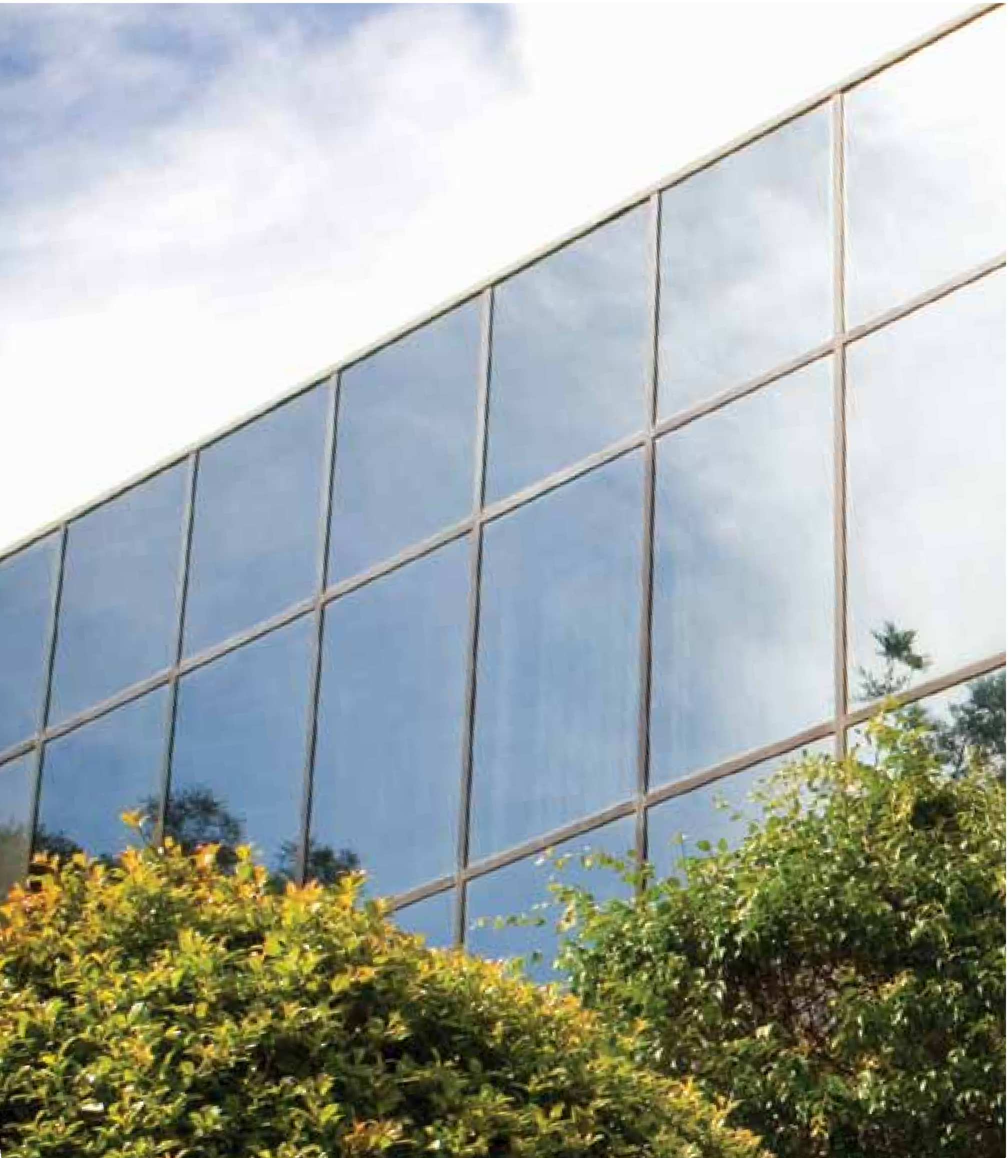
Vital Healthcare Property Trust

Interim report

AS AT 31 DECEMBER 2010



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Highlights

Vital

Successful rebranding to Vital Healthcare Property Trust.

2013

Secured renewal of existing debt facility to September 2013 and an increase in the facility for the purposes of the Australian acquisition.

12

Successful capital raising and acquisition of 12 healthcare properties in Queensland, New South Wales, Victoria and Tasmania.

99.2%

Portfolio occupancy levels at 99.2%.

11.5

Sector-leading 11.5 year weighted average lease term.

43

43 rent reviews completed resulting in an average increase over passing rent of 3.4%.

Manager's report

For the six months ended 31 December 2010, Vital Healthcare Property Trust ("Trust") reported an unaudited operating profit before tax of $7.0m, a 3.3% increase on the same period to 31 December 2009.

The successful acquisition of 12 properties in Australia late last year, has nearly doubled the number of assets in the Trust's portfolio.

The result reflects the continued stability which characterises the healthcare property sector and resilient performance of the Trust's tenants. The defensive nature of healthcare property assets is well supported by both population demographics and industry trends.

The successful acquisition of 12 properties in Australia late last year, has nearly doubled the number of assets in the Trust's portfolio. With two thirds of its portfolio now in Australia the acquisition has increased the Trust's weighted average lease term to 11.5 years, more than twice the New Zealand Listed Property Sector average, with 90% of rental income now linked to consumer price index based reviews.

This enhanced portfolio diversification with greater scale in, and exposure to the robust Australian healthcare market, entrenches the Trust's market position as a leading Australasian healthcare property investment fund.

Gross rental income for the period was $13.51m (2009: $12.36m), an increase of 9.3% on the prior period, with approximately half of the increased income the result of the Australian acquisition.

Financial performance

Gross rental income for the period was $13.51m (2009: $12.36m), an increase of 9.3% on the prior period, with approximately half of the increased income the result of the Australian acquisition. The Trust's operating profit before tax was up 3.3% to $7.0m (2009: $6.76m).

In calculating the operating profit before tax, unrealised items including foreign exchange gains, interest rate swaps improvement and revaluation losses on investment properties are removed. As outlined in the Simplified Disclosure Prospectus ("Prospectus") the investment properties acquired have been written down to independent valuation which has resulted in the revaluation write-off of stamp duty and acquisition costs of $12.3m.

Manager's report (con't.)

Mark-to-market adjustments on interest rate hedges gave rise to a gain of $2.24m (2009: gain of $1.75m) and foreign currency exchange movements principally on Australian dollar denominated borrowings gave rise to a gain of $0.61m (2009: gain of $0.39m). 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.

Tax and financial accounting standards

At the Trust's financial year end of 30 June 2010 it was necessary to provide a deferred tax liability as a result of an unforeseen outcome of the New Zealand Government's removal of depreciation allowances on building structures. The International Accounting Standards Board (IASB) recently made an announcement regarding amendments to IAS 12 – Income Taxes. This amendment removed the requirement to provide for deferred tax liability that would not eventuate under current legislation.

Like other property entities, the Trust has elected to adopt the IASB amendment. This results in the Trust's interim accounts making retrospective amendments to comparative periods for the reversal of the one-off deferred tax liability.

Sales and acquisitions

The Trust settled the sale of the Waipukurau property in December 2010 with the net proceeds applied to reduce bank debt. The Board continues to actively review the total portfolio and will continue with the sale of non-strategic assets as appropriate.

On 22 December 2010, the Trust settled the acquisition of the 12 healthcare properties in Australia and a loan by Essential Healthcare Trust to Healthe Care Australia Pty Limited. The healthcare properties are located in New South Wales, Tasmania, Queensland and Victoria and the purchase price included stamp duty and other transaction costs.

In early January the Manager appointed an Australian based Senior Asset Manager to proactively manage the expanded Australian portfolio.

This resulted in the Trust increasing its Investment Properties to $517.5m from $292.0m at the 30 June 2010 year end. The acquisition was partially funded by a 1-for-1 Rights Issue with units being allocated on 17 December 2010 and the balance of the acquisition by Australian dollar denominated borrowings under a new tranche of the Trust's bank facility.

This is an exciting acquisition that brings diversity to the portfolio and a future pipeline of value-adding expansion and refurbishment projects in a growing healthcare market.

In early January the Manager appointed an Australian based Senior Asset Manager to proactively manage the expanded Australian portfolio.

Gearing

As a result of sales, acquisitions and last year's capital raising, the Trust's debt-to-total-assets ratio is 37.3% (taking into account financing costs offset against borrowings) as at 31 December 2010, well below the Trust Deed covenant limit of 50%.

Distribution Reinvestment Plan

As announced on the 26 October 2010, the Distribution Reinvestment Plan ("DRP") was suspended by the Manager for the first quarter distribution, in accordance with the terms of the DRP. The Manager now advises it has re-instated the DRP, with this being available to unitholders from the second quarter distribution that was paid on 22 March 2011.

Apollo Health & Wellness Centre, Albany, Auckland

Unitholders who have previously elected to participate in the DRP will automatically be re-instated. Any unitholders wishing to amend their instructions or elect to participate in the scheme will be offered the opportunity to do so before the third quarter distribution with appropriate documents being mailed to all unitholders with this report. The discount applicable to any units issued pursuant to the DRP will be 1%.

Change in Manager's fee structure and ownership of the Manager

As previously signalled, changes to the structure of the Manager's fee arrangements under the Trust Deed relating to the Trust have been proposed. The independent directors of the Manager are currently considering further details of the proposed changes in the fee structure.

The Manager can however confirm that subject to Trustee and unitholder approval to any final fee proposal, the effective date of any revised fee structure will be from the date of settlement of the Australian healthcare portfolio acquisition, 22 December 2010.

The Manager also understands that its shareholder (ANZ New Zealand) is continuing to evaluate its ownership options in respect of the Manager, as detailed in the Prospectus.

Outlook

General health sector trends in New Zealand and Australia remain strong and continue to support the Trust's surgical, medical and healthcare tenants.

The Manager remains focused on core asset management activities of its existing portfolio and extracting full value from the Australian acquisitions, including the instigation and completion of a number of committed value-add development projects under the control of the new Australian Senior Asset Manager.

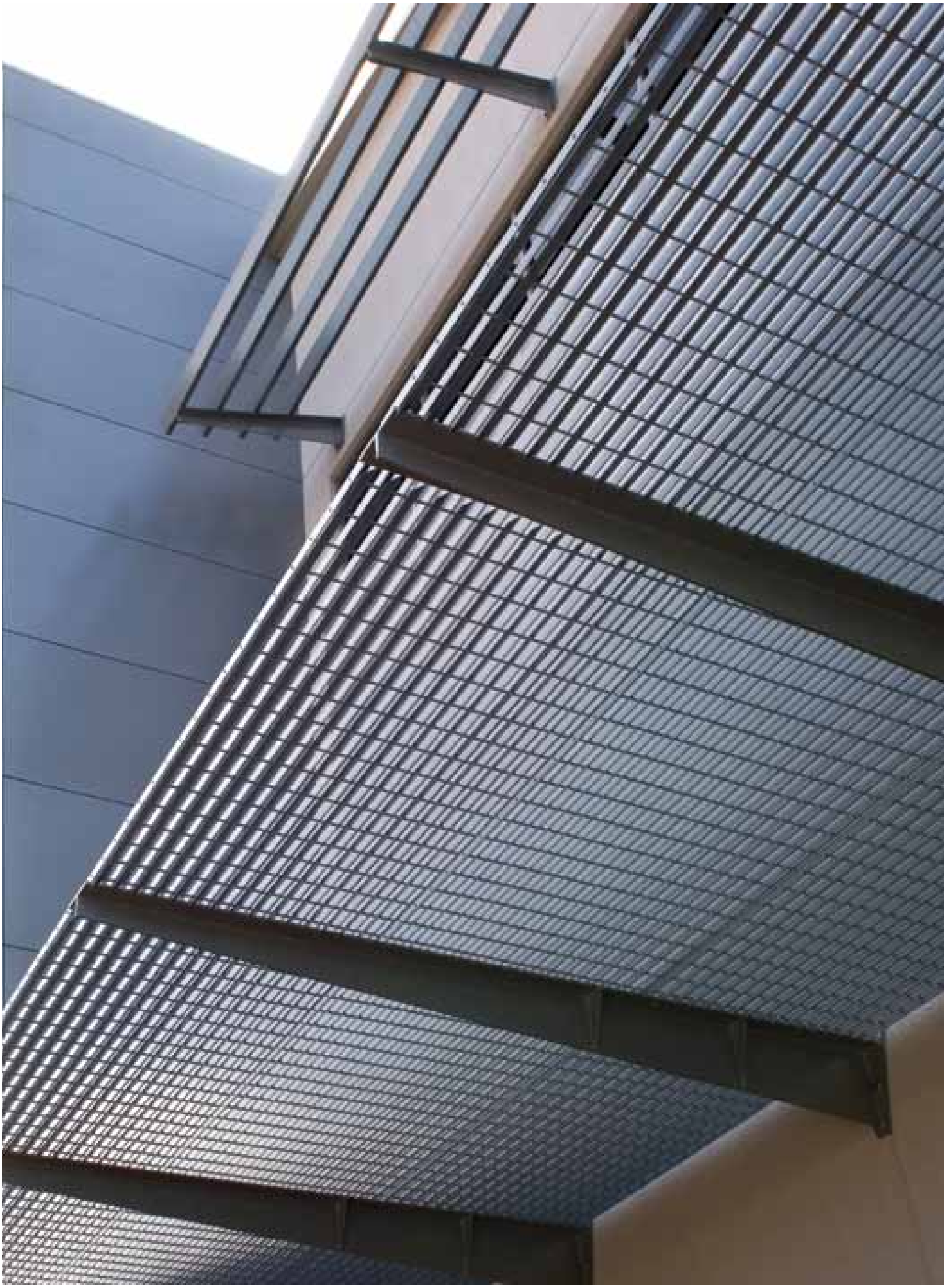
The Trust has 2.9% of leases expiring over the next 18 months with 1.5% of leases due to expire in the period to 30 June 2011. The Trust has 38 rent reviews to complete to 30 June 2011, with approximately 80% subject to review by consumer price index.

The Board confirms its guidance as set out in the Prospectus for a full year 2011 net distributable income of 8.1 cents per unit.

Interim Financial Statements

As at 31 December 2010

Epworth Eastern Hospital, Box Hill, Melbourne



Allamanda Surgicentre, Southport, Queensland

Condensed Consolidated Interim Statement of Financial Position

As at 31 December 2010 (unaudited)

	Note	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s	Group (unaudited & restated) 30 June 2010 $000s
Non-current assets				
Investment properties	5	517,483	286,354	291,990
Other non-current assets		5,417	878	1,011
Total non-current assets		**522,900**	287,232	293,001
Current assets				
Cash and cash equivalents		9,302	706	1,024
Trade and other receivables		205	211	427
Other current assets		1,987	373	902
		11,494	1,290	2,353
Non-current assets classified as held for sale		-	-	4,191
Total current assets		**11,494**	1,290	6,544
Total assets	4	**534,394**	288,522	299,545
Unitholders' funds				
Units on issue	7	294,530	151,342	152,148
Foreign currency translation reserve		1,373	2,739	2,810
Retained earnings		18,716	21,067	27,253
Total unitholders' funds		**314,619**	175,148	182,211
Non-current liabilities				
Borrowings	8	199,394	98,074	-
Derivative financial instruments	6	3,100	3,405	5,203
Deferred tax		9,120	9,473	11,355
Total non-current liabilities		**211,614**	110,952	16,558
Current liabilities				
Borrowings	8	-	-	97,521
Trade and other payables		5,811	2,080	2,687
Derivative financial instruments	6	201	70	17
Taxation payable		2,149	272	551
Total current liabilities		**8,161**	2,422	100,776
Total liabilities	4	**219,775**	113,374	117,334
Total unitholders' funds and liabilities		**534,394**	288,522	299,545

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

William Thurston
Chairman
30 March 2011

P C Brook
Director

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 2010 (unaudited)

	Note	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Gross property income from rentals		13,508	12,361
Gross property income from expense recoveries		1,687	1,599
Property expenses		(2,424)	(1,916)
Net property income	4	**12,771**	12,044
Other income		7	2
Total income		**12,778**	12,046
Administration expenses		1,395	1,409
Other expenses		222	120
Total expenses before finance income/(expenses) and other gains/(losses)		**1,617**	1,529
Profit before finance income/(expenses) and other gains/(losses)		**11,161**	10,517
Finance income/(expense)			
Finance expense		(4,416)	(3,835)
Interest rate swaps - held for trading		2,244	1,748
Finance income		239	78
		(1,933)	(2,009)
Other gains/(losses)			
Revaluation losses on investment property	5	(12,316)	-
Unrealised foreign exchange gain		605	388
		(11,711)	388
(Loss)/profit before income tax		(2,483)	8,896
Taxation expense	9	(101)	(1,638)
(Loss)/profit for the period attributable to unitholders of the Trust		(2,584)	7,258
Other comprehensive income			
Movement in foreign currency translation reserve		(1,437)	(339)
Total other comprehensive loss after tax		(1,437)	(339)
Total comprehensive (loss)/income after tax		(4,021)	6,919

All amounts are from continuing operations.

Earnings per unit			
Basic and diluted (loss)/earnings per unit (cents)	11	(1.67)	5.11

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Condensed Consolidated Interim Statements of Changes in Equity

For the six months ended 31 December 2010 (unaudited)

	Note	Units on issue $000s	Foreign currency translation reserve $000s	Retained earnings $000s	Total $000s
For the six months ended 31 December 2010 (unaudited)					
Unitholders' funds at the beginning of the period (unaudited & restated)	2	152,148	2,810	27,253	182,211
Loss for the period		-	-	(2,584)	(2,584)
Change in foreign currency translation reserve		-	(1,437)	-	(1,437)
Total recognised income and expense for the period		-	(1,437)	(2,584)	(4,021)
Contributions by 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	7	294,530	1,373	18,716	314,619
For the six months ended 31 December 2009 (unaudited & restated)					
Unitholders' funds at the beginning of the period (unaudited & restated)	2	150,516	3,078	19,941	173,535
Profit for the period		-	-	7,258	7,258
Change in foreign currency translation reserve		-	(339)	-	(339)
Total recognised income and expense for the period		-	(339)	7,258	6,919
Contributions by and distributions to unitholders					
Units issued under the Distribution Reinvestment Plan		830	-	-	830
Capitalised costs		(4)	-	-	(4)
Distributions to unitholders		-	-	(6,132)	(6,132)
Unitholders' funds at the end of the period	7	151,342	2,739	21,067	175,148

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

Condensed Consolidated Interim Statements of Cash Flows

For the six months ended 31 December 2010 (unaudited)

	Note	Group (unaudited) Six months to 31 December 2010 $000s	Group (unaudited & restated) Six months to 31 December 2009 $000s
Cash flows from operating activities			
Cash was provided from:			
Property income		13,536	12,694
Interest received		239	78
Recovery of property expenses		1,741	1,558
Other income		21	2
Cash was applied to:			
Property expenses		(1,990)	(1,683)
Management and Trustee fees		(1,222)	(1,203)
Interest paid		(3,877)	(3,537)
Tax paid		(558)	(500)
Other trust expenses		(333)	(518)
Net cash from operating activities	10	**7,557**	6,891
Cash flows from investing activities			
Cash was provided from:			
Sale of investment properties		4,000	6,017
Cash was applied to:			
Capital additions on investment properties		(1,894)	(908)
Purchase of properties		(231,362)	-
Investment in units		(300)	-
Lease incentives		(745)	(333)
New lease costs		(62)	(127)
Disposal costs		(76)	(173)
Net cash (used in)/from investing activities		**(230,439)**	4,476
Cash flows from financing activities			
Cash was provided from:			
Debt drawdown		196,270	11,940
Loan repayments from tenants		41	37
Issue of units (net of issue costs)		145,066	-
Cash was applied to:			
Repayment of debt		(97,014)	(18,369)
Loan advance to tenant		(5,840)	-
Loan issue costs		(1,367)	-
Costs associated with Distribution Reinvestment Plan		(6)	(4)
Distributions paid to unitholders		(5,961)	(5,208)
Net cash from/(used in) financing activities		**231,189**	(11,604)
Net increase/(decrease) in cash and cash equivalents		**8,307**	(237)
Effect of exchange rate changes on cash and cash equivalents		(29)	3
Cash and cash equivalents at the beginning of the period		1,024	940
Cash and cash equivalents at the end of the period		**9,302**	706

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, formerly ING Medical Properties 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.

On 1 October 2010, the Trust changed its name from ING Medical Properties Trust to Vital Healthcare Property Trust.

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"), formerly ING Medical Properties Limited, which is owned by Argosy Property Management Limited. The Manager is a wholly owned subsidiary of ANZ National Bank 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.

These condensed consolidated interim financial statements were approved by the Board of Directors of the Manager on 24 March 2011 and replace those previously issued on 24 February 2011, taking into account the retrospective adoption of the amendment to NZ IAS 12 Income Taxes (see overleaf).

2. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). The accounting policies applied in these condensed consolidated interim financial statements comply with NZ IAS 34 Interim Financial Reporting and International Financial Reporting Interpretations Committee ("NZ IFRIC") interpretations issued and effective at the time of preparing these statements as applicable to the Trust as a profit-orientated entity. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

2. Basis of preparation (cont.)

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 2010, except for the adoption of the amendment to NZ IAS 12 (see below).

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 financial statements in conformity with NZ IFRS 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 financial statements are as follows:

Note 5 - valuation of investment property
Note 6 - valuation of derivative financial instruments
Note 9 - deferred tax

Change in accounting policies

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

NZ IAS 12 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. 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 substantially all of its useful life.

The impact on the Trust is as follows:

The reversal of deferred tax liabilities arising from investment properties totalling $27.1m as at 30 June 2010 and $15.1m as at 30 June 2009.

		Previously reported ($000s)	Restatement ($000s)	Restated ($000s)
Statement of Financial Position				
Deferred tax	30 June 2009	23,746	(15,115)	8,631
	31 December 2009	25,014	(15,541)	9,473
	30 June 2010	38,400	(27,045)	11,355
Statement of Comprehensive Income				
Tax expenses	31 December 2009	2,120	(482)	1,638
Statement of Changes in Equity				
Foreign currency translation reserve	30 June 2009	3,078	-	3,078
	31 December 2009	2,795	(56)	2,739
	30 June 2010	2,856	(46)	2,810
Retained earnings	30 June 2009	4,826	15,115	19,941
	31 December 2009	5,470	15,597	21,067
	30 June 2010	162	27,091	27,253

3. Acquisition

On 22 December 2010, the Group acquired 12 healthcare properties in Australia and a loan by Essential Healthcare Trust to Healthe Care Australia Pty Limited. The healthcare properties are located in New South Wales, Tasmania, Queensland and Victoria and the purchase price included stamp duty and other transaction costs.

On 17 December 2010, 143,685,714 units were issued by way of a 1-for-1 Rights Issue. The acquisition was partly funded by means of the 1-for-1 Rights Issue and the balance by bank borrowings.

Details of the acquisition as at acquisition date are as follows:

	Group (unaudited) 31 December 2010 $000s
Assets acquired:	
Investment properties	233,622
Other assets - non-current	4,464
Other assets - current	1,346
	239,432
Funded by:	
Units on issue	142,030
Borrowings	97,402
	239,432

4. Segment information

The principal business activity of the Trust and its subsidiaries is to invest in high quality health sector related properties. The Group adopted NZ IFRS 8 Operating Segments with effect from 1 July 2009. 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 high quality 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 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/(expenses)	(1,584)	(2,593)	(4,177)
Unrealised interest rate swaps gain	2,244	-	2,244
Revaluation loss on investment properties	(12,316)	-	(12,316)
Total segment profit/(loss)	**(7,360)**	**4,877**	**(2,483)**
Taxation			(101)
Loss for the period			**(2,584)**
Segment profit/(loss) for the period ended 31 December 2009:			
Net property income	4,078	7,966	12,044
Administration expenses	(400)	(1,009)	(1,409)
Other income/(expenses)	(8)	278	270
Finance income/(expenses)	(1,029)	(2,728)	(3,757)
Unrealised interest rate swaps gain	1,748	-	1,748
Total segment profit	**4,389**	**4,507**	**8,896**
Taxation			(1,638)
Profit for the period			**7,258**

Net property income consists of revenue generated from external tenants less property operating expenditure.

There were no inter-segment sales during the year (31 December 2009: 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.

	Australia $000s	New Zealand $000s	Total $000s
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 assets for the period ended 31 December 2009			
Investment properties	101,257	185,097	286,354
Other non-current assets	108	770	878
Cash and cash equivalents	62	644	706
Trade and other receivables	33	178	211
Other current assets	28	345	373
Consolidated assets	101,488	187,034	288,522
Segment liabilities for the period ended 31 December 2010			
Borrowings	-	199,394	199,394
Derivative financial instruments	3,301	-	3,301
Deferred tax	5,039	4,081	9,120
Trade and other payables	456	5,355	5,811
Taxation payable	-	2,149	2,149
Consolidated liabilities	8,796	210,979	219,775
Segment liabilities for the period ended 31 December 2009			
Borrowings	61,798	36,276	98,074
Derivative financial instruments	3,475	-	3,475
Deferred tax	6,078	3,395	9,473
Trade and other payables	805	1,275	2,080
Taxation payable	-	272	272
Consolidated liabilities	72,156	41,218	113,374

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.

5. Investment properties

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Movement in investment properties		
Balance at the beginning of the period	289,076	283,568
Acquisition of properties	233,684	-
Capitalised costs	2,191	910
Foreign exchange translation difference	1,330	(984)
Change in fair value of investment property	(12,316)	-
Closing balance	**513,965**	283,494
Deferred initial direct costs/lease incentives		
Opening balance	2,914	2,659
Change during the period	604	201
Closing balance	**3,518**	2,860
Balance at the end of the period	**517,483**	286,354

The Group holds the freehold to all properties except the car parks at Ascot Hospital and Ascot Central. The total value of leasehold property at 31 December 2010 was $3,000,000 (31 December 2009: $2,700,000) representing 0.6% of the total investment property portfolio (31 December 2009: 0.9%). The weighted average lease length of leasehold property at 31 December 2010 was 8.23 years (31 December 2009: 9.23 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.

Acquisition of properties

On 22 December 2010, the Group acquired 12 healthcare properties in Australia from Essential Healthcare Trust. The properties are located in New South Wales, Tasmania, Queensland and Victoria and the purchase price included stamp duty and other transaction costs.

As at 31 December 2010, the value of the acquisition properties is assumed to revert to the fair value as at acquisition date and this results in a revaluation loss of $12.3m being taken to the Statement of Comprehensive Income.

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.

6. Derivative financial instruments

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Nominal value of interest rate swaps - AUD	65,000	70,000
Nominal value of interest rate swaps - NZD	4,000	4,000
Average fixed interest rate	6.79%	7.59%
Floating rates based on NZD BBR	6.15%	2.85%

7. Units on issue

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Balance at the beginning of the period	152,148	150,516
Units issued under the Distribution Reinvestment Plan	352	830
Units issued under Rights Issue	150,870	-
Issue costs of units	(8,840)	-
Capitalised costs	-	(4)
Balance at the end of the period	**294,530**	151,342
	000s	000s
Reconciliation of number of units		
Balance at the beginning of the period	143,300	141,794
Units issued under Rights Issue	143,686	-
Issue of units to satisfy Manager's incentive fee	98	210
Units issued under the Distribution Reinvestment Plan	287	709
Balance at the end of the period	**287,371**	142,713

7. Units on issue (cont.)

The number of units on issue at 31 December 2010 was 287,371,428 (31 December 2009: 142,713,066). 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.

On 3 September 2010, 98,322 units were issued against the 2010 Manager's incentive fee of $120,161 (on 4 September 2009, 210,035 units were issued against the 2009 Manager's incentive fee of $253,137).

Rights Issue

On 17 December 2010, 143,685,714 units were issued by way of a Rights Issue. These new units were offered at $1.05, payable in full on application. The total value of the new units offered was $150,870,000. The new units offered are identical to the existing units and rank equally in all respects with the existing units.

The proceeds of the Rights Issue were utilised to partly fund the purchase of 12 healthcare properties in Australia.

Capital risk management

The Group's capital includes units, reserves and retained earnings with Total Unitholders' Funds sitting at $314.6m (31 December 2009: $175.1m).

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.

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.

8. Borrowings

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
AUD denominated loans	199,080	94,820
NZD denominated loans	1,711	3,510
Borrowing costs	(1,397)	(256)
ANZ National Bank Limited	**199,394**	98,074

The Group has borrowings from the ANZ National Bank Limited (2009: ANZ National Bank Limited and Australia and New Zealand Banking Group Limited) in New Zealand and Australia. The A$200,000,000 / NZ$20,000,000 facility is a multi-currency revolving credit facility (31 December 2009: NZ$135,000,000) currently due to expire on 1 September 2013.

On 30 July 2010, the loan agreement was renewed to provide a facility limit of A$100,000,000 and NZ$20,000,000 with expiry date extended to 1 September 2013. An extension to the facility limit was signed on 13 December 2010 for another A$100,000,000, of which A$75,000,000 was drawn to partly fund the acquisition of 12 properties from Essential Healthcare Trust in Australia.

The effective interest rate on the borrowings as at 31 December 2010 was 7.42% per annum including margin (31 December 2009: 7.40%).

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.

9. Taxation

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
(Loss)/profit before tax for the period	(2,483)	8,896
Taxation (credit)/charge	(745)	2,669
Deferred tax on investment properties	(3,688)	247
Tax exempt income	3,718	53
Non deductible expenses	(533)	(190)
Under provided in prior periods	1,429	(338)
Other adjustments	(80)	(803)
Taxation charge	**101**	1,638
The taxation (credit)/charge is made up as follows:		
Current taxation	2,759	738
Deferred taxation	(2,658)	900
Taxation charge	**101**	1,638
Imputation credits		
Imputation credits at the beginning of period	177	7
New Zealand tax payments, net of refunds	558	-
Imputation credits attached to distributions paid		
Current period	(262)	(328)
Prior periods	(727)	-
Imputation credits at the end of period	**(254)**	(321)

There are no imputation credits to be attached to the distribution for the quarter ended 31 December 2010 (31 December 2009: $341,613).

10. Reconciliation of profit/(loss) after tax with cash flows from operating activities

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
(Loss)/profit after tax for the period	**(2,584)**	7,258
Adjustments for non-cash items:		
Change in fair value of investment properties	12,316	-
Fair value gain on derivative financial instruments	(2,244)	(1,748)
Amortisation of loan amendment costs	254	103
Other adjustments	886	220
Unrealised foreign exchange gain	(605)	(388)
Effect of exchange rate changes on cash balances	(29)	3
Operating cash flow before changes in working capital	**7,994**	5,448
Change in trade and other payables	(167)	(157)
Change in taxation provision and deferred tax	(1,064)	1,286
Change in trade and other receivables	794	314
Net cash from operating activities	**7,557**	6,891

11. Earnings/(loss) 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.

	Group (unaudited) 31 December 2010	Group (unaudited & restated) 31 December 2009
(Loss)/profit attributable to unitholders of the Trust ($000s)	(2,584)	7,258
Weighted average number of units on issue (000s)	154,465	142,127
Basic and diluted (loss)/earnings per unit (cents)	**(1.67)**	5.11
Weighted average number of units		
Issued units at the beginning of period (000s)	143,300	141,794
Issued units at the end of period (000s)	287,371	142,713
Weighted average number of units (000s)	154,465	142,127

12. Commitments

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Capital Commitments		
The Group was party to contracts to purchase, construct or improve property of the following amounts:	15,285	57

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	200	185
More than one year and less than five years	800	740
More than five years	670	788
	1,670	1,713

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	47,407	25,013
More than one year and less than five years	214,599	87,941
More than five years	285,573	102,299
	547,579	215,253

13. Contingencies

There were no contingencies as at 31 December 2010 (31 December 2009: nil).

14. Subsequent events

On 24 February 2011, the Trust announced an interim gross distribution of 2.025 cents per unit. The record date for this distribution is 8 March 2011 and a payment is to be made to unitholders on 22 March 2011. There are no imputation credits attached to the distribution.

15. Related party transactions

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 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Costs included in the Statement of Comprehensive Income		
Management fees	1,150	1,116
Expenses charged by Vital Healthcare Management Limited	96	38
Expenses charged by Vital Healthcare Australian Property Pty Limited	1	-
Expenses charged by OnePath (NZ) Limited	-	85
Expenses charged by Argosy Property Trust	18	-
	1,265	1,239
Amounts outstanding		
Management fees	1,071	72
Expenses charged by Vital Healthcare Management Limited	1,698	2
Expenses charged by OnePath (NZ) Limited	23	22
	2,792	96

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.

	Group (unaudited) 31 December 2010 $000s	Group (unaudited & restated) 31 December 2009 $000s
Expenses capitalised to projects		
Vital Healthcare Management Limited - management fees	989	-
Vital Healthcare Management Limited - oncharged third party costs	1,688	277
OnePath (NZ) Limited	-	3
	2,677	280

Properties owned by the Trust have been managed, on normal commercial terms by Vital Healthcare Management Limited, a subsidiary of 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 $96,458 (31 December 2009: $38,382). The amount not recovered from tenants was $658 (31 December 2009: $549).

Included in amounts outstanding to the Manager is $1,687,560 of costs to reimburse in relation to the acquisition of 12 properties from Essential Healthcare Trust in Australia.

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 (31 December 2009: NZ$135,000,000). As at 31 December 2010, NZ$200,790,645 (31 December 2009: NZ$98,328,759) had been drawn-down. The Group paid NZD3,901,322 (31 December 2009: NZ$3,596,889) in interest and fees to ANZ National Bank Limited during the period.

Remuneration of Manager

The provisions of the Trust Deed provide that the Manager's fee (in respect of its management services) shall comprise a base fee equal to 0.75% gross value of the Trust. The Manager shall also be entitled to an incentive fee equal to 10% of the three year rolling average change in the Trust's revaluation reserve. Any incentive fee will be paid to the Manager by subscribing for new units in the Trust. The fee shall not exceed an amount equal to 1.75% per annum of the gross value of the Trust.

Directory

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Graeme Horsley
Peter Brook
Andrew Evans

Trustee

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Unit Registrar

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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

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

Vital

Healthcare
Property Trust

WWW.VITALHEALTHCAREPROPERTY.CO.NZ