred taxation	(1,505)	(1,665)
Taxation charge	**677**	1,094
Imputation credits		
Imputation credits at the beginning of period	9	177
New Zealand tax payments, net of refunds	549	558
Imputation credits attached to distributions paid		
Current period	(410)	(262)
Prior periods	–	(727)
Imputation credits at the end of period	**148**	(254)

There are no imputation credits to be attached to the distribution for the quarter ended 31 December 2011 (31 December 2010: nil).

Notes to the condensed consolidated interim financial statements (continued)

9 RECONCILIATION OF PROFIT/(LOSS) AFTER TAX WITH CASH FLOWS FROM OPERATING ACTIVITIES

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Profit/(loss) after tax for the period	**5,197**	(3,577)
Adjustments for non-cash items		
Change in fair value of investment properties	68	12,316
Fair value loss/(gain) on derivative financial instruments	4,969	(2,244)
Amortisation of loan amendment costs	273	254
Other adjustments	2,228	886
Unrealised foreign exchange gain	(90)	(605)
Effect of exchange rate changes on cash balances	(12)	(29)
Operating cash flow before changes in working capital	**12,633**	7,001
Change in trade and other payables	(130)	(167)
Change in taxation provision and deferred tax	(794)	(71)
Change in trade and other receivables	732	794
Net cash from operating activities	**12,441**	7,557

10 PROPERTY HELD FOR SALE

Brockway House, Southport, Queensland was subject to a sale and purchase agreement at reporting date for a total sale price of A$1,092,000 (31 December 2010: nil). The valuation of this property was based on the agreed purchase price less disposal costs, which approximates to its fair value at 31 December 2011.

11 EARNINGS PER UNIT

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

Profit attributable to unitholders of the Trust ($000s)	5,197	(3,577)
Weighted average number of units on issue (000s)	290,800	154,465
Basic and diluted earnings per unit (cents)	1.79	(2.32)

Weighted average number of units		
Issued units at the beginning of period (000s)	290,006	143,300
Issued units at the end of period (000s)	292,062	287,371
Weighted average number of units (000s)	290,800	154,465

Notes to the condensed consolidated interim financial statements (continued)

12 COMMITMENTS

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Capital Commitments		
The Group was party to contracts to purchase, construct or improve property of the following amounts:	**42,238**	15,285

Lease Commitments

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

Within one year	205	200
More than one year and less than five years	820	800
More than five years	465	670
	1,490	1,670

The Group has a variety of operating leases relating to the investment property it owns with lease terms of between one month and 20 years. Approximately 88.1% (31 December 2010: 87.1%) of the portfolio in terms of annual rent contain annual CPI increases clauses.

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

Within one year	50,916	47,407
More than one year and less than five years	190,832	214,599
More than five years	343,053	285,573
	584,801	547,579

13 CONTINGENCIES

There were no contingencies as at 31 December 2011 (31 December 2010: nil).

Notes to the condensed consolidated interim financial statements (continued)

14 SUBSEQUENT EVENTS

On 23 February 2012, the Trust announced an interim gross distribution of 1.925 cents per unit. The record date for this distribution is 8 March 2012 and a payment is to be made to unitholders on 22 March 2012. There are no imputation credits attached to the distribution.

On 16 January 2012, NorthWest Value Partners Inc acquired all the shares in the Manager from its previous owner, Medical Properties Holding Company No.1 Limited (formerly Argosy Property Management Limited).

15 RELATED PARTY TRANSACTIONS

The Trust is managed by Vital Healthcare Management Limited (the "Manager"). The Manager is a wholly owned subsidiary of Medical Properties Holding Company No.1 Limited (formerly Argosy Property Management Limited) which is owned by OnePath (NZ) Limited which is owned by ANZ National Bank Limited. 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 OnePath (NZ) Limited ("OnePath") and Vital Healthcare Australian Property Pty Limited ("VHAPPL").

Transactions with related parties include:

	Group (unaudited) 31 December 2011 $000s	Group (unaudited) 31 December 2010 $000s
Costs included in the Statement of Comprehensive Income		
Management fees	1,954	1,150
Expenses charged by Vital Healthcare Management Limited	41	96
Expenses charged by Vital Healthcare Australian Property Pty Limited	–	1
Expenses charged by OnePath (NZ) Limited	149	–
Expenses charged by Argosy Property Trust – up to 30 August 2011	3	18
	2,147	1,265
Amounts outstanding		
Management fees	249	1,071
Expenses charged by Vital Healthcare Management Limited	–	1,698
Expenses charged by OnePath (NZ) Limited	–	23
	249	2,792

Expenses charged by related parties include salary, computer equipment purchase recovery, other property related costs and certain transaction costs initially incurred in the acquisition of the Australian properties.

Expenses capitalised to projects		
Vital Healthcare Management Limited – management fees	–	989
Vital Healthcare Management Limited – oncharged third party costs	–	1,688
	–	2,677

Notes to the condensed consolidated interim financial statements (continued)

15 RELATED PARTY TRANSACTIONS (CONTINUED)

Properties owned by the Trust have been managed, on normal commercial terms by Vital Healthcare Management Limited, a subsidiary of Medical Properties Holding Company No.1 Limited (formerly Argosy Property Management Limited) which is a wholly owned subsidiary of ANZ National Bank Limited. Property management fees charged are either included in property expenses or capitalised. The amount paid to Vital Healthcare Management Limited was $40,549 (31 December 2010: $96,458). The amount not recovered from tenants was $549 (31 December 2010: $658).

The Group has a revolving multi-currency credit facility with ANZ National Bank Limited (the ultimate shareholder of the Manager) in both New Zealand and Australia of A$200,000,000 and NZ$20,000,000. As at 31 December 2011, NZ$216,626,635 (31 December 2010: NZ$200,790,645) had been drawn-down. The Group paid NZ$8,172,558 (31 December 2010: NZ$3,901,322) in interest and fees to ANZ National Bank Limited during the period.

Remuneration of Manager

The Trust paid management fees and incentive fees to the Manager. The calculation of management fees and incentive fees is stipulated in the Trust Deed. Management fees have been charged at 0.75% of the monthly average of the gross value of the assets of the Trust for the quarter ended on the last day of that month. Incentive fees are payable when there is an average annual increase in the Gross Value of the assets of the Trust Fund over the relevant financial year and the two preceding financial years. The incentive fee is 10% of the amount of the increase with payment being made by way of subscribing for new Units issued at the weighted average price. The management and incentive fees shall not exceed an amount equal to 1.75% per annum of the gross value of the Trust.

DIRECTORY

Manager

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Andrew Evans
Claire Higgins
Paul Dalla Lana
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Telephone: 0800 103 123

Unit Registrar

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

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

General enquiries can be directed to:
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Please assist our registrar by quoting your CSN or shareholder number.

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Vital
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Property Trust

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