SUMMERSET ANNUAL REPORT 2013

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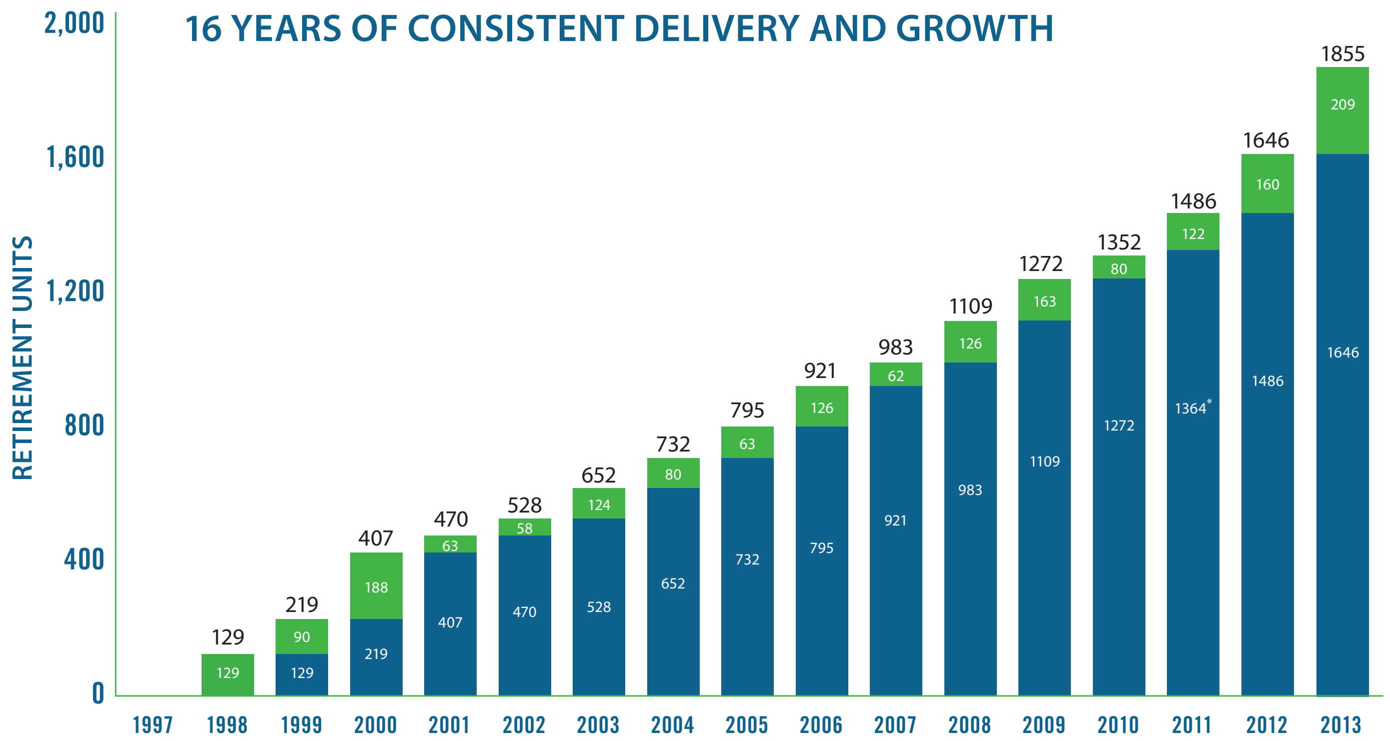
SUMMERSET SNAPSHOT

- 18 villages nationwide
- Home to more than 2,600 residents
- More than 500 staff employed
- Five greenfield retirement village sites
- Landbank of 2,116 retirement village units and 595 care beds
- Nationwide brand offering
- Focus on continuum of care model

- Current portfolio
  - 1,855 retirement village units
  - 442 care beds
- Build rate of around 250 retirement units per annum in 2014
- Target build rate of 300 retirement units per annum in 2015

SUMMERSET SNAPSHOT

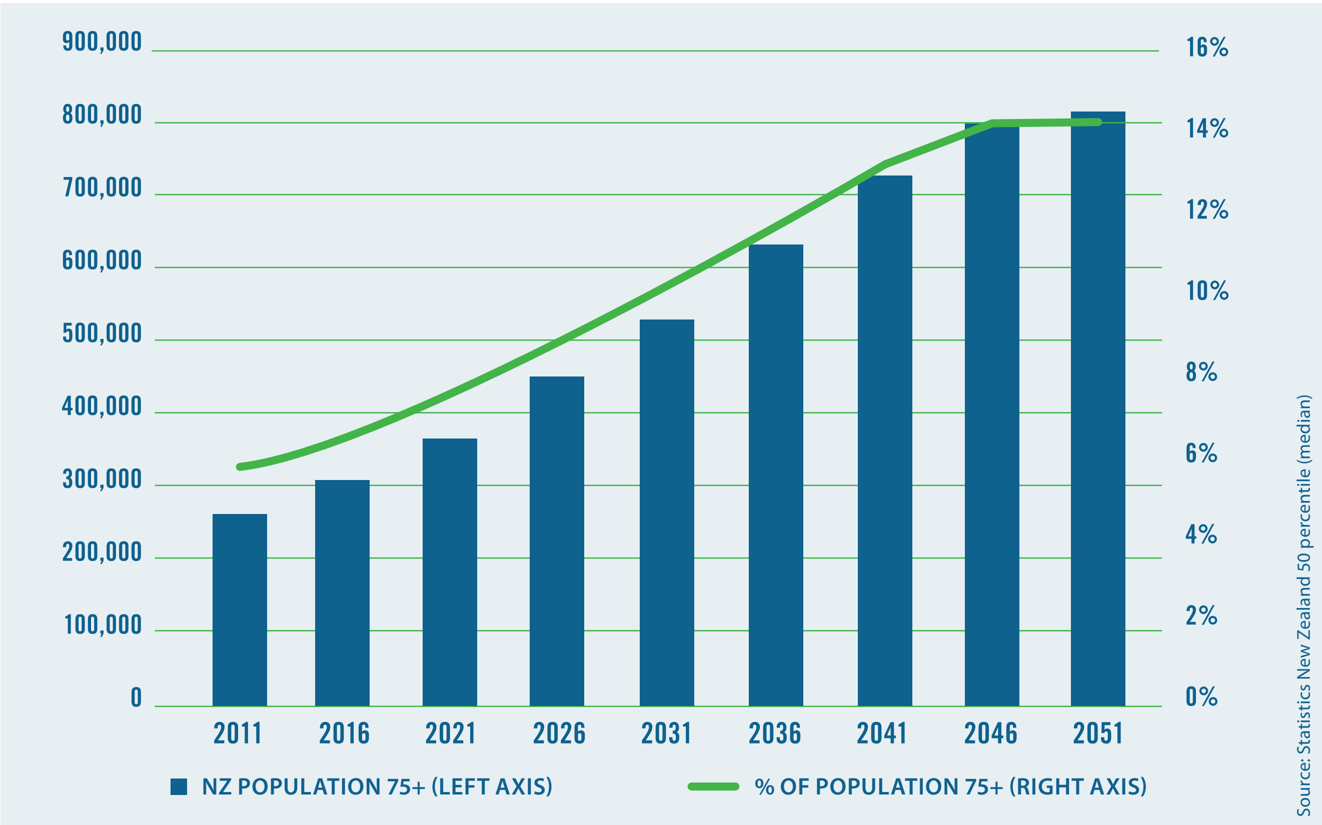


■ EXISTING STOCK
■ NEW RETIREMENT UNITS DELIVERED

*2011 existing stock includes 12 units acquired as part of the Nelson site acquisition.

COMPELLING SECTOR FUNDAMENTALS

POPULATION AGED OVER 75 YEARS FORECAST TO TRIPLE FROM 2011 TO 2051



NEW ZEALAND'S OLDER POPULATION IS INCREASING RAPIDLY

- The number of people aged 65 years and over is increasing. In 2013, there were 607,032 people in this age group, making up 14.3% of the population. This was an increase from 12.3% of the population in 2006 and 12.1% in 2001
- More than 73,000 people were aged 85 years or over at the time of the 2013 Census. There has been a 29.4% increase in this age group since 2006
- The number of New Zealanders aged 65 years and over is projected to increase from 586,000 in 2011 to 1,072,000 in 2031*
- The population aged 75 years and over is projected to increase from 261,000 to 515,000 over the same period*

* Projections are based on the 2006 Census

2013 HIGHLIGHTS

PLATFORM FOR CONTINUED GROWTH SET

"In the last year we have added five sites to our portfolio."

CFO and CEO-Designate
Julian Cook

FINANCIAL HIGHLIGHTS

- Underlying profit of $22.2 million, up 46% on FY12 (see page 13 for definition of underlying profit)
- Net profit after tax of $34.2 million, up 131% on FY12
- 402 sales of occupation rights, up 21% on FY12
- Operating cash flow of $88.6 million, up 34% on FY12
- Total assets of $845 million, up 20% on FY12
- Final dividend of 3.25 cents per share, up 30% on FY12

BUSINESS HIGHLIGHTS

- Delivered 209 retirement units to the market
- Acquired five new sites (Lower Hutt, New Plymouth, Trentham extension, Casebrook and Wigram)
- Commenced construction at two villages (Karaka and Hobsonville)
- Opened Village Centres in Warkworth and Hamilton
- Exceeded $130 million gross proceeds from sale of occupation rights
- Entered the Australian Securities Exchange (ASX)

PEOPLE HIGHLIGHTS

- Home to more than 2,600 New Zealanders
- Awarded Best Retirement Village Operator in Australasia four years running
- Introduced Stepping Up programme for staff
- Continued staff acknowledgements
- Aim for all care staff to become qualified
- Leadership development

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209 RETIREMENT UNITS BUILT; ON TARGET TO BUILD 300 RETIREMENT UNITS PER ANNUM BY 2015

In 2013, 209 retirement units were completed at six sites: Warkworth, Hamilton, Katikati, Hastings, Nelson and Dunedin.

Construction was started at two new villages in the Auckland region – Karaka and Hobsonville – with demand showing how greatly retirement villages are needed in this area. We expect to deliver the first retirement units on these sites in 2014.

Summerset purchased additional land for our development pipeline; in Christchurch we acquired a 9.7ha site at Casebrook and a 5.4ha site at Wigram. There is significant development activity underway or planned in both of these areas. We also acquired 3.1ha of land in Lower Hutt, 4ha of land in New Plymouth, and a 4ha site adjacent to our existing Trentham village. These sites bring our land bank to 2,116 retirement units and 595 care beds.

The first residents moved into our Dunedin village in January 2013, and its Village Centre will open in May 2014. We also opened Village Centres in Hamilton and Warkworth during 2013, signalling the coming of age of both villages. We delivered 113 care beds to the market.

Artist's impression of Summerset at Monterey Park, Hobsonville

PEOPLE HIGHLIGHTS

WINNER OF BEST RETIREMENT VILLAGE OPERATOR IN AUSTRALASIA FOR THE FOURTH YEAR IN A ROW

We were very pleased to receive this award for the fourth consecutive year. It's due to the hard work of our more than 500 staff, many of them working behind the scenes, who put their respect for our residents into everything they do. While winning this award is a public acknowledgment, what really tells us we are achieving is the fact that more than 2,600 New Zealanders have chosen to make Summerset their home.

INTRODUCTION OF STEPPING UP PROGRAMME FOR STAFF

In 2013, we introduced a new programme called Stepping Up, which rewards our caregivers who complete an additional level of qualification and a successful year of performance with a pay step increase. This is part of our programme to help staff gain valuable qualifications and to reward them for that.

APPLAUSE AWARDS

Our annual Applause Awards recognise the valuable work our staff do in our villages. It's our chance to celebrate those who work behind the scenes, putting their care and compassion into everything they do for our residents. In 2013, our Supreme Award Winner was Robyn Goldstone. Robyn is one of our support staff, a housekeeper in our Trentham village, and this award recognises the work she does every day to make the environment wonderful for our residents.

TRAINING

We're aiming to have all our caregiving staff qualified and support them through training with Careerforce, our Industry Training Organisation. Staff now have the opportunity to gain a Summerset-tailored NZQA Level 3 National Certificate beyond the Level 2 previously offered. Having a well trained and engaged workforce is a key focus to ensure we can deliver the best care and experience possible.

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FINANCIAL HIGHLIGHTS

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- Total assets of $845 million, up 20% on FY12
- Final dividend of 3.25 cents per share, up 30% on FY12

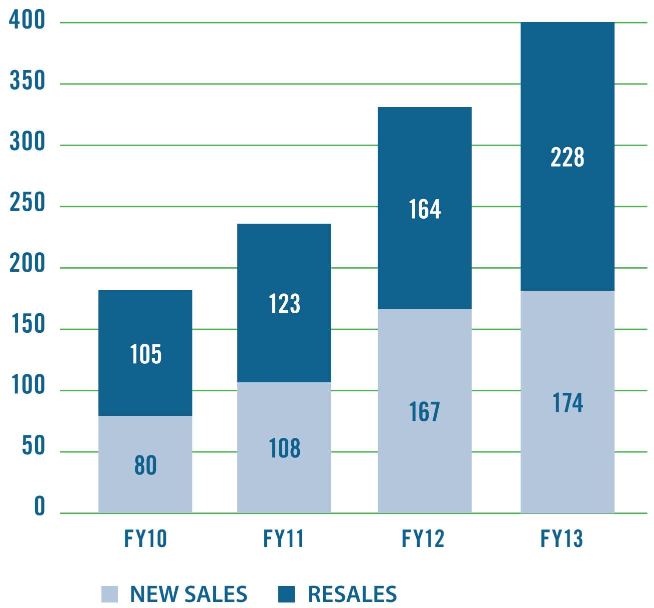
The company saw strong growth in its financial performance in FY13, with all key metrics ahead of the prior year.

Underlying profit increased 46% on FY12, driven by operational performance and a strong development margin.

Net profit after tax increased 131% on FY12 at $34.2 million. This figure includes $8.4 million of gains in the fair value of greenfield land held in Auckland as well as the benefit of income tax losses of $2.2 million being recognised for the first time, given continuity around shareholdings going forward.

Summerset also declared a final dividend of 3.25 cents per share, an increase of 30% on FY12.

SALES OF OCCUPATION RIGHTS



UNDERLYING PROFIT

NZ000s	FY13 Actual	FY12 Actual	% Change
Reported profit after tax*	$34,223	$14,821	131%
Fair value movement of investment property*	($29,722)	($15,128)	96.5%
Realised gain on resales	$9,671	$9,073	6.6%
Realised development margin	$10,450	$6,864	52.2%
Deferred tax credit*	($2,468)	($407)	506%
Underlying profit	**$22,154**	**$15,223**	**45.5%**

*** Figure has been extracted from audited financial statements**

Underlying profit differs from NZ IFRS net profit after tax. The directors have provided an underlying profit measure to assist readers in determining the realised and non-realised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions. Underlying profit is an industry-wide measure which the Group uses consistently across reporting periods.

FY13 RESULTS HIGHLIGHTS – FINANCIAL

NZ000s	FY13 Actual	FY12 Actual	% Change
Net operating cash flow	$88,590	$66,254	33.7%
Net profit before tax (NZ IFRS)	$31,755	$14,414	120%
Net profit after tax (NZ IFRS)	$34,223	$14,821	131%
Underlying profit*	$22,154	$15,223	45.5%
Total assets	$844,932	$702,339	20.3%
Net tangible assets (cents per share)	131.24	116.49	12.7%

*** Underlying profit differs from NZ IFRS net profit after tax. See reconciliation on previous page.**

FY13 RESULTS HIGHLIGHTS – OPERATIONAL

	FY13 Actual	FY12 Actual	% Change
New sales of occupation rights	228	167	36.5%
Resales of occupation rights	174	164	6.1%
New units delivered	209	160	30.6%
Realised development margin ($000)	$10,450	$6,864	52.2%
Gross proceeds (new sales) ($000)	$79,274	$57,739	37.3%
Realised gains on resales ($000)	$9,671	$9,073	6.6%

ROB CAMPBELL

CHAIRMAN

The 2013 year was a successful one for Summerset. We have continued to grow and perform in line with our goals.

Net profit after tax was $34.2 million for the year ended December 2013, up 131% on the previous 12-month period. Underlying profit, a widely used measure in this sector, at $22.2 million, is 46% up on 2012.

There was a 21% increase in the sales of occupation rights. Gross sales of occupation rights for the year were more than 400 retirement units.

Our results speak for themselves. Most important for the owners, employees and residents of Summerset is the improvement made in our capability to deliver more and better services.

Our development capability, which has been enhanced by taking development and design in-house over the past three years, is a key part of this. Demand for our villages and services is strong across the country and our ability to deliver new retirement units that meet expectations in a timely fashion to residents is key to meeting this demand.

The Summerset land bank has been enlarged by the purchase of new sites in 2013. We purchased 4ha at New Plymouth, 3.1ha at Lower Hutt, Wellington, and 4ha adjoining our village in Trentham. We also added two sites in Christchurch to our portfolio: 9.7ha in Casebrook and 5.4ha in Wigram. We are continuing to look at new sites across the country.

Summerset has made an impact on the Auckland retirement village market this year. We were granted resource consents to build at our Karaka and Hobsonville sites, and work on both is underway. We have existing villages in Warkworth and Manukau and a further greenfield site in Ellerslie. By the time all these villages are complete, we will have invested some $500 million in Auckland.

> "This coming year promises more growth, innovation and success."

This year has also been notable in that our major shareholder, Quadrant Private Equity, sold down its 56% interest in Summerset to a range of institutional and retail investors. Following this sale, Quadrant's Chris Hadley and Marcus Darville resigned from the Summerset Board.

Although retiring as Managing Director and Chief Executive Officer, Norah Barlow will remain on the Summerset Board. She has taken Summerset from a small business in 2001 to New Zealand's third-largest retirement village operator and second-largest developer, with a market capitalisation of approximately $750 million and $845 million in assets.

Julian Cook will become Chief Executive Officer on 4 April 2014. Julian has been Chief Financial Officer at Summerset for three years, following 11 years at Macquarie Bank, where he spent several years working in the retirement and aged care sector. He is a member of the Executive Committee for the Retirement Villages Association.

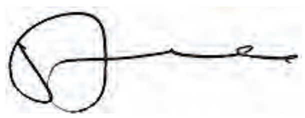
Julian brings to the role a broad experience in the retirement village and aged care industry and a deep understanding of Summerset. He has a strong skill set that contributed a great deal to the business during his time as Chief Financial Officer and we look forward to him assuming the role of Chief Executive Officer. The Board is confident that Summerset will continue to grow under his leadership.

Dr Marie Bismark joined the Board in September. Marie is dually trained as a lawyer and doctor, and divides her time between Australia and New Zealand. She brings to the Board significant healthcare experience. Her areas of expertise include patient safety and healthcare complaints resolution.

Currently, Marie is a senior research fellow at Melbourne University and a consultant at legal firm Buddle Findlay in Wellington on the health law team. Other roles include being a Co-Chair of the Medico-Legal Expert Advisory Board of the Royal Australasian College of Physicians and a director of GMHBA Health Insurance. She has also worked as a legal adviser to the Health and Disability Commissioner in New Zealand. This appointment reflects the importance of care and clinical issues in our business.

Anne Urlwin joined the Board in March 2014. She brings 20 years of directorship experience in sectors ranging from infrastructure to banking. She is currently chair of Naylor Love Enterprises Limited and her directorships include Steel & Tube NZ Limited, Chorus Limited and OnePath Life (NZ) Limited.

This coming year promises more growth, innovation and success. Thank you to our shareholders for your ongoing support.



Rob Campbell
Chairman

NORAH BARLOW

OUTGOING MANAGING DIRECTOR AND CEO

It has been a privilege for me to lead this company and a privilege to be part of an organisation and industry that has changed so many people's lives for the better. Though I am retiring as Chief Executive Officer on 4 April 2014, I will remain as a Director on the Board.

As I reflect on the last 15 years with Summerset, 13 of those as Chief Executive Officer, I feel incredibly proud to have played a part in what has been created in Summerset, and of all that we have achieved over these years. I have every confidence that the business we have built provides a platform for more growth, as Summerset continues to develop villages throughout New Zealand.

YEAR-ON-YEAR GROWTH

Since Summerset began, we have added year on year to our portfolio. In 2012 we delivered 160 retirement units, in 2013 we delivered 209, and we continue to work towards our build rate guidance of 300 retirement units per annum by 2015. This delivery has continued year on year, through a variety of economic conditions. There has never been a year in the history of Summerset where we have not built and sold homes, a recognition of the desirability and durability of our village model.

2013 was exceptionally busy. We saw many milestones, with development beginning on a further two new villages, Karaka and Hobsonville, and our first residents welcomed into our new villages in Dunedin and Katikati. We also saw the completion of our village in Hastings, and the last stage of our village in Warkworth commence.

With that continued growth, we saw our annual profit continue to grow. In our 2011 report we announced an underlying profit of $8.1 million, which grew to $15.5 million in 2012. This year, our underlying profit is $22.2 million.

> "I feel incredibly proud to have played a part in what has been created in Summerset."

STAFF

We play an important role in how New Zealand will care for our ever increasing older population, and I am very proud of what we offer to our residents, and of the people who work daily to enhance their lives. Summerset is committed to ensuring that the pay and conditions for all of our staff reflect the great job that they do. While it is well recognised that the funding available for aged care places limitations on what providers are able to offer staff, we work within those confines to ensure that we provide the best opportunities for our staff to increase their skills in the job, and their job satisfaction. We celebrate the dedication of our staff at our annual Applause Awards. This year we were very pleased to see Robyn Goldstone, one of our many wonderful support staff, receive the Supreme Award for employee of the year.

In 2011, we introduced a programme that ensures all caregiving staff employed at Summerset work towards a qualification in aged care, through the NZQA Level 2 National Certificate in Health Disability and Aged Support. This qualification ensures that all caregiving staff are well trained to deliver the support required by our residents in care. In 2013, we have been working to customise a programme that will provide them with the opportunity to gain their Level 3 certificate.

Our staff remuneration programme called Stepping Up rewards caregiving staff for this training, both the formal training through the qualification, and the multiple methods of on the job training they receive, with pay step increases. This ensures that caregiving staff who are skilled and have become qualified are receiving appropriate pay levels.

We have also introduced qualifications for our housekeepers and laundry staff. These qualifications reinforce our commitment to providing the best level of care in New Zealand, and our ongoing innovation in the sector.

AWARDS

We started out more than 20 years ago as a small family business based on the Kapiti Coast, with a very big vision. We have gone from strength to strength, from our first village in Wanganui, to our latest village in Hobsonville. We have avoided the pitfalls of unsustainable growth, and we are in a great position to continue our growth rate, and indeed accelerate. We aim to be the number one choice in retirement village living for all New Zealanders, and we work every day to make that a reality. This leadership saw us being awarded the Supporting Gold award at the 2013 Wellington Gold Awards celebrating business in the capital. As I am very proud to be a Wellingtonian, this award was particularly special to me.

In October 2013, we were once again named Best Retirement Village Operator in Australasia at the Over 50s Housing Awards in Melbourne. We have now collected this award for four years running.

On a more personal level, I was humbled to receive two awards at the Women in Governance awards in June, celebrating gender diversity in the boardroom. In November, I was delighted to receive a Welly Award for Wellingtonian of the Year in the business category, and at the same time was awarded Most Outstanding Contributor to Over 50s Housing 2013 at a ceremony in London. These awards really belong to the people who make Summerset what it is: the staff and the residents.

THANK YOU

I would like to thank the 2,600-plus residents who have chosen to live at Summerset, and who bring the villages to life. It's been my great honour to have worked with you and for you. When we started out, John O'Sullivan, Summerset's founder, had an idea to create a retirement community that his grandmother would be pleased to be part of. That idea has guided us throughout our 16 years in the business, and I feel heartened every time I step into a village and see that we have achieved this goal. I would like to thank John and Rose for the foresight they showed in founding Summerset, and for their initial and continuing support to me personally.

Thank you also to our shareholders who have supported us since we listed in November 2011.

I wish Julian Cook and everyone at Summerset all the very best in the next stage of the company's journey. I am confident that Julian will continue to execute Summerset's strategy successfully, and that we will see ongoing growth and success for years to come.

Norah

Norah Barlow
Managing Director and Chief Executive Officer

JULIAN COOK

CEO-DESIGNATE

I feel very excited to have been appointed Chief Executive Officer of Summerset. Summerset is a key player in a sector that provides communities and care to the older generation of New Zealanders. Since it was founded in 1997, Summerset has grown into New Zealand's third-largest retirement village operator and its second-largest developer, and in percentage terms is the fastest-growing provider in a sector that is one of the fastest-growing in the country.

This is an exciting time for the company, for our residents, for our staff and for me personally. Our goal is that Summerset is the number one choice in retirement living and aged care in New Zealand, and we are well on the way to achieving that. The foundation for this has been laid over the last 17 years since the company was founded back in 1997 with 14 villas at Wanganui. We believe our success to date has been due to the philosophy that Summerset must, first and foremost, create villages that enhance residents' lives. Norah and I both feel deeply about making sure older New Zealanders are able to experience an enjoyable retirement in communities built with their care and needs in mind.

I am indebted to Norah for her leadership and guidance of Summerset which, along with the efforts of countless others, has brought us to where we are today, and for her mentorship and guidance to me personally since I have been at Summerset. We are fortunate to have Norah's ongoing advice and guidance, as she will remain a Director of Summerset after she retires from her current position.

I very much look forward to my role, with one of my key priorities being getting to know the residents and staff in all of our villages. Our residents are first and foremost in our minds, and I look forward to meeting and talking with them all. Norah has always maintained a close relationship with our villages and it is my intention to continue this.

NEW VILLAGES

We are a nationwide operator and remain firmly focused on providing communities and care to as many New Zealanders as possible. In the Auckland region we already have two villages: Warkworth and Manukau. We also have sites in Hobsonville, Karaka and Ellerslie, and by the time these are completed we will have invested $500 million in Auckland. These five villages will house some 1,300 residents.

Auckland is not only the country's largest city but also the fastest-growing, increasing 8.5 percent since 2006 to a population of 1.4 million in 2013. The city has significant issues with housing, some of which the Council has tried to redress with the Auckland Housing Accord, effectively fast-forwarding housing development to meet increasing demand. Our purchases of land in Auckland and subsequent developments are an opportunity for us to provide solutions not only to potential residents, but also to the government and Auckland Council, who require a range of quality housing options for people at all stages of life.

We also have a range of sites across the rest of the country, and in the last year have added five sites to our portfolio. The first is a beautiful 3.1ha site at Lower Hutt adjacent to Boulcott's Farm Heritage Golf Club, which will offer recreational opportunities like no other village in the country. Its proximity to shops, hospital and transport also make it an ideal location for services. This will be our third village in the Wellington region, alongside Aotea and Trentham.

In August, we announced the purchase of a further two sites. The first is in Trentham adjoining our existing village. The acquisition of this 4ha site means we can extend the current village and provide new recreational facilities. The second acquisition is in New Plymouth, a new location for Summerset. This is a 4ha site with views to Mt Taranaki.

Just recently we announced the acquisition of 9.7ha at Cavendish Road in Christchurch and 5.4ha in Wigram. These are our first sites in Canterbury, and will provide homes for between 600 and 700 residents. This is a significant investment in Canterbury, and we are excited to be part of Christchurch's rebuild.

AGED CARE

Summerset provides care services at all of its villages. This is an important part of being able to support our residents' needs – the ability to access different levels of care should one's needs require it is a key reason people choose to make Summerset their home.

The provision of care will be an increasingly critical part of our business as the population ages and health needs become ever more complex. The challenge for us is to meet those needs in innovative ways so that we can serve our customers best. We are well placed to meet this challenge with our existing care centres, and also with our care apartments, in which residents can receive DHB-certified rest home-level care in their own homes.

We have been increasing the size of our care centres at new villages and are building these facilities earlier in a village's development. In 2013, we delivered 113 care beds to the market, and in May 2014 we will open our Dunedin village with 41 beds. Work has started at the Village Centre in Katikati where we will build 49 beds.

> "We will continue to drive towards our goal of being the first choice in retirement village living."

THE FUTURE

In 2014 we will continue to drive towards our goal of being the first choice in retirement village living in New Zealand. Summerset's philosophy of focusing on what our residents want has seen us awarded Best Retirement Village Operator in Australasia for the last four years. I intend to build on that success, inspiring the leaders in our organisation to motivate and encourage those around them.

We are always looking for new sites on which to build, where we can create vibrant and active communities to serve the local area. But we must keep in mind, as we grow, that the well-being of our residents is our number one priority and remains at the forefront of our thinking.

Thank you to all our residents who have chosen to live with us, to our staff and to our shareholders. I look forward to working with you all over the coming years.

Julian Cook
CFO and CEO-Designate

DIRECTORS' PROFILES

ROB CAMPBELL
Chairman, Independent

Rob has over 25 years' experience in governance and capital markets. Currently he serves as Chairman of Guinness Peat Group Plc and Tourism Holdings Ltd, and is a Director of Precinct Properties Ltd, as well as a number of private companies and investment funds. Rob is also the Chairman of the Auckland City Mission Foundation.

NORAH BARLOW
Managing Director and CEO

Norah is an accountant by profession, having formed her own practice, now known as Barlow McCormack, in 1992. In 1999, Norah sold that practice to join Summerset, when it was still a fledgling retirement village developer and operator, as the Group Accountant. As CEO, she has seen Summerset grow from two villages operating in 1999 to the 18 today. During this time, Summerset moved from a small, privately held company, through to corporate ownership under AMP Capital, and in 2011, to be a listed entity on the New Zealand Stock Exchange (NZX).

Norah is a Director of Cigna Insurance Ltd and Cooks Global Foods Ltd. In 2013, she was awarded Wellingtonian of the Year in the business category.

DR MARIE BISMARK
Non-executive Independent

Marie is dually trained as a lawyer and doctor, and divides her time between Australia and New Zealand. She has worked in the health sector for many years; her areas of expertise include patient safety and healthcare complaints resolution. She is a senior research fellow at Melbourne University and a consultant at legal firm Buddle Findlay in Wellington on the health law team. Other roles include serving as a non-executive Director on the boards of the Young and Well CRC and GMHBA Health Insurance. Marie has also worked as a legal adviser to the Health and Disability Commissioner in New Zealand.

JAMES OGDEN
Non-executive Independent

James has been a professional Director for 13 years and previously had a career as an investment banker for 11 years – six years at Macquarie Bank and five years at Credit Suisse First Boston. James also worked in the New Zealand dairy industry for eight years in chief executive and finance roles. James is currently a Director of The Warehouse Group Ltd and Vehicle Testing Group Ltd and was previously a Director of Kiwibank Ltd and New Zealand Post Ltd, Powerco Ltd and Capital Properties New Zealand Ltd.

James is a Fellow of the New Zealand Institute of Chartered Accountants, Fellow of the Institute of Directors, certified member of the Institute of Finance Professionals New Zealand Inc. and a former New Zealand Stock Exchange broker.

ANNE URLWIN
Non-executive Independent

Anne is a professional Director, chartered accountant and business consultant with more than 20 years of directorship experience in sectors ranging from infrastructure and telecommunications, to information technology and banking.

Anne is currently the Chair of Naylor Love Enterprises Ltd, a privately-owned commercial construction company, and has a strong knowledge of the industry across New Zealand.

Other current directorships include Steel & Tube NZ Ltd, Chorus Ltd and OnePath Life (NZ) Ltd.

MANAGEMENT PROFILES

From left to right: Julian Cook, Norah Barlow, Paul Morris, Tristan Saunders, Brigid London, Catherine Fyfe

JULIAN COOK
CFO and CEO-Designate

Julian is currently CFO at Summerset, and will assume the role of CEO when Norah Barlow retires in April 2014.

Since joining the company three years ago Julian has been responsible for the finance, funding, legal, and IT functions at Summerset. He has overseen one of the most exciting steps in the company's growth – in November 2011 the listing on the New Zealand Stock Exchange (NZX) and more recently in July 2013 on the Australian Securities Exchange (ASX).

Julian has been heavily involved in the company's strategy development.

He is passionate about creating villages that enhance residents' lives, and about making sure older New Zealanders have an enjoyable retirement in communities built with their care and needs in mind.

Prior to joining Summerset Julian spent 11 years in the investment sector which included a significant amount of work with retirement village and aged care companies.

PAUL MORRIS
General Manager, Development

Paul joined Summerset in 2000 after more than 20 years in banking. This included 15 years in retirement village and aged care sector business banking. Paul held numerous senior roles at Summerset before taking up his current position. This gives him a sound understanding of all aspects of the business. Paul's primary focus is to ensure that new land is procured to meet the group's growth and expansion plans.

BRIGID LONDON
General Manager, Operations

Brigid took up the role as General Manager, Operations in 2012 following more than eight years with Summerset. She began in 2004 as a Village Manager, becoming Operations Manager in 2008. Prior to this Brigid held senior management positions with a home-based support service. Brigid has a particular focus on clinical performance and service delivery, ensuring Summerset's residents receive the highest level of service and care.

TRISTAN SAUNDERS
General Manager, Sales and Marketing

Tristan began with Summerset in 2007 having spent the previous 15 years in marketing, sales and business management roles across a wide range of industries. Tristan has held senior positions with leading companies including Heinz-Watties, Ngāi Tahu Seafood and Blue Lagoon Cruises, Fiji.

Tristan is responsible for all areas of Summerset's marketing and sales including brand management, advertising, media and public relations, new village launches, pricing strategy and marketing collateral as well as responsibility for the national sales team.

CATHERINE FYFE
General Manager, Human Resources

Catherine joined Summerset in 2010. Prior to this she worked for an international management consultancy firm advising both public and private sector clients, including Summerset. Catherine has also held senior management roles in human resources with a number of financial services organisations.

Catherine's focus is on recruitment, as well as developing and managing our more than 500 staff to ensure that we are able to deliver the best possible outcomes for our residents.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

DIRECTORS' STATEMENT

The Directors of Summerset are pleased to present to shareholders the financial statements of Summerset Group Holdings Limited and its subsidiaries (the "Group") for the year ended 31 December 2013.

The Directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of the Group's operations and cash flows for the year ended 31 December 2013.

The Directors consider the financial statements of the Group have been prepared using appropriate accounting policies which have been consistently applied and supported by reasonable and prudent judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The financial statements were authorised for issue for and on behalf of the Board on 24 February 2014 by:

Rob Campbell
Director and Chairman

Norah Barlow
Managing Director and Chief Executive Officer

INCOME STATEMENT

For the year ended 31 December 2013

	NOTE	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $000
Care fees and village services		30,724	27,349	-	-
Deferred management fees		14,275	10,612	-	-
Interest received		209	159	-	-
Total revenue		45,208	38,120	-	-
Fair value movement of investment property	7	29,722	15,128	-	-
Total income		74,930	53,248	-	-
Operating expenses	2	36,981	32,620	62	206
Depreciation expense	6	1,585	1,318	-	-
Total expenses		38,566	33,938	62	206
Operating profit/(loss) before financing costs		36,364	19,310	62	(206)
Net finance costs	3	4,609	4,896	-	-
Profit/(loss) before income tax		31,755	14,414	(62)	(206)
Income tax (credit)/expense	4	(2,468)	(407)	-	-
Profit/(loss) for the period		34,223	14,821	(62)	(206)
Basic earnings per share (cents)	13	15.99	6.96		
Diluted earnings per share (cents)	13	15.87	6.90		
Net tangible assets per share (cents)		131.24	116.49		

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTE	GROUP 2013 $000	GROUP 2012 $000	COMPANY 2013 $000	COMPANY 2012 $000
Profit/(loss) for the period		34,223	14,821	(62)	(206)
Other comprehensive income					
Fair value movement of interest rate swaps		1,417	356	-	-
Fair value movement transferred to income statement on de-designation		-	120	-	-
Tax on items of other comprehensive income	4	(397)	(133)	-	-
Other comprehensive income which will be reclassified subsequently to profit or loss for the period net of tax		1,020	343	-	-
Total comprehensive income/(loss) for the period		35,243	15,164	(62)	(206)

All profit and total comprehensive income is attributable to Parent Company shareholders and is from continuing operations.

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

GROUP	SHARE CAPITAL $000	HEDGING RESERVE $000	REVALUATION RESERVE $000	MAINTENANCE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
At 1 January 2012	233,669	(920)	7,504	491	(7,320)	233,424
Profit for the period	-	-	-	-	14,821	14,821
Other comprehensive income for the period	-	343	-	-	-	343
Total comprehensive income for the period	-	343	-	-	14,821	15,164
Transfer (from)/to maintenance reserve	-	-	-	(452)	452	-
Interest on maintenance reserve	-	-	-	8	(8)	-
Employee share plan option cost	206	-	-	-	-	206
At 31 December 2012	233,875	(577)	7,504	47	7,945	248,794
At 1 January 2013	233,875	(577)	7,504	47	7,945	248,794
Profit for the period	-	-	-	-	34,223	34,223
Other comprehensive income for the period	-	1,020	-	-	-	1,020
Total comprehensive income for the period	-	1,020	-	-	34,223	35,243
Transfer (from)/to the maintenance reserve	-	-	-	(47)	47	-
Dividends paid	-	-	-	-	(5,342)	(5,342)
Shares issued	3,155	-	-	-	-	3,155
Employee share plan option cost	62	-	-	-	-	62
At 31 December 2013	237,092	443	7,504	-	36,873	281,912

COMPANY	SHARE CAPITAL $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
At 1 January 2012	233,669	(36,413)	197,256
Loss for the period	-	(206)	(206)
Total comprehensive income for the period	-	(206)	(206)
Employee share plan option cost	206	-	206
At 31 December 2012	233,875	(36,619)	197,256
At 1 January 2013	233,875	(36,619)	197,256
Loss for the period	-	(62)	(62)
Total comprehensive income for the period	-	(62)	(62)
Dividends paid	-	(5,370)	(5,370)
Shares issued	4,280	-	4,280
Employee share plan option cost	62	-	62
At 31 December 2013	238,217	(42,051)	196,166

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		GROUP		COMPANY	
	NOTE	2013 $000	2012 $000	2013 $000	2012 $000
Assets					
Cash and cash equivalents	15(a)	3,044	2,785	-	-
Trade and other receivables	5	10,313	9,003	-	-
Interest rate swaps	12	615	-	-	-
Intercompany loan receivable	16	-	-	66,238	67,876
Investments in subsidiaries	19	-	-	126,570	126,570
Limited recourse loans	14,16	2,260	2,810	6,482	5,360
Property, plant and equipment	6	51,421	42,568	-	-
Intangible assets		642	667	-	-
Investment property	7	776,637	644,506	-	-
Total assets		844,932	702,339	199,290	199,806
Liabilities					
Trade and other payables	8	16,926	12,005	3,124	2,550
Employee benefits	9	2,048	1,554	-	-
Revenue received in advance		11,275	9,389	-	-
Interest rate swaps	12	-	954	-	-
Residents' loans	10	414,226	336,133	-	-
Interest-bearing loans and borrowings	11	105,268	78,162	-	-
Deferred tax liability	4	13,277	15,348	-	-
Total liabilities		563,020	453,545	3,124	2,550
Net assets		281,912	248,794	196,166	197,256
Equity					
Share capital	13	237,092	233,875	238,217	233,875
Reserves	13	7,947	6,974	-	-
Accumulated profit/(deficit)		36,873	7,945	(42,051)	(36,619)
Total equity attributable to shareholders		281,912	248,794	196,166	197,256

Rob Campbell
Director and Chairman

Norah Barlow
Managing Director and Chief Executive Officer

For and on behalf of the Board, who authorise the issue of these financial statements, 24 February 2014

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

		GROUP		COMPANY	
	NOTE	2013 $000	2012 $000	2013 $000	2012 $000
Cash flows from operating activities					
Receipts from residents for care fees and village services		31,797	27,391	-	-
Interest received		209	159	-	-
Payments to suppliers and employees		(36,910)	(32,541)	-	-
Receipts for residents' loans		129,447	101,471	-	-
Repayment of residents' loans		(35,953)	(30,226)	-	-
Net cash flow from operating activities	15(b)	88,590	66,254	-	-
Cash flows from investing activities					
Advance to subsidiary		-	-	-	-
Acquisition of investment property		(97,109)	(67,655)	-	-
Acquisition of property, plant and equipment		(10,961)	(7,362)	-	-
Acquisition of intangibles		(292)	(378)	-	-
Capitalised interest paid		(1,171)	(1,525)	-	-
Net cash flow from investing activities		(109,533)	(76,920)	-	-
Cash flows from financing activities					
Net proceeds from/(repayment of) borrowings		27,109	9,041	-	-
Proceeds from issue of shares		3,705	-	-	-
Interest paid on borrowings		(4,270)	(4,577)	-	-
Dividend paid		(5,342)	-	-	-
Net cash flow from financing activities		21,202	4,464	-	-
Net increase in cash and cash equivalents		259	(6,202)	-	-
Cash and cash equivalents at beginning of period		2,785	8,987	-	-
Cash and cash equivalents at end of period	15(a)	3,044	2,785	-	-

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. Summary of accounting policies

Statement of Compliance

Summerset Group Holdings Limited (the "Company") is a Tier 1 for-profit listed public company incorporated and domiciled in New Zealand and is registered under the Companies Act 1993.

The financial statements presented for the year ended 31 December 2013 are those of Summerset Group Holdings Limited and its subsidiaries ("the Group"). The Group develops, owns and operates integrated retirement villages, rest homes and hospitals for the elderly within New Zealand. The Group is a reporting entity for the purposes of the Financial Reporting Act 1993 and these financial statements comply with that Act.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), International Financial Reporting Standards ("IFRS"), and other applicable financial reporting standards as appropriate for profit-oriented entities.

Basis of Preparation

These financial statements have been prepared on the historical cost basis with the exception of the items noted below.

- Investment property – see Note 7
- Land and buildings – see Note 6
- Limited recourse loans – see Accounting Policy 1(i)
- Interest rate swaps – see Note 12

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

All monetary values are presented in thousands of New Zealand dollars, which is the Group's functional currency, unless otherwise noted.

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from those estimates.

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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Valuation of investment property – Note 7
- Valuation of land and buildings – Note 6
- Revenue in advance – Accounting policy 1(l)
- Deferred management fee – Accounting policy 1(b)
- Interest rate swaps – Note 12

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Basis of consolidation

The Group financial statements are prepared by consolidating the financial statements of all entities that comprise the Group, being Summerset Group Holdings Limited and its subsidiaries as defined in NZ International Accounting Standard ("IAS") - 27 : Consolidated and Separate Financial Statements. A list of subsidiaries appears in Note 19. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. All intercompany transactions and balances, and unrealised profits arising within the Group are eliminated in full. Investments in subsidiaries are recorded at cost less any adjustment for impairment.

(b) Revenue recognition

(i) Services

When the outcome of a contract to provide services can be estimated reliably, revenue is recognised by reference to the percentage of the services performed, specifically:

Deferred management fees

Deferred management fees, which entitle residents to accommodation and the use of the community facilities within the village, are recognised over the period of service, being the greater of the expected period of tenure or the contractual right to revenue. The expected periods of tenure, being based on historical industry averages are estimated to be seven to eight years for villas, five years for apartments and three years for care apartments.

Care fees and residents' levies

Care fees and residents' levies are recognised over the period in which the service is rendered.

(ii) Interest received

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(c) Investment property

Investment properties are held to earn rental income and for capital appreciation. They comprise land and buildings and associated equipment and furnishings relating to independent living units, care apartments and common facilities in the retirement village. Investment properties include buildings under development. Initial recognition of investment property is at cost and subsequently measured at fair value with any change in fair value recognised in the income statement.

Land acquired with the intention of constructing an investment property on it is classified as investment property from the date of purchase.

Rental income from investment property, being deferred management fees, is accounted for as described in accounting policy 1(b). Depreciation is not charged on investment property.

(d) Property, plant and equipment

Property, plant and equipment comprises care facilities, both complete and under development, and corporate assets held.

Recognition and measurement

All property, plant and equipment is initially recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes material and direct labour, and any other costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent to initial recognition, land and buildings are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses, if any, since the assets were last revalued. Plant and equipment is subsequently measured at cost less accumulated depreciation and impairment losses, if any. Where an item of plant and equipment is disposed of, the gain or loss recognised in the income statement is calculated as the difference between the net sales price and the carrying amount of the asset.

Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Any revaluation surplus is recognised in other comprehensive income unless it reverses a revaluation decrease of the same asset previously recognised in the income statement. Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus in the same asset in other comprehensive income. Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Independent valuations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

Capitalisation of borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset commence and expenditures and borrowing costs are incurred. Capitalisation of borrowing costs continues until the assets are substantially ready for their intended use.

Depreciation

Depreciation is charged to the income statement on a diminishing value basis over the estimated useful lives of each item of property, plant and equipment, with the exception of land, which is not depreciated, and buildings which are depreciated on a straight-line basis. Depreciation methods, useful lives and residual values are reassessed at the reporting date. Major depreciation rates are as follows:

• Buildings	2%
• Furniture and fittings	9% to 30%
• Plant and equipment	8% to 80%
• Motor vehicles	20% to 36%

(e) Intangible assets

Intangible assets acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the income statement on a diminishing value basis over the estimated useful lives of intangible assets from the date that they are available for use, with the exception of licences, which are depreciated on a straight-line basis. Major amortisation rates are as follows:

• Licences	10%
• Software	48% to 60%

(f) Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised as an expense, unless the asset is carried at fair value in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to its recoverable amount, to the extent that the increased recoverable amount does not exceed the carrying amount that would have been determined prior to any impairment loss. A reversal of an impairment loss is recognised as income, unless the asset is carried at fair value in which case the impairment loss is treated as a revaluation increase.

(i) Trade receivables

Trade receivables are not significant on an individual basis and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate, less an allowance for impairment. Impairment is assessed on an individual basis.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Leased assets (Group as lessee)

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are expensed on a straight-line basis over the life of the lease. Other leases are treated as operating leases and the leased assets are not recognised on the Group's balance sheet.

(h) Occupation right agreements

An occupation right agreement confers a right of occupancy to a villa, apartment or serviced apartment. For occupation right agreements issued prior to September 2006, consideration received on the grant of an occupation right agreement is split between a resident loan and deferred management fee according to the terms of the occupation right agreement. The amount of the consideration allocated to the resident loan is 75%, 80% or 82% (depending on the terms of the occupation right agreement) and the remainder is allocated to the deferred management fee. From September 2006 the consideration received is allocated to the resident loan payment in full. Refer to accounting policy 1(i) with respect to residents' loans and deferred management fee liability.

(i) Financial instruments

(i) Financial risk management objectives and policies

The Group's principal financial instruments comprise loans and borrowings, residents' loans, unamortised deferred management fee liability and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also holds other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

Details of the significant accounting policies and methods adopted, including criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control of substantially all the risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

(ii) Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Trade and other receivables

Trade and other receivables are stated at amortised cost, being their cost less impairment losses.

Investment in subsidiaries

Investment in subsidiaries is stated at cost less any impairment.

Limited recourse loans

All limited recourse loans have been designated as fair value through profit or loss in order to manage an accounting mismatch.

Intercompany loans

Intercompany loans are recorded at amortised cost, as they are interest free and repayable on demand.

Trade and other payables

Trade and other payables are carried at amortised cost with the exception of liabilities for puttable shares. Due to their short-term nature they are not discounted.

Liabilities for puttable shares are designated as fair value through profit or loss in order to manage an accounting mismatch.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recorded at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Residents' loans and deferred management fee receivable

Residents' loans are amounts payable under occupation right agreements, as described in accounting policy 1(h). These loans are non interest-bearing and are payable when both an occupation right agreement is terminated and there has been settlement of a new occupation right agreement for the same unit and the proceeds from the new settlement have been received by the Group. Residents' loans are initially recognised at fair value and subsequently measured at amortised cost.

The Group holds a contractual right to set-off the deferred management fee receivable on termination of an agreement against the resident's loan to be repaid. Residents' loans are therefore recognised net of the deferred management fee receivable on the balance sheet.

Deferred management fees are payable by residents in consideration for the supply of accommodation and the right to share in the use of community facilities. Deferred management fees are paid in arrears with the amount payable calculated as a percentage of the resident loan amount as per the resident's occupation right agreement. Deferred management fee receivable is calculated and recorded based on the current tenure of the resident and the contractual right to deferred management fee earned at balance date. Refer to accounting policy 1(b) for further detail on recognition of deferred management fee revenue.

(iii) Derivative financial instruments

The Group uses interest rate swaps to manage its risk associated with interest rate fluctuations. Interest rate swaps are initially recognised at fair value on the date a contract is entered into and are subsequently measured at fair value on each reporting date. The fair values of the interest rate swaps are determined based on cash flows discounted to present value using current market interest rates.

When interest rate swaps meet the criteria for cash flow hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income, while the ineffective portion is recognised in the income statement. Amounts taken to reserves are transferred out of reserves and included in the measurement of the hedged transaction when the forecast transaction occurs. When interest rate swaps do not meet the criteria for cash flow hedge accounting, all movements in fair value of the hedging instrument are recognised in the income statement.

(iv) Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(j) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is made for benefits accruing to employees in respect of wages, salaries, annual leave, bonuses and profit-sharing plans when it is probable that settlement will be required and the amount can be estimated reliably.

(k) Share-based payments

Selected employees of the Group receive remuneration in the form of share-based payments. Equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate that the shares will vest.

(l) Revenue in advance

Revenue in advance comprises those amounts by which the amortisation of deferred management fees over the contractual period exceeds the amortisation of the deferred management fee based on estimated tenure. Refer to accounting policy 1(b) for estimated tenure details.

(m) Expenses

Lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Interest expense

Interest expense comprises interest payable on borrowings and is calculated using the effective interest rate method.

(n) Income tax

Income tax comprises current and deferred tax and is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to tax payable in respect of previous years. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is provided using the comprehensive balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, unless they arise on a business combination, are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

(o) GST

All amounts are shown exclusive of goods and services tax ("GST"), other than trade debtors and trade creditors, except where the amount of GST incurred is not recoverable from the taxation authority. When this occurs the GST is recognised as part of the cost of the asset or as an expense, as applicable.

(p) Comparative information

Where necessary, comparative figures have been restated to correspond with current year classifications.

(q) New standards and interpretations not yet adopted

The Group adopted all mandatory new and amended NZ IFRS Standards and Interpreations. These new and amended NZ IFRS Standards and Interpretations had a disclosure impact only on these financial statements.

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual report period ending 31 December 2013 are outlined below:

NZ IFRS 9 - Financial Instruments

This standard will replace NZ IAS 39 – Financial Instruments: Recognition and Measurement and will specify how an entity should classify and measure financial assets and financial liabilities and amends the rules for hedge accounting. Whilst there may be some disclosure changes, the impact of this standard is not considered to be significant for the Group.

2. Operating expenses

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Employee expenses	16,271	15,593	62	206
Property-related expenses	6,363	5,425	-	-
Other operating expenses	14,347	11,602	-	-
Total operating expenses	36,981	32,620	62	206

Other operating expenses include:

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Remuneration paid to auditors				
Audit of statutory financial statements	170	165	-	-
Other services (assurance)	27	-	-	-
Other services (taxation)	-	8	-	-
Directors' fees	337	327	-	-
Rent and operating lease costs	421	426	-	-
Donations	6	5	-	-
Amortisation of intangibles	337	259	-	-

Other services (assurance) relate to an information privacy and security review.

3. Net finance costs

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Interest on bank loans and related fees	5,536	5,401	-	-
Release of interest rate swap reserve	679	826	-	-
Capitalised finance costs	(1,483)	(1,270)	-	-
Fair value movement of derivatives designated as fair value through profit or loss	(152)	(243)	-	-
Movement out of other comprehensive income on de-designation	-	120	-	-
Finance charges on finance leases	29	62	-	-
Net finance costs	4,609	4,896	-	-

4. Income tax

(a) Income tax recognised in income statement

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Tax expense comprises				
Current tax expense	-	-	-	-
Deferred tax relating to the origination and reversal of temporary differences	(2,468)	(407)	-	-
Total tax (credit)/expense reported in income statement	(2,468)	(407)	-	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

GROUP

	2013		2012	
	$000	%	$000	%
Profit before tax	31,755		14,414	
Income tax using the corporate tax rate	8,891	28.0%	4,036	28.0%
Capitalised interest	(415)	(1.4%)	(356)	(2.5%)
Other non-deductible expenses	82	0.3%	34	0.2%
Non-assessable investment property revaluations	(8,322)	(26.2%)	(4,236)	(29.3%)
Prior period losses recognised as a deferred tax asset	(2,755)	(8.7%)	-	-
Current year losses for which no deferred tax asset was recognised	-	0.0%	227	1.6%
Other adjustments	51	0.2%	(112)	(0.8%)
Total income tax (credit)/expense	(2,468)	(7.8%)	(407)	(2.8%)

COMPANY

	2013		2012	
	$000	%	$000	%
Loss before tax	(62)		(206)	
Income tax using the corporate tax rate	(17)	28.0%	(58)	28.0%
Other non-deductible expenses	17	(28.0%)	58	(28.0%)
Total income tax expense	-	-	-	-

4. Income tax (continued)

(b) Amounts charged or credited to other comprehensive income

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Fair value movement of interest rate swaps	397	133	-	-
Total tax expense reported in statement of comprehensive income	397	133	-	-

(c) Imputation credit account
There were no imputation credits received or paid during the year and the balance at 31 December 2013 is nil (2012: nil).

(d) Deferred tax
The deferred tax balance comprises:

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Property, plant and equipment	7,604	7,771	-	-
Investment property	11,310	10,832	-	-
Revenue in advance	(3,157)	(2,628)	-	-
Interest rate swaps	172	(267)	-	-
Income tax losses not yet utilised	(2,198)	-	-	-
Other items	(454)	(360)	-	-
Net deferred tax liability	13,277	15,348	-	-

A deferred tax asset of $2.2 million has been recognised in 2013 for income tax losses not yet utilised as it has been deemed probable that future taxable profits will be available against which the asset can be utilised.

Movement in the deferred tax balance comprises:

	BALANCE 1 JAN 2013 $000	RECOGNISED IN INCOME $000	RECOGNISED IN OCI* $000	BALANCE 31 DEC 2013 $000
Property, plant and equipment	7,771	(167)	-	7,604
Investment property	10,832	478	-	11,310
Revenue in advance	(2,628)	(529)	-	(3,157)
Interest rate swaps	(267)	42	397	172
Income tax losses not yet utilised	-	(2,198)	-	(2,198)
Other items	(360)	(94)	-	(454)
Net deferred tax liability	15,348	(2,468)	397	13,277

	BALANCE 1 JAN 2012 $000	RECOGNISED IN INCOME $000	RECOGNISED IN OCI* $000	BALANCE 31 DEC 2012 $000
Property, plant and equipment	8,010	(239)	-	7,771
Investment property	10,514	318	-	10,832
Revenue in advance	(2,159)	(469)	-	(2,628)
Interest rate swaps	(435)	35	133	(267)
Other items	(308)	(52)	-	(360)
Net deferred tax liability	15,622	(407)	133	15,348

* Other comprehensive income

5. Trade and other receivables

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Trade receivables	891	1,051	-	-
Allowance for doubtful debts	(20)	(11)	-	-
	871	1,040	-	-
Prepayments	1,019	1,309	-	-
Accrued income	134	65	-	-
Sundry debtors	8,289	6,589	-	-
Total trade and other receivables	10,313	9,003	-	-

Sundry debtors includes amounts owing for occupation right agreements settled but not yet paid at balance date.

6. Property, plant and equipment

GROUP

	LAND $000	BUILDINGS $000	MOTOR VEHICLES $000	PLANT AND EQUIPMENT $000	FURNITURE AND FITTINGS $000	TOTAL $000
Cost						
Balance at 1 January 2012	4,100	30,626	1,421	2,570	2,398	41,115
Additions	-	5,979	342	668	108	7,097
Balance at 31 December 2012	4,100	36,605	1,763	3,238	2,506	48,212
Additions	-	9,402	310	577	149	10,438
Balance at 31 December 2013	4,100	46,007	2,073	3,815	2,655	58,650
Accumulated depreciation						
Balance at 1 January 2012	-	-	933	1,843	1,550	4,326
Depreciation charge for the year	-	700	180	310	128	1,318
Balance at 31 December 2012	-	700	1,113	2,153	1,678	5,644
Depreciation charge for the year	-	894	204	359	128	1,585
Balance at 31 December 2013	-	1,594	1,317	2,512	1,806	7,229
Carrying amounts						
As at 31 December 2012	4,100	35,905	650	1,085	828	42,568
As at 31 December 2013	4,100	44,413	756	1,303	849	51,421

Revaluations
An independent valuation to determine the fair value of all completed rest homes and hospitals which are classified as land and buildings was carried out as at 31 December 2011 by Michael Gunn, an independent registered valuer of the firm CB Richard Ellis. Michael Gunn is a member of the New Zealand Institute of Valuers (Inc). Valuations are carried out every three years unless there are indicators of a significant change in fair value. Significant assumptions used in the most recent valuation include capitalisation rates applied to individual unit earnings ranges of between 12.5% and 15.5% and market value per care bed of between $80,000 and $131,000.

As the fair value of land and buildings is determined using inputs that are unobservable, the Group has categorised property, plant and equipment as Level 3 under the fair value hierarchy in accordance with *NZ IFRS 13 – Fair Value Measurement*.

6. Property, plant and equipment (continued)

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy
The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolios of land and buildings are the capitalisation rates applied to individual unit earnings and the market value per care bed. A significant decrease (increase) in the capitalisation rate would result in a significantly higher (lower) fair value measurement and a significant increase (decrease) in the market value per care bed would result in a significantly higher (lower) fair value measurement.

Cost model
If land and buildings were measured using the cost model, the carrying amounts would be as follows:

	GROUP	
	2013 $000	2012 $000
Cost	46,077	36,675
Accumulated depreciation and impairment losses	(6,212)	(5,318)
Net carrying amount	39,865	31,357

Leased motor vehicles
The Group leases motor vehicles under a number of finance lease agreements. The leased motor vehicles secure the lease obligation (refer to Note 11). At 31 December 2013 the net carrying amount of leased motor vehicles included in motor vehicles above was $48,000 (2012: $0.1 million).

7. Investment property

	GROUP	
	2013 $000	2012 $000
Balance at beginning of period	644,506	557,140
Additions	102,409	72,238
Fair value movement:		
Realised	20,121	15,937
Unrealised	9,601	(809)
Total investment property	776,637	644,506

The fair value of investment property for the year ended 31 December 2013 was determined by Michael Gunn, an independent registered valuer of the firm CB Richard Ellis. The fair value of the Group's investment property is determined on a semi-annual basis, 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.

Significant assumptions used by the valuer include a discount rate of between 14% and 16.5% (2012: 14% to 16.5%) and a long-term nominal house price inflation rate of between 0% and 3.5% (2012: 0% to 3.8%). Other assumptions used by the valuer include the average age of entry of residents and occupancy periods of units.

The Group has deemed it is unable to reliably determine the fair value of non-land capital work in progress at 31 December 2013 and therefore is carried at cost. This equates to $38.1 million of investment property (2012: $24.5 million).

	GROUP	
	2013 $000	2012 $000
Valuation of manager's net interest	362,411	308,373
Liability for residents' loans	414,226	336,133
Total investment property	776,637	644,506

As the fair value of investment property is determined using inputs that are unobservable, the Group has categorised investment property as Level 3 under the fair value hierarchy in accordance with *NZ IFRS 13 – Fair Value Measurement*.

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy
The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolios of investment property are the discount rate, the long-term nominal house price inflation rate, the average age of entry of residents and the occupancy period of units. A significant decrease (increase) in the discount rate or the occupancy period of units would result in a significantly higher (lower) fair value measurement and a significant increase (decrease) in the average age of entry of residents or the long-term nominal house price inflation rate would result in a significantly higher (lower) fair value measurement.

Operating expenses
Direct operating expenses arising from investment property that generated rental income during the period amounted to $12.2 million (2012: $10.3 million). There were 41 units (2012: 85) in investment property that did not generate rental income during the period.

Security
At 31 December 2013, all investment property was subject to a registered first mortgage in favour of the Statutory Supervisor to secure the Group's obligations to the occupation agreement holders.

8. Trade and other payables

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Trade payables	911	538	-	-
Accrued	14,711	10,183	-	-
Liability for puttable shares	-	-	3,124	2,550
Other payables	1,304	1,284	-	-
Total trade and other payables	16,926	12,005	3,124	2,550

9. Employee benefits

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Holiday pay accrual	1,583	1,241	-	-
Other employee benefits	465	313	-	-
Total employee benefits	2,048	1,554	-	-

10. Residents' loans

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Balance at beginning of period	368,978	301,533	-	-
Amounts repaid on termination of occupation right agreements	(39,553)	(30,226)	-	-
Amounts received on issue of new occupation right agreements	129,447	97,671	-	-
Total gross residents' loans	458,872	368,978	-	-
Deferred management fees receivable	(44,646)	(32,845)	-	-
Total residents' loans	414,226	336,133	-	-

11. Interest-bearing loans and borrowings

	GROUP		COMPANY	
	2013	2012	2013	2012
Repayable within 12 months	$000	$000	$000	$000
Finance lease liabilities	60	46	-	-
Total interest-bearing loans	60	46	-	-
Repayable after 12 months				
Secured bank loans	105,208	77,999	-	-
Finance lease liabilities	-	117	-	-
Total interest-bearing loans	105,208	78,116	-	-
Total loans and borrowings	105,268	78,162	-	-

The weighted average interest rate for the year to 31 December 2013 was 3.82% (2012: 4.28%). This excludes the impact of interest rate swaps (see Note 12) and other finance costs.

The expiry date of the secured bank loans was extended in January 2014 from 27 January 2016 to 30 June 2018. The secured bank loan facility has a maximum of $180.0 million (2012: $180.0 million).

Security

The bank loans are secured by a general security agreement over the assets of Summerset Holdings Limited (a subsidiary of the Company) subject to a first priority to the Statutory Supervisor over the village assets. Finance leases are secured over the assets to which they relate.

Finance lease liabilities

Finance lease liabilities for the Group are payable as follows:

	2013			2012		
	MIN LEASE PAYMENTS $000	INTEREST $000	PRINCIPAL $000	MIN LEASE PAYMENTS $000	INTEREST $000	PRINCIPAL $000
Less than 1 year	62	2	60	47	1	46
Between 1 and 5 years	-	-	-	126	9	117
Total	62	2	60	173	10	163

12. Derivative financial instruments

The Group holds interest rate swaps in order to minimise the impact of rising interest rates. Under these agreements, the Group has a right to receive interest at variable rates and to pay interest at fixed rates. At 31 December 2013, the Group had interest rate swap agreements in place with a total notional principal amount of $120 million (2012: $85 million). Of the swaps in place, at 31 December 2013 $70 million (2012: $59 million) are being used to cover approximately 67% (2012: 75%) of the loan principal outstanding. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating rate to fixed rates, which range between 3.79% and 4.43% (2012: 3.34% and 3.79%).

The fair value of these agreements at 31 December 2013 is an asset of $0.6 million (2012: liability of $1.0 million), of which a liability of $0.2 million (2012: $0.1 million) is estimated to be current. The agreements cover notional amounts for a term of between two and seven years.

The notional principal amounts and the period of expiry of the interest rate swap contracts are as follows:

	GROUP	
	2012 $000	2012 $000
Less than 1 year	50,000	35,000
Between 1 and 2 years	5,000	50,000
Between 2 and 3 years	30,000	-
Between 3 and 4 years	5,000	-
Between 5 and 6 years	10,000	-
Between 6 and 7 years	10,000	-
Between 7 and 8 years	10,000	-
Total	120,000	85,000

13. Share capital and reserves

At 31 December 2013, the Company had 216,543,091 ordinary shares on issue (2012: 214,819,360). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

Basic earnings per share have been calculated on the basis of 214,040,025 weighted average ordinary shares (2012: 212,997,932) and net profit as per the income statement.

Diluted earnings per share have been calculated on the basis of 215,706,298 weighted average ordinary shares (2012: 214,819,360) and net profit as per the income statement.

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Share capital				
On issue at beginning of year	233,875	233,669	233,875	233,669
Shares issued under the dividend reinvestment plan	2,855	-	2,855	-
Shares issued under employee share plan	300	-	300	-
Shares vested under employee share plan	-	-	1,125	-
Employee share plan option cost	62	206	62	206
On issue at end of year	237,092	233,875	238,217	233,875
Share capital (in thousands of shares)				
On issue at beginning of year	212,998	212,998	214,819	214,819
Shares issued under the dividend reinvestment plan	1,099	-	1,099	-
Shares issued under the employee share plan	214	-	625	-
On issue at end of year	214,311	212,998	216,543	214,819

Differences between share capital for the Company and the Group are due to shares held by Summerset LTI Trustee Limited for employee share plans. Refer to note 14 for further details.

Revaluation reserve
The revaluation reserve is used to record the revaluation of property, plant and equipment.

Maintenance reserve
The maintenance reserve is set aside for the future maintenance of village investment property.

Hedging reserve
The hedging reserve is used to record gains or losses on instruments used as cash flow hedges. The amounts are recognised in profit and loss when the hedged transaction affects profit and loss.

Dividends
On 20 March 2013 a dividend for the year ending 31 December 2012 of 2.5 cents per ordinary share was paid to shareholders (2012: nil). The Group operates a dividend reinvestment plan and this plan applied to the dividend paid on 20 March 2013.

14. Employee share plan

The Group operates employee share plans for selected key management personnel ("Participants") to purchase shares in Summerset Group Holdings Limited. There are currently two plans in place. The first plan commenced on 1 November 2011 ("2011 Share Plan") and the related shares have a maximum vesting date being the day after the day on which the Company releases to NZX Limited its preliminary audited financial results for the year ended 31 December 2013. The second plan commenced on 16 December 2013 ("2013 Share Plan") and the related shares have a maximum vesting date being the day after the day on which the Company releases to NZX Limited its preliminary audited financial results for the year ended 31 December 2016.

The Group has provided Participants with interest-free limited recourse loans to fund the acquisition of the shares for both the 2011 Share Plan and the 2013 Share Plan (see Note 16). The loans for the 2011 Share Plan have a maximum expiry date of 31 October 2017 and the loans for the 2013 Share Plan have a maximum expiry date of 30 June 2018.

Vesting criteria for the 2011 Share Plan is based on meeting specified performance hurdles for the years ended 31 December 2012 and 31 December 2013, as set out in the 2011 Share Plan rules. The 2011 Share Plan shares were issued at $1.40, being the offer price of shares on the listing of the Group on 1 November 2011. Vesting criteria for the 2013 Share Plan is based on meeting specified performance hurdles for the years ended 31 December 2015 and 31 December 2016, as set out in the 2013 Share Plan rules. The 2013 Share Plan shares were issued at $3.20, being the volume-weighted average price of the Company's shares traded on the NZX Main Board in the ten trading day period which commenced on 2 December 2013.

The related shares for both plans are held by a nominee on behalf of Participants, until such time after the vesting of shares the nominee is directed by the Participant to transfer or sell the shares, or the shares are sold by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

At 31 December 2013, the 2011 Share Plan holds 1,607,143 shares (2012: 1,821,429 shares), which represents 0.7% (2012: 0.8%) of the total shares on issue. 803,572 of these shares have vested but the related loans have not yet been repaid. The remaining 803,571 shares have not yet vested. At 31 December 2013, the 2013 Share Plan holds 624,556 shares (2012: nil), which represents 0.3% (2012: nil) of the total shares on issue. These shares have not yet vested.

	2013 WEIGHTED AVERAGE EXERCISE PRICE	2013 NUMBER OF SHARES 000'S	2012 WEIGHTED AVERAGE EXERCISE PRICE	2012 NUMBER OF SHARES 000'S
Balance at beginning of the period	$1.40	1,821	$1.40	1,821
Issued during the year	$3.20	625	-	-
Issued to employees following vesting and repayment of loans	$1.40	(214)	-	-
Balance at end of the period	$1.90	2,232	$1.40	1,821

The 2011 Share Plan and the 2013 Share Plan are equity-settled schemes and treated as option plans for accounting purposes. These options were valued at the grant dates using the Black Scholes valuation model and the option cost for the year ending 31 December 2013 of $62,000 has been recognised in the income statement of the Company and the Group for that period (2012: $206,000).

Significant assumptions used in the valuation models are a discount to reflect the potential that shares may not meet vesting criteria of 20% and volatility of 20% for the 2011 Share Plan and a discount to reflect the potential that shares may not meet vesting criteria of 30% and volatility of 21% for the 2013 Share Plan.

15. Notes to the cash flow statement

(a) Reconciliation of cash and cash flow equivalents

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Bank balances	3,036	2,777	-	-
Petty cash	8	8	-	-
Cash and cash equivalents in statement of cash flows	3,044	2,785	-	-

(b) Reconciliation of operating results and operating cash flows

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Net profit/(loss) for the period	34,223	14,821	(62)	(206)
Adjustments for:				
Depreciation, impairment and amortisation expense	1,922	1,577	-	-
Fair value movement of investment property	(29,722)	(15,128)	-	-
Net finance costs paid	4,609	4,896	-	-
Deferred tax	(2,468)	(407)	-	-
Deferred management fee amortisation	(14,275)	(10,612)	-	-
Employee share plan option cost	62	206	62	206
	(39,872)	(19,468)	62	206
Movements in working capital				
Decrease in trade and other receivables	631	1,415	-	-
Increase/(decrease) in employee benefits	493	(63)	-	-
(Decrease)/increase in trade and other payables	(1,139)	54	-	-
Increase in residents' loans net of non-cash amortisation	94,254	69,495	-	-
	94,239	70,901	-	-
Net cash flows from operating activities	88,590	66,254	-	-

16. Related party transactions

The balance owing from subsidiaries to the company at 31 December 2013 is $66.2 million (2012: $67.9 million).

The Group has loans to employees receivable at 31 December 2013 of $2.2 million (2012: $2.8 milion) with repayment due by 31 October 2016. The Company has loans to employees and nominees (Summerset LTI Trustee Limited) receivable at 31 December 2013 of $6.5 million (2012: $5.4 million). Refer to Note 14 for employee share plan details. All loans outstanding are interest-free limited recourse loans.

17. Key management personnel compensation

The compensation of the Chief Executive Officer ("CEO") and the key management personnel of the Group is set out below:

	GROUP		COMPANY	
	2013 $000	2012 $000	2013 $000	2012 $000
Short-term employee benefits	2,372	2,208	-	-
Share-based payments	62	206	62	206
Total	2,434	2,414	62	206

Refer to Note 14 for employee share plan details for key management personnel and Note 16 for loans advanced to key management personnel.

18. Segment reporting

The Group operates in one industry, being the provision of integrated retirement villages in New Zealand for the elderly. The services provided across all of the Group's villages are similar, as are the type of customer and the regulatory environment. On this basis, the Group has one reportable segment, and the Group results are the same as the results of the reportable segment. All resource allocation decisions across the Group are made to optimise the consolidated Group's result.

The Ministry of Health is a significant customer of the Group, as the Group derives care fee revenue in respect of eligible government subsidised aged care residents. Fees earned from the Ministry of Health for the year ended 31 December 2013 were approximately 54% of total care fees (2012: 56%). The Group has no other significant customers. All revenue is earned in New Zealand.

19. Subsidiary companies

All subsidiary companies are 100% owned and incorporated in New Zealand with a balance date of 31 December. The subsidiaries are:

- Summerset Care Limited
- Summerset Holdings Limited
- Summerset LTI Trustee Limited
- Summerset Management Company Limited
- Summerset Management Group Limited
- Summerset Properties Limited
- Summerset Villages (Aotea) Limited
- Summerset Villages (Casebrook) Limited
- Summerset Villages (Dunedin) Limited
- Summerset Villages (Ellerslie) Limited
- Summerset Villages (Hamilton) Limited
- Summerset Villages (Hastings) Limited
- Summerset Villages (Havelock North) Limited
- Summerset Villages (Hobsonville) Limited
- Summerset Villages (Karaka) Limited
- Summerset Villages (Katikati) Limited
- Summerset Villages (Levin) Limited
- Summerset Villages (Lower Hutt) Limited
- Summerset Villages (Manukau) Limited
- Summerset Villages (Napier) Limited
- Summerset Villages (Nelson) Limited
- Summerset Villages (New Plymouth) Limited
- Summerset Villages (Palmerston North) Limited
- Summerset Villages (Paraparaumu) Limited
- Summerset Villages (Taupo) Limited
- Summerset Villages (Trentham) Limited
- Summerset Villages (Waimauku) Limited
- Summerset Villages (Wanganui) Limited
- Summerset Villages (Warkworth) Limited
- Welhom Developments Limited

20. Financial instruments

Exposure to credit, market and liquidity risk arises in the normal course of the Group's business. The Board reviews and agrees on policies for managing each of these risks as summarised below. The Group has no exposure to foreign currency or any other substantial market price risk.

Categories of financial instruments

All financial assets are classified as loans and receivables except for limited recourse loans which are designated as fair value through profit or loss and interest rate swaps which are classified as derivatives held for trading. All financial liabilities are classified as liabilities at amortised cost, with the exception of and liabilities for puttable shares which are designated as fair value through profit or loss.

Credit risk

Credit risk is the risk of financial loss to the Group if a resident or counterparty to a financial instrument fails to meet their contractual obligations. The Group's exposure to credit risk relates to receivables from residents, bank balances and limited recourse loans. The Group manages its exposure to credit risk. The Group's cash is held with its principal banker, with the level of exposure to credit risk considered minimal with low levels of cash generally held. Receivables balances are monitored on an ongoing basis and funds are placed with high credit quality financial institutions. The Group does not require collateral from its debtors and the Directors consider the Group's exposure to any concentration of credit risk to be minimal.

The carrying amount of financial assets represents the Group's maximum credit exposure. The status of trade receivables is as follows:

	2013		2012	
	GROSS RECEIVABLE $000	IMPAIRMENT $000	GROSS RECEIVABLE $000	IMPAIRMENT $000
Not past due	739	-	876	-
Past due 31 – 60 days	69	-	87	-
Past due 61 – 90 days	30	-	20	-
Past due more than 90 days	53	20	68	11
Total	891	20	1,051	11

In summary, trade receivables are determined to be impaired as follows:

	2013 $000	2012 $000
Gross trade receivables	891	1,051
Collective impairment	(20)	(11)
Net trade receivables	871	1,040

All amounts past due but not impaired have been reviewed and are considered recoverable.

Market risk

Market risk is the risk that changes in market prices such as interest rates will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The Group's exposure to interest rate risk is managed by seeking to obtain the most competitive rate of interest at all times. The group has also entered into interest rate swap agreements in order to provide an effective cash flow hedge against the variability in floating interest rates. See Note 12 for details of the interest rate swap agreements.

At 31 December 2013 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by approximately $0.3 million (2012: increase by $0.3 million) and would decrease equity before tax by nil (2012: increase equity before tax by $0.7 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group manages liquidity risk on residents' loans through the contractual requirements of occupation rights agreements, whereby a resident's loan is only repaid on receipt of the loan monies from the incoming resident.

20. Financial instruments (continued)

The following table sets out the contractual cash flows for all financial liabilities for the Group (including contractual interest obligations on bank loans):

	2013		2012	
	LESS THAN 1 YEAR $000	GREATER THAN 1 YEAR $000	LESS THAN 1 YEAR $000	GREATER THAN 1 YEAR $000
Financial liabilities				
Trade and other payables	16,926	-	12,005	-
Residents' loans	33,155	381,071	30,938	305,195
Interest-bearing loans and borrowings	4,019	119,291	3,057	84,360
Interest rate swaps	685	2,178	600	354
Non-interest bearing total	54,785	502,540	46,600	389,909

Residents' loans are non-interest bearing and are not required to be repaid following termination of an occupation right agreement until receipt of cash for the new resident loan from the incoming resident. The figures above have been calculated using best estimates of resident loan repayments based on historical information. To date, cash for new residents' loans received has always exceeded cash from repaid residents' loans, net of deferred management fees.

Fair values

The carrying amounts shown in the balance sheet approximate the fair value of the financial instruments, with the exception of residents' loans, shown below:

	2013		2012	
	CARRYING AMOUNT $000	FAIR VALUE $000	CARRYING AMOUNT $000	FAIR VALUE $000
Group				
Residents' loans	(414,226)	(274,959)	(336,133)	(226,915)
Total	(414,226)	(274,959)	(336,133)	(226,915)

The fair value of residents' loans is based on the present value of projected cash flows. Future cash flows are based on the assumption that the average tenure periods are those disclosed above and have been discounted at 14% (2012: 14%). The fair value of residents' loans is categorised as Level 3 under the fair value hierarchy in accordance with *NZ IFRS 13 – Fair Value Measurement.*

The fair value of interest rate swaps, liabilities for puttable shares and limited recourse loans are determined using inputs from third parties that are observable, either directly (ie as prices) or indirectly (ie derived from prices). Based on this, the Company and Group have categorised these financial instruments as Level 2 under the fair value hierarchy in accordance with *NZ IFRS 13 – Fair Value Measurement.*

Capital management

The Group's capital includes share capital, reserves and retained earnings. The objective of the Group's capital management is to ensure a strong credit rating to support business growth and maximise shareholder value.

The Group's capital is managed through Summerset Holdings Limited and its subsidiaries ("SHL Group"). The SHL Group is subject to capital requirements imposed by the bank through the Group Deed of Covenant. The SHL Group has met all externally imposed capital requirements for the year ended 31 December 2013 (2012: all requirements met).

Summerset Holdings Limited's capital structure is managed, and adjustments are made, with Board approval. There were no changes to objectives, policies or processes during the year ended 31 December 2013 (2012: nil).

21. Commitments and contingencies

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

COMPANY AND GROUP	2013 $000	2012 $000
Less than 1 year	462	462
Between 1 and 5 years	1,850	1,850
More than 5 years	578	1,040
Total operating lease commitments	2,890	3,352

During the year ended 31 December 2013 $0.4 million was recognised in the income statement in respect of operating leases (2012: $0.4 million).

Guarantees

At 31 December 2013, NZX Limited holds a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2012: $75,000).

Capital commitments

At 31 December 2013, construction contracts not provided for at balance date is nil (2012: nil).

Contingent liabilities

There are no known material contingent liabilities at 31 December 2013 (2012: nil).

Subsequent events

There have been no events subsequent to 31 December 2013 which materially impact on the results reported (2012: nil).

INDEPENDENT AUDITOR'S REPORT

EY

Building a better working world

Chartered Accountants

To the Shareholders of Summerset Group Holdings Limited

Report on the Financial Statements

We have audited the financial statements of Summerset Group Holdings Limited and its subsidiaries on pages 27 to 48, which comprise the statement of financial position of Summerset Group Holdings Limited and the group as at 31 December 2013 and the income statement, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders 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 company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Ernst & Young provides other assurance services to the Group. We have no other relationship, or interest in Summerset Group Holdings Limited or any of its subsidiaries.

Partners and employees of our firm may deal with the company or its subsidiaries on normal terms within the ordinary course of trading activities of the business of the company.

Opinion

In our opinion, the financial statements on pages 27 to 48:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Summerset Group Holdings Limited and the group as at 31 December 2013 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the Financial Reporting Act 1993, we report that:

- We have obtained all the information and explanations that we have required.
- In our opinion proper accounting records have been kept by Summerset Group Holdings Limited as far as appears from our examination of those records.

Ernst & Young

24 February 2014
Wellington

STATEMENT OF CORPORATE GOVERNANCE

Summerset is committed to following best-practice governance structures and principles and to having good governance overseeing the way in which the Company operates. It also takes account of the Company's listings on both NZX and ASX.

Summerset's corporate governance practices reflect the ASX Corporate Governance Council's Good Corporate Principles and Recommendations (2nd edition) ('ASX Principles') and the NZX Corporate Governance Best Practice Code ('the Code') except as set out at the end of this section.

Summerset listed on the ASX in July 2013. It has adopted the principles recognised by the ASX Corporate Council as an appropriate way to demonstrate Summerset's compliance with these fundamental principles and to illustrate the transparency of Summerset's approach to corporate governance for the benefit of its Shareholders and other stakeholders.

Summerset's Board and Committee Charters, and policies and guidelines referred to in this section are available to view at www.summerset.co.nz/investor-centre/corporate-governance/charters-policies/.

1. ENSURING SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board of Directors

The Board of Directors is elected by Shareholders, and has responsibility for taking appropriate steps to protect and enhance the value of the assets of the Company in the best interests of its Shareholders. The Board has adopted a formal Board Charter detailing its authority, responsibilities, membership and operation.

The key responsibilities of the Board include setting the overall direction and strategy of the Company, establishing appropriate policies and monitoring performance of management. The Board appoints the Chief Executive Officer and delegates the day-to-day operating of the business to the Chief Executive Officer. The Chief Executive Officer implements policies and strategies set by the Board and is accountable to it. The Board also has responsibility for ensuring the Company's financial position is sound, financial statements are true and fair, and for ensuring that the Company adheres to high standards of ethical and corporate behaviour.

The Board currently carries out its responsibilities according to the following mandate:

- At least two, or, if there are eight or more Directors, three or one-third of the total number of Directors should be Independent as defined in the NZX Listing Rules;
- The Chairman of the Board should be a non-executive Director;
- Directors should possess a broad range of skills, qualifications and experience, and remain current on how to best perform their duties as Directors;
- Information of sufficient content, quality and timeliness as the Board considers necessary shall be provided by management to allow the Board to effectively discharge its duties;
- The effectiveness and performance of the Board and its individual members should be re-evaluated on an annual basis.

All Directors have been issued letters setting out the terms and conditions of their appointment. The Chief Executive Officer and members of the executive management team have employment agreements setting out their roles and conditions of employment.

Delegation of Authority

The Board delegates to the Chief Executive Officer responsibility for implementing the Board's strategy and for managing the Company's operations. The Chief Executive Officer has Board-approved levels of authority and, in turn, sub-delegates authority in some cases to direct reports, and has established a formal process for direct reports to sub-delegate certain authorities as appropriate. This is documented in the Delegation and Powers Reserved to the Board Policy.

Senior Executive Performance

The Board evaluates annually the performance of the Chief Executive Officer. The Chief Executive Officer reviews the performance of direct reports and reports to the Board on those reviews. The evaluation is based on criteria that include the performance of the business and the accomplishment of longer-term strategic objectives. It may include quantitative and qualitative measures. During the most recent financial year, performance evaluations were conducted in accordance with this process.

2. STRUCTURING THE BOARD TO ADD VALUE

Board Composition

The Company's constitution prescribes that the Board shall be comprised of a minimum of three Directors, with at least two Directors ordinarily resident in New Zealand. The Board currently comprises five Directors, of whom four are non-executive and also Independent. In determining whether a Director is Independent the Board has regard to the ASX Principles and to the NZX Listing Rules.

The non-executive Independent Directors are Rob Campbell (Chairman), James Ogden, Marie Bismark (who was appointed a Director on 1 September 2013) and Anne Urlwin (who was appointed a Director on 1 March 2014). Norah Barlow, the Managing Director and Chief Executive Officer is not Independent by virtue of her role as an executive of the Company. Mrs Barlow will be retiring from her role as Chief Executive Officer and Managing Director on 4 April 2014. She will be remain a Director on the Board after retiring from these roles. She will not be an Independent Director due to her role as Chief Executive Officer prior to that date.

Mr Julian Cook will become Chief Executive Officer on 4 April 2014. He will not be a Director of the Company.

More information on the Directors, including their interests, qualifications and shareholdings, is provided in the Directors' Profiles and Statutory Information sections of this report.

The Board holds regular scheduled meetings. The Directors generally receive material for Board meetings five days in advance, except in the case of special meetings for which the time period may be shorter owing to the urgency of the matter to be considered.

All Directors have access to executive management to discuss issues or obtain information on specific areas in relation to items to be considered at Board meetings or other areas as considered appropriate. Key executives and managers are invited to attend and participate in appropriate sessions at Board meetings. Directors have unrestricted access to Company records and information.

Directors are entitled to obtain independent professional advice relating to the affairs of the Company or other responsibilities. Prior approval of the Chairman is required before seeking such advice and Directors are expected to ensure that the cost of such advice is reasonable.

Retirement and Re-election

In accordance with the Company's constitution and the Rules, one third of the Directors are required to retire by rotation and may offer themselves for re-election by Shareholders each year. Procedures for the appointment and removal of Directors are also governed by the constitution. The Nominations and Remuneration Committee identifies and nominates candidates to fill Director vacancies for the approval of the Board.

At the Annual Meeting to be held on 30 April 2014, Norah Barlow and Rob Campbell will retire by rotation and stand for re-election. Marie Bismark and Anne Urlwin will stand for election having been appointed to fill casual vacancies during the year.

Board Committees

The Board has two standing committees, being the Audit Committee, and the Nominations and Remuneration Committee. Each committee operates under charters approved by the Board, and any recommendations they make are recommendations to the Board. The terms of reference for each committee are reviewed annually. All Directors are entitled to attend committee meetings.

Nominations and Remuneration Committee

The role of the Nominations and Remuneration Committee is to assist the Board in establishing and reviewing remuneration policies and practices for the Company and in reviewing Board composition. Specific objectives include:

- Assist in discharging the Board's responsibilities relative to reviewing the Chief Executive Officer's and Directors' remunerations;
- Advise and assist the Chief Executive Officer in remuneration setting for the executive management team; and
- Regularly review, and recommend changes to the composition of the Board, and identify and recommend individuals for nomination as members of the Board and its Committees.

The Nominations and Remuneration Committee must be comprised of a minimum of three Directors, the majority of whom must be independent. The Committee is currently comprised of Marie Bismark (Chairman), Rob Campbell and James Ogden.

The Board's policy is that the Board needs to have an appropriate mix of skills, experience and diversity to ensure that it is well equipped. The Board reviews and evaluates on a regular basis the skill mix required and identifies where gaps exists.

In the past year, two new Independent, non-executive Directors have been appointed to the Board. Dr Bismark was appointed to the Board on 1 September 2013 and Anne Urlwin was appointed to the Board on 1 March 2014. Both Directors will stand for election at the Annual Meeting in April 2014. In respect of these appointments, the Board undertook a formal selection process.

Attendance at Board and Committee Meetings

A total of eight Board meetings, three Nominations and Remunerations Committee meetings and six Audit Committee meetings were held in 2013. Director attendance at Board meetings and committee member attendance at committee meetings is shown below. Directors that were not members of committees also attended some committee meetings as invited attendees. Their attendance is not recorded below.

Board meetings

DIRECTOR	ATTENDANCE
Rob Campbell (Chair)	8/8
Norah Barlow	7/8
Marie Bismark *	2/3
Marcus Darville **	6/6
Christopher Hadley **	5/6
James Ogden	8/8

* Appointed a Director on 1 September 2013
** Resigned as Director on 21 October 2013

Note: Anne Urlwin was appointed a Director on 1 March 2014 and is not included in the table above as she was not a Director during 2013

Nominations and Remuneration Committee Meetings

DIRECTOR	ATTENDANCE
Marie Bismark (Chair) *	1/1
Marcus Darville (Chair) **	2/2
Rob Campbell	3/3
James Ogden	3/3

* Appointed to Committee as Chair on 21 October 2013
** Resigned from Committee and as Chair on 21 October 2013

Audit Committee Meetings

DIRECTOR	ATTENDANCE
James Ogden (Chair)	6/6
Marie Bismark *	1/1
Rob Campbell	6/6
Marcus Darville **	5/5

* Appointed to Committee on 21 October 2013
** Resigned from Committee on 21 October 2013

Note: Anne Urlwin was appointed to the Committee on 1 March 2014 and is not included in the table above as she was not a member of the Committee during 2013

Board Performance

The Board undertakes an annual self-assessment of its performance, as does each Committee. The Chairman also undertakes an annual review of individual Board member performance.

3. PROMOTING ETHICAL AND RESPONSIBLE DECISION MAKING

Ethical Standards

The Board maintains high standards of ethical conduct and expects the Company's employees to act legally and with integrity in a manner consistent with the policies, guiding principles and values that are in place. These include the following:

- **Code of Ethics** – This guide sets out the basic principles of legal and ethical conduct expected of all employees and Directors. The Company encourages open and honest communication by staff about any current or potential problem, complaint, suggestion, concern, or question.
- **Conflicts of Interest** – To maintain integrity in decision making each Director must advise the Board of any potential conflict of interest if such arises. If a significant conflict of interest exists, the Director concerned will have no involvement in the decision-making process relating to the matter.

- **Securities Trading** – Directors and employees of the Company are subject to limitations on their ability to buy or sell Company shares in accordance with the Company's Securities Trading Policy, the Rules, and the Securities Markets Act 1988.
- **Gifts, Entertainment and Inducements** – The Company has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits given to staff by third parties.
- **Interest Register** – In accordance with the Companies Act 1993 and the Securities Markets (Disclosure of Relevant Interests by Directors and Officers) Regulations 2003, the Company maintains an Interests Register in which all relevant transactions and matters involving the Directors are recorded.

Gender Diversity

The Company implemented a Gender Diversity Policy in February 2013, which sets objectives that will be measured annually to assess performance.

The objectives set out in the policy are:

- Annually review and report on, in the annual report, the gender composition of the Board;
- Annually review and report on, in the annual report, the gender composition of the executive management team;
- The Nominations and Remuneration Committee of the Board will review and report to the Board on the appointment process for all executive positions on the matter of gender diversity;
- The Board, annually, will require the Chief Executive Officer and General Manager of Human Resources to review and report on the gender composition of the wider organisation and, in particular, the mix of genders in management roles throughout the organisation.

These objectives were measured on implementation of the policy, with all objectives being met.

As at 1 March 2014, the proportion of women employed by the Company is set out below:

	%
Directors	60%
Senior Executives	50%
All staff	76%

These figures include permanent full-time, permanent part-time and fixed term employees, but not independent contractors.

4. SAFEGUARDING THE INTEGRITY OF FINANCIAL REPORTING

Audit Committee

While the ultimate responsibility to ensure the integrity of the Company's financial reporting rests with the Board, the Company has in place processes to ensure the accurate presentation of its financial position. This includes:

- An appropriately resourced Audit Committee operating under a written charter with specific responsibilities for financial reporting and risk management;
- Review and consideration by the Audit Committee of the financial information and preliminary releases of results to the market, which then make recommendations to the Board;
- A process to ensure the independence and competence of the Company's external auditors and a process to ensure their compliance with the Company's Audit Independence Policy;
- Responsibility for appointment of the external auditors residing with the Audit Committee;
- The Chief Executive Officer and Chief Financial Officer are required to confirm in writing to the Board that the annual and half-year financial statements present a true and fair view of the company's financial position, comply with all relevant accounting standards and that this is based on a sound system of risk management and internal control. In turn the Board provides a declaration in accordance with the ASX Listing Rules of the following:
- That the financial statements for the year ended 31 December 2013 and the notes to those financial statements comply with the accounting standards issued by the New Zealand Institute of Chartered Accountants;
- That the financial statements for the year ended 31 December 2013 and the notes to those financial statements give a true and fair view of the financial position and performance of the Company; and
- That there are reasonable grounds to believe that the Company will be able to pays its debts as and when they become due and payable.

The Audit Committee must be comprised of a minimum of three Directors, the majority of whom must be independent. The committee is chaired by an independent chair who is not the chair of the Board. The Committee is currently comprised of James Ogden (Chairman), Rob Campbell, Marie Bismark and Anne Urlwin.

The Committee generally invites the Chief Executive Officer, Chief Financial Officer, Finance Manager and external auditors to attend meetings. The Committee also meets and receives regular reports from the external auditors without management present, concerning any matters that arise in connection with the performance of their role.

5. MAKING TIMELY AND BALANCED DISCLOSURE

The Company is committed to promoting shareholder confidence through open, timely and accurate market communication. The Company has in place procedures designed to ensure compliance with its disclosure obligations under the NZX and ASX Listing Rules. The Company's Market Disclosure and Communication policy sets out the responsibilities of the Board and management in disclosure and communication and procedures for managing this obligation.

6. RESPECTING THE RIGHTS OF SHAREHOLDERS

The Company seeks to ensure that its shareholders understand its activities by communicating effectively with them and giving them ready access to clear and balanced information about the company.

To assist with this, the Company's website is maintained with relevant information, including copies of presentations, reports and market releases. The Company's key corporate governance policies are also included on the website.

The Company's major communications with shareholders during the financial year include its annual and half-year reports and the annual meeting of shareholders. The annual and half-year reports are available in electronic and hard copy format.

7. RECOGNISING AND MANAGING RISK

The Company has a formal risk management policy for identifying, overseeing, managing and controlling risk. The processes involved require the maintenance of a risk register that identifies key business risks and initiatives deployed to manage and mitigate those risks.

The Board has responsibility for the oversight of Summerset's risk management programme. Their responsibilities in this regard are set out in the Board Charter.

The Company's senior management maintain a risk register and this is updated regularly.

As a New Zealand company, section 295A of the Australian Corporations Act is not applicable to the Company. However, the Company's Chief Executive Officer and Chief Financial Officer provide assurances to the Board as part of the annual external audit process.

8. REMUNERATING FAIRLY AND RESPONSIBLY

The Board's Nominations and Remuneration Committee has a formal charter. Its membership and role are set out under 2 above.

Director Remuneration

The Company distinguishes the structure of non-executive Directors' remuneration from that of executive Directors.

Directors' fees are reviewed from time to time.

Directors' fees were set at $400,000 per annum in November 2011 for the non-executive Directors. Current annualised Directors' fees are $385,000, inclusive of $10,000 per annum additional remuneration for the Audit Committee Chairman. The Board intends to propose that the Directors' fee pool is increased at the Annual Meeting in April 2014.

Directors' fees exclude GST, where appropriate. Directors are entitled to be reimbursed for costs directly associated with carrying out their duties, including travel costs.

Directors and Officers also have the benefit of Directors and Officers liability insurance. Cover is for damages, judgments, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed whilst acting for Summerset. There are some exclusions within the policy. The insurance cover is supplemented by the provision of Director and Officer indemnities from the Company but this does not extend to criminal acts.

Details of remuneration paid to each Director are provided in the Statutory Information section of this Annual Report.

Executive Remuneration

Executive remuneration packages comprise a mixture of fixed cash remuneration, short-term performance-based cash remuneration and long-term performance-based equity remuneration.

Short-term performance-based cash remuneration is dependent on annual evaluation of performance as set out in 1 above.

The Share Plans in place for long-term performance-based equity remuneration are described in note 14 to the financial statements. All vesting criteria for the year ending 31 December 2013 for the 2011 Share Plan were met.

Compliance with ASX Corporate Governance Principles

Summerset meets all the best-practice requirements of the ASX Corporate Governance Council except as follows:

- Recommendation 8.3 that detailed disclosure of the five highest executives' remuneration is made. The New Zealand Companies Act 1993 requires the disclosure of all remuneration payable over $100,000 per annum in $10,000 bands. As the Company complies with this obligation of a New Zealand company, it has chosen not to make the detailed disclosure of the remuneration of the five highest paid executives as is considered best practiced under the ASX Corporate Governance guidelines.

Compliance with NZX Corporate Governance Best Practice Code

Summerset meets all the best-practice requirements of the Code except in relation to principle 2.7, which encourages Directors to take a portion of their remuneration under a performance-based equity security compensation plan. The Company does not currently run such a plan.

STATUTORY INFORMATION

For the year ended 31 December 2013

1. DIRECTORS' INTERESTS

At 31 December 2013, the following general disclosures of interests have been made by Directors pursuant to section 140(2) of the Companies Act 1993.

Where an (R) is included next to the interest, the Director has resigned from that role during the year ended 31 December 2013. Where an (A) is included next to the interest, the Director has been appointed to that role during the year ended 31 December 2013.

DIRECTOR	INTEREST	ENTITY
Rob Campbell	Chairman (A)	Auckland City Mission Foundation
	Chairman	Arco Property General Partner Limited
	Chairman	Guinness Peat Group Plc
	Chairman	King Tide Asset Management Limited
	Chairman (A)	Tourism Holdings Limited
	Director	Aotearoa Financial Investments Limited
	Director	Aquasure Pty Limited
	Director	CallPlus Limited
	Director (R)	Coats Plc
	Director (A)	International Trading Cartel Limited
	Director	LTFM Limited
	Director	Murray and Company
	Director	Precinct Properties New Zealand Limited
	Director	Serica Balanced Credit Fund
	Director	Truescape Limited
	Director	Turners and Growers Limited
	Director	Tutanekai Investments Limited
	Member	Aquasure Pty Limited (Australia) Audit and Risk Committee
	Member	CPE Partners Advisory Board
	Member	Silverfern Co-Investment Partners Investment Committee
	Member (R)	Stolen Rum Advisory Board
	Member	Trafalgar Copley Multi-Strategy Fund Advisory Board
	Member	VGI Partners Advisory Board
	Trustee	Auckland City Mission Foundation
James Ogden	Chairman (R)	Arria NLG Limited
	Chairman (R)	Ministry of Social Development Audit Committee
	Chairman	Ministry of Social Development Value for Money Advisory Board
	Director	Ogden Consulting Limited
	Director	Motor Trade Association Group Investments Limited
	Director	Seaworks Limited
	Director	The Warehouse Group Limited
	Director	Vehicle Testing Group Limited
	Member	AMP Capital Property Portfolio Fund Governance Committee
	Member	Crown Forestry Rental Trust Finance and Risk Committee
	Member (R)	Ministry of Foreign Affairs and Trade Audit Committee
	Member	New Zealand Markets Disciplinary Tribunal
	Member	Pencarrow IV Investment Fund Investment Committee
Norah Barlow	Director	Cigna Life Insurance New Zealand Limited
	Director (A)	Cooks Global Foods Limited
	Director (A)	Merseyside Limited
	Director	Various subsidiaries of Summerset Group Holdings Limited
	Member	National Advisory Council on the Employment of Women
	Trustee	Kensington Trust
Marie Bismark	Director	GMHBA Health Insurance
	Director	Young and Well CRC
	Member	Family Planning Council
	Fellow	Royal Australian College of Physicians
	Senior Research Fellow	University of Melbourne
	Consultant	Buddle Findlay

2. INFORMATION USED BY DIRECTORS

There were no notices from Directors of the Company requesting to disclose or use Company information received in their capacity as Directors that would not otherwise have been available to them.

3. DIRECTOR REMUNERATION

The total amount of remuneration and other benefits received by each Director during the year ended 31 December 2013 are provided below.

The remuneration figure shown in the "Salaries, Bonuses and Employee Share Plan" column includes all monetary payments actually paid during the course of the year ended 31 December 2013, as well as the value of share options provided to the Chief Executive Officer during the course of the same period. The figure does not include amounts paid post 31 December 2013 that relate to the year ended 31 December 2013.

DIRECTOR	DIRECTORS' FEES	SALARIES, BONUSES AND EMPLOYEE SHARE PLAN	RESPONSIBILITY
Rob Campbell	$150,000	-	Chairman
James Ogden	$85,000	-	Director
Norah Barlow	-	$689,998	Chief Executive Officer
Marie Bismark (A)	$25,000	-	Director
Christopher Hadley (R)	$32,258	-	Director
Marcus Darville (R)	$32,258	-	Director

Director fees paid to James Ogden above included $10,000 as remuneration for holding the role of Audit Committee Chairman.

Where an (R) is included next to the Director, the Director resigned from the role on 21 October 2013. Where an (A) is included next to the Director, the Director was appointed to the role on 1 September 2013.

4. INDEMNITY AND INSURANCE

In accordance with section 162 of the Companies Act 1993 and the constitution of the Company, the Company has arranged insurance for, and indemnities to, Directors and Officers of the Company, including Directors of subsidiary companies, for losses from actions undertaken in the course of their legitimate duties or costs incurred in any proceeding.

5. SUBSIDIARY COMPANIES' DIRECTORS

The remuneration of employees acting as Directors of subsidiaries is disclosed in the relevant banding of remuneration set out under the heading Employee Remuneration. Employees did not receive additional remuneration or benefits for acting as Directors during the year.

Norah Barlow and Julian Cook are Directors of all the Company's subsidiaries, and Paul Morris and Tristan Saunders are Alternate Directors for all of the Company's subsidiaries, with the exception of Summerset LTI Trustee Limited (Directors Rob Campbell and Marie Bismark) and Summerset Management Company Limited (Director Norah Barlow). No extra remuneration is payable to any Director of the Company for any Directorship of a subsidiary.

6. EMPLOYEE REMUNERATION

The number of employees or former employees (including employees holding office as Directors of subsidiaries, but not including the Chief Executive Officer who is a Director of Summerset Group Holdings Limited), who received remuneration and other benefits valued at or exceeding $100,000 during the financial year ended 31 December 2013 are specified in the table below.

The remuneration figures shown in the "Remuneration" column includes all monetary payments actually paid during the course of the year ended 31 December 2013. The table also includes the value of any share options provided to individuals during the course of the same period. The table does not include amounts paid post 31 December 2013 that relate to the year ended 31 December 2013.

REMUNERATION	NO. OF EMPLOYEES	REMUNERATION	NO. OF EMPLOYEES
$100,000 to $109,999	3	$170,000 to $179,999	1
$110,000 to $119,999	3	$210,000 to $219,999	1
$120,000 to $129,999	3	$330,000 to $339,999	1
$130,000 to $139,999	2	$380,000 to $389,999	1
$150,000 to $159,999	5	$390,000 to $399,999	1
$160,000 to $169,999	1	$460,000 to $469,999	1

7. DIRECTORS' SHAREHOLDINGS

Securities in the Company in which each Director has a relevant interest as at 31 December 2013 are specified in the table below.

DIRECTOR	
Rob Campbell	35,225
James Ogden	399,071
Norah Barlow (1)	1,882,214
Marie Bismark	-

(1) 642,857 of these shares are held by nominee company Summerset LTI Trustee Limited in relation to the Summerset Group Holdings Limited 2011 Long-term Incentive Employee Share Plan (2011 Share Plan). One half of these shares vested on 26 February 2013 as a result of certain financial and operational targets in the financial year ended 31 December 2012 being met. The other half of these shares vested on 26 February 2014 as a result of certain financial and operational targets being met in the financial year ended 31 December 2013. Both vested and unvested shares in relation to the Share Plan are held by Summerset LTI Trustee Limited.

8. SECURITIES DEALINGS OF DIRECTORS

During the year, Directors disclosed the following transactions in respect of section 148(2) of the Companies Act 1993. These transactions took place in accordance with the Company's Securities Trading Policy.

DIRECTOR	DATE OF TRANSACTION	NUMBER OF SHARES ACQUIRED/(DISPOSED)	CONSIDERATION
Rob Campbell	20 March 2013	225	Issue of shares under dividend reinvestment plan at $2.60 per share
James Ogden	19 March 2013	100,000	On-market purchase of shares at average price of $2.43 per share
	20 March 2013	1,709	Issue of shares under dividend reinvestment plan at $2.60 per share
	18 October 2013	32,362	On-market purchase of shares at average price of $3.10 per share
Norah Barlow	20 March 2013	7,944	Issue of shares under dividend reinvestment plan at $2.60 per share

9. TOP 20 SHAREHOLDERS AS AT 28 FEBRUARY 2014

RANK	REGISTERED SHAREHOLDER	SHARES HELD	%
1	Tea Custodians Limited	20,887,490	9.65%
2	JPMorgan Chase Bank	12,784,065	5.90%
3	HSBC Nominees (New Zealand) Limited	12,260,137	5.66%
4	Accident Compensation Corporation	11,005,598	5.08%
5	National Nominees New Zealand Limited	10,761,554	4.97%
6	FNZ Custodians Limited	10,739,329	4.96%
7	New Zealand Superannuation Fund Nominees Limited	8,117,959	3.75%
8	Custodial Services Limited	7,667,075	3.54%
9	Forsyth Barr Custodians Limited	5,738,474	2.65%
10	HSBC Nominees (New Zealand) Limited	5,266,885	2.43%
11	Cogent Nominees Limited	3,578,213	1.65%
12	Custodial Services Limited	3,122,552	1.44%
13	Investment Custodial Services Limited	2,949,932	1.36%
14	Forsyth Barr Custodians Limited	2,618,992	1.21%
15	BNP Paribas Nominees NZ Limited	2,395,868	1.11%
16	Citibank Nominees (NZ) Limited	2,395,583	1.11%
17	Summerset LTI Trustee Limited	2,231,699	1.03%
18	Custodial Services Limited	2,122,483	0.98%
19	Custodial Services Limited	1,998,251	0.92%
20	National Nominees Limited	1,742,820	0.80%
	Total	**130,384,959**	**60.20%**

10. SPREAD OF SHAREHOLDERS AS AT 28 FEBRUARY 2014

SIZE OF SHAREHOLDING	SHAREHOLDERS		SHARES	
	NUMBERS	%	NUMBERS	%
1 to 1,000	1,072	14.72%	728,049	0.34%
1,001 to 5,000	3,233	44.40%	9,484,744	4.38%
5,001 to 10,000	1,573	21.60%	11,947,862	5.52%
10,001 to 50,000	1,227	16.85%	24,670,247	11.39%
50,001 to 100,000	87	1.19%	6,327,175	2.92%
100,001 and over	89	1.22%	163,385,014	75.45%
	7,281	**100.00%**	**216,543,091**	**100.00%**

At 28 February 2014 there were three shareholders holding less than a marketable parcel of shares as defined in the ASX Listing Rules, based on the closing price of A$3.12 The ASX Listing Rules define a marketable parcel as a parcel of shares not less than AU$500.

There is no current share buyback in place.

11. SUBSTANTIAL SECURITY HOLDER NOTICES RECEIVED AS AT 28 FEBRUARY 2014

According to the file kept by the Company under the Securities Market Act 1988 the following were substantial holders in the Company as at 28 February 2014. The total number of voting securities on issue at 31 December 2013 was 216,543,091 ordinary shares.

SHAREHOLDER	RELEVANT INTEREST	PERCENTAGE HELD AT DATE OF NOTICE	DATE OF NOTICE
Milford Asset Management Limited	14,390,159	6.66%	27 November 2013
Coopers Investors Pty Limited	13,870,973	6.42%	21 October 2013
Accident Compensation Corporation	10,975,598	5.07%	31 January 2014

STATUTORY INFORMATION (CONTINUED)

12. WAIVERS FROM THE NZX AND ASX LISTING RULES

There have been no waivers from the application of NZX Listing Rules for the year ended 31 December 2013.

The Company has been granted waivers from the ASX which are standard for a New Zealand company listed on the ASX, including confirmation that the ASX will accept financial statements denominated in New Zealand dollars and prepared and audited in accordance with New Zealand Generally Accepted Accounting Principles and Auditing Standards.

13. VOTING RIGHTS

Shareholders may vote at a meeting of shareholders either in person or through a representative. Where voting is by show of hands or by voice every shareholder present in person or by representative has one vote.

In a poll every shareholder present in person or by representative has one vote for each share. Unless the Board determines otherwise, shareholders may not exercise the right to vote at a meeting by casting postal votes.

14. LIMITATIONS ON THE ACQUISITION OF COMPANY SECURITIES

The terms of the Company's admission ot the ASX and ongoing listing requires the following disclosure. The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares (incuding substantial holdings and takeovers).

Limitations on the acquisition of securities imposed under New Zealand law are as follows:

- In general, securities in the Company are freely transferable and the only significant restrictions or limitations in relation to the acquisition of securities are those imposed by New Zealand laws relating to takeovers, overseas investment and competition.
- The New Zealand Takeovers Code creates a general rule under which the acquisition of 20% or more of the voting rights in the Company or the increase of an existing holding of 20% or more of the voting rights of the Company can only occur in certain permitted ways. These include a full takeover offer in accordance with the Takeovers Code, an acquisition approved by an ordinary resolution, an allotment approved by an ordinary resolution, a creeping acquisition (in certain circumstances), or compulsory acquisition of a shareholder holding 90% or more of the shares.
- The New Zealand Overseas Investment Act 2005 and Overseas Investment Regulations 2005 (New Zealand) regulate certain investments in New Zealand by overseas interests. In general terms, the consent of the New Zealand Overseas Investment Office is likely to be required where an 'overseas person' acquires shares in the Company that amount to 25% or more of the shares issued by the Company, or if the overseas person already holds 25% or more, the acquisition increases that holding.
- The New Zealand Commerce Act 1986 is likely to prevent a person from acquiring shares in the Company if the acquisition would have, or would be likely to have, the effect of substantially lessening competition in the market.

In accordance with the requirements of the ASX waiver from Listing Rules 7.1 provided at the time of the Company's admission to the ASX, the Company certifies that during the period from 17 July 2013 to 31 December 2013, it has been subject to, and has complied with the requirements of the NZX with respect to the issue of new securities and that it continues to comply with these requirements.

15. USE OF CASH AND CASH EQUIVALENTS

In accordance with ASX Listing Rule 4.10.19, the Board has determined that the Company has used the cash and cash equivalents that it had at the time of its admission to the ASX in a way consistent with its business objectives, form the period of its admission to the ASX on 17 July 2013 to 31 December 2013.

16. CREDIT RATING

The Company has no credit rating.

This annual report is authorised for and on behalf of the Board by:

Rob Campbell
Director and Chairman

Norah Barlow
Managing Director and
Chief Executive Officer

DIRECTORY

SUMMERSET AT AOTEA (AOTEA)
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Ernst & Young

BANKERS
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Bank of New Zealand Limited

STATUTORY SUPERVISOR
Public Trust

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Norah Barlow
Dr. Marie Bismark
James Ogden
Anne Urlwin

COMPANY SECRETARY
Leanne Walker

THREE PROMISES

SUMMERSET SURE

FOR YOUR FUTURE

THE RIGHT HOME

Choose a home that is ideal for your stage of life.

THE RIGHT CARE

At the right time, in the place that is right for you.

LOVE IT – OR YOUR MONEY BACK*

90 days to be sure your new home is right
– or your money back.

* Terms and conditions apply.

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Summerset

Welcome home