# SUMMERSET ANNUAL REPORT 2012


# CONTENTS

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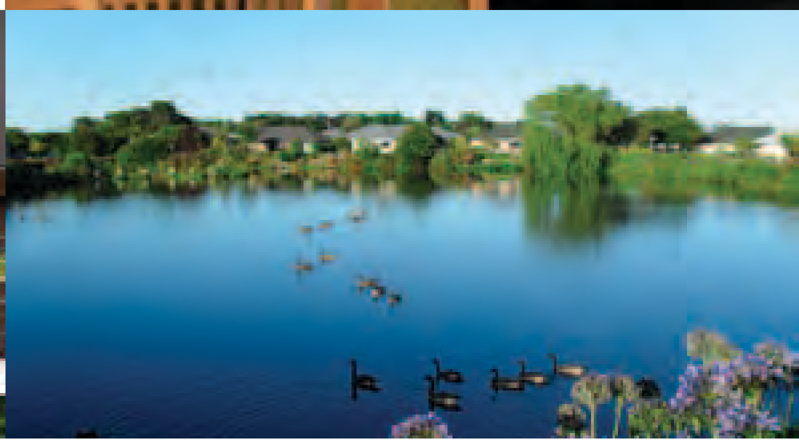
# SUMMERSET SNAPSHOT

- 16 villages nationwide
- Home to more than 2,000 residents
- Almost 500 staff employed
- Three greenfield retirement village sites
- Landbank of 1,400 retirement village units and 400+ care beds
- Nationwide brand offering
- Focus on continuum of care model

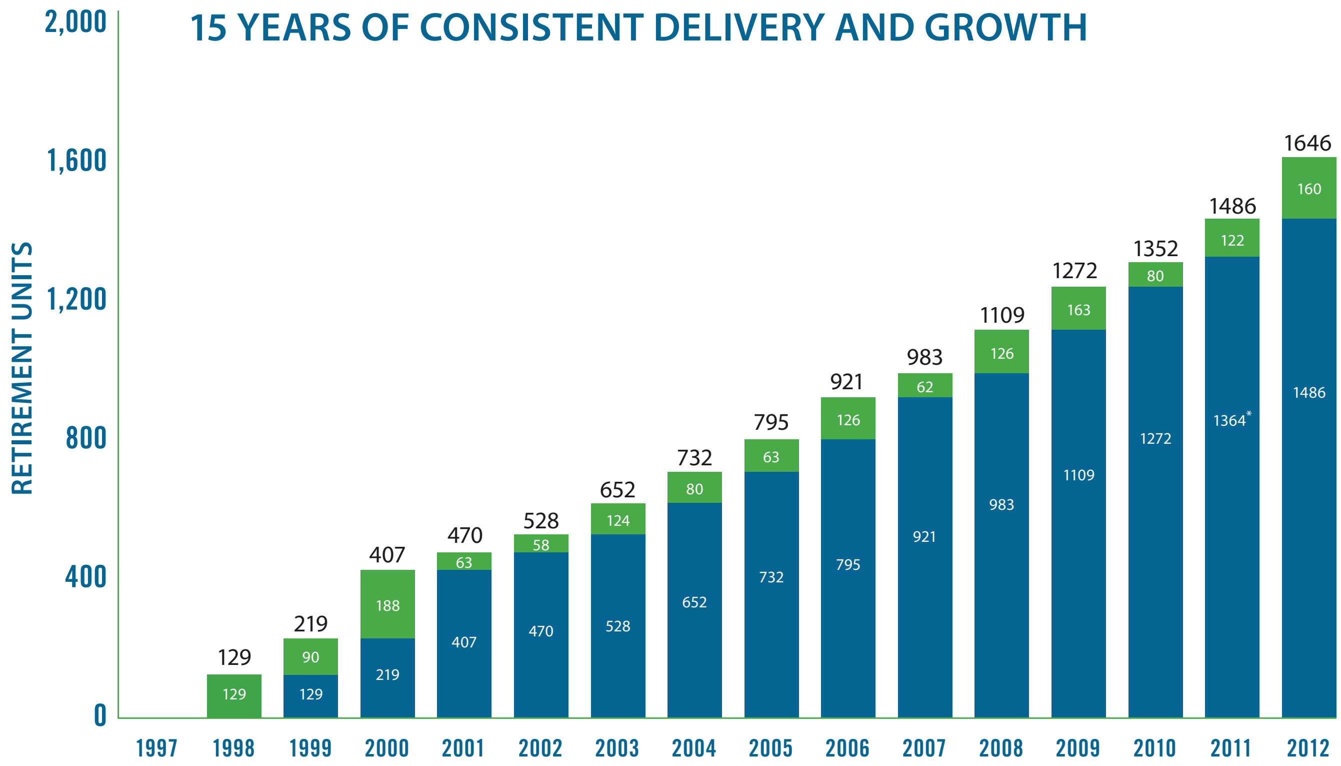


- Current portfolio
  - 1,646 retirement village units
  - 327 care beds
- Build rate of at least 200 retirement units in 2013

## SNAPSHOT

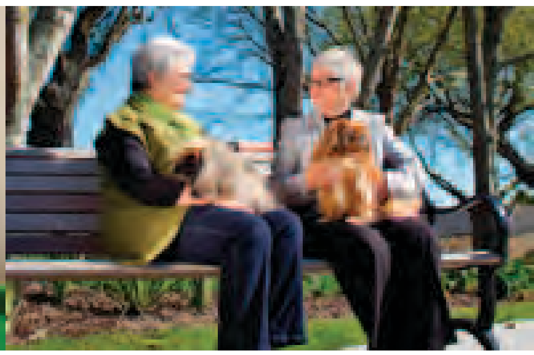
# SUMMERSET SNAPSHOT

## 15 YEARS OF CONSISTENT DELIVERY AND GROWTH




EXISTING STOCK
NEW RETIREMENT UNITS DELIVERED

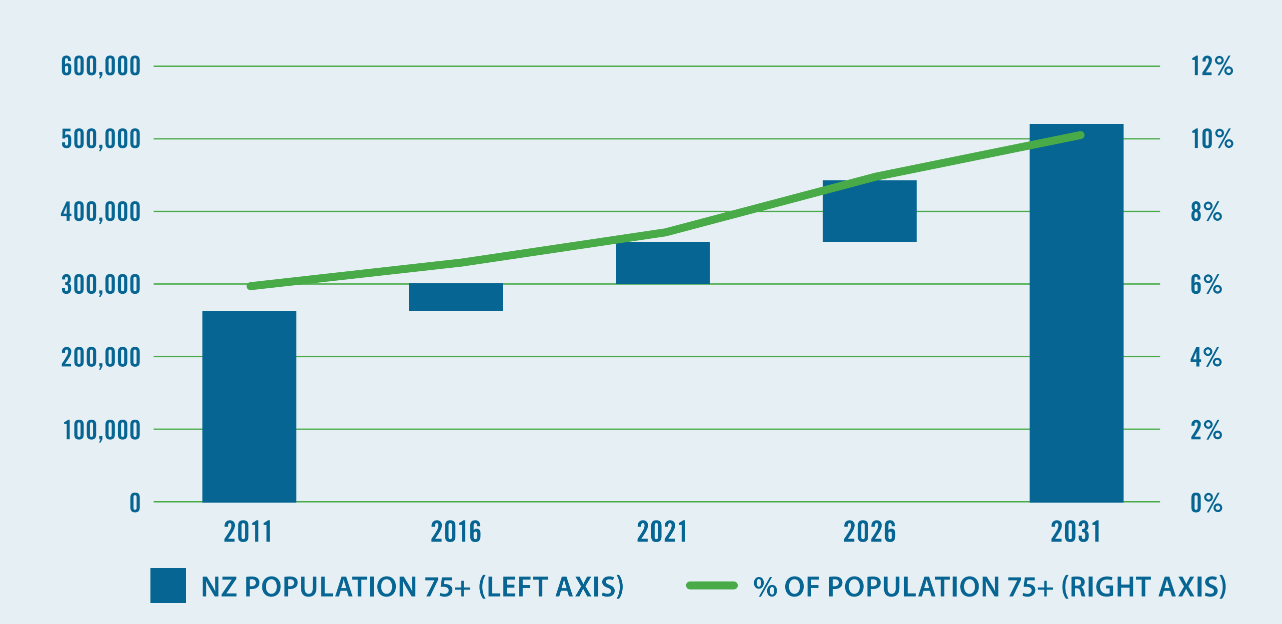
*2011 existing stock includes 12 units acquired as part of the Nelson site acquisition.



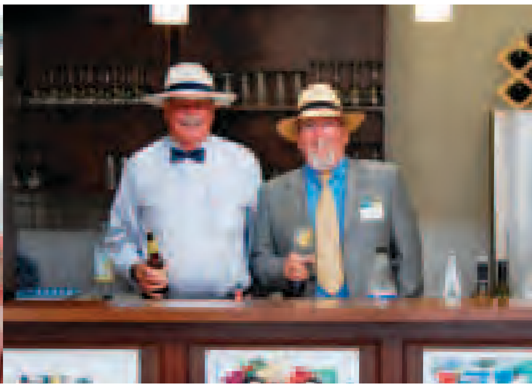
SNAPSHOT

# COMPELLING SECTOR FUNDAMENTALS

## POPULATION AGED OVER 75 YEARS FORECAST TO DOUBLE BY 2031




Source: Statistics New Zealand



## NEW ZEALAND'S OLDER POPULATION IS SET TO DOUBLE OVER THE NEXT 20 YEARS

- New Zealand's population aged 65 years and over is projected to increase from 586,000 in 2011 to 1,072,000 by 2031
- The population aged 75 years and over is projected to increase from 261,000 to 515,000 over the same period
- Summerset residents are typically 75 years and over
- The percentage of New Zealanders 65 years and over living in a retirement village has grown from 3% in 1998 to 5% today
- For those aged 75 years and over, this has grown from 5% to 9%
- If these percentages stay the same New Zealand will need more than 21,000 extra retirement units by 2031
- If these percentages increase by another 2%, the country will need up to 30,000 new retirement units by 2031
- To look after the needs of our aging population, it is estimated New Zealand will need up to 20,000 new care beds by 2026 from current levels

# A YEAR OF SIGNIFICANT GROWTH

"We continue to build on the gains made following our entry onto the NZX." CEO Norah Barlow

## FINANCIAL HIGHLIGHTS

- Underlying profit of $15.2m, up 56% on IPO forecast, 88% on 2011
- Net profit after tax of $14.8m, up 12% on IPO forecast, 243% on 2011
- 167 new sales of occupation rights, up 25% on IPO forecast, 55% on 2011
- 164 resales of occupation rights, up 32% on IPO forecast, 33% on 2011
- Net operating cash flow of $66.3m, up 27% on IPO forecast, 52% on 2011
- Total assets of $702m, up 4% on IPO forecast, 14% on 2011

## BUSINESS HIGHLIGHTS

- Build rate guidance increased to 300 retirement units per annum by 2015 (previously 250 per annum by 2016)
- Two new villages commenced (Katikati, Dunedin)
- Acquired two new sites in Auckland (Ellerslie, Hobsonville)
- Exceeded $100 million gross sales of occupation rights for the first time
- First dividend of 2.5 cents per share declared and paid
- Entered the NZX 50 Index in December 2012

## PEOPLE HIGHLIGHTS

- Home to more than 2,000 New Zealanders
- Named best retirement village operator in Australasia for the third year in a row (2010, 2011, 2012)
- Aim to have all care staff qualified or working towards a National Certificate qualification
- Held first Summerset Applause Awards – celebrating staff excellence across all our villages
- National sponsors of *Summerset New Zealand Young at Heart Chorus*

# BUSINESS HIGHLIGHTS

## 160 RETIREMENT UNITS BUILT, BUILD RATE GUIDANCE INCREASED TO 300 RETIREMENT UNITS PER ANNUM BY 2015

In 2012, 160 retirement units were completed at four of our developing sites – Hastings, Nelson, Dunedin and Warkworth. We now have 1,646 retirement units and 327 care beds.

We purchased two new sites in Auckland: 7.6 hectares of waterfront land in Hobsonville and a prime 3.9 hectare site at Ellerslie. These sites bring our landbank to 1,400 retirement units and more than 400 care beds.

Our 15th village, in Dunedin, was started mid-2012. We welcomed our first residents in January 2013. The speed with which the village was delivered is due to the continued strengthening of our internal development capabilities. This enables us to push retirement unit number delivery and gain greater control over cost, quality and speed.

Development of our 16th village, Summerset by the Sea in Katikati, began at the end of the year. We expect to see the first residents move in midway through 2013.

This strengthening of development processes, along with additional banking facilities from our banking syndicate, have seen us upgrade our long-term build rate to 300 retirement units per annum by the end of the 2015 financial year. Guidance given during IPO was for 250 retirement units per annum by 2016.

An increased development margin of 12% from 6.2% in 2011 was a significant driver of underlying profit.

Artist's impression of Summerset by the Sea, Katikati

- Build rate guidance increased to 300 retirement units per annum by 2015 (previously 250 per annum by 2016)
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- Exceeded $100 million gross sales of occupation rights for the first time
- First dividend of 2.5 cents per share declared and paid
- Entered the NZX 50 Index in December 2012

- 160 retirement units delivered in 2012
- On track to deliver more than 200 retirement units in 2013
- On track to deliver approximately 70 care beds in 2013

# PEOPLE HIGHLIGHTS


## WINNER BEST RETIREMENT VILLAGE OPERATOR THIRD YEAR IN A ROW

Our people – both staff and residents – are what make our business. We mean it when we tell our residents we "love the life you bring to our villages". It's this attitude and Summerset's customer-centric philosophy that has seen us named the best retirement village operator in Australasia three years running. It's also why more than 2,000 New Zealanders call us home.

## INAUGURAL SUMMERSET APPLAUSE AWARDS

This year we introduced internal awards to recognise our staff for the fantastic work they do in our villages. It was a very moving ceremony as many long-standing and inspirational staff collected their awards. We will be holding the Applause Awards annually as recognising our staff, particularly those at the frontline, is important to us at Summerset.

## TRAINING

More than 50% of our care giving staff are now qualified, and we're aiming to make that 100%. A large number gained their qualification through on-the-job training for their initial National Certificate and we're also supporting them to achieve higher levels of qualification. We are delighted to be making such great strides towards our objective of having fully qualified caregiver teams.


- Home to more than 2,000 New Zealanders
- Named best retirement village operator in Australasia third year in a row (2010, 2011, 2012)
- Aim to have all care staff qualified or working towards a National Certificate qualification
- Held first Summerset Applause Awards – celebrating staff excellence across all our villages
- National sponsors of *Summerset New Zealand Young at Heart Chorus*



# FINANCIAL HIGHLIGHTS

Operational performance in 2012 exceeded IPO forecasts in all key areas. We posted an underlying profit of $15.2 million. This was an 88% increase on 2011 and 56% ahead of IPO forecast.

Net profit after tax more than tripled that of 2011, and was a 12% increase on IPO forecast.

Sales of occupation rights increased 43% on 2011, with new sales of occupation rights up 55% and resales of occupation rights up 33%.

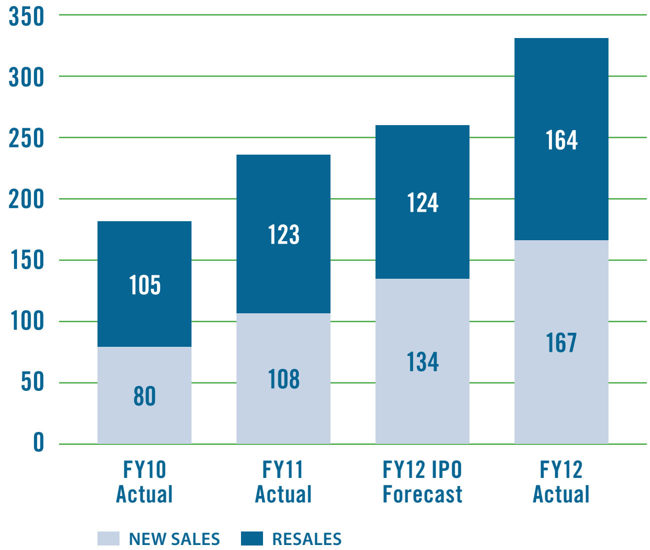
Summerset's net operating cash flow was up 52% on 2011 and up 27% on IPO forecast, at $66.3 million. The strong cash flow performance was due to a higher realised gain on resales, a higher development margin and a strong operational performance.

## UNDERLYING PROFIT

| NZ000s | FY12 Actual |
|---|---|
| Reported profit after tax* | $14,821 |
| Fair value movement of investment property* | ($15,128) |
| Realised gain on resales | $9,073 |
| Realised development margin | $6,864 |
| Deferred tax credit* | ($407) |
| **Underlying profit** | **$15,223** |

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

## SALES OF OCCUPATION RIGHTS




**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.**

## FIRST DIVIDEND DECLARED

- The Summerset Board declared a final dividend for 2012 of 2.5 cents per share, unimputed, which was paid on 20 March 2013
- The total dividend was $5.4 million, a 25% increase on the $4.3 million indicated in the IPO forecast
- Summerset's dividend reinvestment plan applied to the dividend

- Underlying profit of $15.2m, up 56% on IPO forecast, 88% on 2011
- Net profit after tax of $14.8m, up 12% on IPO forecast, 243% on 2011
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- 164 resales of occupation rights, up 32% on IPO forecast, 33% on 2011
- Net operating cash flow of $66.3m, up 27% on IPO forecast, 52% on 2011
- Total assets of $702m, up 4% on IPO forecast, 14% on 2011

## FY12 RESULTS HIGHLIGHTS – FINANCIAL

| NZ000s | FY12 Actual | FY12 IPO Forecast | % Change | FY11 Actual | % Change |
|---|---|---|---|---|---|
| Net operating cash flow | $66,254 | $51,992 | 27.4% | $43,684 | 51.7% |
| Net profit before tax (NZ IFRS) | $14,414 | $12,219 | 18.0% | $4,364 | 230% |
| Net profit after tax (NZ IFRS) | $14,821 | $13,259 | 11.8% | $4,324 | 243% |
| Underlying profit* | $15,223 | $9,749 | 56.1% | $8,080 | 88.4% |
| Total assets | $702,339 | $676,656 | 3.8% | $616,894 | 13.9% |
| NTA (cents per share) | 116.49 | - | - | 109.33 | 6.5% |

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

## FY12 RESULTS HIGHLIGHTS – OPERATIONAL

| | FY12 Actual | FY12 IPO Forecast | % Change | FY11 Actual | % Change |
|---|---|---|---|---|---|
| New sales of occupation rights | 167 | 134 | 24.6% | 108 | 54.6% |
| Resales of occupation rights | 164 | 124 | 32.3% | 123 | 33.3% |
| New units delivered | 160 | 155 | 3.2% | 122 | 31.1% |
| Development margin ($000) | $6,864 | $4,974 | 38.0% | $2,300 | 198% |
| Gross proceeds (new sales) ($000) | $57,739 | $47,313 | 22.0% | $37,259 | 55.0% |
| Realised gains ($000) | $9,073 | $6,283 | 44.4% | $7,535 | 20.4% |

## 2012 CHAIRMAN'S REPORT

# ROB CAMPBELL

CHAIRMAN


It has been more than a year since Summerset was listed on the NZX. Over that period the company has grown and performed in line with the positive outlook presented to the market at the time of listing. The net profit after tax result of $14.8 million for the year ended December 2012 is up 243% on the previous 12-month period. Underlying profit, a widely used measure in this sector, at $15.2 million is almost double the 2011 result and 56% above IPO forecast.

The growth in the business is reflected in the stock now being part of the NZX 50 Index. It is our expectation and intention that the business will continue to grow and when we set targets, they will be achieved.

Across the group, we saw a 55% increase in the sales of new occupation rights and a 33% increase of occupation rights resales on the previous year. Gross sales of occupation rights for the year were more than $100 million. Over time there will inevitably be fluctuations in sales in both categories due to market conditions and build timing, amongst other factors. However, our aim is to make steady earnings and asset value growth a feature of this investment. We aim to build to market demand and sell what is built in a timely manner. The quality of our facilities will continue to attract strong resale demand.

In 2012 an increased development margin of 12% was a significant driver of earnings. Summerset's development capability – enhanced by the ongoing internalisation of development and design – has enabled the company to increase the rate of retirement unit delivery and gain greater control over quality and speed of delivery. The efficiency with which the team delivered Summerset at Bishopscourt in Dunedin, a site that was wholly managed by Summerset, is an example of this.

**"I look forward to a future of growth, innovation and development across Summerset."**

This strengthening of development processes along with additional banking facilities from our banking syndicate has seen us upgrade our projected build rate to 300 retirement units per annum by the end of the 2015 financial year. Guidance given during IPO was for 250 retirement units per annum by 2016. We will not be seeking any additional funds from shareholders to drive this.

Ensuring we have the landbank to maintain this growth has been a primary focus for the past year. We have to ensure we are building on quality sites in areas with a proven need for retirement villages and aged care. While we see opportunities in a range of areas, and will take advantage of the best of these, the company's development will focus on major metropolitan areas, particularly Auckland.

This year we purchased two sites in Auckland – Ellerslie and Hobsonville. Both sites have a high development value.

We continue to work through the resource consent for Hobsonville after our initial plan was rejected by Auckland Council – an all too common occurrence for developers in New Zealand. We have appealed that decision and we look forward to the implementation of the changes currently being considered for the Resource Management Act.

In Auckland we are also working through the resource consent process to begin building at Karaka. This area has been identified in the Auckland Spatial Plan alongside Hobsonville as an area experiencing major urban growth. The village will serve the Counties Manukau region alongside our Manukau site. As well as being a centre for overall population growth, this region is faced with a 150% increase in the over-75 population by 2031: the largest in the country.

We started construction on our 16th village at Katikati in the Bay of Plenty at the end of the year. This village responds to the region's penetration rate – it is estimated 17% of the population over 75 in Tauranga live in a retirement village. There is strong room for growth in the wider region.

Care facilities are becoming increasingly important to customers when choosing a village. Demand for care through the aging population is also set to increase dramatically. This is reflected in the size and the timing of care services built in new locations, and will be an increasing feature of the sector going forward. While the provision of care services and facilities is demanding in terms of staffing and development cost, it is an essential component of our offering as an industry leader.

In accordance with our constitution, at the upcoming annual meeting in April, director James Ogden and I will retire by rotation and seek re-election.

The Board declared a final dividend for 2012 of 2.5 cents per share, which was paid on 20 March 2013. This was 25% above the amount forecast in our prospectus and reflects the strong performance of the company in 2012.

We have established a dividend reinvestment plan to allow us to further our growth path. This gives shareholders the opportunity to reinvest dividends back into the company free of brokerage charges if they wish to. Summerset's major shareholder QPE Funds Management supported the plan.

On behalf of the Board and shareholders, I would like to congratulate the team for another successful year. I look forward to a future of growth, innovation and development across Summerset.

Thank you to our shareholders for your ongoing support.

Rob Campbell
Chairman

# NORAH BARLOW

## MANAGING DIRECTOR AND CEO

Welcome to Summerset's annual report for 2012. I stated last year that Summerset was committed to continuing to produce excellent results for our shareholders and I am pleased we have delivered on that promise.

It has been another big year for our company. We continue to build on the gains made following our entry onto the NZX at the end of 2011. These results are due to the commitment we show to our growth targets.

### GROWTH

The 2012 year was one of significant growth for Summerset. Our total retirement unit numbers increased by 160 across four villages: Nelson, Hastings, Warkworth and Dunedin.

By December the first stage of the Dunedin village, consisting of 31 homes, was ready for occupation. We welcomed our first residents in the first week of January 2013. The final homes and our large main building, including recreation areas, apartments, care apartments and a care facility, are now underway.

We launched our 16th village at Katikati in the Bay of Plenty at the end of 2012. The village is located on a waterfront site with views across to Matakana Island. We expect the first residents to be in their homes by mid-2013.

Katikati has taken us into the highly sought-after Bay of Plenty retirement village market. We are excited to be building in the region, and in an area where we believe there is a real need for retirement living and great quality aged care. Construction of the first homes is moving fast and sales have started well.

**"New sites and developing villages allow us to continue our path of rapid growth."**

We have continued our land acquisitions, purchasing two great sites in Auckland: a 7.6 hectare waterfront site in Hobsonville, now known as Summerset at Monterey Park, and more recently 3.9 hectares in Ellerslie. While it is disappointing that initial resource consent for Hobsonville was refused, we will continue to work towards obtaining consent for this site over the coming months.

Both sites are well located to capture Auckland's rapid growth and we are very much looking forward to developing them into Summerset villages.

Along with Karaka, these sites have both added to our existing Auckland landbank. Summerset now has the capacity to provide more than 700 new retirement units and 240 care beds to the Auckland market, and we will be doing so in the coming years.

Auckland's population is growing faster than any other region in the country, and we want to see our retirement unit growth in Auckland keep pace with that. These land purchases are an opportunity for us to provide solutions for both potential residents and the government who require quality housing, lifestyle options and care for the burgeoning population.

While we have a concentration on growth in Auckland, we recognise that the whole country is faced with an aging population. There are many areas in New Zealand that need quality modern retirement villages. We will continue to invest in these areas alongside Auckland.

Our new sites and developing villages allow us to continue our path of rapid growth. We have announced uplift in our build rate guidance to 300 retirement units per annum by the end of the 2015 financial year. Guidance given during IPO was for 250 retirement units per annum by 2016.

Evolving the systems and processes around development has provided us with the ability to accelerate growth, while maintaining our commitment to doing it right.

Sites are now run more efficiently by Summerset construction managers. As a result the speed at which we can deliver units to the market has increased. At the same time the quality of our design and build process has also improved.

## INCREASING FOCUS ON THE PROVISION OF AGED CARE

Summerset has always provided care in our villages through both care facilities and home support. We are committed to continuing this and in fact growing this part of the business. Care is becoming a more important part of our business as demographics change. Potential residents rank a village's ability to support them or their partner as their needs change highly in the decision-making process. However, the provision of aged care is not easy as funding for health is increasingly under pressure. Those with the scale to provide care and to do it well will succeed.

We will increase the size of our care facilites and will be building these earlier in a village's development. Providing care in the early stages of the development enhances our ability to sell units. This was initiated in our Hamilton and Nelson villages and the positive response has been reflected in increased interest and sales at both sites.

In Hobsonville and Ellerslie we will build care facilities of around 80 beds, bringing the number of care beds in our landbank to more than 400.

Our care beds have been predominantly hospital level for many years now. We responded early to changes in demand signalled by the government. We are working towards providing dementia care in villages where appropriate.

Care beds are not the only way in which a village can provide care. We have been focusing particularly on providing care apartments which are held by the resident through a licence to occupy but certified through the District Health Boards to allow rest home level care to be provided within them. Qualifying residents may receive a care subsidy.

We have continued to increase the provision of care services and packages to residents in the village. This allows our care beds to be used for higher levels of rest home level care, and supports residents to remain as independent as possible for as long as possible.

In increasing the provision of care services throughout Summerset, we have been mindful of ensuring our residents receive the best quality care at all times. We recently established a Clinical Quality Committee charged with ensuring we are adopting worldwide best practice across our care centres. We have also introduced the role of Clinical Educator to the operations team to support clinical excellence and quality across the group.

We have a strong focus on increasing the number of caregivers who receive qualifications through the Careerforce system. We aim to have 100% of our caregivers either qualified or working towards the National Certificate in Health, Disability and Aged Care support.

Our focus on quality care and staffing was exemplified this year at our inaugural Summerset Applause Awards where we celebrated the wonderful work our staff in the villages do every day. We have some incredible people working with our residents and we are extremely proud of all of them.

## AGED CARE FUNDING

As a retirement village developer, we have the scale and capital to build care centres which we operate alongside our villages. This is not true of all providers. Funding constraints make it difficult to build new beds or maintain existing stand alone care facilities. It is clear that for the foreseeable future, the majority of care beds will be provided within retirement villages as we have the infrastructure and capital to build, maintain and operate them.

This year we saw the release of the Caring Counts report by the Human Rights Commission. This focused on the low wages of care giving staff in many private and not-for-profit rest homes and hospitals. We are pleased that Summerset is able to pay its carers above the industry average and we work hard to make this possible. However, I also believe we need a review of the way aged care funding is structured, particularly with the increasing numbers of elderly coming through.

We are committed to ensuring our staff continue to be rewarded for working in our sector. We do this by focusing on increasing our caregivers' skills and levels of pay through training. We highly value and respect the work this group of people do.

## DISASTER PLANNING

During the year we welcomed steps taken by the government to ensure retirement village residents are fully protected in the event of a natural disaster. The announced changes to the industry Code of Practice came as a result of the Canterbury earthquakes. The Code now ensures residents whose homes are unable to be rebuilt following a natural disaster receive the original purchase price of their home in full. This is a strong minimum requirement.

We are pleased that our own policy goes further than the Code. Summerset's disaster policy offers residents the market value of their home at the time of the disaster if unable to be rebuilt. Our policy is the best in the market for residents, giving them the greatest level of security and protection.

## THE FUTURE

Our team is committed to seeing that our long-standing record of growth and expansion continues and indeed, increases. Since Summerset began we have added year on year to our portfolio. With our recently updated guidance to a build rate of 300 retirement units per annum by 2015, plus our increased guidance on care bed numbers, Summerset has a future that is second to none.

The 2011 year was the starting point for Summerset as a public company. That year was also the start of the well known growth in baby boomer numbers reaching retirement age. This demographic wave will continue for a number of years, allowing a great deal of scope for a growth orientated company such as ours.

I would like to thank the more than 2,000 residents at Summerset and all of our staff for making the 2012 year a great one for Summerset. Looking back it makes me incredibly proud to see how we are all growing this company.

Thank you,

Norah Barlow

Norah Barlow

# DIRECTORS' PROFILES


### ROB CAMPBELL
**Chairman, Independent**

Rob has more than 25 years' experience in corporate governance and capital markets. Currently he serves as the Chairman of Guinness Peat Group Plc, KingTide Asset Management and Arco Property.

He holds directorships and board positions with several companies and private equity and hedge funds globally. He also acts as a trustee for the Auckland City Mission Foundation.

### NORAH BARLOW
**Managing Director and CEO**

As Summerset's CEO, Norah has led the company through its transition from a relatively small operator into the listed entity it is today. She started with Summerset as the group accountant in 1999 before taking on the CEO role in 2001.

Norah is also an independent director for Cigna Life Insurance and a member of the government's National Advisory Council for the Employment of Women. She was president of the Retirement Villages Association for six years until retiring in 2012.

## CHRIS HADLEY
### Non-executive Director

Chris is the Managing Director of Quadrant Private Equity. He is one of the longest serving executives in the Australian private equity industry and was one of the founding council members of the Australian Private Equity and Venture Capital Association Ltd (AVCAL).

Chris has led and managed the raising of all six Quadrant funds, the first in 1996, and has been a member of the Investment Committee of all funds.

In addition to Summerset, Chris is a director of Quadrant investee companies Seniors Money International, Burson Auto Parts and Sentia Media.

## MARCUS DARVILLE
### Non-executive Director

Marcus is a Director at Quadrant Private Equity, having joined them in 2006. He has worked in the private equity industry for over 20 years, commencing his career in the UK with NatWest Ventures before joining AMP as joint Head of Private Equity in 1994. At AMP he developed the company's private equity activity over a 12-year period. During this time Marcus worked on more than 15 completed transactions.

Marcus is a member of the Quadrant Investment Committee and a director of current Quadrant investee companies Virtus Health, Ortho Group and Sentia Media.

## JAMES OGDEN
### Independent

James has an extensive background in investment banking, including six years as Country Manager for Macquarie Bank and five years as a Director at Credit Suisse First Boston. James has also worked in the New Zealand dairy industry in chief executive and finance roles.

James holds several other directorships including The Warehouse Group and the Motor Trade Association Group. Former directorships include Summerset during AMPCI's ownership, as well as Powerco, Kiwibank and New Zealand Post. He has been the Managing Director of Ogden Consulting since 2003.

# MANAGEMENT PROFILES

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

### JULIAN COOK
#### Chief Financial Officer

Julian joined Summerset in 2010 from Macquarie Bank where he worked for 11 years in investment banking.

Julian has a sound understanding of the retirement village sector, having advised a number of clients in the industry while at Macquarie. He holds a Masters of Applied Finance as well as a number of other degrees from Victoria and Waikato Universities.

Julian's areas of responsibility at Summerset include finance, funding, legal, IT and strategy.

### 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 of 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, Ngai Tahu Seafoods 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.

### 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 almost 500 staff.

# FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

# 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 2012.

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 2012 and the results of the Group's operations and cash flows for the year ended 31 December 2012.

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 25 February 2013 by:

Rob Campbell
Director and Chairman

Norah Barlow
Managing Director and Chief Executive Officer

# INCOME STATEMENT

**For the year ended 31 December 2012**

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Care fees and village services | | 27,349 | 24,868 | - | - |
| Deferred management fees | | 10,612 | 8,643 | - | - |
| Interest received | | 159 | 192 | - | - |
| Total revenue | | 38,120 | 33,703 | - | - |
| | | | | | |
| Reversal of impairment of land and buildings | 6 | - | 278 | - | - |
| Fair value movement of investment property | 7 | 15,128 | 5,841 | - | - |
| Total income | 22 | 53,248 | 39,822 | - | - |
| | | | | | |
| Operating expenses | 2 | 32,620 | 28,750 | 206 | 62 |
| Depreciation expense | 6 | 1,318 | 1,064 | - | - |
| Total expenses | | 33,938 | 29,814 | 206 | 62 |
| | | | | | |
| Operating profit/(loss) before financing costs | | 19,310 | 10,008 | (206) | (62) |
| | | | | | |
| Net finance costs | 3 | 4,896 | 5,644 | - | - |
| Profit/(loss) before income tax | 22 | 14,414 | 4,364 | (206) | (62) |
| | | | | | |
| Income tax (credit)/expense | 4 | (407) | 40 | - | - |
| Profit/(loss) for the period | 22 | 14,821 | 4,324 | (206) | (62) |
| | | | | | |
| Basic and diluted earnings per share (cents) | 13 | 6.96 | 2.39 | | |
| Net tangible assets per share (cents) | | 116.49 | 109.33 | | |

# STATEMENT OF COMPREHENSIVE INCOME

**For the year ended 31 December 2012**

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Profit/(loss) for the period | | 14,821 | 4,324 | (206) | (62) |
| | | | | | |
| Other comprehensive income | | | | | |
| Fair value movement of interest rate swaps | | 356 | (1,366) | - | - |
| Fair value movement transferred to income statement on de-designation | | 120 | 88 | | |
| Fair value movement of land and buildings | 6 | - | 5,862 | - | - |
| Tax on items of other comprehensive income | 4 | (133) | (1,374) | - | - |
| Other comprehensive income for the period net of tax | | 343 | 3,210 | - | - |
| | | | | | |
| Total comprehensive income/(loss) for the period | 22 | 15,164 | 7,534 | (206) | (62) |

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 2012**

| GROUP | SHARE CAPITAL $000 | HEDGING RESERVE $000 | REVALUATION RESERVE $000 | MAINTENANCE RESERVE $000 | RETAINED EARNINGS $000 | TOTAL EQUITY $000 |
|---|---|---|---|---|---|---|
| At 1 January 2011 | 182,232 | - | 3,374 | 1,217 | (12,370) | 174,453 |
| Profit for the period | - | - | - | - | 4,324 | 4,324 |
| Other comprehensive income for the period | - | (920) | 4,130 | - | - | 3,210 |
| Total comprehensive income for the period | - | (920) | 4,130 | - | 4,324 | 7,534 |
| | | | | | | |
| Transfer(from)/to maintenance reserve | - | - | - | (760) | 760 | - |
| Interest on maintenance reserve | - | - | - | 34 | (34) | - |
| Shares | 53,122 | - | - | - | - | 53,122 |
| Capital raising costs | (1,685) | | | | | (1,685) |
| At 31 December 2011 | 233,669 | (920) | 7,504 | 491 | (7,320) | 233,424 |
| | | | | | | |
| 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 the 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 |

| COMPANY | SHARE CAPITAL $000 | RETAINED EARNINGS $000 | TOTAL EQUITY $000 |
|---|---|---|---|
| At 1 January 2011 | 182,232 | (36,351) | 145,881 |
| Loss for the period | - | (62) | (62) |
| Total comprehensive income for the period | - | (62) | (62) |
| | | | |
| Shares issued | 53,122 | - | 53,122 |
| Capital raising costs | (1,685) | | (1,685) |
| At 31 December 2011 | 233,669 | (36,413) | 197,256 |
| | | | |
| 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 |

*The accompanying notes form part of these financial statements.*

# STATEMENT OF FINANCIAL POSITION

**As at 31 December 2012**

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| **Assets** | | | | | |
| Cash and cash equivalents | 15(a) | 2,785 | 8,987 | - | - |
| Trade and other receivables | 5 | 9,003 | 10,620 | - | - |
| Intercompany loan receivable | 16 | - | - | 67,876 | 67,876 |
| Investments in subsidiaries | 19 | - | - | 126,570 | 126,570 |
| Limited recourse loans | 14,16 | 2,810 | 2,810 | 5,360 | 5,360 |
| Property, plant and equipment | 6 | 42,568 | 36,789 | - | - |
| Intangible assets | | 667 | 548 | - | - |
| Investment property | 7 | 644,506 | 557,140 | - | - |
| Total assets | | 702,339 | 616,894 | 199,806 | 199,806 |
| **Liabilities** | | | | | |
| Trade and other payables | 8 | 12,005 | 9,438 | 2,550 | 2,550 |
| Employee benefits | 9 | 1,554 | 1,616 | - | - |
| Revenue received in advance | | 9,389 | 7,712 | - | - |
| Residents' loans | 10 | 336,133 | 278,408 | - | - |
| Interest-bearing loans and borrowings | 11 | 78,162 | 69,121 | - | - |
| Interest rate swaps | 12 | 954 | 1,553 | - | - |
| Deferred tax liability | 4 | 15,348 | 15,622 | - | - |
| Total liabilities | | 453,545 | 383,470 | 2,550 | 2,550 |
| Net assets | | 248,794 | 233,424 | 197,256 | 197,256 |
| **Equity** | | | | | |
| Share capital | 13 | 233,875 | 233,669 | 233,875 | 233,669 |
| Reserves | 13 | 6,974 | 7,075 | - | - |
| Accumulated profit/(deficit) | | 7,945 | (7,320) | (36,619) | (36,413) |
| Total equity attributable to shareholders | | 248,794 | 233,424 | 197,256 | 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, 25 February 2013

*The accompanying notes form part of these financial statements.*

# STATEMENT OF CASH FLOWS

**For the year ended 31 December 2012**

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2012 | 2011 | 2012 | 2011 |
| | NOTE | $000 | $000 | $000 | $000 |
| **Cash flows from operating activities** | | | | | |
| Receipts from residents for care fees and village services | | 27,391 | 25,093 | - | - |
| Interest received | | 159 | 192 | - | - |
| Payments to suppliers and employees | | (32,541) | (28,716) | - | 20 |
| Receipts for residents' loans | | 101,471 | 70,987 | - | - |
| Repayment of residents' loans | | (30,226) | (23,872) | - | - |
| Net cash flow from operating activities | 15(b),22 | 66,254 | 43,684 | - | 20 |
| **Cash flows from investing activities** | | | | | |
| Advance to subsidiary | | - | - | - | (48,897) |
| Acquisition of investment property | | (67,655) | (49,149) | - | - |
| Acquisition of property, plant and equipment | | (7,362) | (691) | - | - |
| Acquisition of intangibles | | (378) | (317) | - | 82 |
| Capitalised interest paid | | (1,525) | (1,852) | - | - |
| Net cash flow from investing activities | 22 | (76,920) | (52,009) | - | (48,815) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from/(repayment of) borrowings | | 9,041 | (31,092) | - | - |
| Proceeds from issue of shares | | - | 48,795 | - | 48,795 |
| Interest paid on borrowings | | (4,577) | (5,153) | - | - |
| Net cash flow from financing activities | 22 | 4,464 | 12,550 | - | 48,795 |
| Net increase in cash and cash equivalents | 22 | (6,202) | 4,225 | - | - |
| Cash and cash equivalents at beginning of period | | 8,987 | 4,762 | - | - |
| Cash and cash equivalents at end of period | 15(a) | 2,785 | 8,987 | - | - |

*The accompanying notes form part of these financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS

**For the year ended 31 December 2012**

## 1. Summary of accounting policies

### Statement of Compliance

Summerset Group Holdings Limited (the "Company") is a 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 2012 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(k)
- 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 20. 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:

<u>Deferred management fees</u>

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.

<u>Care fees and residents' levies</u>

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.

<u>Recognition and measurement</u>

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.

<u>Capitalisation of borrowing costs</u>
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.

<u>Depreciation</u>
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% – 30%
- Plant and equipment 8% – 80%
- Motor vehicles 20% – 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% – 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:

<u>Cash and cash equivalents</u>
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.

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

<u>Investment in subsidiaries</u>
Investment in subsidiaries is stated at cost less any impairment.

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

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

<u>Trade and other payables</u>
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.

<u>Interest-bearing loans and borrowings</u>
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.

<u>Residents' loans and deferred management fee receivable</u>
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) 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.

### (l) 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.

### (m) 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.

### (n) 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.

### (o) Comparative information

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

### (p) New standards and interpretations not yet adopted

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 2012 are outlined below:

*NZ IFRS 9 - Financial Instruments* (effective from 1 January 2013)
This standard will replace NZ IAS 39 – Financial Instruments: Recognition and Measurement and will specify how an entity should classify and measure financial assets including some hybrid contracts. Whilst there may be some disclosure changes, the impact of this standard is not considered to be significant for the Group.

*NZ IFRS 13 – Fair Value Measurement* (effective from 1 January 2013)
This standard establishes a single source of guidance for determining the fair value of assets and liabilities and expands disclosure requirements for assets and liabilities carried at fair value. It is not expected that there will be any material impact to amounts recognised or disclosed by the Group on adoption of this standard.

## 2. Operating expenses

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Employee expenses | 15,593 | 14,725 | 206 | 62 |
| Property-related expenses | 5,425 | 4,527 | - | - |
| Other operating expenses | 11,602 | 9,498 | - | - |
| Total operating expenses | 32,620 | 28,750 | 206 | 62 |

Other operating expenses include:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Remuneration paid to auditors: | | | | |
| Audit of statutory financial statements | 165 | 168 | - | - |
| Other services (taxation) | 8 | 92 | - | - |
| Directors' fees * | 327 | 171 | - | - |
| Rent and operating lease costs | 426 | 429 | - | - |
| Donations | 5 | 19 | - | - |
| Amortisation of intangibles | 259 | 93 | - | - |

Services of $0.5 million not included above were provided by the auditors for the year to 31 December 2011 in relation to the initial public offering in November 2011. These costs have been recorded in equity for the year ended 31 December 2011.

* As Rob Campbell and James Ogden were appointed to the Board on 2 September 2011, director fees for 2011 do not include a full year of fees for these directors.

## 3. Net finance costs

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Interest on bank loans and related fees | 5,401 | 7,077 | - | - |
| Release of interest rate swap reserve | 826 | 490 | - | - |
| Capitalised finance costs | (1,270) | (2,229) | - | - |
| Fair value movement of derivatives designated as fair value through profit or loss | (243) | 187 | - | - |
| Movement out of other comprehensive income on de-designation | 120 | 88 | - | - |
| Finance charges on finance leases | 62 | 31 | - | - |
| Net finance costs | 4,896 | 5,644 | - | - |

## 4. Income tax

The Group elected to early adopt the amendments of *NZ IAS 12 - Income Taxes – Deferred Tax: Recovery of Underlying Assets*, which is effective from 1 January 2012, and made the amendments retrospectively in the financial statements for the year ended 31 December 2010 in accordance with transitional provisions. These financial statements reflect this early adoption.

### (a) Income tax recognised in income statement

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012<br>$000 | 2011<br>$000 | 2012<br>$000 | 2011<br>$000 |
| Tax expense comprises: | | | | |
| Current tax expense | - | - | - | - |
| Deferred tax relating to the origination and reversal of temporary differences | (407) | 40 | - | - |
| Total tax (credit)/expense reported in income statement | (407) | 40 | - | - |

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

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | $000 | % | $000 | % |
| Profit before tax | 14,414 | | 4,364 | |
| Income tax using the corporate tax rate | 4,036 | 28.0% | 1,222 | 28.0% |
| Other adjustments | (112) | (0.8%) | 422 | 9.7% |
| Capitalised interest | (356) | (2.5%) | (624) | (14.3%) |
| Other non-deductible expenses | 34 | 0.2% | 17 | 0.4% |
| Non-assessable land and building revaluations | - | - | (78) | (1.8%) |
| Non-assessable investment property revaluations | (4,236) | (29.3%) | (1,635) | (37.5%) |
| Current year losses for which no deferred tax asset was recognised | 227 | 1.6% | 716 | 16.4% |
| Total income tax (credit)/expense | (407) | (2.8%) | 40 | 0.9% |

COMPANY

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | $000 | % | $000 | % |
| Loss before tax | (206) | | (62) | |
| Income tax using the corporate tax rate | (58) | 28.0% | (17) | 28.0% |
| Other non-deductible expenses | 58 | (28.0%) | 17 | (28.0%) |
| Total income tax expense | - | - | - | - |

## 4. Income tax (continued)

### (b) Amounts charged or credited to other comprehensive income

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Net gain on revaluation of buildings | - | 1,732 | - | - |
| Fair value movement of interest rate swaps | 133 | (358) | - | - |
| Total tax expense reported in statement of comprehensive income | 133 | 1,374 | - | - |

### (c) Income tax losses

At 31 December 2012, the Group had unrecognised tax losses of $3.4 million (2011: $2.6 million) and the Company had unrecognised tax losses of nil (2011: nil).

### (d) Imputation credit account

There were no imputation credits received or paid during the year and the balance at 31 December 2012 is nil (2011: nil).

### (e) Deferred tax

The deferred tax balance comprises:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Property, plant and equipment | 7,771 | 8,010 | - | - |
| Investment property | 10,832 | 10,514 | - | - |
| Revenue in advance | (2,628) | (2,159) | - | - |
| Interest rate swaps | (267) | (435) | - | - |
| Other items | (360) | (308) | - | - |
| Net deferred tax liability | 15,348 | 15,622 | - | - |

Movement in the deferred tax balance comprises:

| | 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 |

| | BALANCE 1 JAN 2012 $000 | RECOGNISED IN INCOME $000 | RECOGNISED IN OCI* $000 | BALANCE 31 DEC 2012 $000 |
|---|---|---|---|---|
| Property, plant and equipment | 5,951 | 327 | 1,732 | 8,010 |
| Investment property | 10,343 | 171 | - | 10,514 |
| Revenue in advance | (1,817) | (342) | - | (2,159) |
| Interest rate swaps | | (77) | (358) | (435) |
| Other items | (269) | (39) | - | (308) |
| Net deferred tax liability | 14,208 | 40 | 1,374 | 15,622 |

* Other comprehensive income

## 5. Trade and other receivables

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $000 | $000 | $000 | $000 |
| Trade receivables | 1,051 | 799 | - | - |
| Allowance for doubtful debts | (11) | (84) | - | - |
| | 1,040 | 715 | - | - |
| Prepayments | 1,309 | 1,268 | - | - |
| Accrued income | 65 | 398 | - | - |
| Sundry debtors | 6,589 | 8,239 | - | - |
| Total trade and other receivables | 9,003 | 10,620 | - | - |

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

## 6. Property, plant and equipment

GROUP

| | LAND | BUILDINGS | MOTOR VEHICLES | PLANT AND EQUIPMENT | FURNITURE AND FITTINGS | TOTAL |
|---|---|---|---|---|---|---|
| | $000 | $000 | $000 | $000 | $000 | $000 |
| Cost | | | | | | |
| Balance at 1 January 2011 | 4,525 | 25,076 | 1,185 | 2,310 | 2,400 | 35,496 |
| Additions | - | 158 | 236 | 260 | 37 | 691 |
| Reversal of impairment through profit or loss | - | 278 | - | - | - | 278 |
| Revaluations through other comprehensive income | (425) | 5,114 | - | - | - | 4,689 |
| Disposals | - | - | - | - | (39) | (39) |
| Balance at 31 December 2011 | 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 |
| | | | | | | |
| Accumulated depreciation | | | | | | |
| Balance at 1 January 2011 | - | 621 | 776 | 1,626 | 1,412 | 4,435 |
| Depreciation charge for the year | - | 552 | 157 | 217 | 138 | 1,064 |
| Revaluations through other comprehensive income | - | (1,173) | - | - | - | (1,173) |
| Balance at 31 December 2011 | - | - | 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 |
| | | | | | | |
| Carrying amounts | | | | | | |
| As at 31 December 2011 | 4,100 | 30,626 | 488 | 727 | 848 | 36,789 |
| As at 31 December 2012 | 4,100 | 35,905 | 650 | 1,085 | 828 | 42,568 |

**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.

## 6. Property, plant and equipment (continued)

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

| | GROUP | |
|---|---|---|
| | 2012<br>$000 | 2011<br>$000 |
| Cost | 36,675 | 30,696 |
| Accumulated depreciation and impairment losses | (5,318) | (4,618) |
| Net carrying amount | 31,357 | 26,078 |

### 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 2012 the net carrying amount of leased motor vehicles included in motor vehicles above was $0.1 million (2011: $0.2 million).

## 7. Investment property

| | GROUP | |
|---|---|---|
| | 2012<br>$000 | 2011<br>$000 |
| Balance at beginning of period | 557,140 | 495,766 |
| Additions | 72,238 | 56,459 |
| Disposals | - | (926) |
| Fair value movement: | | |
| Realised | 15,937 | 9,835 |
| Unrealised | (809) | (3,994) |
| Total investment property | 644,506 | 557,140 |

The fair value of investment property for the year ended 31 December 2012 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 an 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 knowledgeable, prudently and without compulsion.

Significant assumptions used by the valuer include a discount rate of between 14% and 16.5% (2011: 14% to 16.5%) and a long-term nominal house price inflation rate of between 0% and 3.8% (2011: 0% to 3.5%). 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 capital work in progress at 31 December 2012 and therefore is carried at cost. This equates to $24.5 million of investment property (2011: $17.6 million).

| | GROUP | |
|---|---|---|
| | 2012<br>$000 | 2011<br>$000 |
| Valuation of manager's net interest | 308,373 | 278,732 |
| Liability for residents' loans | 336,133 | 278,408 |
| Total investment property | 644,506 | 557,140 |

### Operating expenses

Direct operating expenses arising from investment property that generated rental income during the period amounted to $10.3 million (2011: $9.6 million). There were 85 units (2011: 113) in investment property that did not generate rental income during the period.

### Security

At 31 December 2012, 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 | |
|---|---|---|---|---|
| | 2012<br>$000 | 2011<br>$000 | 2012<br>$000 | 2011<br>$000 |
| Trade payables | 538 | 523 | - | - |
| Accrued expenses | 10,183 | 6,855 | - | - |
| Liability for puttable shares | - | - | 2,550 | 2,550 |
| Other payables | 1,284 | 2,060 | - | - |
| Total trade and other payables | 12,005 | 9,438 | 2,550 | 2,550 |

## 9. Employee benefits

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012<br>$000 | 2011<br>$000 | 2012<br>$000 | 2011<br>$000 |
| Holiday pay accrual | 1,241 | 1,013 | - | - |
| Other employee benefits | 313 | 603 | - | - |
| Total employee benefits | 1,554 | 1,616 | - | - |

## 10. Residents' loans

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012<br>$000 | 2011<br>$000 | 2012<br>$000 | 2011<br>$000 |
| Balance at beginning of period | 301,533 | 247,068 | - | - |
| Amounts repaid on termination of occupation right agreements | (30,226) | (23,872) | - | - |
| Amounts received on issue of new occupation right agreements | 97,671 | 78,337 | - | - |
| Total gross residents' loans | 368,978 | 301,533 | - | - |
| Deferred management fees receivable | (32,845) | (23,125) | - | - |
| Total residents' loans | 336,133 | 278,408 | - | - |

## 11. Interest-bearing loans and borrowings

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Repayable within 12 months | $000 | $000 | $000 | $000 |
| Finance lease liabilities | 46 | 77 | - | - |
| Total interest-bearing loans | 46 | 77 | - | - |
| | | | | |
| Repayable after 12 months | | | | |
| Secured bank loans | 77,999 | 68,881 | - | - |
| Finance lease liabilities | 117 | 163 | - | - |
| Total interest-bearing loans | 78,116 | 69,044 | - | - |
| | | | | |
| Total loans and borrowings | 78,162 | 69,121 | - | - |

The weighted average interest rate for the year to 31 December 2012 was 4.28% (2011: 4.48%). This excludes the impact of interest rate swaps (see Note 12) and other finance costs.

The secured bank loans have an expiry date of 27 January 2016.

### 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:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | MIN LEASE PAYMENTS $000 | INTEREST $000 | PRINCIPAL $000 | MIN LEASE PAYMENTS $000 | INTEREST $000 | PRINCIPAL $000 |
| Less than 1 year | 47 | 1 | 46 | 97 | 20 | 77 |
| Between 1 and 5 years | 126 | 9 | 117 | 173 | 10 | 163 |
| Total | 173 | 10 | 163 | 270 | 30 | 240 |

## 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 2012, the Group had interest rate swap agreements in place with a total notional principal amount of $85.0 million (2011: $85.0 million). Of the swaps in place, at 31 December 2012 $58.8 million (2011: $63.8 million) are being used to cover approximately 75% (2011: 92%) 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 3.34% and 3.79% (2011: 3.34% and 3.79%).

The fair value of these agreements at 31 December 2012 is a liability of $1.0 million (2011: $1.6 million), of which $0.1 million is estimated to be current. The agreements cover notional amounts for a term of between two and three years.

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

| | GROUP | |
|---|---|---|
| | 2012<br>$000 | 2011<br>$000 |
| Less than 1 year | 35,000 | - |
| Between 1 and 2 years | 50,000 | 35,000 |
| Between 2 and 3 years | - | 50,000 |
| Total | 85,000 | 85,000 |

## 13. Share capital and reserves

At 31 December 2012, the Company had 214,819,360 ordinary shares on issue (2011: 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 and diluted earnings per share have been calculated on the basis of 212,997,932 weighted average ordinary shares (2011: 180,920,279) and net profit as per the income statement.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012<br>$000 | 2011<br>$000 | 2012<br>$000 | 2011<br>$000 |
| Share capital | | | | |
| On issue at beginning of year | 233,669 | 182,232 | 233,669 | 182,232 |
| Shares issued during the year | - | 53,122 | - | 53,122 |
| Employee share plan option cost | 206 | - | 206 | - |
| Capital raising costs | - | (1,685) | - | (1,685) |
| On issue at end of year | 233,875 | 233,669 | 233,875 | 233,669 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Share capital (in thousands of shares) | | | | |
| On issue at beginning of year | 212,998 | 176,484 | 214,819 | 176,484 |
| Shares issued during the year | - | 36,514 | - | 36,514 |
| Shares issued under the employee share plan | - | - | - | 1,821 |
| On issue at end of year | 212,998 | 212,998 | 214,819 | 214,819 |

### 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
There were no dividends declared or paid by the group during the period ended 31 December 2012 (2011: nil).

## 14. Employee share plan

The Group operates an employee share plan ("Share Plan") for selected key management personnel ("Participants") to purchase shares in Summerset Group Holdings Limited. The Share Plan commenced on 1 November 2011 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 Group has provided Participants with interest-free limited recourse loans to fund the acquisition of these shares (see Note 16). The loans have a maximum expiry date of 31 October 2017.

Vesting criteria for the Share Plan is based on meeting specified financial targets for the years ended 31 December 2012 and 31 December 2013, as set out in the Share Plan rules. The Share Plan shares were issued at $1.40, being the offer price of shares on the listing of the Group on 1 November 2011. The related shares 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 2012, the share plan holds 1,821,429 shares (2011: 1,821,429 shares), which represents 0.8% (2011: 0.8%) of the total shares on issue.

| | 2012 NUMBER OF SHARES | 2011 NUMBER OF SHARES |
|---|---|---|
| Balance at beginning of the period | 1,821,429 | - |
| Issued during the year | - | 1,821,429 |
| Balance at end of the period | 1,821,429 | 1,821,429 |

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

## 15. Notes to the cash flow statement

### (a) Reconciliation of cash and cash flow equivalents

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Bank balances | 2,777 | 8,973 | - | - |
| Petty cash | 8 | 14 | - | - |
| Cash and cash equivalents in statement of cash flows | 2,785 | 8,987 | - | - |

### (b) Reconciliation of operating results and operating cash flows

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2012 $000 | 2011 $000 | 2012 $000 | 2011 $000 |
| Net profit/(loss) for the period | 14,821 | 4,324 | (206) | (62) |
| | | | | |
| *Adjustments for:* | | | | |
| Depreciation, impairment and amortisation expense | 1,577 | 1,157 | - | - |
| Reversal of impairment of land and buildings | - | (278) | - | - |
| Fair value movement of investment property | (15,128) | (5,841) | - | - |
| Net finance costs paid | 4,896 | 5,644 | - | - |
| Deferred tax | (407) | 40 | - | - |
| Deferred management fee amortisation | (10,612) | (8,643) | - | - |
| Employee share plan option cost | 206 | 62 | 206 | 62 |
| | (19,468) | (7,859) | 206 | 62 |
| | | | | |
| Movements in working capital | | | | |
| Decrease/(increase) in trade and other receivables | 1,415 | (4,647) | - | 20 |
| (Decrease)/increase in employee benefits | (63) | 166 | - | - |
| Increase in trade and other payables | 54 | 598 | - | - |
| Increase in residents' loans net of non-cash amortisation | 69,495 | 51,102 | - | - |
| | 70,901 | 47,219 | - | 20 |
| | | | | |
| Net cash flows from operating activities | 66,254 | 43,684 | - | 20 |

## 16. Related party transactions

The balance owing from subsidiaries to the company at 31 December 2012 is $67.9 million (2011: $67.9 million).

The Group has loans to employees receivable at 31 December 2012 of $2.8 million (2011: $2.8 milion). The Company has loans to employees and nominees receivable at 31 December 2012 of $5.4 million (2011: $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 | |
|---|---|---|---|---|
| | 2012<br>$000 | 2011<br>$000 | 2012<br>$000 | 2011<br>$000 |
| Short-term employee benefits | 2,208 | 1,536 | - | - |
| Share-based payments | 206 | 62 | 206 | 62 |
| Total | 2,414 | 1,598 | 206 | 62 |

Refer to Note 14 for employee share plan details for 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 financial 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 2012 were approximately 56% of total care fees (2011: 57%). 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 Trustees Limited
- Summerset Management Company Limited
- Summerset Management Group Limited
- Summerset Properties Limited
- Summerset Villages (Aotea) 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 (Manukau) Limited
- Summerset Villages (Napier) Limited
- Summerset Villages (Nelson) 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 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.

### 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. Receivables balances are monitored on an on going 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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | GROSS RECEIVABLE $000 | IMPAIRMENT $000 | GROSS RECEIVABLE $000 | IMPAIRMENT $000 |
| Not past due | 876 | - | 450 | - |
| Past due 31 – 60 days | 87 | - | 111 | - |
| Past due 61 – 90 days | 20 | - | 36 | - |
| Past due more than 90 days | 68 | 11 | 202 | 84 |
| Total | 1,051 | 11 | 799 | 84 |

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

| | 2012 $000 | 2011 $000 |
|---|---|---|
| Gross trade receivables | 1,051 | 799 |
| Collective impairment | (11) | (84) |
| Net trade receivables | 1,040 | 715 |

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 2012 it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit before income tax by approximately $0.3 million (2011: $0.5 million) and would increase equity by $0.7 million (2011: $1.8 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):

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | 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 | 12,005 | - | 9,438 | - |
| Residents' loans | 30,938 | 305,195 | 23,910 | 254,498 |
| Interest-bearing loans and borrowings | 3,057 | 84,360 | 3,038 | 75,421 |
| Interest rate swaps | 600 | 354 | 772 | 781 |
| Non-interest bearing total | 46,600 | 389,909 | 37,158 | 330,700 |

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:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | CARRYING AMOUNT $000 | FAIR VALUE $000 | CARRYING AMOUNT $000 | FAIR VALUE $000 |
| Group | | | | |
| Residents' loans | (336,133) | (226,915) | (278,408) | (202,842) |
| Total | (336,133) | (226,915) | (278,408) | (202,842) |

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% (2011: 14%).

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 7 – Financial Instruments: Disclosures.*

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

### 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 2012 (2011: 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 2012 (2011: nil).

## 21. Commitments and contingencies

### Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

| COMPANY AND GROUP | 2012 $000 | 2011 $000 |
|---|---|---|
| Less than 1 year | 462 | 471 |
| Between 1 and 5 years | 1,850 | 1,850 |
| More than 5 years | 1,040 | 1,503 |
| Total operating lease commitments | 3,352 | 3,824 |

During the year ended 31 December 2012 $0.4 million was recognised in the income statement in respect of operating leases (2011: $0.4 million).

### Guarantees

At 31 December 2012, NZX Limited holds a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2011: $75,000).

### Capital commitments

At 31 December 2012 construction contracts not provided for at balance date is nil (2011: nil).

### Contingent liabilities

There are no known material contingent liabilities at 31 December 2012 (2011: nil).

## 22. Comparison against prospectus forecast

### Summary income statement

For the year ended 31 December 2012

| | ACTUAL 2012 $000 | FORECAST 2012 $000 |
|---|---|---|
| Total income | 53,248 | 49,532 |
| Profit before income tax expense | 14,414 | 12,219 |
| Profit for the period | 14,821 | 13,259 |

- Total income and profit for the period is higher than forecast due to better than expected operational performance across the business and higher than expected occupation right agreement sales.

### Summary statement of comprehensive income

For the year ended 31 December 2012

| | ACTUAL 2012 $000 | FORECAST 2012 $000 |
|---|---|---|
| Total comprehensive income for the period | 15,164 | 13,259 |

- Total comprehensive income for the period is higher than forecast primarily due to better than expected operational performance.

### Summary statement of cash flows

For the year ended 31 December 2012

| | ACTUAL 2012 $000 | FORECAST 2012 $000 |
|---|---|---|
| Net cash flow from operating activities | 66,254 | 51,992 |
| Net cash flow from investing activities | (76,920) | (70,315) |
| Net cash flow from financing activities | 4,464 | 15,549 |
| Net decrease in cash and cash equivalents | (6,202) | (2,774) |

- Net cash flow from operating activities is higher than forecast due to better than forecast cash from the sale and resale of occupation right agreements (331 sale and resales for the year ended 31 December 2012 compared to a forecast of 258).
- Net cash flow from investing activities is lower than forecast due to the timing of payment for construction costs.
- Net cash flow from financing activities was lower than forecast due to higher than expected repayment of loan balances as a result of better than forecast cash received from the sale of occupation right agreements.

## 23. Subsequent events

There have been no events subsequent to 31 December 2012 which materially impact on the results reported (2011: nil).

# INDEPENDENT AUDITOR'S REPORT

Chartered Accountants

ERNST & YOUNG

**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 49, which comprise the statement of financial position of Summerset Group Holdings Limited and the Group as at 31 December 2012, 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 taxation services to the group.

## Opinion

In our opinion, the financial statements on pages 27 to 49:

- 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 2012 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

25 February 2013
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.

Summerset considers its governance practices comply with the Corporate Governance Best Practice Code in Appendix 16 of the NZSX Listing Rules (the Rules) with the exception of 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. In all other areas, best practice is followed.

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.

### 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 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.

### 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.

### 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 two are non-executive and also Independent as defined in the Rules. The non-executive independent Directors are Rob Campbell (Chairman) and James Ogden. Christopher Hadley and Marcus Darville are non-executive Directors but are not independent directors by virtue of being Directors and employees of, and hence associated persons of, substantial security holder QPE Funds Management Pty Limited. Norah Barlow, the Managing Director and Chief Executive Officer is not independent by virtue of her role as an executive 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.

### 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.

### Independent Professional Advice

With the prior approval of the Chairman, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings to assist in fulfilling their duties and responsibilities as Directors.

### Director Education

All Directors are responsible for ensuring they remain current in understanding their duties as Directors.

### Board Performance

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

### Director Remuneration

Directors' fees have previously been set at $400,000 per annum for the non-executive Directors. Current annualised Directors' fees are $315,000, inclusive of $10,000 per annum additional remuneration for the Audit and Risk Committee Chairman.

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

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

### Board Committees

The Board has two standing committees, being the Audit and Risk Committee, and the Nomination and Remuneration Committee. Each committee operates under specific terms of reference 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.

## Audit and Risk Committee

The Audit and Risk Committee is comprised of James Ogden (Chairman), Rob Campbell and Marcus Darville.

The Audit and Risk Committee assists and makes recommendations to the Board on financial reporting and other corporate financial matters. The Committee also provides a forum for effective communication between the Board and external auditors. The Committee has a number of specific responsibilities, including:

- Reviewing the appointment of the external auditor, the annual audit plan, and addressing any recommendations arising out of the audit;
- Reviewing all financial information to be issued to the public, and any dividend proposals; and
- Ensuring that appropriate financial systems and internal controls are in place.

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 which arise in connection with the performance of their role.

## Nomination and Remuneration Committee

The Nomination and Remuneration Committee is comprised of Marcus Darville (Chairman), Rob Campbell and James Ogden.

The Nomination and Remuneration Committee assists 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.

## 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 Nomination 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 Manger 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.

The gender composition of the Directors and Officers of the Company as at 28 February 2013 is set out below. The Officers of the Company have been determined to be the executive management team.

| | TOTAL NUMBER OF PERSONS | GENDER BALANCE |
|---|---|---|
| Directors | 5 | 1 female, 4 male |
| Officers | 6 | 3 female, 3 male |

The Chief Executive Officer is included as both a Director and an Officer above.

## 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 which 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.
- **Market Disclosure and Communications** – The Company has a policy of promoting shareholder confidence through open, timely and accurate market communication. This policy helps ensure that the Company meets its continuous disclosure obligations under the Rules.
- **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.

# STATUTORY INFORMATION

**For the year ended 31 December 2012**

## 1. DIRECTORS' INTERESTS

At 31 December 2012, 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 2012. Where an (A) is included next to the interest, the Director has been appointed to that role during the year ended 31 December 2012.

| DIRECTOR | INTEREST | ENTITY |
|---|---|---|
| **Rob Campbell** | Chairman (R) | Accident Compensation Corporation Investment Committee |
| | Chairman (A) | Arco Property General Partner Limited |
| | Chairman | Guinness Peat Group Plc |
| | Chairman | King Tide Asset Management Limited |
| | Director (R) | Accident Compensation Corporation |
| | Director | Aotearoa Financial Investments Limited |
| | Director | Aquasure Pty Limited |
| | Director | CallPlus Limited |
| | Director | Coats Plc |
| | Director | LTFM Limited |
| | Director | Murray and Company |
| | Director (R) | Ports of Auckland Limited |
| | Director (A) | 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 (A) | Stolen Rum Advisory Board |
| | Member | Trafalgar Copley Multi-Strategy Fund Advisory Board |
| | Member | VGI Partners Advisory Board |
| | Trustee | Auckland City Mission Foundation |
| **Norah Barlow** | Director (A) | Cigna Life Insurance New Zealand Limited |
| | Director | Various subsidiaries of Summerset Group Holdings Limited |
| | Member (A) | National Advisory Council on the Employment of Women |
| **Christopher Hadley** | Director (A) | APN Outdoor Group Pty Limited |
| | Director | Barrijag Investments Pty Limited |
| | Director | Barrijag Pty Limited |
| | Director (A) | BBQSAM Finance Pty Limited |
| | Director (A) | BBQSAM Holdings Pty Limited |
| | Director (A) | BBQSAM Pty Limited |
| | Director | BLE Capital Investments Pty Ltd |
| | Director | BLE Capital Ltd |
| | Director | BLE Development Pty Ltd |
| | Director | BLE Holdings Pty Limited |
| | Director | Burson Group Holdings Pty Limited |
| | Director | Burson Finance Pty Limited |

| | | |
|---|---|---|
| | Director (A) | CQMS Finance Pty Limited |
| | Director (A) | CQMS Group Holdings Pty Limited |
| | Director (A) | CQMS Group Holdings 1 Pty Limited |
| | Director (A) | Seniors Money International Limited |
| | Director (A) | Sentia Media Finance Pty Limited |
| | Director (A) | Sentia Media Holdings Pty Limited |
| | Director | QPE Co-Investment Pty Limited |
| | Director | QPE Funds Management Pty Limited |
| | Director | QPE No. 3 Holdings Pty Limited |
| | Director | QPE No. 3 Management Pty Limited |
| | Director | QPE No. 3GP Pty Limited |
| | Director | QPE No. 3LP Pty Limited |
| | Director | Quadrant Private Equity Investment Pty Limited |
| | Director | Quadrant Private Equity Management No.2 Pty Limited |
| | Director | Quadrant Private Equity Management Pty Limited |
| | Director | Quadrant Private Equity No. 3A Pty Limited |
| | Director | Quadrant Private Equity No. 3B Pty Limited |
| | Director | Quadrant Private Equity No. 3C Pty Limited |
| | Director | Quadrant Private Equity No. 3D Pty Limited |
| | Director | Quadrant Private Equity Limited |
| | Director | Quadrant Private Equity Services Pty Limited |
| | Director | Quadrant Private Equity Services No.2 Pty Limited |
| | Director (R) | Westpac Private Equity Pty Limited |
| **Marcus Darville** | Director (A) | BBQSAM Finance Pty Limited |
| | Director (A) | BBQSAM Holdings Pty Limited |
| | Director (A) | BBQSAM Pty Limited |
| | Director | Darville Investments Pty Limited |
| | Director | Darville Pty Limited |
| | Director | IVF Finance Pty Limited |
| | Director | Sentia Media Finance Pty Limited |
| | Director | Sentia Media Holdings Pty Limited |
| | Director (R) | Ortho Group Pty Limited |
| | Director (R) | Ortho Group 1 Pty Limited |
| | Director (R) | Ortho Group 2 Pty Limited |
| | Director (R) | Ortho Group (Hospitals) Pty Limited |
| | Director (R) | Ortho Group (NSW) Pty Limited |
| | Director | QPE No. 3 Holdings Pty Limited |
| | Director | QPE No. 3 Management Pty Limited |
| | Director | QPE No. 3GP Pty Limited |
| | Director | QPE No. 3LP Pty Limited |
| | Director | Quadrant Private Equity No. 3A Pty Limited |
| | Director | Quadrant Private Equity No. 3B Pty Limited |
| | Director | Quadrant Private Equity No. 3C Pty Limited |
| | Director | Quadrant Private Equity No. 3D Pty Limited |
| | Director (R) | Surgical Supplies Pty Limited |
| | Director | Virtus Health Pty Limited |

### DIRECTORS' INTERESTS (CONTINUED)

| | | |
|---|---|---|
| **James Ogden** | Chairman (A) | Arria NLG Limited |
| | Chairman | 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 | Ministry of Foreign Affairs and Trade Audit Committee |
| | Member (A) | New Zealand Markets Disciplinary Tribunal |
| | Member (R) | Nominating Committee for Guardians of New Zealand Superannuation |
| | Member | Pencarrow IV Investment Fund Investment Committee |
| | Member (R) | Victoria University Wellington Council |

## 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 2012 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 2012, 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 2012 that relate to the year ended 31 December 2012.

| DIRECTOR | DIRECTORS' FEES | SALARIES, BONUSES AND EMPLOYEE SHARE PLAN | RESPONSIBILITY |
|---|---|---|---|
| Rob Campbell | $150,000 | - | Chairman |
| James Ogden | $85,000 | - | Director |
| Norah Barlow | - | $708,179 | Chief Executive Officer |
| Christopher Hadley | $40,000 | - | Director |
| Marcus Darville | $40,000 | - | Director |

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

## 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 Alternate Directors for all of the Company's subsidiaries, with the exception of Summerset LTI Trustee Limited (Directors Rob Campbell and Marcus Darville) and Summerset Management Company Limited (Directors Norah Barlow, Christopher Hadley and Marcus Darville). 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 2012 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 2012. 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 2012 that relate to the year ended 31 December 2012.

| REMUNERATION | NO. OF EMPLOYEES | REMUNERATION | NO. OF EMPLOYEES |
|---|---|---|---|
| $100,000 to $109,999 | 5 | $160,000 to $169,999 | 3 |
| $110,000 to $119,999 | 1 | $330,000 to $339,999 | 1 |
| $120,000 to $129,999 | 3 | $340,000 to $349,999 | 1 |
| $130,000 to $139,999 | 2 | $390,000 to $399,999 | 1 |
| $140,000 to $149,999 | 2 | $480,000 to $489,999 | 1 |

## 7. DIRECTORS' SHAREHOLDINGS

Securities in the Company in which each Director has a relevant interest as at 31 December 2012 are specified in the table below.

| DIRECTOR | |
|---|---|
| Rob Campbell | 35,000 |
| James Ogden | 265,000 |
| Norah Barlow (1) | 1,874,270 |
| Christopher Hadley | - |
| Marcus Darville | - |

(1) 642,857 of these shares are held by nominee company Summerset LTI Trustee Limited in relation to the Summerset Group Holdings Limited Long Term Incentive Employee Share Plan (the 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. One half of these shares are subject to certain financial and operational targets being met in the financial year ended 31 December 2013, upon which the shares will vest. 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 |
|---|---|---|---|
| James Ogden | 1 March 2012 | 15,000 | On-market purchase of shares at average price of $1.45 per share |

## 9. TOP 20 SHAREHOLDERS AS AT 28 FEBRUARY 2013

| RANK | REGISTERED SHAREHOLDER | SHARES HELD | % |
|---|---|---|---|
| 1 | Perpetual Trustee Company Limited (Quadrant Private Equity No 2A a/c) | 43,116,862 | 20.07% |
| 2 | Perpetual Trustee Company Limited (Quadrant Private Equity No 2B a/c) | 43,116,862 | 20.07% |
| 3 | QPE Co-Investment Pty Limited (Macquarie Summerset Co-Investment a/c) | 16,728,062 | 7.79% |
| 4 | QPE Co-Investment Pty Limited (Quay Summerset Co-Investment a/c) | 11,292,446 | 5.26% |
| 5 | Tea Custodians Limited | 10,856,262 | 5.05% |
| 6 | FNZ Custodians Limited | 7,195,299 | 3.35% |
| 7 | Custodial Services Limited (3 a/c) | 6,563,091 | 3.06% |
| 8 | QPE Co-Investment Pty Limited (WPMA2 Summerset Co-Investment a/c) | 5,571,763 | 2.59% |
| 9 | Cogent Nominees Limited | 4,977,113 | 2.32% |
| 10 | Accident Compensation Corporation | 3,541,140 | 1.65% |
| 11 | Forsyth Barr Custodians Limited (1-33 a/c) | 2,845,840 | 1.32% |
| 12 | Custodial Services Limited (2 a/c) | 1,941,440 | 0.90% |
| 13 | Custodial Services Limited (4 a/c) | 1,865,888 | 0.87% |
| 14 | Summerset LTI Trustee Limited | 1,821,429 | 0.85% |
| 15 | Paul Morris and Clive Morris | 1,690,239 | 0.79% |
| 16 | National Nominees New Zealand Limited | 1,610,944 | 0.75% |
| 17 | Custodial Services Limited (18 a/c) | 1,598,942 | 0.74% |
| 18 | JPMorgan Chase Bank (Cham24 a/c) | 1,404,623 | 0.65% |
| 19 | Norah Barlow and Robert Barlow | 1,231,413 | 0.57% |
| 20 | New Zealand Permanent Trustees Limited (NZPT43 a/c) | 1,214,270 | 0.57% |
| | Total | 170,183,928 | 79.22% |

## 10. SPREAD OF SHAREHOLDERS AS AT 28 FEBRUARY 2013

| SIZE OF SHAREHOLDING | SHAREHOLDERS | | SHARES | |
|---|---|---|---|---|
| | Number | % | Number | % |
| 1 to 1,000 | 319 | 9.31% | 234,505 | 0.11% |
| 1,001 to 5,000 | 1,580 | 46.12% | 5,151,337 | 2.40% |
| 5,001 to 10,000 | 830 | 24.23% | 6,612,079 | 3.08% |
| 10,001 to 50,000 | 598 | 17.45% | 12,211,364 | 5.68% |
| 50,001 to 100,000 | 45 | 1.31% | 3,346,427 | 1.56% |
| 100,001 and over | 54 | 1.58% | 187,263,648 | 87.17% |
| | 3,426 | 100.00% | 214,819,360 | 100.00% |

## 11. SUBSTANTIAL SECURITY HOLDER NOTICES RECEIVED AS AT 28 FEBRUARY 2013

The following information is given pursuant to section 35F of the Securities Market Act 1988. According to the file kept by the Company under section 35C of the Securities Market Act 1988 the following were substantial holders in the Company as at 28 February 2013. The total number of voting securities on issue at 31 December 2012 was 214,819,360 ordinary shares.

| SHAREHOLDER | RELEVANT INTEREST | % | DATE OF NOTICE |
|---|---|---|---|
| QPE Funds Management Pty Limited | 119,825,995 | 55.78 | 1 November 2011 |

## 12. WAIVERS FROM THE NZSX LISTING RULES

The NZX Class Waiver from NZSX Listing Rule 7.11.1, dated 8 November 2011, was used on issue of dividend reinvestment plan shares for the Group's 2012 final dividend, issued on 20 March 2013.
There have been no other waivers from the application of NZSX Listing Rules for the year ended 31 December 2012.

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)
15 Aotea Drive, Aotea, Porirua 5024
Phone: (04) 235 0011

### SUMMERSET AT BISHOPSCOURT (DUNEDIN)
36 Shetland Street, Dunedin 9010
Phone: (03) 950 3110

### SUMMERSET DOWN THE LANE (HAMILTON)
206 Dixon Road, RD 2, Hamilton 3282
Phone: (07) 843 2578

### SUMMERSET IN THE ORCHARD (HASTINGS)
1228 Ada Street, Parkvale, Hastings 4122
Phone: (06) 974 1311

### SUMMERSET IN THE VINES (HAVELOCK NORTH)
249 Te Mata Road, Havelock North 4130
Phone: (06) 877 1185

### SUMMERSET BY THE SEA (KATIKATI)
181 Park Road, Katikati 3129
Phone: (07) 959 2055

### SUMMERSET BY THE RANGES (LEVIN)
102 Liverpool Street, Levin 5510
Phone: (06) 367 0337

### SUMMERSET BY THE PARK (MANUKAU)
7 Flat Bush School Road, Flat Bush, Manukau 2016
Phone: (09) 272 3950

### SUMMERSET IN THE BAY (NAPIER)
79 Merlot Drive, Greenmeadows, Napier 4112
Phone: (06) 845 2840

### SUMMERSET IN THE SUN (NELSON)
16 Sargeson Street, Stoke, Nelson 7011
Phone: (03) 538 0000

### SUMMERSET ON SUMMERHILL (PALMERSTON NORTH)
180 Ruapehu Drive, Fitzherbert, Palmerston North 4410
Phone: (06) 354 4964

### SUMMERSET ON THE COAST (PARAPARAUMU)
104 Realm Drive, Paraparaumu Beach 5032
Phone: (04) 298 3540

### SUMMERSET BY THE LAKE (TAUPO)
2 Wharewaka Road, Wharewaka, Taupo 3330
Phone: (07) 376 9470

### SUMMERSET AT THE COURSE (TRENTHAM)
20 Racecourse Road, Trentham, Upper Hutt 5018
Phone: (04) 527 2980

### SUMMERSET IN THE RIVER CITY (WANGANUI)
40 Burton Avenue, Wanganui East, Wanganui 4500
Phone: (06) 343 3133

### SUMMERSET FALLS (WARKWORTH)
31 Mansel Drive, Warkworth 0910
Phone: (09) 425 1201

## WELLINGTON OFFICE / REGISTERED OFFICE

Level 12, State Insurance Tower,
1 Willis Street, Wellington 6011

PO Box 5187, Lambton Quay,
Wellington 6145

Phone: (04) 894 7320
Email: reception@summerset.co.nz
Website: www.summerset.co.nz

## AUDITOR

Ernst & Young

## BANKERS

ANZ Bank New Zealand Limited
Bank of New Zealand Limited

## STATUTORY SUPERVISOR

Public Trust

## SHARE REGISTRAR

Link Market Services,
PO Box 91976, Auckland 1142

Phone: (09) 375 5998 Fax: (09) 375 5990
Email: enquiries@linkmarketservices.co.nz

## DIRECTORS

Rob Campbell
Norah Barlow
Marcus Darville
Chris Hadley
James Ogden

## CFO AND COMPANY SECRETARY

Julian Cook

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.