# Annual Report

2020

Summerset

Artist's impression of Cranbourne North, Melbourne

# Summerset is one of New Zealand's leading and fastest growing retirement village operators.

Our business spans development, design and construction, through to running retirement villages and care centres.

We aim to develop our villages on both sides of the Tasman responsibly and help create a more sustainable future for all.

## OUR RESIDENTS

Bringing the best of life to our residents every day — resulting in high levels of resident satisfaction



## OUR ENVIRONMENT

Everyday we focus on:

**Minimising waste**

**Increasing energy efficiency**

**Being more sustainable**

OUR PEOPLE

People are the heart of Summerset. Our values are:

**Strong enough to care**

**One team**

**Strive to be the best**

## Contents


Summerset Heritage Park, Ellerslie



## ABOUT THIS REPORT

This Annual Report of Summerset Group Holdings Limited (Summerset) is prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), the NZX Listing Rules and Corporate Governance Code, the Companies Act 1993 and aligned with the International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework.

This Annual Report covers all business operations for the year ended 31 December 2020. We have started to align our reporting to the International Integrated Reporting Framework to improve the way we communicate and improve transparency, we will continue to build on this approach over the coming years.

'Bringing the best of life' to our residents is at the core of what we do. The strategic pillars that underpin this are **Growth**, **Our People** and **Our Customers**.

Themes of wellness, innovation, and sustainability run through our work. This includes the wellbeing of our people, being innovative in our approach to ideas and technology, and being more sustainable.

# Our strategy

## Bringing the best of life

### Growth
We look for expansion opportunities and returns for our shareholders

### Our people
We want to create a great place to work, where our people can thrive

### Our customers
We continually improve and enhance our offering to residents

**Wellbeing** **Innovation** **Sustainability**

Our strategic goals are underpinned by our desire to bring increased **wellbeing** to our customers and staff, by harnessing the power of **innovation** and weaving **sustainability** into our work

# Chair and CEO's report

**Rob Campbell**
Chair



**Julian Cook**
Chief Executive Officer

Welcome to Summerset's annual report for the 12 months ended 31 December 2020. This report covers an unprecedented year in which the COVID-19 pandemic had a major impact on our business, as it did throughout the world. Our priority has been keeping our residents and staff safe, and we currently maintain our record of no COVID-19 cases at Summerset.

This year we take our first step toward integrated reporting. This provides a fuller picture of Summerset's entire business, with financial and sustainability elements in one report.

## Business performance

Reported underlying profit for the full year is $98.3 million, a decrease of 7% on 2019. Our IFRS net profit after tax is $230.8 million, up 32% on 2019. Overall, the value of investment property is $3.6 billion, up 17% on 2019.

The financial performance of the business for 2020 has been pleasing. This is despite the impact of the COVID-19 lockdown. During this period prospects were unable to visit our villages or sell their properties and we have spent an additional $9.2 million to date on COVID-19 related costs including preventative measures to keep residents and staff safe.

## Our COVID-19 response

2020 was dominated by COVID-19 but we are pleased and grateful not to have had any cases among staff or residents to date. We activated our pandemic plan in early March, and moved quickly to protect our residents and support them through the subsequent lockdowns.

A range of protections were put in place to keep our residents and staff safe. The measures we took included mandatory temperature checks and face masks for staff, security on village gates to screen visitors, a negative COVID-19 test prior to admission for new care residents, and additional cleaning protocols. At the outset of the crisis we also took on extra staff in our care centres and villages to provide additional care for residents.

We stepped up physically distanced activities in the villages to provide connection and comfort for residents, operated a grocery delivery service for residents, and set up an online wellness centre to keep residents entertained. We also provided iPads so residents could video-call families and friends during the higher alert levels. The response from both residents and their families on our handling of the pandemic has been overwhelmingly positive. We would like to thank our dedicated staff for their professionalism, resilience and hard work throughout the lockdown periods.

# $98.3m

Underlying profit

In April 2020, we received $8.6 million from the Government's initial wage subsidy scheme. This was a period of great uncertainty for the business.

At that time, sales of occupation rights — a major source of revenue — had ceased. We also introduced several cost-saving measures, including moving more than 230 corporate staff to a four-day week. The Executive Team and Board of Directors also took a 20% pay cut for the same 10-week period. We repaid the wage subsidy in full in December 2020 as trading for the business has been strong over the second half of 2020.

August's lockdown in Auckland was a reminder that COVID-19 will continue to impact our residents and staff for the foreseeable future.

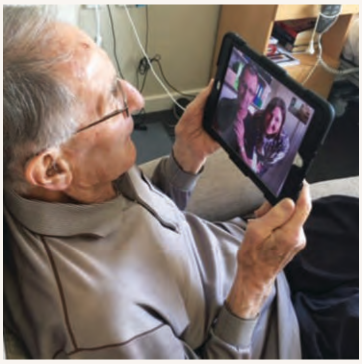
**Villages and care**

Village life has been affected by the COVID-19 pandemic and we look forward to the rollout of the COVID-19 immunisation programme, due this year.

We have been pleased to see heightened enquiries and sales from the third quarter of 2020 onwards. Performance in our care business continued to track well, with occupancy for the year at 96% in our developed villages, versus 90% for the aged care sector overall.

Protections were put in place to keep our residents and staff safe during lockdowns

## 2020 in review



### Adapting to COVID-19

Summerset worked hard to ensure that its residents and staff were kept safe throughout 2020. We are pleased that we have had no cases of COVID-19 in our villages to date.

### Expanding into Australia

Our first village in the Melbourne suburb of Cranbourne North is expected to receive development approval shortly. Summerset also holds eight hectares in Torquay on the Bellarine Peninsula in Victoria.

### Chair Rob Campbell retires

Rob Campbell announced his retirement from the Board in December 2020, ending a decade as Chair. Mr Campbell oversaw Summerset's listing on the NZX in 2011, and under his leadership Summerset has grown to become one of the NZX's top 20 companies.

The Board thanks Mr Campbell for his outstanding leadership which covered a wide range of initiatives and achievements, including the introduction of memory care centres for people living with dementia, an improved staff offering, becoming New Zealand's first carbonzero™ retirement operator, and more recently, Summerset's expansion across the Tasman.

His depth of experience and genuine passion for the people at Summerset will be missed.

The Board commenced the search for a new Board member in December 2020 and once this search is complete, will appoint a director as the new Chair.

## Growth and development

Despite the closure of our construction sites during the first COVID-19 lockdown, we completed next-generation main buildings at our Casebrook and Rototuna villages in 2020.

These new buildings reflect the evolution of our village centre designs. They include our new state-of-the-art memory care centre for people living with dementia, as well as serviced apartments and a care centre.

Earthworks have progressed well at our St Johns site in Auckland and construction work will start there in 2021. Building also starts in 2021 at our Lower Hutt site, where final resource consent was granted in November. We also lodged resource consent for our villages in Prebbleton and Rangiora. Our land bank continues to expand, with the acquisition of our ninth property in Auckland in October 2020.

Our latest land acquisition in Auckland is in Half Moon Bay. It will be our first retirement village in East Auckland.

> We completed next-generation main buildings at our Casebrook and Rototuna villages

## Our people

We were pleased to see our staff engagement results increase in 2020, which at the time of survey completion were at or above the Australia/New Zealand and global benchmarks of companies using the same engagement tool.

We started 2020 with a plan to prioritise pay and training for our teams. In January we increased the pay for care staff to equal the top pay rates in the sector and increased weekend allowances for care staff in April.

We introduced an online learning system and new training programmes in 2020, enhancing our onboarding and professional development programmes.

We also invested in our clinical leaders through the implementation of a leadership development programme.

Summerset was accredited with tertiary status in the Accident Compensation Corporation (ACC)'s Accredited Employers Programme for the third year running. During 2020, we launched three-year strategies for health and safety, learning and development, and diversity and inclusion. These strategies cover all parts of the business, with tailored plans created to meet the varying requirements of individual business groups.

## Sustainability

We have continued to make positive progress on our carbon reduction targets this year. Notably, we have set a new science-aligned carbon reduction target that commits us to a 62% reduction in carbon emissions per square metre of building area by 2032 (from 2017 levels).

The Board has oversight of climate-related risks and opportunities through our current reporting framework. The forthcoming Task Force for Climate-related Financial Disclosures (TCFD) requirements will add further disclosure in this area and Summerset is well placed to meet these.

## Looking ahead

Despite COVID-19, we have gained good ground since the end of New Zealand's nationwide lockdown in May 2020. Our third and fourth quarter sales were at record highs and our business continues to perform well.

We are optimistic about growth in 2021 and beyond. Our expansion into Australia will take a major step forward with the launch of our first retirement village in Victoria in late 2021/early 2022, and we anticipate an increased build rate across our New Zealand sites. We will make further progress toward sustainability across Summerset, particularly in design and construction.

We hold the largest land bank of units in New Zealand's retirement village sector, providing a strong outlook for our construction and sales teams. This provides us with a good spread of sites across the country, allowing us to change tempo depending on market conditions.

Thank you to everyone who has worked so hard throughout 2020. A special thank you to our Summerset staff, as well as their families and support networks, for helping to keep all our residents safe this year.

**Rob Campbell**
Chair

**Julian Cook**
Chief Executive Officer

# Delivering value

# A decade at the top

**Farewell from Julian Cook**

It has been a privilege for me to lead this company and to be part of an organisation and industry that has changed so many people's lives for the better.

I am retiring as Chief Executive on 29 March after 10 years at Summerset, seven of them as Chief Executive. Summerset has grown both in terms of size and maturity over the last decade, and now is the right time to hand it over for the next phase of growth in New Zealand and Australia.

I am enormously proud of what we deliver to residents, staff and our communities. Summerset started out over 23 years ago as a small family business founded by John and Rose O'Sullivan. Their goal was to create a retirement village that was good enough for their nana. This philosophy guides us still and we always ask ourselves, 'Is it good enough for Mum?'

In 2014, my first year as Chief Executive, we had 20 villages, 3,000 residents and 700 staff.

We now have 32 retirement villages and another 10 in the pipeline. We will open our first retirement village in Australia in late 2021/early 2022, and have another piece of land in Victoria for a second village. We are now the second largest retirement village operator in New Zealand, with over 6,200 residents and more than 1,800 staff.

We have grown sustainably over the years, and despite 2020's COVID-19 pandemic and lockdown, we are in a strong position to continue into the future.



## I am enormously proud of what we deliver to residents, staff and our communities

Looking back, there are many highlights, three in particular will stay with me. The first of these is the 2011 stock exchange listing. This gave us the capital to accelerate our growth.

The introduction of comprehensive staff benefits, including health insurance and the all staff share scheme, was another step toward rewarding our staff for their hard work and loyalty. More recently, starting up Summerset's Australian arm has given us the chance to use all we have learnt in New Zealand to build a brand-new offering for Australian retirees.

In 2011, I knew Summerset had great potential for growth, but most importantly, I saw that there was scope to improve our offering to residents and staff.

My regular visits to our villages assure me we are bringing the best of life to our residents. I see a lot of joy and companionship in our villages, with people taking up new hobbies, sharing old ones with new friends, and creating a unique and vibrant community.

Over time, we have gradually refined and enhanced the homes, facilities and activities we offer our residents. New Zealand has a growing population of older people, and it makes me proud to see the lifestyle and comfort we provide those who choose to live in our villages.

I leave the company knowing we have fulfilled the potential I saw 10 years ago. I have loved my time at Summerset, and I will greatly miss all its people.

**Julian**

## Introducing Scott Scoullar

I have had the pleasure of being Summerset's Chief Financial Officer for almost seven years now and the Deputy Chief Executive for three years. During this time, I have worked alongside Julian and our Board developing and implementing Summerset's strategy.

**It's a great honour as well as a great opportunity to lead one of New Zealand's largest retirement providers into its next phase of development.**

The possibilities as we embark on our growth strategy into Australia are exciting, and many of our new sites in New Zealand are truly ground-breaking.

At Summerset we are fortunate to play such an important part in people's lives.

Our residents look to us to provide a home and living environment that is fulfilling, and they trust us every day to look after them. The way I think about it, every resident living in our villages could be our mum, dad, nana or poppa – and therefore we will continue to make their lives as special as we can.

I'm looking forward to starting as Chief Executive and meeting as many residents and staff as possible. I'd like to thank Julian for everything he has achieved over the last 10 years.

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

**Scott**

# Who we are and what we deliver

## Our people

**6,200+**
Residents

**1,800+**
Staff members

**95%**
Village resident satisfaction

## Our care

**97%**
Care resident satisfaction

**972**
57 care units[1] and 915 care beds in portfolio

**1,042**
863 care units[1] and 179 care beds in land bank

## Our performace

**$230.8m**
Net profit after tax
**FY19** $175.3m

**$98.3m**
Underlying profit
**FY19** $106.2m

**$266.8m**
Operating cash flow
**FY19** $237.9m

1 *Care units include care suites and memory care apartments*

## Our portfolio

**4,442**
Units
in portfolio

**5,992**
Land bank
of units

**785**
Sales of
occupation rights

**$3.9b**
Total assets
**FY19** $3.3b

**32**
Villages completed or
under development

**10**
Greenfield sites




Summerset Rototuna, Hamilton

# 2020 highlights

**January**

Earthworks start at St Johns site in Auckland


**February**

$20,000 raised by staff and residents for Australian bush fire victims

**March**

Our next-generation main building at Casebrook, Christchurch, opened

Start of COVID-19 lockdown

**April**

Dementia friendly accreditation awarded

**May**

Construction sites fully back up and running after COVID-19 lockdown

**June**

New Plymouth's Bell Block village launched

**November**

Lower Hutt resource consent received

Resource consent notified for proposed retirement village in Parnell

**September**

First residents moved into our new Papamoa Beach (Tauranga) and Te Awa (Napier) villages

$150 million bond issue offered



**July**

Connect speaker series restarts with our first virtual event hosted by Peta Mathias

**August**

University of Otago student Riria Mohi-Dewhirst became the first recipient of Summerset's new Waitaha Te Houhou health scholarship

**October**

Summerset enters NZ Aged Care Association Awards, winning staff training award

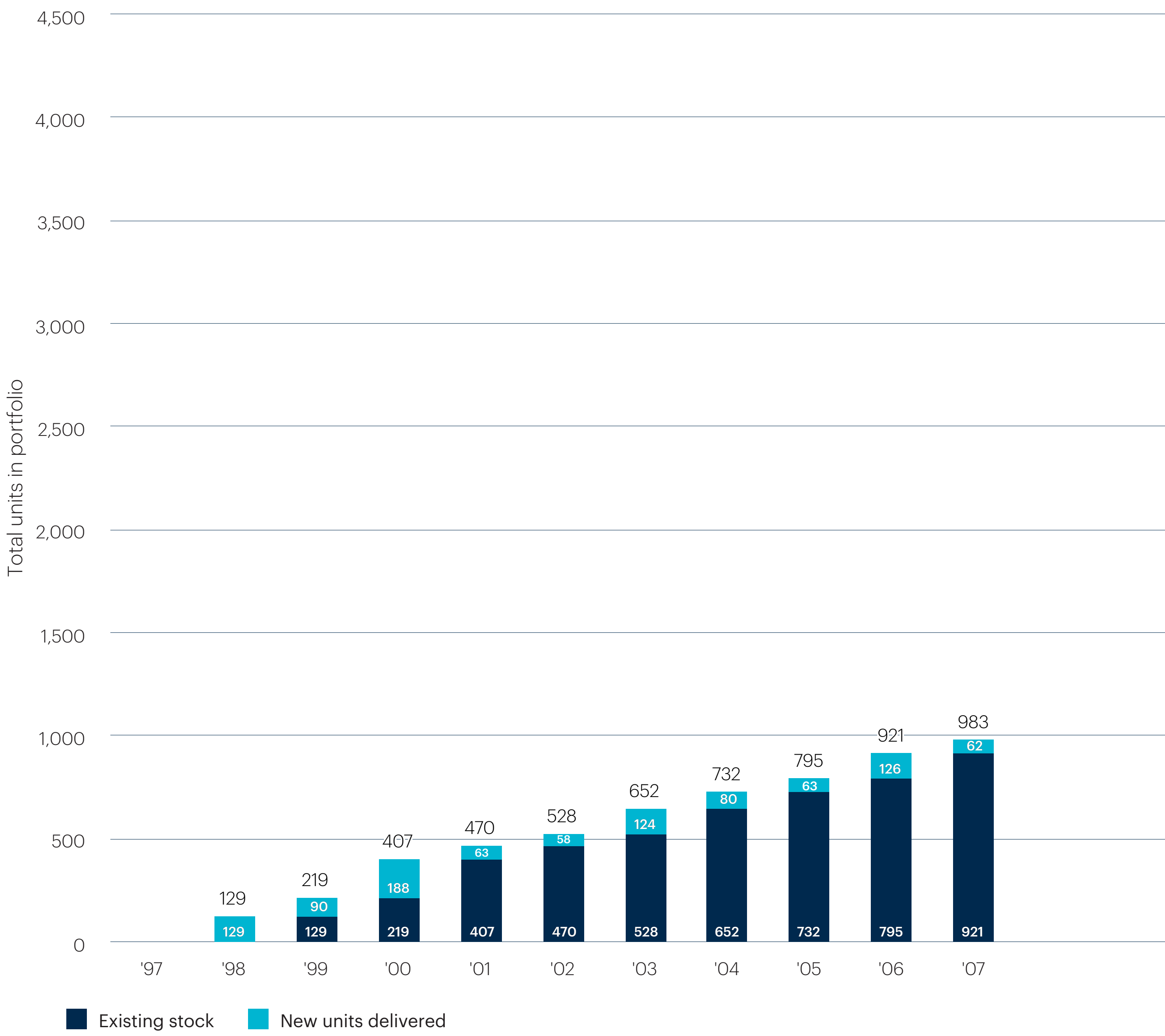
Half Moon Bay site purchased in Auckland

**December**

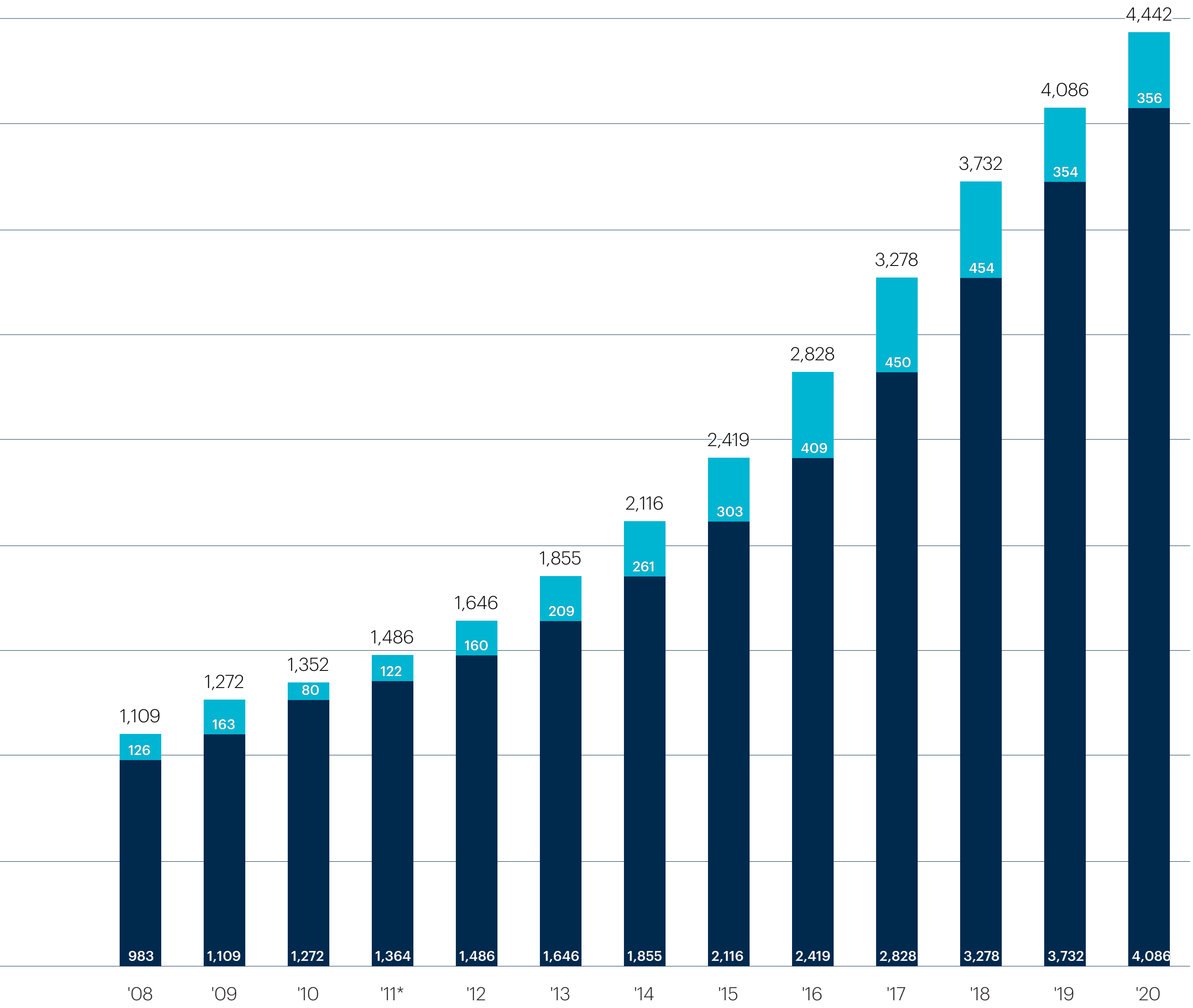
Melbourne's Cranbourne North tenders ready to issue to builders

# Portfolio growth

23 years of consistent growth and delivery[1]




*1 Units include all units to be sold under occupation right agreement*




* 2011 existing stock included 12 units acquired as part of the Nelson site purchase

# Our people and community

Summerset's annual satisfaction survey shows continued high satisfaction levels, with independent living residents at 95% and care centre residents at 97%.

Our Summerset community is made up of more than 6,200 residents in over 4,400 units and over 900 care beds. We employ over 1,800 staff across 32 retirement villages.

### COVID-19

Due to the global pandemic, 2020 was difficult and challenging. However, New Zealand's effective public health response, and the plans and procedures we put in place, resulted in zero COVID-19 cases among our residents and staff to date.

We engaged our pandemic plan as soon as news of the virus emerged and pulled together our Crisis Response Team.

As events escalated, we worked quickly to safeguard our residents and staff through an evolving range of measures, working with other members of the aged care sector at the forefront of the response.

During the nationwide COVID-19 lockdown period we:

- Procured more than $750,000 of additional personal protective equipment
- Required staff and approved visitors to undergo temperature checks and wear face masks
- Provided security at all village gates to screen visitors
- Increased our cleaning regimes, particularly in high-touch areas
- Established a safe food delivery service direct to our residents' front doors
- Provided regular updates via a new email newsletter for residents and their families
- Provided care packages and arranged physically distanced events for residents
- Developed an online wellness centre promoting physical and mental wellbeing for residents.

Throughout 2020, our staff have worked hard to support residents and their families to stay connected despite travel restrictions.

**10 days**
to implement a new nationwide home grocery delivery service

Over
**2,000**
third-party grocery orders processed and delivered

**51,000**
**meals** delivered to **care centre residents in their rooms**

**41,000**
**meals** delivered to **village residents**

**131**
residents tested for COVID-19 – all test results **negative**

**76**
staff on paid leave pending a COVID-19 test – all test results **negative**

**16,600**
visitors to the Wellness Centre, our online entertainment and education hub

**7,000**
care calls made to prospective residents

**13**
resident and next of kin newsletters sent in first 12 weeks of lockdown

Extra
**42**
**nurses** employed during lockdown to maintain care levels

Extra
**80**
**care staff** employed during lockdown to maintain care levels

Extra
**39**
**village staff** employed during lockdown to maintain care levels

Summerset by the Park, Manukau



**Resident wellbeing**

During 2020 we continued the rollout of our signature fitness programme for residents. Designed specifically for over-70s by an experienced personal training company, the programme has been accredited as a falls-prevention class by the Ministry of Health and ACC.

The new programme includes mental and physical exercises to improve and maintain coordination, balance and cognitive health. To ensure the effective delivery of the programme, each class is run by a fitness instructor. The programme is now available in seven villages and we will roll it out to a similar number in 2021.

Although we had to postpone our popular Connect speaker series during the COVID-19 lockdowns, we organised virtual events for our residents. These included a wine-tasting experience with Villa Maria and a food-focused talk by chef and author Peta Mathias.

We reintroduced face-to-face events in July 2020, with Connect talks from Olympic boardsailor Barbara Kendall and comedians Ginette McDonald and Pinky Agnew.

We also held a second series of 'Understanding dementia' talks in conjunction with Dementia New Zealand from September 2020. We plan to continue hosting virtual events alongside our village-based events into the future.

Resident wellbeing is at the centre of what we do and Summerset continues to plan for a variety of virtual and village based events

**Dementia-friendly accreditation**

In April 2020 we achieved dementia-friendly accreditation from Alzheimers New Zealand. This means we are nationally recognised as a safe, accepting and supportive place for people with dementia.

Alzheimers New Zealand's Chief Executive, Catherine Hall, said, "the Committee was impressed with the work Summerset has initiated to challenge stigma and create kinder, more accepting communities for people living with dementia, and the wide range of creative dementia friendly initiatives observed during the audit."

To achieve this, we carried out intensive work across our villages, from training each staff member, to creatively meeting the individual needs of residents living with dementia.

More than 195 corporate staff have also completed an online training module to increase their understanding of dementia.

Summerset has a three-year partnership with Dementia New Zealand and has been working alongside the organisation to provide public talks at our villages to reduce stigma around the disease.

Summerset has been recognised as a safe and accepting place for people living with dementia

**People are the heart of Summerset**

In 2020 we prioritised the training and development of our staff, and this will continue into 2021 and beyond. We introduced a new online learning system that provides staff with easy access to user-friendly training modules.

Online training enables a consistent learning experience for all our staff, wherever they work. Our first online training programme was a six-module self-paced learning programme for our sales team.

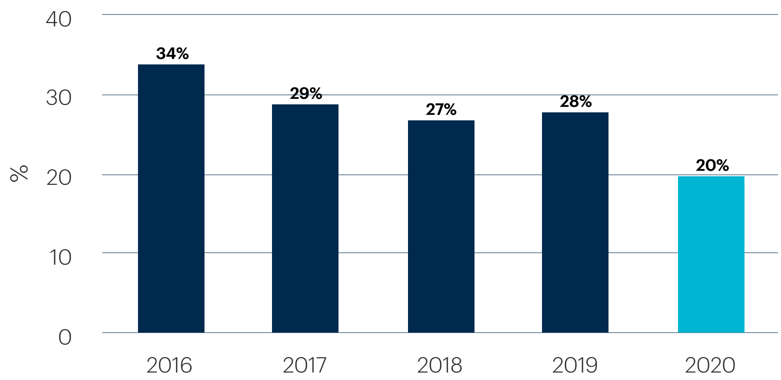
We also launched our Care Centre Manager and Clinical Nurse Lead leadership development programmes to build capability in these key frontline roles. They began with a series of face-to-face workshops and will continue to roll out over the next two to three years.

Online learning was invaluable during the nationwide lockdown, when we recruited more than 120 nurses and caregivers during the first six weeks. It allowed us to induct new staff into our processes, procedures, and health and safety protocols before they had even set foot on Summerset premises.

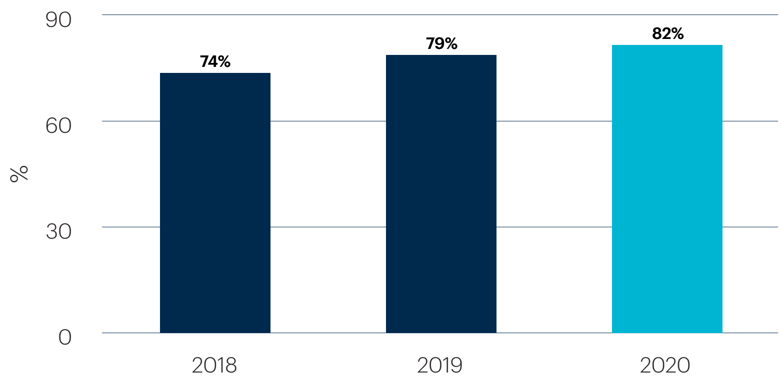
Our recruitment campaign for extra staff included contacting over 80 companies that were making redundancies due to COVID-19.

## Online training enables a consistent learning experience for staff and was invaluable during the lockdown period

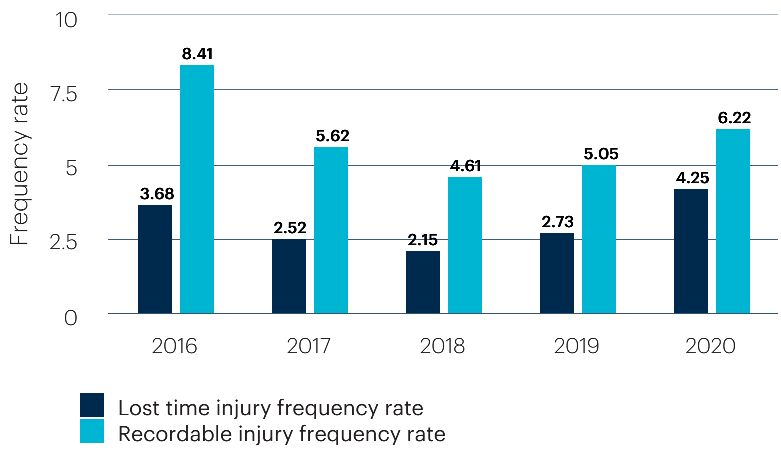
**Employee attrition**




**Employee retention**

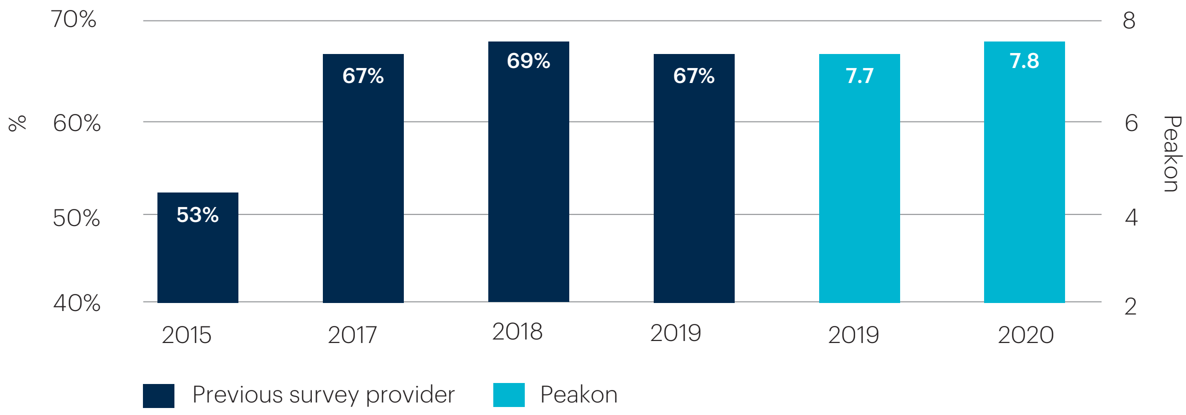



**Workplace injury rates** [1]




1 *The prior year (LTIFR) lost time injury frequency rate numbers have been updated due to Summerset changing to the benchmark methodology used by the Business Leaders' Health and Safety Forum.*

## Staff engagement[1]




*1. Peakon was provided the 2019 raw data to ensure year on year consistency — noting different scoring scales (67% = 7.7).*



**Attracting and retaining staff**
Staff retention and turnover improved significantly over 2020, with turnover now below the industry average. This was partly due to the border closures and greater economic uncertainty brought about by COVID-19. However, it was also the result of ongoing improvements in our employee offering and culture.

During the year we changed our survey provider for measuring staff engagement. We now use the Peakon survey, whose much-improved technology assisted us in achieving 86% staff participation.

Our overall staff engagement score increased from 7.7 to 7.8 out of 10 in 2020, putting us at or above the top quartile of companies using Peakon globally.

**Diversity and inclusion**
During 2020 we also progressed our diversity and inclusion strategy. The specialist consultancy, Diversitas, thoroughly examined our policies and processes through a diversity and inclusion lens, and interviewed staff across the organisation. As a result of the review, we have now identified opportunities for continued improvement and a three-year plan has been developed with work starting in early 2021.

**Continuing improvement in health and safety**
We were pleased to be reaccredited with tertiary status in ACC's Accredited Employers Programme in 2020, which we have held since June 2017. The annual renewal audit provides an important snapshot of safety and injury management in our workplace. We are committed to the core values of this programme, creating safe work environments for our people and ensuring that we continue to be leaders in health and safety.

# 7.8

Staff engagement score (out of 10)

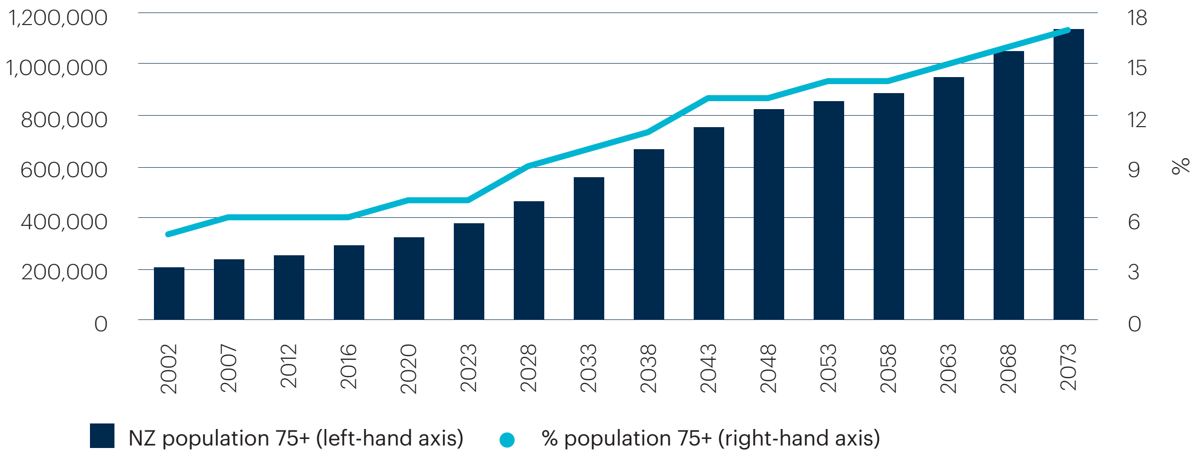
**2020 highlights**

- Strategy updated and three-year plan developed for implementation in 2021
- Increased visibility and training of senior leaders
- Improved risk reporting across the organisation
- Safety in design implemented and matured
- Improved incident reporting, data and analysis
- Improved third-party contractor management
- SiteWise pre-qualification programme well embedded
- Improved onboarding processes.

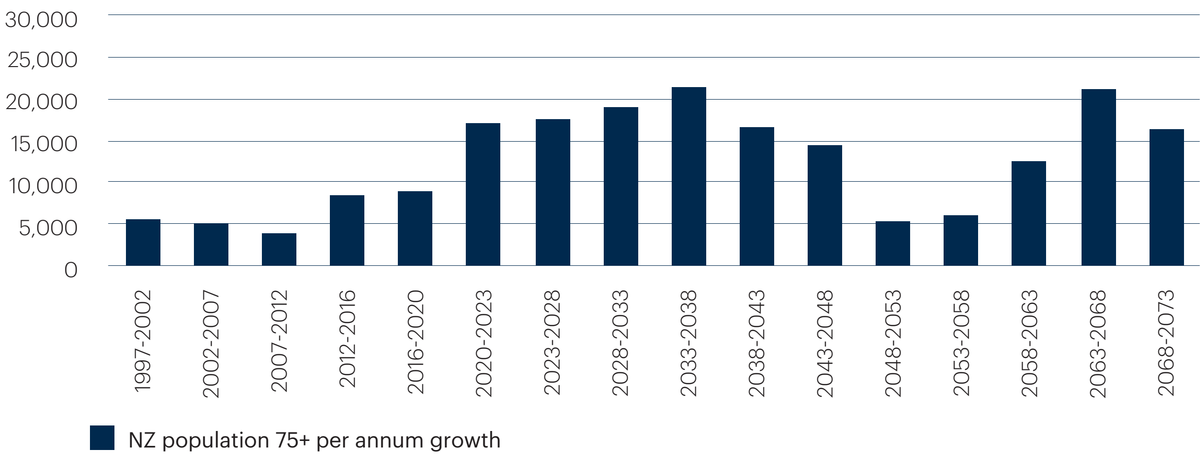
# Strong wave of growth

**The New Zealand population aged 75 and over is forecast to more than triple in the next 50 years.**

**NZ population 75+**




**Per annum New Zealand population growth 75+**




Source: Statistics New Zealand – National Population Projections

# Our villages

Summerset continues to grow its portfolio of high-quality retirement villages with amenities and facilities designed for Kiwi and Australian retirees.



Summerset at Monterey Park, Hobsonville

Summerset has 32 villages in operation or in development across New Zealand, and a further eight sites in New Zealand held for future development. In 2020 we purchased 2.8 hectares of land in Auckland in Half Moon Bay.

Our land bank for future development is the largest in the New Zealand retirement sector, allowing us to double our current resident population. We have retirement villages in the main urban centres, including Auckland, New Zealand's most populous city, with five villages and four more in the pipeline. We also have villages in major provincial cities, including Nelson and New Plymouth, and popular retirement destinations such as Tauranga and the Kapiti Coast.

### 2020 successes

In 2020 we started earthworks at two sites and our first residents moved into three newly opened villages.

We also completed construction on two next-generation main buildings, at Casebrook in March and Rototuna in November.

Our main buildings form the heart of our villages, providing a vibrant community hub for residents, staff, families and friends.

At 9,000m$^2$, our new main buildings are almost double the size of those in our earlier villages.

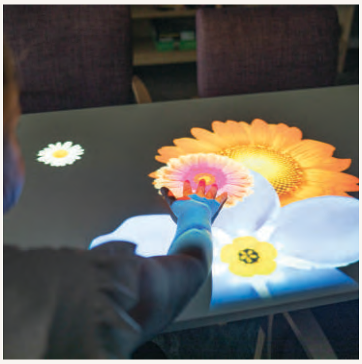
# Village highlights

### New residents

We were pleased to welcome our first residents to our new villages at Papamoa Beach (Tauranga), Te Awa (Napier) and Bell Block (New Plymouth). We now have two villages in the Bay of Plenty, four in the Hawke's Bay and two in Taranaki.

### New earthworks

We started earthworks on two sites in 2020, at St Johns and Whangarei. Members of Ngāti Hau, a hapū of Ngāpuhi in the area of the new Whangarei village site, gathered for a morning blessing, alongside contractors, local kaumātua Mike Kake and Dave Coyne, and Group Construction Manager Jason Rahui.



### New technology

We imported New Zealand's first Tovertafel — an interactive lightshow providing stimulation for people with cognitive impairments. The new technology is from the Netherlands for use in our newer memory care centres.

**RESOURCE CONSENTS**

| SITE | DETAILS | PROGRESS |
|---|---|---|
| Prebbleton | Resource consent lodged Q3 2020 | In progress |
| Rangiora | Plan change approved.<br>Resource consent lodged Q4 2020 | In progress |
| Blenheim | Resource consent lodged Q4 2020 | In progress |
| Cambridge | Resource consent lodged Q4 2020 | In progress |
| Waikanae | Resource consent lodged Q4 2020 | In progress |
| Lower Hutt | Environment Court<br>decision granted | Resource consent received Q4 2020 |
| Parnell | Resource consent lodged Q3 2020 | Public notification closed<br>Hearing expected Q2 2021 |



### Memory care centres

Summerset is a New Zealand leader in next-generation memory care. Since the 2017 opening of our award-winning memory care centre in Levin, we have refined the design and features for our newest centres in Casebrook and Rototuna.

Our in-house design and operations teams have used research from international dementia design specialists to create apartment-style living for residents with dementia. The modern design offers clear wayfinding, dementia-friendly signage, large communal areas and a secure outdoor courtyard for freedom of movement and independence.

### Priorities for 2021

In 2021 we will complete our Ellerslie village by finishing the last independent apartment building. In addition, we will deliver our first units as part of the Hobsonville village extension.

We expect to see good progress in 2021 at our St Johns site. Bulk earthworks will finish in March 2021, and construction will start on the 8,500m$^2$ basement which will contain carparking for residents.

We also received final resource consent from the Environment Court for our Boulcott site in Lower Hutt in November 2020. Construction has started on the village, which will ultimately be home to more than 300 residents.

Regional main buildings will be delivered in both our Richmond and Avonhead villages in 2021. These will provide further well-appointed amenities for our residents.

**6**

Building resource consents lodged

### Expanding the model into Australia

It is important that we have a strong local base as we expand into Australia. We are gradually developing our Australian team and appointed the heads of the design, sales and operations teams for Victoria in 2020.

Two of these roles were filled by existing Summerset staff, who will move to Melbourne early in 2021. We are looking forward to providing the Australian market with our continuum of care offering and the backing of a trusted brand with 23 years' experience in retirement living.

### Providing a home for life in Australia

Summerset will offer a full continuum of care in Australia. This sets us apart from many competitors in Australia, where it is common for independent living and care to operate separately and across different locations.

We will be building Cranbourne North in carefully planned stages. We expect to deliver approximately 40 villas in the first stage of the development, from late 2021/ early 2022.

Planning for our specialist care centre and care services at Cranbourne North is already well under way. The care centre will offer a unique household model, with no more than 18 residents in a household.

Each resident will have a private room and access to shared lounge and dining areas. This will provide them with the comfort, intimacy and closeness of a family unit, and will allow our care staff to focus on each individual resident.

## Half Moon Bay

In October 2020 we announced the purchase of a 2.8-hectare site in Half Moon Bay.

**Once consented, it will be our ninth village in Auckland and our very first in East Auckland.**

It will include independent living and serviced apartments, care suites and a memory care centre. It is near the Half Moon Bay Marina with ferry services to the CBD and Waiheke Island.

Upper floors will have west-facing views across Half Moon Bay, towards the city and out to the Waitakeres.

The number of people in the 75+ age group in East Auckland is forecast to increase by over 50% in the next eight years.

# Our villages


- Completed villages
- In development
- Proposed villages

# Our land bank

| New Zealand land bank | Design | Consenting | Construction | Village open | Final stages |
|---|---|---|---|---|---|
| Hobsonville, Auckland | ● | ● | ● | ● | ● |
| Ellerslie, Auckland | ● | ● | ● | ● | ● |
| Rototuna, Hamilton | ● | ● | ● | ● | ● |
| Casebrook, Christchurch | ● | ● | ● | ● | ● |
| Avonhead, Christchurch | ● | ● | ● | ● | ○ |
| Richmond, Tasman | ● | ● | ● | ● | ○ |
| Kenepuru, Wellington | ● | ● | ● | ● | ○ |
| Te Awa, Napier | ● | ● | ● | ● | ○ |
| Papamoa Beach, Tauranga | ● | ● | ● | ● | ○ |
| Bell Block, New Plymouth | ● | ● | ● | ● | ○ |
| St Johns, Auckland | ● | ● | ● | ○ | ○ |
| Whangarei, Northland | ● | ● | ● | ○ | ○ |
| Lower Hutt, Wellington | ● | ● | ● | ○ | ○ |
| Rangiora, Canterbury | ● | ● | ○ | ○ | ○ |
| Parnell, Auckland | ● | ● | ○ | ○ | ○ |
| Waikanae, Kapiti | ● | ● | ○ | ○ | ○ |
| Cambridge, Waikato | ● | ● | ○ | ○ | ○ |
| Blenheim, Marlborough | ● | ● | ○ | ○ | ○ |
| Prebbleton, Canterbury | ● | ● | ○ | ○ | ○ |
| Milldale, Auckland | ● | ○ | ○ | ○ | ○ |
| Half Moon Bay, Auckland* | ● | ○ | ○ | ○ | ○ |
| **Australian land bank** | | | | | |
| Cranbourne North, Melbourne | ● | ● | ○ | ○ | ○ |
| Torquay, Victoria | ● | ○ | ○ | ○ | ○ |

* New site purchased

# Our commitment to sustainability

Summerset was certified as New Zealand's first carbonzero™ retirement village operator in 2018, and we have continued to build on our commitment to sustainability each year.

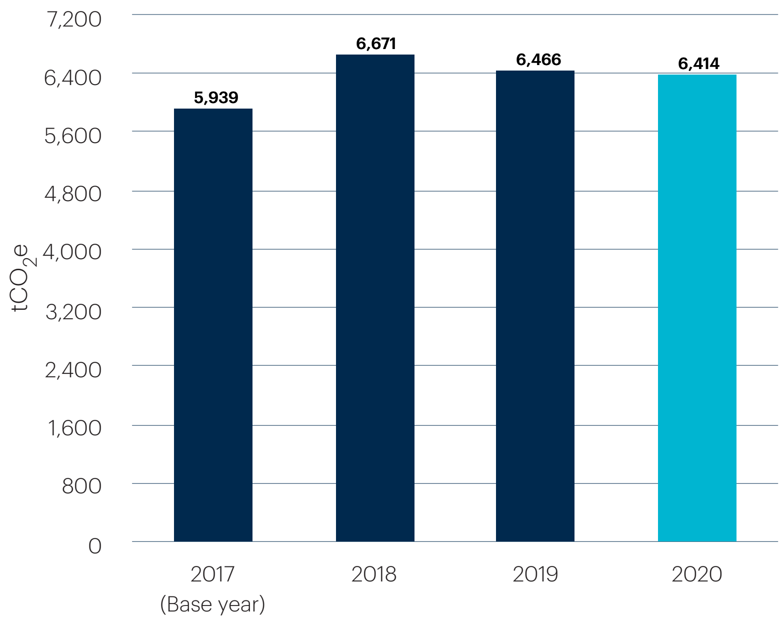
In 2020, Summerset committed to a science-aligned carbon reduction target, that commits us to a 62% reduction per square metre of building area by 2032 (from 2017 levels). We are the only New Zealand retirement village operator to have done this. Summerset is also working closely with its supply chains to reduce carbon emissions. We have also expanded our emissions reduction programme into our villages and started preparing for innovation in future village builds.

Summerset has a large construction business, giving us scope to reduce our carbon emissions and future-proof our villages against climate-related risks. We can reduce emissions by adopting new technologies in our building designs, using greener building materials and creating landscapes that are more water efficient.

As part of its goal of reaching net zero carbon emissions by 2050, the Government is expected to introduce regulation on the Building for Climate Change Programme in 2021. Summerset has made a submission on this as part of the consultation process.

## Summerset has expanded its emissions reduction programme across its villages

### Absolute emissions progress




### Emissions reduction programme

Summerset is Toitū carbonzero™ certified. We have been measuring, managing and reporting on our carbon footprint since 2017. From 2018, our carbon emissions have been independently audited by Toitū Envirocare to the ISO14064-1 standard. We are on track to meet our target of a 5% reduction in all operational emissions intensity by the end of 2022.

Our internal tracking shows we have reduced our carbon emissions intensity by 31% since 2017.

Given our significant property development activities, we calculate our total gross carbon emissions per square metre of build. This has decreased by 22% since 2017.

### Decrease in absolute carbon emissions

Summerset's total emissions in 2020 were 6,414 $tCO_2e$, which is 1% lower than the previous year's total of 6,466 $tCO_2e$ and 8% higher than the base year total of 5,939 $tCO_2e$. Energy use accounts for 80% of our carbon emissions.



## SUMMERSET'S AFFILIATIONS

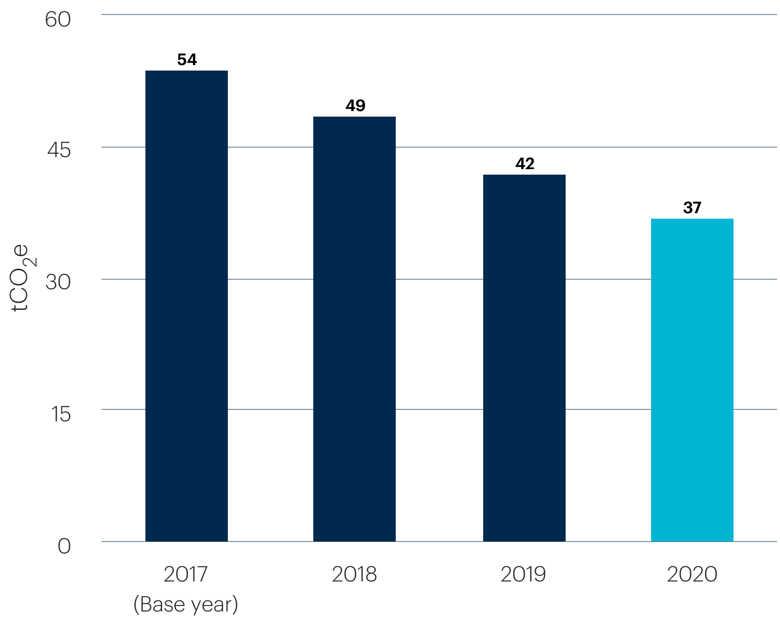
MEMBER 2020–2021 NZGBC NEW ZEALAND GREEN BUILDING COUNCIL

TOITŪ CARBON ZERO ISO 14064-1 ORGANISATION

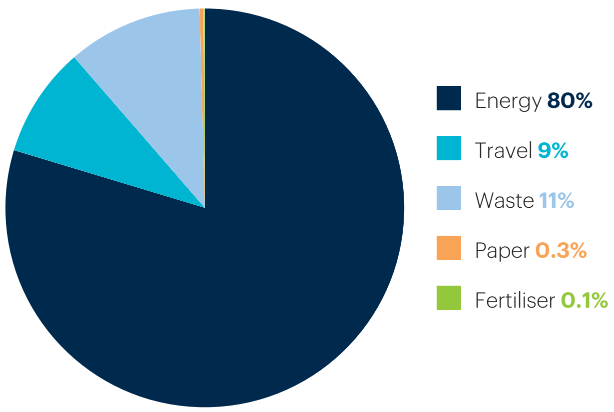
CDP DISCLOSURE INSIGHT ACTION

CLIMATE LEADERS COALITION ON A MISSION TO REDUCE EMISSIONS IN NEW ZEALAND

### Emissions intensity – $CO_2$e tonnes per $ million revenue




### 2020 key impact areas by $tCO_2$e






**Progress in 2020**

In 2020 we monitored our performance across two environmental, social and governance (ESG) indices. We achieved an AA rating from Morgan Stanley and submitted a non-scored survey to the Carbon Disclosure Project (CDP) for the first time.

In addition, Summerset joined New Zealand's main body for sustainable building knowledge in August. The New Zealand Green Building Council membership will provide our staff with access to technical knowledge on best environmental building practices.

Along with over 100 of New Zealand's leading companies, we are a signatory to the Climate Leaders Coalition and have set a science-aligned carbon reduction target for our business in 2021. This demonstrates our commitment to the Paris Agreement on global climate change.

Summerset's five areas of focus as part of our emissions management reduction are *energy, waste, travel, paper and fertilisers.*

## ENERGY

**Reducing electricity and gas usage**

We fine-tuned, maintained and upgraded equipment throughout 2020 to ensure energy efficiency. This included upgrading the gas boiler at our Manukau village and continuing our LED upgrade programme. In addition, we joined the New Zealand Green Building Council to ensure optimal energy performance for new builds.

## WASTE

**Minimising our waste to landfill**
Reducing the amount of waste we send to landfill is an ongoing focus for our offices, operations and construction activities. In operations we achieved a 35% diversion from landfill, and in construction the figure was 30%.The Ellerslie construction site achieved a 75% avoidance. As a result of this focus on recycling, our facilities now send 25% less waste to landfill per resident compared to our 2017 base year.

## TRAVEL

**Being more efficient in the way we travel**
Travel emissions are calculated for car hire and air travel. Compared to 2019 we achieved a 50% decrease in emissions from domestic, short-haul and international flights in 2020. This was due to COVID-19 travel restrictions and the increased use of communications technology.

## PAPER

**Reducing our paper consumption**
Our paper use went up due to the increase in printed communications during the COVID-19 lockdowns. However, invoices are now sent via email to 51% of residents, up from 17% at the beginning of 2020.

## FERTILISERS

**Selecting environmentally friendly fertilisers**
Fertilisers are a small but visible part of our emissions profile. We continue to reduce our fertiliser emissions by working with our landscaping teams, gardeners and suppliers to ensure we use products that have a low carbon footprint.

# Governance

**Roles and responsibilities**

| | |
|---|---|
| Board | Oversees climate-related issues and responsibility for sustainability. Reviews and approves direction and monitors progress against targets |
| CEO | Assesses and manages climate-related risks and opportunities. Reports programme performance and progress at Board meetings |
| Sustainability Forum | Includes senior managers from across the business. Shapes and monitors our sustainability strategy |
| Key functional workstreams | Covers operational impact areas related to the new build environment |
| Green Team | Implements specific actions and initiatives identified in the emissions reduction plan |



**Further details on our climate-related targets, measurements and results**
Summerset is aware of work under way on making climate-related financial disclosures mandatory for listed companies by 2023. Climate-related risks are currently managed through our risk management framework and across our governance and reporting processes.

- Governance – for a statement on the Board's oversight of climate-related risks and opportunities see our governance section on page 79
- Strategy – details of our overall business strategy is on page 5 and our plan is to better understand climate-related material risks and opportunities for Summerset in the future
- Risk management – see our risk management framework presented on pages 86 to 88
- Metrics and targets – carbon performance metrics can be found above; operational performance metrics are on pages 18 to 27, financial performance metrics are on pages 34 to 38

# Our performance

Summerset has maintained strong profitability and balance sheet resilience throughout 2020 and is well positioned for future sustained growth.

Summerset Heritage Park, Ellerslie

## Financial performance overview

Underlying profit for the year ended 31 December 2020 decreased by 7% on the prior year to $98.3 million (2019: $106.2 million), driven principally by significant additional operational costs associated with COVID-19 to ensure our residents remained safe, increased investment in care, employee wages and penal rates, and cost drag from opening new villages and main buildings.

Our sales of new and existing units were strong, with increased volumes for both. We also saw increased sale prices on our resale units, reflecting the strong residential property market. The margin on new units reduced due to changes in the mix of units sold, with more needs-based products and more regional sales.

Revenue for the year grew 12% to $172.4 million (2019: $153.9 million), reflecting the opening of three new villages and two main buildings, and strong financial performance across village operations. Our care occupancy rates in established villages remained high despite a small reduction following the two COVID-19 lockdowns.

Underlying profit is a non-GAAP measure. A detailed explanation is included in Note 2 to the Financial Statements (see page 49). In general terms, underlying profit removes the fair value movement of investment property and reinstates the realised gains associated with our resales and the development margin associated with our new sales. Underlying profit is used to determine the dividend pay-out to shareholders.

## COVID-19 impact

COVID-19 had a significant impact on 2020 underlying profit. Increased operational costs of over $9 million were predominantly from additional staff resources, pandemic kits and personal protective equipment.

This included additional care and housekeeping staff, a $2 per hour wage increase during level four lockdown, security at our sites, and extra sick leave as a precaution for staff either because of their health or that of their close contacts.

The costs outlined above are some of the direct costs related to our response, but we also incurred a number of indirect costs. These include the cost of paying the construction staff during lockdown while they were unable to be on site and significant investment in marketing and sales post lockdown to support our sales teams to ensure our sales were successful. There were also no sales during the national lockdown.

In May we received $0.7 million as part of the Government's support to aged care providers for the additional costs incurred. We note that this is considerably less than our actual costs to date. We qualified for the COVID-19 wage subsidy as revenue fell by more than 30% in April, when retirement unit sales fell to zero, and received $8.6 million. However, we repaid this in full once it became clear the business was in a stable financial position and the outlook was positive.

Sales were significantly better than expected once the country came out of lockdown, with the third and fourth quarters bringing record sales and the business continuing to perform well. While we have not yet experienced the economic downturn predicted by many economists, we are wary that COVID-19 will be with us for some time. We will continue to plan and prepare to ensure we are well positioned to deal with any future outbreaks.

Underlying profit has seen a compound annual growth rate of 32% since the company was listed on the NZX in 2011

## Long-term growth

A key component of underlying profit is the realised development margin on new sales which was $48.2 million in 2020 (2019: $61.0 million). The development margin was 19.6%, down from 27.9% in the previous year. The decrease was due to increased construction costs across our main centres, an increase in needs-based products and fewer Auckland settlements. The long-term returns remain strong on needs-based products. Summerset's medium-term expectation of development margins is in the 20–25% range. This will continue to be an area of significant focus for the Board and management.

Good margins reflect the advantage of having strong in-house capabilities for each stage of village development, including land purchase, planning, consenting, design and construction management. We can achieve cost advantages through scale and standardisation of development programmes, while also being able to adapt each project to local needs and preferences.

Summerset continues to maintain the largest land bank for a retirement village operator in New Zealand, and acquired a new site at Half Moon Bay in Auckland during 2020. This brings our total land bank of units to 5,992.

## Summary of sales and developments

New Zealand's residential property market is continuing to hold strong despite early predictions from market analysts that the global pandemic could result in significant decreases in house prices nationwide. Prices continued to rise across most regions, partly fuelled by low interest rates and strong buyer demand.

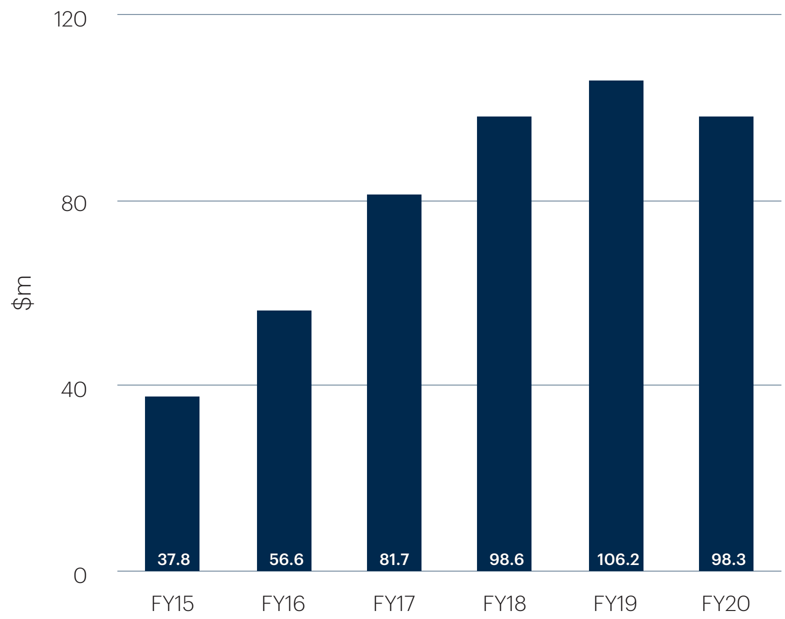
Summerset had a record sales year, with 785 unit sales of occupation rights (2019: 652), 404 of them new unit sales and 381 resales. Average gross proceeds per new sale settlement of $607,000 were down from $665,000 in 2019 due to the change in mix of unit type and region of sales. Realised resale gain increased by 25% to $46.1 million in 2020. Average gross proceeds per resale settlement were $464,000, up 4% from 2019. This reflects the growth in the residential property market in some regions, as well as the length of time taken between sale of units.

Key development milestones included the opening of three new villages: Papamoa Beach (Tauranga), Te Awa (Napier) and Bell Block (New Plymouth). For developing villages still under construction, new unit sales were strong at Casebrook (Christchurch), Rototuna (Hamilton) and Avonhead (Christchurch).

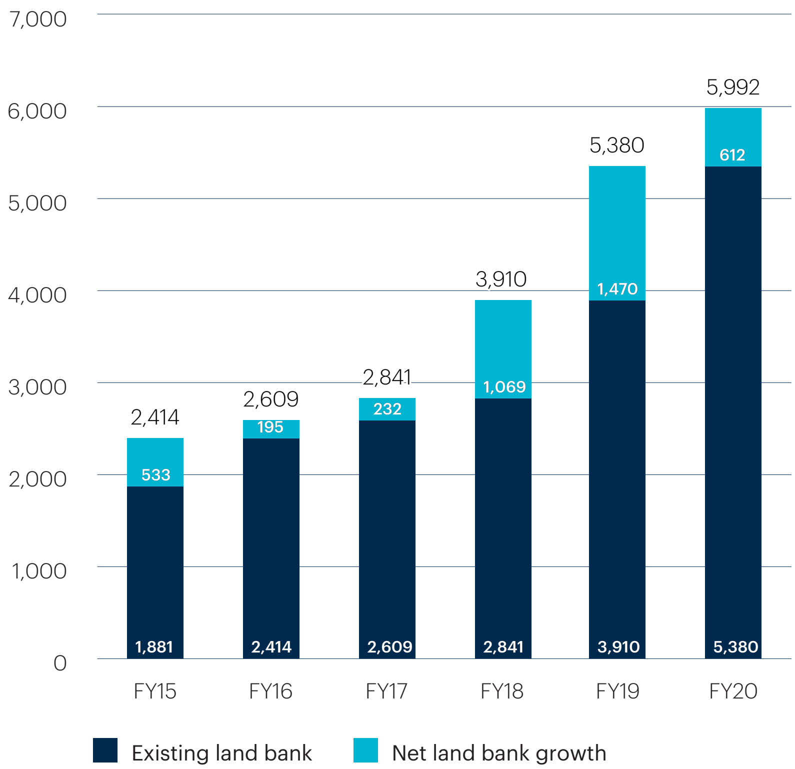
In addition, our Australian sites acquired to date illustrate Summerset's commitment to diversifying into an attractive overseas growth market.



### Underlying profit




### Land bank over time (units)[1]




*1 Units include all units to be sold under occupation right agreement*

## Net profit after tax

Summerset recorded a net profit after tax of $230.8 million for the year ended 31 December 2020, up from $175.3 million in 2019.

This increase is largely due to the fair value movement on investment property (2020: $221.1 million; 2019: $165.3 million).

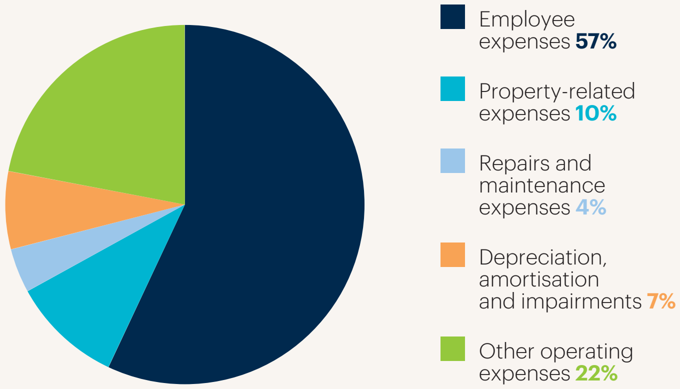
Fair value movement in 2020 of $221.1 million reflects the delivery of 356 units in the financial year, the completion of two main buildings, strong sales rates across our villages reducing our vacant stock levels and changes to the key assumptions applied by the valuer. Assumption changes in the period were predominately to short term growth rates and recycle frequencies, reflecting the tailwinds seen in the residential property market across the second half of 2020.

## Business growth and expenses

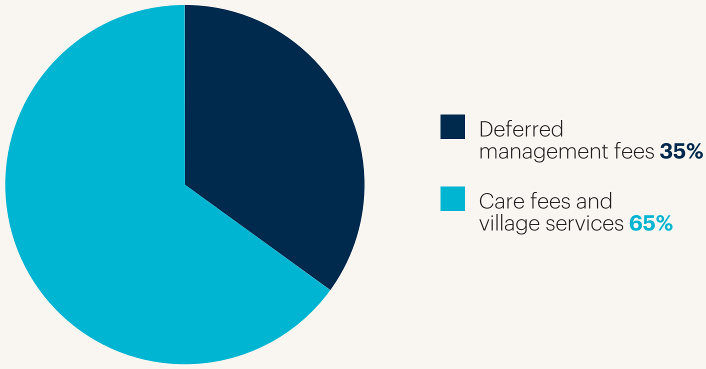
Summerset derives its revenue from selling units (deferred management fees) and providing village and care services. The company's revenue increased as a result of higher volumes, reflective of the scale and growth of our operations.

Deferred management fees on Summerset's investment property were $60.8 million in 2020 (2019: $52.5 million). The growth reflects the increase in the number, occupancy and value of Summerset's portfolio of units.

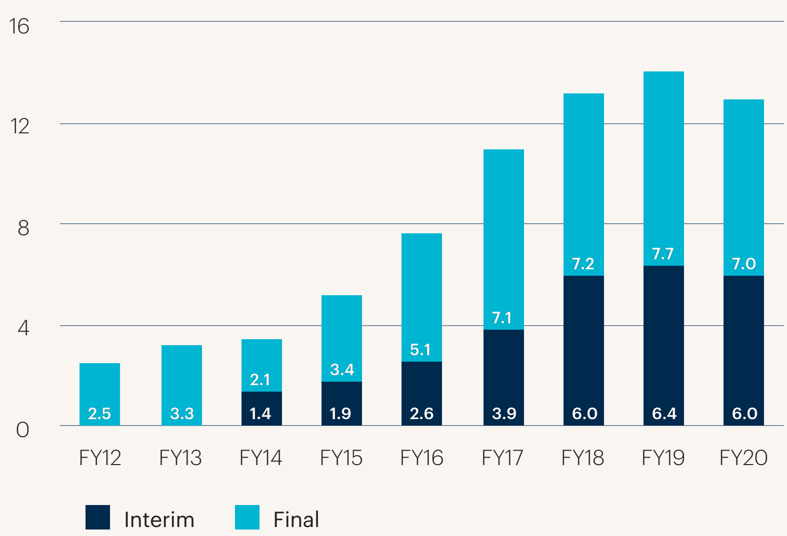
### Expense breakdown




### Revenue breakdown




### Dividend cents per share



# 96%

## Occupancy in our mature care centres

At 31 December 2020, Summerset's total unit portfolio reached 4,442 (2019: 4,086) and at year end there were only 179 new sales units and 73 resale units available for sale.

The final apartment building in Summerset's Ellerslie village is due for delivery in early 2021, and comprises a further 74 apartments. Strong progress has also been made on two main buildings in Avonhead and Richmond, both due to open in 2021.

Occupancy in our mature care centres was 96% which is above the industry average of 90%.

Total expenses increased in 2020 by 22% to $158.3 million (2019: $130.2 million), largely due to COVID-19 costs and cost drag of new care centres and villages opening in line with Summerset's ongoing business growth. We also invested in our employee offering and culture to ensure we remain a top employer, we had increased uncontrollable expenditure items such as rates and power, and spent more on additional sales and marketing expenses.

**Operating activities**

Summerset's net cash from operating activities was $266.8 million for the year, up 12% from 2019 (2019: $237.9 million). This was principally driven by gross receipts from new occupation right agreement sales, amounting to $237.0 million, up from $209.4 million in 2019.

Summerset is a growth company and reinvests operating cash flows back into the business to finance future growth. In 2020 Summerset invested $318.8 million, primarily in new and existing retirement villages and care centres (2019: $327.4 million).

Investment activities are principally the purchase of land and the development and refurbishment of new and existing retirement villages and care centres.

**Assets rose to $3.9 billion**

Total assets rose 17% to $3.9 billion at 31 December 2020 (2019: $3.3 billion), mainly due to growth in the size and value of Summerset's investment property, which reached $3.6 billion (2019: $3.1 billion). At balance date, Summerset also had other property, plant and equipment valued at $181.1 million (2019: $154.0 million), most of this being care centres (these are operated to provide services and are therefore not included as investment property).

An increased embedded value of $883.6 million (2019: $752.7 million) demonstrates future cash that can be generated when units are resold.

Interest-bearing debt of $687.1 million was 18% of total assets at year end (2019: $587.1 million). Summerset raised $150.0 million from a new retail bond in September 2020 which brings the year end debt at face value to $297.6 million of bank borrowings and $375.0 million of retail bonds.

Summerset also has residents' loans of $1.5 billion (2019: $1.3 billion). This in the form of licences paid by residents under occupation right agreements, these are repayable when residents vacate units and the associated occupation rights are resold.

**Consistent strong growth performance**

Summerset continued to pay dividends to shareholders during COVID-19 despite unprecedented circumstances. We will pay a final dividend of 7.0 cents per share (cps) on 22 March 2021, making a full pay-out for the 2020 year of 13.0 cps (2019: 14.1 cps).

Board policy remains for shareholder distributions in the range of 30–50% of each year's underlying profit. The 2020 distribution of $29.7 million represents 30% of underlying profit ($98.3 million), which is consistent with the last five years.

Summerset continues to offer shareholders a dividend reinvestment option, including a 2% discount to market share price.

# Five year summary

Key operational and financial statistics for the five year period up to and including FY20 are as follows:

### Results highlights - operational

| | Unit | FY20 | FY19 | FY18 | FY17 | FY16 | FY19 to FY20 % Change |
|---|---|---|---|---|---|---|---|
| New sales of occupation rights | No. | 404 | 329 | 339 | 382 | 414 | 23% |
| Resales of occupation rights | No. | 381 | 323 | 301 | 300 | 244 | 18% |
| Total sales of occupation rights | No. | 785 | 652 | 640 | 682 | 658 | 20% |
| Development margin | % | 19.6% | 27.9% | 33.2% | 27.3% | 22.2% | -30% |
| New units delivered | No. | 356 | 354 | 454 | 450 | 409 | 1% |
| Units in portfolio | No. | 4,442 | 4,086 | 3,732 | 3,278 | 2,828 | 9% |
| Care beds in portfolio | No. | 915 | 858 | 858 | 806 | 748 | 7% |

### Results highlights - financial

| | Unit | FY20 | FY19 | FY18 | FY17 | FY16 | FY19 to FY20 % Change |
|---|---|---|---|---|---|---|---|
| Net operating cash flow | $m | 266.8 | 237.9 | 217.8 | 207.7 | 192.6 | 12% |
| Total assets | $m | 3,893.2 | 3,337.9 | 2,766.4 | 2,232.8 | 1,706.8 | 17% |
| Net assets | $m | 1,354.8 | 1,131.9 | 978.8 | 785.8 | 545.6 | 20% |
| Underlying profit | $m | 98.3 | 106.2 | 98.6 | 81.7 | 56.6 | -7% |
| Profit before income tax (IFRS) | $m | 221.7 | 173.6 | 216.2 | 240.2 | 145.6 | 28% |
| Profit for the period (IFRS) | $m | 230.8 | 175.3 | 214.5 | 239.9 | 145.5 | 32% |
| Dividend per share | cents | 13.0 | 14.1 | 13.2 | 11.0 | 7.7 | -8% |
| Basic earnings per share | cents | 102.3 | 78.6 | 97.1 | 109.8 | 66.9 | 30% |

# Financial statements

# Income Statement

For the year ended 31 December 2020

| | NOTE | 2020 $000 | 2019 $000 |
|---|---|---|---|
| Care fees and village services | 4 | 111,619 | 101,259 |
| Deferred management fees | 4 | 60,752 | 52,470 |
| Interest received | 4 | 51 | 217 |
| **Total revenue** | | **172,422** | **153,946** |
| | | | |
| Fair value movement of investment property | 11 | 221,142 | 165,252 |
| **Total income** | | **393,564** | **319,198** |
| | | | |
| Operating expenses | 5 | (146,805) | (122,399) |
| Depreciation and amortisation expense | 9, 10 | (8,097) | (7,833) |
| Impairment of property, plant and equipment | 9 | (3,431) | - |
| **Total expenses** | | **(158,333)** | **(130,232)** |
| | | | |
| **Operating profit before financing costs** | | **235,231** | **188,966** |
| | | | |
| Net finance costs | 6 | (13,496) | (15,405) |
| **Profit before income tax** | | **221,735** | **173,561** |
| | | | |
| Income tax credit | 7 | 9,041 | 1,701 |
| **Profit for the period** | | **230,776** | **175,262** |
| | | | |
| Basic earnings per share (cents) | 20 | 102.30 | 78.59 |
| Diluted earnings per share (cents) | 20 | 101.23 | 77.52 |

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

# Statement of Comprehensive Income

For the year ended 31 December 2020

| | NOTE | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **Profit for the period** | | **230,776** | **175,262** |
| | | | |
| Fair value loss on interest rate swaps | 14 | (7,075) | (7,015) |
| Tax on items of other comprehensive income | 7 | 1,981 | 1,964 |
| (Loss)/gain on translation of foreign currency operations | | (491) | 266 |
| **Other comprehensive income that will be reclassified subsequently to profit or loss for the period net of tax** | | **(5,585)** | **(4,785)** |
| | | | |
| Net revaluation of property, plant and equipment | 9 | 12,712 | - |
| Tax on items of other comprehensive income | 7 | (3,145) | - |
| **Other comprehensive income which will not be reclassified subsequently to profit or loss for the period net of tax** | | **9,567** | **-** |
| | | | |
| **Total comprehensive income for the period** | | **234,758** | **170,477** |

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

# Statement of Changes in Equity

For the year ended 31 December 2020

| | SHARE CAPITAL $000 | HEDGING RESERVE $000 | REVALUATION RESERVE $000 | RETAINED EARNINGS $000 | FOREIGN CURRENCY TRANSLATION RESERVE $000 | TOTAL EQUITY $000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2019** | **269,467** | **(10,122)** | **24,941** | **694,508** | **5** | **978,799** |
| Adjustment on adoption of IFRS 16 | - | - | - | (1,413) | - | (1,413) |
| **Adjusted balance at 1 January 2019** | **269,467** | **(10,122)** | **24,941** | **693,095** | **5** | **977,386** |
| Profit for the period | - | - | - | 175,262 | - | 175,262 |
| Other comprehensive income for the period | - | (5,051) | - | - | 266 | (4,785) |
| **Total comprehensive income for the period** | **-** | **(5,051)** | **-** | **175,262** | **266** | **170,477** |
| Dividends paid | - | - | - | (30,586) | - | (30,586) |
| Shares issued | 13,351 | - | - | - | - | 13,351 |
| Employee share plan option cost | 1,256 | - | - | - | - | 1,256 |
| **As at 31 December 2019** | **284,074** | **(15,173)** | **24,941** | **837,771** | **271** | **1,131,884** |
| | | | | | | |
| **As at 1 January 2020** | **284,074** | **(15,173)** | **24,941** | **837,771** | **271** | **1,131,884** |
| Profit for the period | - | - | - | 230,776 | - | 230,776 |
| Other comprehensive income for the period | - | (5,094) | 9,567 | - | (491) | 3,982 |
| **Total comprehensive income for the period** | **-** | **(5,094)** | **9,567** | **230,776** | **(491)** | **234,758** |
| Dividends paid | - | - | - | (31,222) | - | (31,222) |
| Shares issued | 16,395 | - | - | - | - | 16,395 |
| Employee share plan option cost | 3,030 | - | - | - | - | 3,030 |
| **As at 31 December 2020** | **303,499** | **(20,267)** | **34,508** | **1,037,325** | **(220)** | **1,354,845** |

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

# Statement of Financial Position

As at 31 December 2020

| | NOTE | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 15,817 | 21,462 |
| Trade and other receivables | 8 | 33,395 | 36,662 |
| Interest rate swaps | 14 | 18,412 | 12,617 |
| Property, plant and equipment | 9 | 181,098 | 154,004 |
| Intangible assets | 10 | 5,709 | 6,123 |
| Investment property | 11 | 3,638,760 | 3,107,014 |
| **Total assets** | | **3,893,191** | **3,337,882** |
| | | | |
| **Liabilities** | | | |
| Trade and other payables | 12 | 158,610 | 134,680 |
| Employee benefits | 13 | 15,438 | 11,434 |
| Revenue received in advance | 4 | 114,737 | 91,142 |
| Interest rate swaps | 14 | 28,150 | 21,075 |
| Residents' loans | 15 | 1,520,298 | 1,327,607 |
| Interest-bearing loans and borrowings | 17 | 687,099 | 597,081 |
| Lease liability | 16 | 11,184 | 10,460 |
| Deferred tax liability | 7 | 2,830 | 12,519 |
| **Total liabilities** | | **2,538,346** | **2,205,998** |
| | | | |
| **Net assets** | | **1,354,845** | **1,131,884** |
| | | | |
| **Equity** | | | |
| Share capital | 19 | 303,499 | 284,074 |
| Reserves | 19 | 14,021 | 10,039 |
| Retained earnings | | 1,037,325 | 837,771 |
| **Total equity attributable to shareholders** | | **1,354,845** | **1,131,884** |

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

On behalf of the Board

**Rob Campbell**
Director and Chair of
the Board

**James Ogden**
Director and Chair of the
Audit Committee

*Authorised for issue on 22 February 2021*

# Statement of Cash Flows

For the year ended 31 December 2020

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from residents for care fees and village services | 110,719 | 101,116 |
| Interest received | 51 | 217 |
| Payments to suppliers and employees | (142,205) | (116,811) |
| Receipts for residents' loans - new occupation right agreements | 237,000 | 209,364 |
| Net receipts for residents' loans - resales of occupation right agreements | 61,282 | 44,010 |
| **Net cash flow from operating activities** | **266,847** | **237,896** |
| | | |
| **Cash flows to investing activities** | | |
| Sale of investment property | 1,154 | - |
| Payments for investment property: | | |
| - land | (44,386) | (57,344) |
| - construction of villages | (229,205) | (232,768) |
| - refurbishment of villages | (8,244) | (7,201) |
| Payments for property, plant and equipment: | | |
| - construction of care centres | (16,651) | (15,413) |
| - refurbishment of care centres | (1,107) | (146) |
| - other | (7,760) | (3,172) |
| Payments for intangible assets | (668) | (567) |
| Capitalised interest paid | (11,910) | (10,800) |
| **Net cash flow to investing activities** | **(318,777)** | **(327,410)** |
| | | |
| **Cash flows from financing activities** | | |
| Net (repayments of)/proceeds from bank borrowings | (71,542) | 135,636 |
| Proceeds from issue of retail bonds | 150,000 | - |
| Proceeds from issue of shares | 4,201 | 2,215 |
| Interest paid on borrowings | (15,436) | (13,549) |
| Payments in relation to lease liabilities | (1,549) | (1,264) |
| Dividends paid | (19,389) | (19,544) |
| **Net cash flow from financing activities** | **46,285** | **103,494** |
| | | |
| Net (decrease)/increase in cash and cash equivalents | (5,645) | 13,980 |
| Cash and cash equivalents at beginning of period | 21,462 | 7,482 |
| **Cash and cash equivalents at end of period** | **15,817** | **21,462** |

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

# Reconciliation of Operating Results and Operating Cash Flows

For the year ended 31 December 2020

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Profit for the period** | **230,776** | **175,262** |
| | | |
| **Adjustments for:** | | |
| Depreciation and amortisation expense | 8,097 | 7,833 |
| Impairment on property, plant and equipment | 3,431 | - |
| Fair value movement of investment property | (221,142) | (165,252) |
| Net finance costs paid | 13,496 | 15,405 |
| Income tax credit | (9,041) | (1,701) |
| Deferred management fee amortisation | (60,752) | (52,470) |
| Employee share plan option cost | 1,576 | 1,256 |
| Other non-cash items | 90 | 271 |
| | **(264,245)** | **(194,658)** |
| | | |
| **Movements in working capital** | | |
| Decrease/(increase) in trade and other receivables | 1,632 | (10,724) |
| Increase in employee benefits | 4,004 | 1,980 |
| Increase in trade and other payables | 903 | 624 |
| Increase in residents' loans net of non-cash amortisation | 293,777 | 265,412 |
| | **300,316** | **257,292** |
| | | |
| **Net cash flow from operating activities** | **266,847** | **237,896** |

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

# Notes to the financial statements

For the year ended 31 December 2020

## 1. Summary of accounting policies

### Reporting entity

The consolidated financial statements presented for the year ended 31 December 2020 are for Summerset Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). The Group develops, owns and operates integrated retirement villages in New Zealand, including independent living, care centres with rest home and hospital-level care and memory care centres. The Group also owns land for development of retirement villages in Australia.

Summerset Group Holdings Limited is registered in New Zealand under the Companies Act 1993 and is a FMC Reporting Entity for the purposes of the Financial Markets Conduct Act 2013. The reporting entity is listed on the New Zealand Stock Exchange (NZX), being the Company's primary exchange, and is listed on the Australian Securities Exchange (ASX) as a foreign exempt listing.



### Basis of preparation

These consolidated financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP), except for Note 2: Non-GAAP underlying profit, which is presented in addition to NZ GAAP compliant information. NZ GAAP in this instance refers to New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards.

These financial statements are expressed in New Zealand dollars, which is the Company's and New Zealand subsidiaries' functional currency. The functional currency of the Company's Australian subsidiaries is Australian dollars. All financial information has been rounded to the nearest thousand, unless otherwise stated.

All amounts are shown exclusive of goods and services tax (GST), except for trade receivables and trade payables, and except where the amount of GST incurred is not recoverable. When this occurs, GST is recognised as part of the cost of the asset or as an expense as applicable.

The measurement basis adopted in the preparation of these financial statements is historical cost, with the exception of the items noted below.

- Interest rate swaps – Note 14
- Investment property – Note 11
- Land and buildings – Note 9
- Retail bonds – Note 17

### Basis of consolidation

Subsidiaries are fully consolidated at the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group transactions and balances arising within the Group are eliminated in full.

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

# Notes to the financial statements (continued)

The New Zealand subsidiaries are:

| | |
|---|---|
| Summer Land Developments Limited | Summerset Villages (Milldale) Limited |
| Summerset Care Limited | Summerset Villages (Napier) Limited |
| Summerset Holdings Limited | Summerset Villages (Nelson) Limited |
| Summerset LTI Trustee Limited | Summerset Villages (New Plymouth) Limited |
| Summerset Management Group Limited | Summerset Villages (Number 42) Limited |
| Summerset Properties Limited | Summerset Villages (Number 43) Limited |
| Summerset Retention Trustee Limited | Summerset Villages (Number 44) Limited |
| Summerset Villages (Aotea) Limited | Summerset Villages (Number 45) Limited |
| Summerset Villages (Avonhead) Limited | Summerset Villages (Palmerston North) Limited |
| Summerset Villages (Bell Block) Limited | Summerset Villages (Papamoa) Limited |
| Summerset Villages (Blenheim) Limited | Summerset Villages (Paraparaumu) Limited |
| Summerset Villages (Cambridge) Limited | Summerset Villages (Parnell) Limited |
| Summerset Villages (Casebrook) Limited | Summerset Villages (Prebbleton) Limited |
| Summerset Villages (Dunedin) Limited | Summerset Villages (Rangiora) Limited |
| Summerset Villages (Ellerslie) Limited | Summerset Villages (Richmond) Limited |
| Summerset Villages (Half Moon Bay) Limited | Summerset Villages (Rototuna) Limited |
| Summerset Villages (Hamilton) Limited | Summerset Villages (St Johns) Limited |
| Summerset Villages (Hastings) Limited | Summerset Villages (Taupo) Limited |
| Summerset Villages (Havelock North) Limited | Summerset Villages (Te Awa) Limited |
| Summerset Villages (Hobsonville) Limited | Summerset Villages (Trentham) Limited |
| Summerset Villages (Karaka) Limited | Summerset Villages (Waikanae) Limited |
| Summerset Villages (Katikati) Limited | Summerset Villages (Wanganui) Limited |
| Summerset Villages (Kenepuru) Limited | Summerset Villages (Warkworth) Limited |
| Summerset Villages (Levin) Limited | Summerset Villages (Whangarei) Limited |
| Summerset Villages (Lower Hutt) Limited | Summerset Villages (Wigram) Limited |
| Summerset Villages (Manukau) Limited | Welhom Developments Limited |



The Australian subsidiaries are:

| | |
|---|---|
| Summerset Care (Australia) Pty Limited | Summerset Villages (Number 3) Pty Limited |
| Summerset Holdings (Australia) Pty Limited | Summerset Villages (Number 4) Pty Limited |
| Summerset Management Group (Australia) Pty Limited | Summerset Villages (Number 5) Pty Limited |
| Summerset Villages (Cranbourne North) Pty Limited | Summerset Villages (Number 6) Pty Limited |
| Summerset Villages (Number 2) Pty Limited | Welhom Developments (Australia) Pty Limited |

## Accounting policies

Accounting policies that summarise the measurement basis used and that are relevant to the understanding of the financial statements are provided throughout the accompanying notes.

The accounting policies adopted have been applied consistently throughout the periods presented in these financial statements.

The Group adopted all mandatory new and amended NZ IFRS Standards and Interpretations. and there has been no material impact on the Group's financial statements.

There are no new standards, amendments or interpretations that have been issued and are not yet effective, that are expected to have a significant impact on the Group.

## Critical accounting estimates and judgements

In preparing the financial statements, management has made estimates and assumptions about the future that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from those estimates.

Estimates and assumptions are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The principal areas of judgement in preparing these financial statements are described in the following notes:

- Deferred management fees – Note 4
- Deferred taxation – Note 7
- Interest rate swaps – Note 14

- Leases – Note 16
- Revenue in advance – Note 4
- Valuation of investment property – Note 11
- Valuation of land and buildings – Note 9
- Valuation of retail bonds – Note 17

### Comparative information

No comparatives have been restated in the current year.

## 2. Non-GAAP underlying profit

| | Ref | 2020<br>$000 | 2019<br>$000 |
|---|---|---|---|
| Profit for the period | | 230,776 | 175,262 |
| Less fair value movement of investment property | a) | (221,142) | (165,252) |
| Add impairment of assets | b) | 3,431 | - |
| Add realised gain on resales | c) | 46,072 | 36,901 |
| Add realised development margin | d) | 48,208 | 60,973 |
| Less deferred tax credit | e) | (9,041) | (1,701) |
| **Underlying profit** | | **98,304** | **106,182** |



Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property, impairment 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 a measure that the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

This statement presented is for the Group, prepared in accordance with the Basis of preparation: underlying profit described below.

### Basis of preparation: underlying profit

Underlying profit is determined by taking profit for the period determined under NZ IFRS, adjusted for the impact of the following:

a) Less fair value movement of investment property: reversal of investment property valuation changes recorded in NZ IFRS profit for the period, which comprise both realised and non-realised valuation movements. This is reversed and replaced with realised development margin and realised resale gains during the period, effectively removing the unrealised component of the fair value movement of investment property.

b) Add impairment of assets: remove the impact of non-cash care centre valuation changes recorded in NZ IFRS profit for the period. Care centres are valued at least every three years (last valued as at 31 December 2020), with fair value gains flowing through to the revaluation reserve unless the gain offsets a previous impairment to fair value that was recorded in NZ IFRS profit for the period. Where there is any impairment of a care centre, or reversal of a previous impairment that impacts NZ IFRS profit for the period, this is eliminated for the purposes of determining underlying profit.

c) Add realised gain on resales: add the realised gains across all resales of occupation rights during the period. The realised gain for each resale is determined to be the difference between the licence price for the previous occupation right for a retirement unit and the occupation right resold for that same retirement unit during the period. Realised resale gains are a measure of the cash generated from increases in selling prices of occupation rights to incoming residents, less cash amounts repaid to vacated residents for the repayment of the price of their refundable occupation right purchased in an earlier period, with the recognition point being the cash settlement. Realised resale gains exclude deferred management fees and refurbishment costs.

d) Add realised development margin: add realised development margin across all new sales of occupation rights during the period, with the recognition point being the cash settlement. Realised development margin is the margin earned on the first time sale of an occupation right following the development of a retirement unit. The margin for each new sale is determined to be the licence price for the occupation right, less the cost of developing that retirement unit.

# Notes to the financial statements (continued)

Components of the cost of developing units include directly attributable construction costs and a proportionate share of the following costs:

- Infrastructure costs
- Land cost on the basis of the purchase price of the land
- Interest during the build period
- Head office costs directly related to the construction of units

All costs above include non-recoverable GST.

Development margin excludes the costs of developing common areas within the retirement village (including a share of the proportionate costs listed above). This is because these areas are assets that support the sale of occupation rights for not just the new sale but for all subsequent resales. It also excludes the costs of developing care centres, which are treated as property, plant and equipment for accounting purposes.

Where costs are apportioned across more than one asset, the apportionment methodology is determined by considering the nature of the cost.

e) Add/(less) deferred tax expense/(credit): reversal of the impact of deferred taxation.

Underlying profit does not include any adjustments for abnormal items or fair value movements on financial instruments that are included in NZ IFRS profit for the period.

## 3. Segment reporting

The Group operates in one industry, being the provision of integrated retirement villages. The services provided across all of the Group's villages are similar, as are the type of customer and the regulatory environment. The chief operating decision makers, the Chief Executive Officer and the Board of Directors, review the operating results of the Group as a whole on a regular basis. On this basis, the Group has one reportable segment, and the Group results are the same as the results of the reportable segment. All resource allocation decisions across the Group are made to optimise the consolidated Group's result.

The Group continues to proceed with its expansion into Australia. Two Australian sites were purchased in 2019. It is intended that these sites will be developed into retirement villages. To date the expenditure incurred and assets acquired in Australia have been immaterial to the Group and so are not reported as a separate operating segment as at 31 December 2020.



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 2020 amounted to $36.2 million (2019: $32.2 million). No other customers individually contribute a significant proportion of the Group revenue. All revenue is earned in New Zealand.

## 4. Revenue

Care fees and village services income are recognised over the period in which the service is rendered.

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 Group averages, are estimated to be seven to eight years for villas, five years for apartments, three years for serviced apartments and memory care apartments and two years for care suites. Where the deferred management fees over the contractual period exceed the amortisation of the deferred management fee based on estimated tenure, the amount is recorded as a liability (revenue in advance). At balance date, the majority of the revenue in advance balance is non-current. Deferred management fees are recognised on a gross basis in the receipts for residents' loans section of the statement of cash flows.

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

## 5. Operating expenses

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Employee expenses | 90,691 | 72,921 |
| Property-related expenses | 16,187 | 13,589 |
| Repairs and maintenance expenses | 5,824 | 5,185 |
| Other operating expenses | 34,103 | 30,703 |
| **Total operating expenses** | **146,805** | **122,399** |

Other operating expenses include:

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Remuneration paid to auditors: | | |
| - Audit and other assurance related services review of financial statements | 205 | 194 |
| Donations | 34 | 58 |
| Rent[1] | 158 | 217 |

*1 Outgoings and short term and low value amounts exempt under NZ IFRS 16 - Leases.*



Employee expenses include post-employment benefits (KiwiSaver/Superannuation) of $2.3 million (2019: $2.0 million).

During the year the Group received a $8.6 million one-off Government wage subsidy in relation to COVID-19. The subsidy related to a 12-week period between March and June 2020. Although the Group was entitled to receive the wage subsidy, the Directors subsequently determined that it was appropriate to return the subsidy back to the Government and the full $8.6 million was repaid on 23 December 2020. This resulted in a net nil impact to other operating expenses for the year ended 31 December 2020.

The Group also received an additional $0.7 million of funding as part of the Government's package to support residential aged care providers to keep COVID-19 at bay. This funding has been recorded as a deduction to other operating expenses.

Included in the above operating expenses is $9.2 million of additional costs incurred as a result of COVID-19.

## 6. Net finance costs

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Interest on bank loans, retail bonds and related fees | 22,156 | 22,664 |
| Interest on interest rate swaps | 3,193 | 2,623 |
| Interest on lease liability | 466 | 442 |
| Capitalised finance costs | (12,323) | (10,481) |
| Fair value movement of interest rate swaps through profit or loss | (5,795) | (7,991) |
| Fair value movement of retail bonds designated as fair value through profit or loss | 5,782 | 8,082 |
| Other | 17 | 66 |
| **Net finance costs** | **13,496** | **15,405** |

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

# Notes to the financial statements (continued)

Borrowing costs are capitalised for property, plant and equipment (Note 9), and investment property (Note 11), if they are directly attributable to the construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset commence and expenditure and borrowing costs are incurred. Capitalisation of borrowing costs continues until the assets are substantially ready for their intended use.

Borrowing costs of $12.3 million (2019: $10.5 million) have been capitalised during the period of construction in the current year. The weighted average capitalisation rate on funds borrowed representing the borrowing costs of the loans used to finance projects is 3.15% per annum (2019: 3.87% per annum).

Two of the Group's retail bonds are designated in a fair value hedging relationship. Details of fair value hedging are included in Note 14.

## 7. Income tax

Tax expense comprises current and deferred tax, calculated using the tax rate enacted or substantively enacted at balance date and any adjustment to tax payable in respect of prior years. Tax expense is recognised in the income statement, except when it relates to items recognised directly in the statement of comprehensive income, in which case the tax expense is recognised in the statement of comprehensive income.

Deferred tax expense is recognised in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. A deferred tax asset is recognised only to the extent that it is probable it will be utilised. Temporary differences for the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, unless they arise from business combination, are not provided for.

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.

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



| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Tax expense comprises:** | | |
| Deferred tax relating to the origination and reversal of temporary differences | (9,041) | (1,701) |
| **Total tax credit reported in income statement** | **(9,041)** | **(1,701)** |

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:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | $000 | % | $000 | % |
| **Profit before income tax** | **221,735** | | **173,561** | |
| Income tax using the corporate tax rate | 62,086 | 28.0% | 48,597 | 28.0% |
| Capitalised interest | (3,450) | (1.6%) | (2,935) | (1.7%) |
| Other non-deductible expenses | 208 | 0.1% | 399 | 0.2% |
| Non-assessable investment property revaluations | (62,501) | (28.2%) | (46,271) | (26.7%) |
| Reinstatement of tax depreciation on non-residential buildings | (6,008) | (2.7%) | - | 0.0% |
| Other | 180 | 0.1% | (1,681) | (1.0%) |
| Prior period adjustments | 444 | 0.2% | 190 | 0.1% |
| **Total income tax credit** | **(9,041)** | **(4.1%)** | **(1,701)** | **(1.0%)** |

Total Group tax losses available amounted to $250.5 million (2019: $184.0 million). There are no unrecognised tax losses for the Group at 31 December 2020 (2019: nil).

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Tax expense comprises:** | | |
| Net gain on revaluation of land and buildings | 3,145 | - |
| Fair value movement of interest rate swaps | (1,981) | (1,964) |
| **Total tax expense/(credit) reported in statement of comprehensive income** | **1,164** | **(1,964)** |

### (c) Amounts charged or credited directly to equity

| | 2020 $000 | 2019 $000 |
|---|---|---|
| **Tax expense comprises:** | | |
| Deferred tax relating to employee share option plans | (1,812) | - |
| **Total tax credit reported directly in equity** | **(1,812)** | **-** |

### (d) Imputation credit account

There were no imputation credits received or paid during the year and the balance at 31 December 2020 is nil (2019: nil).

### (e) Deferred tax

Movement in the deferred tax balance comprises:

| | BALANCE 1 JAN 2020 $000 | RECOGNISED IN INCOME $000 | RECOGNISED DIRECTLY IN EQUITY $000 | RECOGNISED IN OCI* $000 | BALANCE 31 DEC 2020 $000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 17,607 | (6,581) | - | 3,145 | 14,171 |
| Investment property | 29,188 | 6,043 | - | - | 35,231 |
| Revenue in advance | 23,479 | 11,680 | - | - | 35,159 |
| Interest rate swaps | (5,901) | - | - | (1,981) | (7,882) |
| Income tax losses not yet utilised | (51,631) | (18,678) | - | - | (70,309) |
| Other items | (223) | (1,505) | (1,812) | - | (3,540) |
| **Net deferred tax liability** | **12,519** | **(9,041)** | **(1,812)** | **1,164** | **2,830** |

| | BALANCE 1 JAN 2019 $000 | RECOGNISED IN INCOME $000 | RECOGNISED IN OCI* $000 | BALANCE 31 DEC 2019 $000 |
|---|---|---|---|---|
| Property, plant and equipment | 17,062 | 545 | - | 17,607 |
| Investment property | 24,111 | 5,077 | - | 29,188 |
| Revenue in advance | 11,650 | 11,829 | - | 23,479 |
| Interest rate swaps | (3,937) | - | (1,964) | (5,901) |
| Income tax losses not yet utilised | (31,802) | (19,829) | - | (51,631) |
| Other items | (900) | 677 | - | (223) |
| **Net deferred tax liability** | **16,184** | **(1,701)** | **(1,964)** | **12,519** |

* Other comprehensive income

# Notes to the financial statements (continued)

### (f) Income tax legislation amendments during the period

During the period, the Income Tax Act 2007 in New Zealand was amended to restore tax depreciation deductions for non-residential buildings. This amendment resulted in a $6.0 million credit to tax expense during the period and a corresponding reduction in the deferred tax liability related to property, plant and equipment.

## 8. Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses. 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. The allowance for doubtful debts is made up of expected credit losses based on assessment of trade receivables debt at the individual level for impairment, plus an additional allowance on the remaining balance for potential credit losses not yet identified. The expected credit losses allowance requirement on the remaining balance has been set at 2%.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Trade receivables | 3,357 | 2,912 |
| Allowance for doubtful debts | (237) | (169) |
| **Net trade receivables** | **3,120** | **2,743** |
| Prepayments | 12,215 | 8,331 |
| Accrued income | 1,092 | 923 |
| Sundry debtors | 16,968 | 24,665 |
| **Total trade and other receivables** | **33,395** | **36,662** |



## 9. Property, plant and equipment

Property, plant and equipment includes care centres, both complete and under development, and corporate assets held.

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 care centres includes directly attributable construction costs and other costs necessary to bring the care centres to working condition for their intended use. These other costs include professional fees and consents, interest during the build period and head office costs directly related to the construction of the care centres. Where costs are apportioned across more than one asset, the apportionment methodology is determined by considering the nature of the cost.

Subsequent to initial recognition, completed care centres are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on care centres and accumulated impairment losses, if any, since the assets were last revalued. Other corporate assets are 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.

Note 6 provides details on capitalised borrowing costs.

Depreciation is charged to the income statement on a straight-line (SL) basis over the estimated useful life of each item of property, plant and equipment, with the exception of land, which is not depreciated. Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Major depreciation rates are as follows:

- Buildings (2% to 13% SL)
- Motor vehicles (10% SL)
- Furniture and fittings (7% to 20% SL)
- Plant and equipment (2% to 50% SL)

Also included in the buildings category is building fit-out.

Right of use assets are depreciated on a SL basis over the term of their lease. Refer to Note 16.

| | LAND AND BUILDINGS $000 | MOTOR VEHICLES $000 | PLANT AND EQUIPMENT $000 | FURNITURE AND FITTINGS $000 | RIGHT OF USE ASSETS $000 | TOTAL $000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 January 2019 | 123,104 | 1,545 | 12,603 | 7,303 | - | 144,555 |
| Additions | 15,394 | 354 | 2,866 | 202 | 9,203 | 28,019 |
| Disposals | - | (66) | - | - | - | (66) |
| **Balance at 31 December 2019** | **138,498** | **1,833** | **15,469** | **7,505** | **9,203** | **172,508** |
| Additions | 17,511 | 617 | 6,326 | 1,285 | 1,806 | 27,545 |
| Transfer | (2,885) | - | - | - | - | (2,885) |
| Impairment through profit or loss | (3,634) | - | - | - | - | (3,634) |
| Net revaluations through other comprehensive income | 5,882 | - | - | - | - | 5,882 |
| **Balance at 31 December 2020** | **155,372** | **2,450** | **21,795** | **8,790** | **11,009** | **199,416** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| Balance at 1 January 2019 | 2,307 | 857 | 5,661 | 2,984 | - | 11,809 |
| Depreciation charge for the year | 2,357 | 161 | 2,189 | 1,144 | 910 | 6,761 |
| Disposals | - | (66) | - | - | - | (66) |
| **Balance at 31 December 2019** | **4,664** | **952** | **7,850** | **4,128** | **910** | **18,504** |
| Depreciation charge for the year | 2,537 | 186 | 2,078 | 1,070 | 1,144 | 7,015 |
| Transfer | (168) | - | - | - | - | (168) |
| Impairment through profit or loss | (203) | - | - | - | - | (203) |
| Net revaluations through other comprehensive income | (6,830) | - | - | - | - | (6,830) |
| **Balance at 31 December 2020** | **-** | **1,138** | **9,928** | **5,198** | **2,054** | **18,318** |
| | | | | | | |
| **Carrying amounts** | | | | | | |
| As at 31 December 2019 | 133,834 | 881 | 7,619 | 3,377 | 8,293 | 154,004 |
| **As at 31 December 2020** | **155,372** | **1,312** | **11,867** | **3,592** | **8,955** | **181,098** |

Buildings include $16.9 million of care centres under development carried at cost at 31 December 2020 (2019: $20.4 million). Right of use assets relate to the Group's leased office premises and car park spaces; refer to Note 16 for further information.

# Notes to the financial statements (continued)

### Transfer

As at 31 December 2020, a number of care rooms have been decommissioned as they are to be converted to serviced apartments and accordingly have been transferred from property, plant and equipment to investment property. The care rooms were transferred to investment property at their fair value which totalled $2.5 million. An impairment loss of $0.2 million was recognised on transfer via the revaluation reserve.

### Revaluations

An independent valuation to determine the fair value of all completed care centres that are classified as land and buildings was carried out as at 31 December 2020 by CBRE Limited ("CBRE NZ"), an independent registered valuer. Valuations are carried out every three years unless there are indicators of a significant change in fair value. CBRE NZ determines the fair value of all care centre assets using an earnings-based multiple approach and the amount apportioned to goodwill of $18.9 million is not recognised (2017: $16.8 million). Significant assumptions used in the most recent valuation include market value per care bed of between $71,300 and $231,600, and individual unit earning capitalisation rate of between 11.0% and 13.5%.

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

### Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

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

### Cost model

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

| | 2020<br>LAND AND BUILDINGS $000 | 2019<br>LAND AND BUILDINGS $000 |
|---|---|---|
| Cost | 126,225 | 111,599 |
| Accumulated depreciation and impairment losses | (18,971) | (16,602) |
| **Net carrying amount** | **107,254** | **94,997** |

### Security

At 31 December 2020, all care centres held by retirement villages registered under the Retirement Villages Act 2003 are subject to a registered first mortgage in favour of the Statutory Supervisor.

## 10. 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 SL basis over the estimated useful lives of intangible assets from the date that they are available for use. The intangible assets are software and the amortisation rates at 31 December 2020 are between 10-20% SL basis.

| | TOTAL $000 |
|---|---|
| **Cost** | |
| Balance at 1 January 2019 | 9,804 |
| Additions | 567 |
| **As at 31 December 2019** | **10,371** |
| Additions | 668 |
| **As at 31 December 2020** | **11,039** |
| **Accumulated amortisation** | |
| Balance at 1 January 2019 | 3,176 |
| Amortisation charge for the year | 1,072 |
| **As at 31 December 2019** | **4,248** |
| Amortisation charge for the year | 1,082 |
| **As at 31 December 2020** | **5,330** |
| **Carrying amounts** | |
| As at 31 December 2019 | 6,123 |
| **As at 31 December 2020** | **5,709** |

# Notes to the financial statements (continued)

## 11. Investment property

Investment property is held to earn current and future rental income (deferred management fees). It comprises land and buildings, and associated equipment and furnishings, relating to retirement villages and common facilities in the retirement village. Investment property includes buildings under development, excluding care centres under development, which are included in property, plant and equipment. Initial recognition of investment property is at cost and it is subsequently measured at fair value, with any change in fair value recognised in the income statement.

The cost of retirement villages includes directly attributable construction costs and other costs necessary to bring the retirement villages to working condition for their intended use. These other costs include professional fees and consents, interest during the build period and head office costs directly related to the construction of the retirement villages. Where costs are apportioned across more than one asset, the apportionment methodology is determined by considering the nature of the cost.

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

Rental income from investment property, being deferred management fees, is accounted for as described in Note 4.

Depreciation is not charged on investment property.

Note 6 provides details on capitalised borrowing costs.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Balance at beginning of period | 3,107,014 | 2,585,049 |
| Additions | 309,024 | 356,713 |
| Disposals | (920) | - |
| Transfer from property, plant and equipment | 2,500 | - |
| Fair value movement | 221,142 | 165,252 |
| **Total investment property** | **3,638,760** | **3,107,014** |

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Development land measured at fair value[1] | 335,694 | 305,148 |
| Retirement villages measured at fair value | 2,973,040 | 2,580,855 |
| Retirement villages under development measured at cost | 330,026 | 221,011 |
| **Total investment property** | **3,638,760** | **3,107,014** |

*1 Included in development land are pieces of land that were acquired close to balance date and as such were excluded from the valuation of investment property. These pieces of land have been accounted for at cost, which has been determined to be fair value due to the proximity of the transaction to balance date. At 31 December 2020 the land at cost was $9.9 million (2019: $74.9 million).*

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Manager's net interest | 2,003,725 | 1,688,265 |
| Plus: revenue received in advance | 114,737 | 91,142 |
| Plus: liability for residents' loans | 1,520,298 | 1,327,607 |
| **Total investment property** | **3,638,760** | **3,107,014** |

The Group is unable to reliably determine the fair value of non-land retirement villages under development at 31 December 2020 and therefore these are carried at cost. This equates to $330.0 million of investment property (2019: $221.0 million).

The fair value of investment property as at 31 December 2020 was determined by independent registered valuers CBRE Limited ("CBRE NZ") and Jones Lang LaSalle Limited ("JLL") for villages including land in New Zealand and CBRE Valuations Pty Limited ("CBRE AU") for land in Australia. The fair value of the Group's investment property is determined on a semi-annual basis, based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

As required by NZ IAS 40 - *Investment Property*, the fair value as determined by the independent registered valuer is adjusted for assets and liabilities already recognised on the balance sheet which are also reflected in the cash flow analysis.

To assess the fair value of the Group's interest in each New Zealand village, CBRE NZ and JLL have undertaken a cash flow analysis to derive a net present value. The Group's development land has been valued by CBRE NZ using the direct comparison approach.

Each valuer continues to review market conditions in relation to the COVID-19 global pandemic. Since 30 June 2020 the level of uncertainty and unknown impact has decreased with markets becoming more used to operating under COVID-19 conditions. Because of this, the valuers have reversed their COVID-19 specific adjustments relating to near term growth rates and recycle frequencies when determining value at 31 December 2020.

The valuers' view is that the longer-term economic impact as a result of COVID-19 on the New Zealand aged care sector still remains largely unknown with comparable transactions and market evidence since the outbreak limited. Therefore they advise that a higher degree of caution should be exercised when relying upon the valuation.

Significant assumptions used by CBRE NZ and JLL in relation to the New Zealand investment property include a discount rate of between 13.5% and 16.5% (2019: 13.5% to 16.5%), and a long-term nominal house price inflation rate (growth rate) of between 0% and 3.5% (2019: 0% to 3.5%). Other assumptions used include the average entry age of residents of between 72 years and 90 years (2019: 72 years and 91 years), and the stabilised departing occupancy periods of units of between 3.7 years and 9.0 years (2019: 3.6 years and 8.8 years).

Two sites under development in Australia have been valued separately by CBRE AU. The Cranbourne North land was valued under the same methodology as development land in New Zealand. The Torquay land was valued under a modified direct comparison approach which takes into account the gross realisation of the proposed units 'as if complete'.

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



## Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

To assess the market value of the Group's interest in a retirement village, CBRE and JLL have undertaken a cash flow analysis to derive a net present value. As the fair value of investment property is determined using inputs that are significant and unobservable, the Group has categorised investment property as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 - *Fair Value Measurement*.

The sensitivities of the significant assumptions are shown in the table below:

| | Adopted value[1] | Discount rate +50 bp | Discount rate -50 bp | Growth rates +50bp | Growth rates -50bp |
|---|---|---|---|---|---|
| **31 December 2020** | | | | | |
| Valuation ($000) | 1,142,825 | | | | |
| Difference ($000) | | (40,635) | 43,395 | 53,550 | (70,865) |
| Difference (%) | | (3.6%) | 3.8% | 4.7% | (6.2%) |
| **31 December 2019** | | | | | |
| Valuation ($000) | 963,530 | | | | |
| Difference ($000) | | (34,320) | 36,610 | 57,812 | (52,994) |
| Difference (%) | | (3.6%) | 3.8% | 6.0% | (5.5%) |

*1 Completed units excluding unsold stock.*

# Notes to the financial statements (continued)

Other key components in determining the fair value of investment property are the average entry age of residents and the average occupancy of units. A significant decrease (increase) in the occupancy period of units would result in a significantly higher (lower) fair value measurement, and a significant increase (decrease) in the average entry age of residents would result in a significantly higher (lower) fair value measurement.

### Operating expenses

Direct operating expenses arising from investment property during the period amounted to $41.1 million (2019: $34.3 million).

### Security

At 31 December 2020, all investment property relating to registered retirement villages under the Retirement Villages Act 2003 are subject to a registered first mortgage in favour of the Statutory Supervisor to secure the Group's obligations to the occupation right agreement holders.

## 12. Trade and other payables

Trade and other payables are carried at amortised cost. Due to their short-term nature they are not discounted.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Trade payables | 3,687 | 2,071 |
| Accruals - development of retirement units and care centres | 118,185 | 114,735 |
| Accruals - other | 14,275 | 13,480 |
| Short-term advance | 15,750 | - |
| Sundry payables | 6,713 | 4,394 |
| **Total trade and other payables** | **158,610** | **134,680** |



## 13. Employee benefits

A provision is made for benefits accruing to employees in respect of wages, salaries, annual leave and short-term incentives when it is probable that settlement will be required and the amount can be estimated reliably.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Leave liabilities | 8,284 | 5,755 |
| Other employee benefits | 7,154 | 5,679 |
| **Total employee benefits** | **15,438** | **11,434** |

## 14. Interest rate swaps

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.

### Cash flow hedges

The Group has entered into interest rate swaps to manage its interest rate risk in relation to its floating rate debt. These interest rate swaps qualify for cash flow hedge accounting. 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.

Under the interest rate swap agreements that qualify for cash flow hedge accounting, the Group has a right to receive interest at variable rates and to pay interest at fixed rates. At 31 December 2020, the Group had interest rate swap agreements in place with a total notional principal amount of $337.0 million (2019: $377.0 million). Of the swaps in place, at 31 December 2020 $312.0 million (2019: $292.0 million) are being used to cover approximately 45% (2019: 49%) of the floating rate debt 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 1.22% and 3.87% (2019: 1.22% and 4.43%).

The fair value of these agreements at 31 December 2020 is a $28.2 million liability, comprised of $29.2 million of swap liabilities and $1.0 million of swap assets (2019: liability of $21.1 million, comprised of $22.6 million of swap liabilities and $1.5 million of swap assets). Of this, a liability of $274,000 is estimated to be current (2019: $515,000). The agreements cover notional amounts for terms of up to eight years.

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

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Less than 1 year | 25,000 | 40,000 |
| Between 1 and 2 years | 70,000 | 25,000 |
| Between 2 and 3 years | - | 70,000 |
| Between 3 and 4 years | 105,000 | 45,000 |
| Between 4 and 5 years | - | 60,000 |
| Between 5 and 6 years | 77,000 | 25,000 |
| Between 6 and 7 years | 50,000 | 52,000 |
| Between 7 and 8 years | 10,000 | 50,000 |
| Between 8 and 9 years | - | 10,000 |
| **Total** | **337,000** | **377,000** |
| | | |
| Current | 312,000 | 292,000 |
| Forward starting | 25,000 | 85,000 |
| **Total** | **337,000** | **377,000** |

### Fair value hedges

The Group has entered into interest rate swaps to manage its interest rate risk in relation to its fixed rate debt arising from the retail bonds. The hedge is for the future fair value movements in the retail bonds as a result of market interest rate movements. The Group has designated $225.0 million of its retail bonds in fair value hedge relationships.

Both the hedging instrument (interest rate swap) and the hedged risk are recognised at fair value. The change in the fair value of both items offset in the statement of comprehensive income to the extent the hedging relationship is effective. The increase in fair value of the interest rate swaps of $5.8 million (2019: $8.0 million) has been recognised in finance costs and has been offset with a similar fair value loss on the retail bonds to leave an ineffective amount in finance costs of $13,000 (2019: $92,000).

Under the interest rate swap agreements that qualify for fair value hedge accounting, the Group has a right to receive interest at fixed rates and to pay interest at floating rates. At 31 December 2020, the Group had interest rate swap agreements in place with a total notional principal amount of $225.0 million (2019: $225.0 million). Of the interest rate swaps in place, at 31 December 2020 $225.0 million (2019: $225.0 million) are being used to cover 60% (2019: 100%) of the fixed interest rate retail bonds outstanding.

# Notes to the financial statements (continued)

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Between 3 and 4 years | 100,000 | 100,000 |
| Between 4 and 5 years | - | - |
| Between 5 and 6 years | 125,000 | 125,000 |
| **Total** | **225,000** | **225,000** |
| | | |
| Current | 225,000 | 225,000 |
| **Total** | **225,000** | **225,000** |

## 15. Residents' loans

Residents' loans are amounts payable under occupation right agreements. An occupation right agreement confers a right of occupancy to a villa, apartment, serviced apartment, care suite or memory care apartment. The consideration received on the grant of an occupation right agreement is allocated to the resident's loan in full. 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 retirement 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's 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 Note 4 for further detail on recognition of deferred management fee revenue.

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Balance at beginning of period | 1,599,854 | 1,355,535 |
| Net receipts for residents' loans - resales of occupation right agreements | 27,830 | 26,294 |
| Receipts for residents' loans - new occupation right agreements | 245,052 | 218,025 |
| **Total gross residents' loans** | **1,872,736** | **1,599,854** |
| Deferred management fees and other receivables | (352,438) | (272,247) |
| **Total residents' loans** | **1,520,298** | **1,327,607** |

Note 18 provides a split between current and non-current residents' loans.

## 16. Leases

The leases to which NZ IFRS 16 applies are the leases of office premises and car parks occupied by the Group in New Zealand and Australia. In respect of these leases, a right of use asset is disclosed along with a corresponding lease liability. The right of use assets are depreciated on a SL basis, while the lease liability is measured at the present value of the lease payments that are not yet paid, discounted using the Group's incremental borrowing rate.

The Group has elected not to recognise right of use assets and lease liabilities for short-term leases of office spaces, car parks and information technology equipment that have a lease term of 12 months or less, or as a transitional expedient, have less than 12 months left on the lease term as at the date of application of NZ IFRS 16. The Group recognises the lease payments associated with these leases as incurred as a rental expense over the lease term.

Right of use assets are classified as property, plant and equipment and lease liabilities are disclosed as such in the Group's statement of financial position.

The following practical expedients have been utilised in relation to the Group's operating leases as lessee:

- A single discount rate has been applied to a portfolio of leases with reasonably similar characteristics
- Leases with a term ending within 12 months of the date of application have been treated as short term leases
- Initial direct costs have been excluded from the measurement of the right of use asset at the date of initial application
- Exclusion of leases for which the underlying asset is of low value

The weighted average incremental borrowing rates used to measure lease liabilities at the date of application are between 3.80% and 4.67% (2019: 4.17% and 4.67%).

When the Group has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances, including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help determine the lease term. Other assumptions and judgements used by management include calculating the appropriate discount rate.

As a direct result of the COVID-19 pandemic the Group, as a lessee, received $60,000 in rent concessions over a three-month period from April to June 2020. Management has applied the COVID-19 practical expedient, issued by the IASB in May 2020, and has accounted for the rent concessions as if they were not lease modifications. The rent concessions have instead been accounted for as a reduction to operating expenses.

## As a lessee

*Right of use assets disclosed:*

| | 2020<br>Buildings<br>$000 | 2019<br>Buildings<br>$000 |
|---|---|---|
| Balance at beginning of period | 8,293 | 8,557 |
| Additions | 1,806 | 646 |
| Depreciation charge for the year | (1,144) | (910) |
| **Balance at end of period** | **8,955** | **8,293** |

*Lease liabilities disclosed:*

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Less than 1 year | 1,123 | 919 |
| Between 1 and 5 years | 4,994 | 4,106 |
| More than 5 years | 5,067 | 5,435 |
| **Total lease liabilities at end of period** | **11,184** | **10,460** |

*Amounts recognised in the profit and loss:*

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| Interest on lease liabilities | 466 | 442 |
| Expenses relating to short-term and low-value asset leases | 4 | 125 |
| Depreciation on right of use assets | 1,144 | 910 |
| **Total amounts recognised in profit or loss** | **1,614** | **1,477** |

# Notes to the financial statements (continued)

### As a lessor

The Group acts as a lessor under occupation right agreements with village residents, along with a small amount of residential rental properties. The assets leased by the group as a lessor are disclosed as investment property and lease income on occupation right agreements is generated in the form of deferred management fees. The lease term is determined to be the greater of the expected period of tenure or the contractual right to revenue. The Group uses the portfolio approach to account for leases of units to village residents and allocates individual leases to different portfolios depending on the type of unit. The Group does not have any sub-leases.

## 17. Interest-bearing loans and borrowings

Interest-bearing loans and borrowings include secured bank loans and unsubordinated fixed-rate retail bonds.

Interest-bearing loans and borrowings are recognised initially at fair value net of directly attributable transaction costs. Subsequent to initial recognition, the borrowings are measured at amortised cost, with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the borrowing using the effective interest rate. The retail bonds SUM010 and SUM020 are designated in fair value hedge relationships, which means that any change in market interest rates result in a change in the fair value adjustment on that debt. Retail bond issue expenses, fees and other costs incurred in arranging retail bond finance are capitalised and amortised over the term of the relevant debt instrument.

| | Coupon | 2020 $000 | 2019 $000 |
|---|---|---|---|
| **Repayable after 12 months** | | | |
| Secured bank loans | Floating | 297,576 | 362,139 |
| Retail bond - SUM010 | 4.78% | 100,000 | 100,000 |
| Retail bond - SUM020 | 4.20% | 125,000 | 125,000 |
| Retail bond - SUM030 | 2.30% | 150,000 | - |
| **Total loans and borrowings at face value** | | **672,576** | **587,139** |
| **Issue costs for retail bonds capitalised:** | | | |
| Opening balance | | (2,688) | (3,290) |
| Capitalised during the period | | (1,876) | - |
| Amortised during the period | | 676 | 602 |
| Closing balance | | (3,888) | (2,688) |
| **Total loans and borrowings at amortised cost** | | **668,688** | **584,452** |
| Fair value adjustment on hedged borrowings | | 18,411 | 12,629 |
| **Carrying value of interest-bearing loans and borrowings** | | **687,099** | **597,081** |

The non-cash movements included in the table above are the issue costs for retail bonds amortised during the period and the fair value adjustment on hedged borrowings.

A summary of the changes in the Group's borrowings is provided below:

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Borrowings at the start of the year | 597,081 | 452,760 |
| Net cash borrowed | 85,436 | 135,637 |
| Cash change in deferred financing costs | (1,876) | - |
| Non-cash change in deferred financing costs | 676 | 602 |
| Non-cash change in fair value adjustment | 5,782 | 8,082 |
| **Borrowings at the end of the year** | **687,099** | **597,081** |

The weighted average interest rate for the year to 31 December 2020 was 3.15% (2019: 3.87%). This includes the impact of interest rate swaps (see Note 14).

The secured bank loan facility at 31 December 2020 has a limit of approximately NZD$750.0 million (2019: $500.0 million). Lending of NZ$315.0 million expires in March 2022, AU$120.0 million expires in November 2023 and NZ$310.0 million expires in November 2024.

The Group has issued three retail bonds. The first retail bond was issued for $100.0 million in July 2017 and has a maturity date of 11 July 2023. This retail bond is listed on the NZX Debt Market (NZDX) with the ID SUM010. The second retail bond was issued for $125.0 million in September 2018 and has a maturity date of 24 September 2025. This retail bond is listed on the NZDX with the ID SUM020. The third retail bond was issued for $150.0 million in September 2020 and has a maturity date of 21 September 2027. This retail bond is listed on the NZDX with the ID SUM030.

### Security

The banks loans and retail bonds rank equally with the Group's other unsubordinated obligations and are secured by the following securities held by a security trustee:

- a first-ranking registered mortgage over all land and permanent buildings owned (or leased under a registered lease) by each New Zealand-incorporated guaranteeing Group member that is not a registered retirement village under the Retirement Villages Act 2003;
- a second-ranking registered mortgage over the land and permanent buildings owned (or leased under a registered lease) by each New Zealand-incorporated guaranteeing Group member that is a registered retirement village under the Retirement Villages Act 2003 (behind a first-ranking registered mortgage in favour of the Statutory Supervisor);
- a first-ranking registered mortgage over all land and permanent buildings owned (or leased under a registered lease) by each Australian-incorporated guaranteeing Group member;
- a General Security Deed, which secures all assets of the New Zealand- incorporated guaranteeing Group members, but in respect of which the Statutory Supervisor has first rights to the proceeds of security enforcement against all assets of the registered retirement villages to which the security trustee is entitled;
- a General Security Deed, which secures all assets of the Australian-incorporated guaranteeing Group members; and
- a Specific Security Deed in respect of each marketable security of Summerset Holdings (Australia) Pty Limited, held by Summerset Holdings Limited.



## 18. Financial instruments

Exposure to credit, market and liquidity risk arises in the normal course of the Group's business. The Board reviews and agrees on policies for managing each of these risks as summarised below.

The Group has seen no material change in its exposure to credit, market and liquidity risk as a result of the COVID-19 pandemic, but it will continue to monitor the situation. Further to this, given the Group's status as an 'essential service' during the COVID-19 pandemic, operations have been allowed to continue largely uninterrupted.

### Categories of financial instruments

*Financial assets*

All financial assets of the Group are classified at amortised cost except for interest rate swaps, which are classified as fair value through profit and loss, and those assets that are designated in a hedge relationship.

*Financial liabilities*

All financial liabilities except interest rate swaps and retail bonds are classified as liabilities at amortised cost. Refer to Note 17 for detail on the retail bonds.

### 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 and bank balances. The Group manages its exposure to credit risk. The Group's cash is held with its principal banker; with the level of exposure to credit risk considered minimal, with low levels of cash generally held. Receivables balances are monitored on an ongoing basis and funds are placed with high-credit-quality financial institutions. The level of risk associated with sundry debtors is considered minimal due to the recoverability of this balance being assessed as high. 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.

There has been no instances of residents or counterparties failing to meet their contractual obligations as a direct result of COVID-19. There has been no change to credit terms and aging of receivables remains consistent with the prior years.

# Notes to the financial statements (continued)

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | GROSS RECEIVABLE $000 | IMPAIRMENT $000 | GROSS RECEIVABLE $000 | IMPAIRMENT $000 |
| Not past due | 2,894 | (44) | 2,624 | (31) |
| Past due 31 to 60 days | 236 | (55) | 90 | (33) |
| Past due 61 to 90 days | 118 | (54) | 31 | (26) |
| Past due more than 90 days | 109 | (84) | 167 | (79) |
| **Total** | **3,357** | **(237)** | **2,912** | **(169)** |

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

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Gross trade receivables | 3,357 | 2,912 |
| Impairment | (237) | (169) |
| **Net trade receivables** | **3,120** | **2,743** |



## 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 entered into interest rate swap agreements in order to provide an effective cash flow hedge against the variability in floating interest rates. The Group has also entered into other interest swap agreements to reduce interest rate repricing risk in relation to retail bonds. See Note 14 for details of interest rate swap agreements.

To comply with the Group's risk management policy, the hedge ratio is based on the interest rate swap notional amount to hedge the same notional amount of bank loans or retail bonds. This results in a hedge ratio of 1:1. This is the same as used for actual risk management purposes, and such a ratio is appropriate for the purposes of hedge accounting as it does not result in an imbalance that would create hedge ineffectiveness.

In these hedge relationships the main sources of ineffectiveness are:

- a significant change in the credit risk of either party to the hedging relationship;
- where the hedge instrument has been transacted on a date different to the rate set date of the bank loan or retail bonds, interest rates could differ; and
- differences in repricing dates between the swaps and the borrowings.

Other than these sources, due to the alignment of the hedged risk in the hedged item and hedged instrument, hedge ineffectiveness is not expected to arise.

At 31 December 2020 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit by approximately $2.8 million (2019: decrease by $3.5 million) and increase total comprehensive income by approximately $8.7 million (2019: increase by $8.0 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 and undrawn banking 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 and related sundry debtors through the contractual requirements of occupation rights agreements, whereby a resident's loan is repaid only on receipt of the loan monies from the incoming resident.

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | 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 | 158,610 | - | 134,680 | - |
| Residents' loans | 118,724 | 1,401,574 | 113,278 | 1,214,329 |
| Interest-bearing loans and borrowings | 20,562 | 706,908 | 22,524 | 491,228 |
| Interest rate swaps | 8,315 | 32,882 | 6,774 | 30,292 |
| Lease liability | 1,123 | 10,061 | 919 | 9,541 |
| **Total** | **307,334** | **2,151,425** | **278,175** | **1,745,390** |

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 to repay residents' loans, net of deferred management fees.

### Foreign currency risk

Foreign currency risk is the risk that the value of the Group's assets, liabilities and financial performance will fluctuate due to changes in foreign currency rates.

The Group is primarily exposed to currency risk through its subsidiaries in Australia.

The risk to the Group is that the value of the overseas subsidiaries' financial position and financial performance will fluctuate in economic terms and as recorded in the Group financial statements due to changes in foreign exchange rates. Due to limited activity in the Australian subsidiaries in 2020, the Group did not have a material exposure to foreign exchange risk.



### Fair values

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | CARRYING AMOUNT $000 | FAIR VALUE $000 | CARRYING AMOUNT $000 | FAIR VALUE $000 |
| Residents' loans | (1,520,298) | (1,082,943) | (1,327,607) | (932,932) |
| Retail bonds | (389,523) | (394,303) | (234,942) | (239,817) |
| **Total** | **(1,909,821)** | **(1,477,246)** | **(1,562,548)** | **(1,172,749)** |

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% (2019: 14%). The fair value of residents' loans is categorised as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

The fair value of retail bonds is based on the price traded at on the NZX market as at 31 December 2020. The fair value of the retail bonds is categorised as Level 1 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

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

# Notes to the financial statements (continued)

### 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 position to support business growth and maximise shareholder value. The Group is subject to capital requirements imposed by the bank lenders (through covenants in the Syndicated Facility Agreement) and bond holders (through covenants in the Master Trust Deed). The Group has met all of these externally imposed capital requirements for the year ended 31 December 2020 (2019: all requirements met). The Group 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 2020 (2019: none).

## 19. Share capital and reserves

At 31 December 2020, there were 228,785,314 ordinary shares on issue (2019: 226,827,675). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

| | 2020<br>$000 | 2019<br>$000 |
|---|---|---|
| **Share capital** | | |
| On issue at beginning of year | 284,074 | 269,467 |
| Shares issued under the dividend reinvestment plan | 11,833 | 11,100 |
| Shares paid under employee share plans | 4,562 | 2,214 |
| Other | - | 37 |
| Employee share plan option cost | 3,030 | 1,256 |
| **On issue at end of year** | **303,499** | **284,074** |



| | 2020 | 2019 |
|---|---|---|
| **Share capital (in thousands of shares)** | | |
| On issue at beginning of year | 224,250 | 221,734 |
| Shares issued under the dividend reinvestment plan | 1,820 | 1,795 |
| Shares issued under employee share plans | 1,003 | 721 |
| **On issue at end of year** | **227,073** | **224,250** |

The total shares on issue at 31 December 2020 of 228,785,314 for the Company differs from the share capital for the Group due to shares held in 100% owned subsidiary, Summerset LTI Trustee Limited. As at 31 December 2020, 1,712,181 shares are held by Summerset LTI Trustee Limited for employee share plans, which are eliminated on consolidation. Refer to Note 21 for further details on employee share plans.

### Revaluation reserve

The revaluation reserve is used to record the revaluation of care centre land and buildings.

### 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.

### Foreign currency translation reserve

The foreign currency translation reserve is used to record the gain on translation of foreign currency subsidiaries to the Group's reporting currency.

### Dividends

On 23 March 2020 a dividend of 7.7 cents per ordinary share was paid to shareholders and on 11 September 2020 a dividend of 6.0 cents per ordinary share was paid to shareholders (2019: on 21 March 2019 a dividend of 7.2 cents per ordinary share was paid to shareholders and on 9 September 2019 a dividend of 6.4 cents per ordinary share was paid to shareholders).

A dividend reinvestment plan applied to the dividends paid. 1,155,370 ordinary shares were issued in relation to the plan for the March 2020 dividend and 665,095 ordinary shares were issued in relation to the plan for the September 2020 dividend. (2019: 866,704 ordinary shares were issued in March 2019 and 928,017 ordinary shares were issued in September 2019).

## 20. Earnings per share and net tangible assets

### Basic earnings per share

| | 2020 | 2019 |
|---|---|---|
| Earnings ($000) | 230,776 | 175,262 |
| Weighted average number of ordinary shares for the purpose of earnings per share (in thousands) | 225,591 | 223,006 |
| **Basic earnings per share (cents per share)** | **102.30** | **78.59** |

### Diluted earnings per share

| | 2020 | 2019 |
|---|---|---|
| Earnings ($000) | 230,776 | 175,262 |
| Weighted average number of ordinary shares for the purpose of earnings per share (diluted) (in thousands) | 227,979 | 226,087 |
| **Diluted earnings per share (cents per share)** | **101.23** | **77.52** |

### Number of shares (in thousands)

| | 2020 | 2019 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of earnings per share (basic) | 225,591 | 223,006 |
| Weighted average number of ordinary shares issued under employee share plans | 2,388 | 3,081 |
| **Weighted average number of ordinary shares for the purpose of earnings per share (diluted)** | **227,979** | **226,087** |

At 31 December 2020, there were a total of 1,712,181 shares issued under employee share plans held by Summerset LTI Trustee Limited (2019: 2,577,328 shares).

### Net tangible assets per share

| | 2020 | 2019 |
|---|---|---|
| Net tangible assets ($000) | 1,349,136 | 1,125,761 |
| Shares on issue at end of period (basic and in thousands) | 227,073 | 224,250 |
| **Net tangible assets per share (cents per share)** | **594.14** | **502.01** |

Net tangible assets are calculated as the total assets of the Group less intangible assets and less total liabilities. This measure is provided as it is commonly used for comparison between entities.

# Notes to the financial statements (continued)

## 21. Employee share plans

### Senior employee share plan - share option scheme

Effective from 2018, the Group operates an employee share plan granting share options to selected senior employees ("Participants"). The exercise price of the granted share options is determined from the volume weighted average price on the NZX during the 10 trading day period determined by the Board prior to the grant.

| | SHARE OPTION PLAN (2018 grant) | SHARE OPTION PLAN (2019 grant) | SHARE OPTION PLAN (2020 grant) |
|---|---|---|---|
| Commencement date | 10 Dec 2018 | 9 Dec 2019 | 18 Dec 2020 |
| Exercise price at grant | $6.34 | $7.62 | $10.85 |
| Years the performance goals relate to | 2019 to 2021 | 2020 to 2022 | 2021 to 2023 |
| % of options vested | 50%[1] | 0% | 0% |
| Vesting date of final tranche | 31 Dec 2021 | 31 Dec 2022 | 31 Dec 2023 |
| Final exercise date of final tranche | 30 Jun 2023 | 30 Jun 2024 | 30 Jun 2025 |

*1 The first tranche of the December 2018 grant had a vesting date of 31 December 2020.*

The performance hurdles for the option grant made in 2020 are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget)
- 20% relative earnings (earnings per share growth of the Group compared to a defined peer group)
- 10% clinical delivery
- 10% employee initiatives
- 10% customer initiatives



While there is a requirement to remain employed by Summerset up to vesting date, there are no performance hurdles for vesting of share options to senior management team members, other than the members of the Executive Leadership Team, whose performance hurdles are described above.

A total of 576,852 options vested at 31 December 2020 (2019: nil) and subsequently became exercisable.

The share option scheme is an equity-settled scheme and measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate that the share options will vest. These options were valued using the Black-Scholes valuation model, and the option cost for the year ending 31 December 2020 of $980,000 has been recognised in the income statement of the Company and the Group for that period (2019: $422,000). The Group has no legal or constructive obligation to repurchase or settle the share options in cash.

| | 2020 | | |
|---|---|---|---|
| | SHARE OPTION PLAN (2018 grant) | SHARE OPTION PLAN (2019 grant) | SHARE OPTION PLAN (2020 grant) |
| Options held at year end (in thousands) | 1,058 | 1,004 | 549 |
| **Valuation assumptions** | | | |
| Discount to reflect options may not meet vesting criteria | 15% | 15% | 15% |
| Risk free rate of return | 2% | 1% | 0.5% |
| Volatility | 23% | 24% | 26% |

| | 2019 | |
|---|---|---|
| | SHARE OPTION PLAN (2018 grant) | SHARE OPTION PLAN (2019 grant) |
| Options held at year end (in thousands) | 1,084 | 1,064 |
| **Valuation assumptions** | | |
| Discount to reflect options may not meet vesting criteria | 15% | 15% |
| Risk free rate of return | 2% | 1% |
| Volatility | 23% | 24% |

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS 000's | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF OPTIONS 000's |
| Balance at beginning of period | $6.97 | 2,148 | $6.34 | 1,154 |
| Granted during the year | $10.85 | 549 | $7.62 | 1,064 |
| Forfeited during the year | $7.23 | (85) | $6.34 | (70) |
| **Balance at end of period** | **$7.78** | **2,612** | **$6.97** | **2,148** |

## Senior employee share plan - share and loan scheme

Up to and including 2017, the Group operated employee share plans for selected senior employees ("Participants") to purchase shares in the Company (the "2013 share plan"). The shares for the plans are held by a nominee as share options on behalf of Participants, until such time after the vesting of shares that the nominee is directed by the Participant that they wish to exercise the share option, or the shares are sold or cancelled by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

The Group provided Participants with interest-free limited recourse loans to fund the acquisition of the shares for these plans. These loans are held by Summerset LTI Trustee Limited and eliminate on consolidation.

The issue price of shares under the 2013 share plan was determined from the volume weighted average price on the NZX during the ten trading days prior to issue.

| | 2013 SHARE PLAN (2016 issue) | 2013 SHARE PLAN (2017 issues) |
|---|---|---|
| Commencement date | 16 Dec 2013 | 16 Dec 2013 |
| Issue price | $4.76 | $5.19 & $5.24 |
| Expiry date of interest-free limited recourse loans | 30 Jun 2021 | 30 Jun 2022 |
| Years the performance goals relate to | 2017 to 2019 | 2018 to 2020 |
| % of shares vested | 83% | 94%[1] |
| Vesting date of final tranche | 31 Dec 2019 | 31 Dec 2020 |

*1 The final tranche of the December 2017 issue had a vesting date of 31 December 2020 and a first release date of 25 February 2021.*

The performance hurdles for the grant of shares under the 2013 share plan between 2016 and 2017 to Executive Leadership Team members are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget)
- 25% relative earnings (earnings per share growth of the Group compared to a defined peer group)
- 10% employee initiatives
- 10% customer initiatives

# Notes to the financial statements (continued)

- 5% clinical strategy initiatives

While there is a requirement to remain employed by Summerset up to vesting date, there are no performance hurdles for grants of shares to senior management team members, other than the members of the Executive Leadership Team, whose performance hurdles are described above.

A total of 888,346 shares were vested and eligible for exercise at 31 December 2020 (2019: 866,717). The exercise prices range from $4.76 to $5.24 (2019: $3.91 to $5.19). An additional 392,473 shares were vested on 31 December 2020 but are not eligible for exercise until 25 February 2021.

The share and loan scheme is an equity-settled scheme and is measured at fair value at the date of the grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate that the shares will vest. These options were valued using the Black-Scholes valuation model, and the option cost for the year ending 31 December 2020 of $128,000 has been recognised in the income statement of the Company and the Group for that period (2019: $471,000).

| | 2020 | |
|---|---|---|
| | 2013 SHARE PLAN (2016 issue) | 2013 SHARE PLAN (2017 issues) |
| Shares held at year end on behalf of participants (in thousands) | 245 | 1,036 |
| Shares held at year end as a percentage of shares on issue | 0.1% | 0.5% |
| **Valuation assumptions** | | |
| Discount to reflect that shares may not meet vesting criteria | 0-15% | 0-15% |
| Risk-free rate of return | 2.5% | 2-2.5% |
| Volatility | 23% | 23% |



| | 2019 | | |
|---|---|---|---|
| | 2013 SHARE PLAN (2015 issue) | 2013 SHARE PLAN (2016 issue) | 2013 SHARE PLAN (2017 issues) |
| Shares held at year end on behalf of participants (in thousands) | 341 | 706 | 1,170 |
| Shares held at year end as a percentage of shares on issue | 0.2% | 0.3% | 0.5% |
| **Valuation assumptions** | | | |
| Discount to reflect that shares may not meet vesting criteria | 0-30% | 0-15% | 0-15% |
| Risk-free rate of return | 2.8% | 2.5% | 2-2.5% |
| Volatility | 22% | 23% | 23% |

The range of exercise prices at 31 December 2020 is $4.76 to $5.24 (2019: $3.91 to $5.24).

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF SHARES 000's | WEIGHTED AVERAGE EXERCISE PRICE | NUMBER OF SHARES 000's |
| Balance at beginning of period | $4.89 | 2,218 | $4.54 | 2,936 |
| Exercised during the year | $4.51 | (931) | $3.34 | (663) |
| Forfeited during the year | $5.24 | (6) | $4.84 | (55) |
| **Balance at end of period** | **$5.16** | **1,281** | **$4.89** | **2,218** |

### All-staff employee share plan

The Group operates an all-staff employee share plan. A total of 1,282 employees participated in the share issue under the plan for the year ended 31 December 2020 (2019: 1,060 employees). In 2020 the Group contributed $800 per participating employee (being the total value of the shares issued). A total of 137,174 Company shares were issued under the scheme at $7.4712 per share (2019: 148,400 shares at $5.6938 per share). The shares are held by Summerset LTI Trustee Limited and vest to participating employees after a three-year period.

The cost for the year ending 31 December 2020 of $370,000 has been recognised in the income statement of the Company and the Group for that period (2019: $366,000).

## 22. Related party transactions

Refer to Note 21 for employee share plan details.

### Transactions with companies associated with Directors

During the year ended 31 December 2020, Summerset Villages (Half Moon Bay) Limited purchased land at Half Moon Bay in Auckland from BeGroup New Zealand Limited ("the vendor"). James Ogden is the Chair of the Investment Committee for Pencarrow IV Investment Fund, which owns 48% of the vendor. Due to this conflict, James Ogden abstained from all aspects of the transaction in both entities. As at 31 December 2020, there is an amount of $15.8 million outstanding in relation to this purchase, which is expected to be paid to the vendor by 26 February 2021 in line with the agreement to purchase.

During the year ended 31 December 2020, Summerset Management Group Limited entered into a three year contract for the supply of natural gas with Contact Energy. Venasio-Lorenzo Crawley is the Chief Customer Officer at Contact Energy. The procurement process in relation to this contract was conducted on an arms-length basis with no involvement from Venasio-Lorenzo Crawley. The agreement is in effect from 1 January 2021.

On 1 October 2020, Rob Campbell became a director of UFF Holdings Limited which provides services to Summerset villages. During the period from 1 October to 31 December 2020, the Group paid $60,000 to Ultrafast Fibre Limited, a subsidiary of UFF Holdings Limited, for fibre reticulation at villages.

There were no other related party transactions for the year ended 31 December 2020 (2019: nil).

## 23. Key management personnel compensation

The compensation of the key management personnel of the Group is set out below:

| | 2020 $000 | 2019 $000 |
|---|---|---|
| Directors' fees | 786 | 684 |
| Short-term employee benefits | 3,861 | 3,799 |
| Share-based payments | 729 | 686 |
| **Total** | **5,376** | **5,169** |

There were seven Directors from 1 February 2020 (2019: six Directors).

Refer to Note 21 for employee share plan details for key management personnel and for loans advanced to key management personnel under the terms of employee share plans.

# Notes to the financial statements (continued)

## 24. Commitments and contingencies

### Guarantees

As at 31 December 2020, NZX Limited held a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2019: $75,000).

Summerset Retention Trustee Limited holds guarantees in relation to retentions on construction contracts on behalf of the Group. As at 31 December 2020, $10.0 million was held for the benefit of the retentions beneficiaries (2019: $8.0 million).

### Capital commitments

At 31 December 2020, the Group had $139.7 million of capital commitments in relation to construction contracts (2019: $133.1 million).

### Contingent liabilities

There were no known material contingent liabilities at 31 December 2020 (2019: nil).

## 25. Subsequent events

On 22 February 2021, the Directors approved a final dividend of $16.0 million, being 7.0 cents per share. The dividend record date is 9 March 2021 with a payment date of 22 March 2021.

There have been no other events subsequent to 31 December 2020 that materially impact on the results reported.

Chartered Accountants

# Independent Auditor's Report to the Shareholders of Summerset Group Holdings Limited

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Summerset Group Holdings Limited ("the company") and its subsidiaries (together "the Group") on pages 41 to 74, which comprise the consolidated statement of financial position of the Group as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended of the Group, and the notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the consolidated financial statements on pages 41 to 74 present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

This report is made solely to the company's shareholders, as a body. 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.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Ernst & Young provides other assurance related services to the Group. Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. We have no other relationship with, or interest in, the Group.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of the audit report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Valuation of investment property and freehold land and buildings

| Why significant | How our audit addressed the key audit matter |
|---|---|
| As disclosed in notes 9 and 11 to the consolidated financial statements:<br>• the Group's investment property portfolio was valued at $3,639 million at 31 December 2020 and included completed investment property and investment property under development<br>• the Group's freehold land and buildings were valued at $155 million at 31 December 2020. This included freehold land and buildings operated by the Group for the provision of care services, and land and buildings to be developed into care facilities in the future.<br>The Group's accounting policy is to measure these assets at fair value.<br>Independent valuations of all investment property and freehold land and buildings were carried out by third party valuers, CBRE Limited and Jones Lang LaSalle Limited (the Valuers). The valuation of investment property and freehold land and buildings is inherently subjective given that there are alternative assumptions and valuation methods that may result in a range of values. As discussed in note 11 to the consolidated financial statements, the Valuers have advised that a degree of caution should be exercised when relying on the valuations. This caution reflects the ongoing uncertainty compared to prior years as a result of the COVID-19 pandemic.<br>Completed investment property and care suites are recorded in the consolidated financial statements based on the value determined by the Valuers. | To address the key audit matter, we:<br>**External valuations**<br>• read the valuation reports and discussed them directly with the Valuers. We assessed the valuation approach and confirmed that this was in accordance with the relevant accounting standards; and<br>• tested on a sample basis, whether property specific information supplied to the Valuers by the Group reflected the underlying property records held by the Group.<br>**Assumptions and estimates**<br>• held discussions with the Valuers to gain an understanding of the assumptions and estimates used and the valuation methodology applied. This included understanding the impact that ongoing market uncertainty had on their assessment of significant inputs and assumptions. We also sought to understand and consider whether any restrictions had been imposed on the valuation process;<br>• considered whether the valuation sought to make appropriate assumptions for a sample of individual properties to reflect their characteristics, overall quality, geographic location and desirability as a whole; and<br>• engaged our in-house Real estate valuation experts to challenge the work performed by the Valuers and assess the reasonableness of the assumptions used based on their knowledge gained from reviewing valuations of similar properties, known transactions and available market data.<br>Our work over the assumptions focused on the largest properties within the portfolio and those properties where the assumptions used and/or year-on-year fair value movement suggested a possible outlier compared to the rest of the portfolio and the market data for the sector.<br>**Valuation estimates**<br>As a result of the judgement involved in determining valuations for individual properties and the existence of alternative assumptions and valuation methods, there is a range of values which can be considered reasonable when evaluating the independent property valuations used by the Group. If we identified an error in a property valuation or determined that the valuation was outside of a reasonable range, we evaluated the error or difference to determine if there was a material misstatement in the consolidated financial statements.<br>**Disclosures**<br>We considered the adequacy of the disclosures made in notes 9 and 11 to the consolidated financial statements. These notes explain the key judgements made in relation to the valuation of investment property and freehold land and buildings and the estimation uncertainty involved in the valuation process. |

### Deferred Management Fee Revenue Recognition

| Why significant | How our audit addressed the key audit matter |
|---|---|
| Deferred management fee ("DMF") revenue is 35% of the Group's total revenue. The Group recognises deferred management fee revenue from residents over the longer of the expected period of tenure or the contractual right to revenue in accordance with the terms of the resident's occupational right agreement.<br><br>The amount of revenue recognised in each year is subject to the Group's judgement of each resident's expected tenure in the village as well as the terms of the occupational right agreement and the type of unit occupied. A change in the assumed tenure may have a material impact on revenue recognised in the year.<br><br>Disclosures in relation to DMF revenue and the associated DMF receivable and revenue in advance balances are included in note 4 to the consolidated financial statements. | To address the key audit matter, we:<br><br>• for a sample of residents, assessed the accuracy of a sample of the inputs to, and calculation of, the DMF revenue recognised during 2020;<br>• agreed the contractual terms used in the revenue recognition calculation for a sample of residents to the occupational right agreement;<br>• assessed the movements year on year in revenue recognised by each village based on an expectation derived from underlying village data;<br>• compared the Group's assessment of assumed tenure against actual observed tenure; and<br>• assessed the adequacy of the related financial statement disclosures. |

## Information other than the financial statements and auditor's report

The directors of the company are responsible for the Annual Report, which includes information other than the consolidated financial statements and auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' responsibilities for the financial statements

The directors are responsible, on behalf of the entity, for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing on behalf of the entity the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (New Zealand) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at the External Reporting Board's website: https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/. This description forms part of our auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Grant Taylor.

Ernst & Young

**Ernst & Young**
Chartered Accountants
Wellington
22 February 2021

# Governance

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

Summerset has adopted the principles below as an appropriate way to demonstrate its commitment to these fundamental principles and to illustrate the transparency of the Company's approach to corporate governance for the benefit of its Shareholders and other stakeholders. These principles are from the NZX Corporate Governance Code issued in January 2019 ("NZX Code"). Each principle of the NZX Code is set out below with an explanation on how Summerset meets each principle.

As at 31 December 2020, Summerset considers that it was in full compliance with NZX Listing Rules and the NZX Code.

Summerset's Board and Committee Charters, and a number of the policies and guidelines referred to in this section, are available to view at https://www.summerset.co.nz/investor-centre/governance-documents/.

## Principle 1: Code of ethical behaviour

**"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."**

### Ethical standards

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

- **Code of Ethics** – This guide sets out the basic principles of legal and ethical conduct expected of all employees and Directors. The Company encourages open and honest communication by staff about any current or potential problem, complaint, suggestion, concern or question.
- **Securities trading** – In accordance with the Company's Securities Trading Policy, the NZX Listing Rules, and the Financial Markets Conduct Act 2013, Directors and employees of the Company are subject to limitations on their ability to buy or sell Company shares.
- **Diversity and inclusion** – This policy outlines the Company's guiding principles for diversity and inclusion. Refer to Principle 2 for further details.
- **Code of Conduct** – This policy sets out the expected behaviours while in employment with the Company. Company employees are expected to act honestly, conscientiously, reasonably and in good faith while at all times having regard to their responsibilities, the interests of Summerset, and the welfare of our residents and staff.
- **Whistle blowing** – This policy encourages employees to come forward if they have concerns regarding serious wrongdoing, and ensures that employees have access to a confidential process in which they can report any issues in relation to serious wrongdoing without fear of reprisal or victimisation.
- **Conflicts of interest** – Summerset's Code of Ethics outlines the standards of integrity, professionalism and confidentiality to which all employees and Directors of the Company must adhere with respect to their work and behaviour. To maintain integrity in decision-making, each Director must advise the Board of any potential conflict of interest if such arises. If a conflict of interest exists, the Director concerned will have no involvement in the decision-making process relating to the matter.
- **Gifts, entertainment and inducements** – This policy governs the acceptance and reporting of benefits given to staff by third parties.
- **Interests Register** – In accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013, the Company maintains an Interests Register in which all relevant transactions and matters involving the Directors are recorded.

The Code of Ethics Policy, Securities Trading Policy and Guidlines and Whistle Blowing Policy can be found on the Company's website and internal intranet.

## Principle 2: Board composition and performance

**"To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives."**

### 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 comply with generally accepted accounting practice, and that the Company adheres to high standards of ethical and corporate behaviour.

A summary of the Board mandate is as follows:

- A majority of the Board should be Independent Directors as defined in the NZX Listing Rules;
- The Chair of the Board should be independent;
- The Chair and the Chief Executive Officer should be different people;
- Directors should possess a broad range of skills, qualifications and experience, and remain current on how best to 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 discharge its duties effectively;
- The effectiveness and performance of the Board and its individual members should be re-evaluated on an annual basis.



Directors receive an induction upon appointment to the Board to ensure their full knowledge of the Company and the industry in which it operates. The Directors are expected to keep themselves abreast of changes and trends in the business and to keep themselves up to date to ensure they best perform their duties as Directors of the Company.

All Directors have been issued letters setting out the terms and conditions of their appointment.

### 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 and management have Board-approved levels of authority and, in turn, sub-delegate authority in some cases to direct reports. This is documented in the Delegated Authority Policy.

Before approving the Company and Group's financial statements, a management representation letter is obtained from the Chief Executive Officer and the Deputy Chief Executive Officer and Chief Financial Officer declaring that, in their opinion, the financial records of the Company and Group have been properly maintained and the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and Group.

### Retirement and re-election

In accordance with the Company's Constitution and the NZX Listing Rules, Directors are required to retire three years after their appointment or at the third Annual Shareholder Meeting following their appointment (whichever is later). Directors who have been appointed by the Board must also retire at the next Annual Shareholder Meeting following their appointment. Directors may offer themselves for re-election by Shareholders each year at the Annual Shareholder Meeting. Procedures for the appointment and removal of Directors are also governed by the Constitution. The People and Culture Committee identifies and nominates candidates to fill Director vacancies for Board approval. Information about candidates for election or re-election is included in the Notice of Meeting to assist Shareholders in deciding whether or not to elect or re-elect the candidate.

## 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. As at 31 December 2020, the Board was comprised of seven non-executive Independent Directors. In determining whether a Director is Independent, the Board has regard to the NZX Listing Rules.

The Board considers all current Directors to be Independent in that they are not executives of the Company and do not have a direct or indirect interest or relationship that could reasonably influence, in a material way, their decisions in relation to the Company.

As at 31 December 2020, the non-executive Independent Directors were Rob Campbell (Chair), Dr Andrew Wong, Anne Urlwin, Gráinne Troute, James Ogden, Dr Marie Bismark and Venasio-Lorenzo Crawley.

The Board is comprised of Directors who have a mix of skills, knowledge, experience and diversity to adequately meet and discharge its responsibilities and to add value to the Company through efficient and effective governance leadership. The current Directors have a varied and balanced mix of skills relevant to the Group's operations. A summary of the key skills and experience held across the Board as at 31 December 2020, is set out in the table below.

| | Rob Campbell | Dr Andrew Wong | Anne Urlwin | Gráinne Troute | James Ogden | Dr Marie Bismark | Venasio-Lorenzo Crawley |
|---|---|---|---|---|---|---|---|
| **Governance**<br>Listed company governance experience | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Executive Leadership**<br>NZ and international business leadership and CEO experience | ✓ | ✓ | | ✓ | ✓ | | ✓ |
| **Finance & Accounting**<br>Senior executive or board experience in financial accounting and reporting, corporate finance and internal controls | ✓ | | ✓ | | ✓ | | |
| **Customer & Operations**<br>Deep understanding of business operations and sales, marketing and brand strategies | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Health & Clinical**<br>Health and clinical industry experience (in New Zealand and/or Australian environments) | | ✓ | ✓ | | | ✓ | |
| **Property & Construction**<br>Property, construction and development management experience | ✓ | | ✓ | | ✓ | | ✓ |
| **Health & Safety**<br>Experience and understanding of health and safety and wellbeing requirements | ✓ | | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Human Resources**<br>People and performance strategy and management experience | ✓ | ✓ | | ✓ | ✓ | ✓ | ✓ |
| **Digital & Technology**<br>Experience overseeing IT and digital innovation and an understanding of the opportunity and risks associated with technological development | | ✓ | ✓ | | ✓ | | ✓ |
| **Strategy**<br>Experience in the development and execution of growth strategies and the ability to assess strategic options and business plans | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Australian Experience**<br>Australian property and business experience | ✓ | ✓ | ✓ | | | ✓ | |

More information on the Directors, including their interests, qualifications and security holdings, is provided in the Board of Directors and Disclosures sections of this report.

The Board holds regular scheduled meetings. The Directors generally receive material for Board meetings five working 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.

The Company Secretary attends all Board meetings, and in this capacity is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

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

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



## Diversity and inclusion

The Company and its Board are committed to a workplace culture that promotes and values diversity and inclusiveness. This is outlined in the Company's Diversity and Inclusion Policy, which is available on the Company's website.

Diversity is defined as the characteristics that make one individual different from another. Diversity encompasses gender, race, ethnicity, disability, age, sexual orientation, physical capability, family responsibilities, education, cultural background and more.

Inclusion is defined as a sense of belonging, respecting and valuing all individuals, providing fair access to opportunity, and removing discrimination and other barriers to involvement. The Board recognises that inclusion leads to a better experience of work for Summerset's employees, makes teams stronger, leads to greater creativity and performance, contributes to a more meaningful relationship with residents, their families and stakeholders, and ultimately increases value to Shareholders.

The Board believes that diversity across the workforce makes Summerset stronger and better able to connect with, and bring the best of life to, residents on a day-to-day basis. When there is a variety of thinking styles, backgrounds, experiences, perspectives and abilities, employees are more able to understand residents' needs and to respond effectively to them.

The Diversity and Inclusion Policy establishes the following objectives for achieving diversity:

- Facilitate and promote equal employment opportunities at all levels, and identify and remove any barriers to equal opportunity;
- Facilitate and promote a merit-based environment in which all employees have the opportunity to develop and perform to their full potential; and
- Reward excellence and ensure all employees are treated fairly, evaluated objectively, and have equitable access to opportunities for progression and promotion on the basis of performance.

| | GENDER | 2020 | 2019 |
|---|---|---|---|
| Directors | Male | 4 | 3 |
| | Female | 3 | 3 |
| **Total** | | **7** | **6** |
| Senior Managers | Male | 2 | 2 |
| | Female | - | - |
| **Total** | | **2** | **2** |
| Executive Leadership Team | Male | 6 | 6 |
| | Female | 2 | 2 |
| **Total** | | **8** | **8** |
| All staff | Male | 438 | 349 |
| | Female | 1,382 | 1,199 |
| | Gender diverse | 3 | - |
| **Total staff** | | **1,823** | **1,548** |

Each year the Board reviews and assesses performance against these objectives. The Board considers that for the year ended 31 December 2020, the objectives for achieving diversity have been met.

As at 31 December 2020 (and 31 December 2019 for the prior comparative period), the mix of gender of those employed by the Company is set out in the table above.

Senior Managers of the Company are the Chief Executive Officer and the Deputy Chief Executive Officer and Chief Financial Officer. The Executive Leadership Team comprises the Chief Executive Officer, the Deputy Chief Executive Officer and Chief Financial Officer, and all General Managers who report to the Chief Executive Officer.

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

## Board performance

The Board is committed to evaluating its performance on a regular basis, generally with a formal, external review bi-annually with an internal self-review each intervening year. In 2020 the Board completed an externally-facilitated review which provided the opportunity for directors to independently evaluate board and committee performance and processes as well as to give individual feedback on and to each director. The process, including evaluation criteria, is considered by the People and Culture Committee and approved by the Board.

## Executive Leadership Team performance

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

## Principle 3: Board committees

**"The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility."**

### Board committees

The Board has four standing committees: the Audit Committee, the People and Culture Committee, the Clinical Governance Committee, and the Development and Construction Committee. Each committee operates under a charter approved by the Board, and any recommendations they make are recommendations to the Board. The charter for each committee is reviewed annually. All Directors are entitled to attend committee meetings.

### Audit Committee

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

- An appropriately resourced Audit Committee operating under a written charter with specific responsibilities for financial reporting and risk management;
- Review and consideration by the Audit Committee of the financial information and preliminary releases of results to the market, which then makes recommendations to the Board;
- A process to ensure the independence and competence of the Company's external auditors and a process to ensure their compliance with the Company's External Audit Independence Policy;
- Responsibility for appointment of the external auditors residing with the Audit Committee;
- The Audit Committee monitors the strength of the internal control environment by considering the effectiveness and adequacy of Summerset's internal controls, reviewing the findings of the external auditors' review of internal control over financial reporting, and being involved in setting the scope for the internal audit programme.

One of the main purposes of the Audit Committee is to ensure the quality and independence of the external audit process. The Audit Committee make enquiries of management and the external auditors so that it is satisfied as to the validity and accuracy of all aspects of the Company's financial reporting. All aspects of the external audit are reported back to the Audit Committee and the external auditors are given the opportunity at Audit Committee meetings to meet with Directors.



The Audit Committee must comprise a minimum of three Directors, the majority of whom must be Independent. The committee is chaired by an Independent Director who is not the Chair of the Board. The Committee currently comprises of James Ogden (Chair), Anne Urlwin, Rob Campbell and Gráinne Troute.

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

### People and Culture Committee

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

- Supporting the Board in ensuring the Company's vision and commitment to its people strategy is aligned with and is an enabler of the Company's business strategy;
- Assisting the Board in planning the Board's composition;
- Evaluating the competencies required of prospective Directors (both non-executive and executive);
- Identifying those prospective Directors and establishing their degree of independence;
- Developing the succession plans for the Board, and making recommendations to the Board accordingly;
- Overseeing the process of the Board's annual performance self-assessment and the performance of the Directors;
- Establishing remuneration policies and practices, and setting and reviewing the remuneration of the Company's Chief Executive Officer, Executive Leadership Team and Directors.

The People and Culture Committee must comprise a minimum of three Directors, the majority of whom must be Independent. The Committee currently comprises Gráinne Troute (Chair), Dr Marie Bismark, James Ogden, Anne Urlwin and Venasio-Lorenzo Crawley.

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

## Clinical Governance Committee

The role of the Clinical Governance Committee is to assist the Board in ensuring a systematic approach to maintaining and improving the quality of care provided by the Company. Specific objectives include:

- Providing oversight that appropriate clinical governance mechanisms are in place and are effective throughout the organisation;
- Supporting the leadership role of the Chief Executive Officer in relation to issues of quality, safety and clinical risk;
- Working with management to identify priorities for improvement;
- Ensuring that the principles and standards of clinical governance are applied to the health improvement and health protection activities of the Board;
- Ensuring that appropriate mechanisms are in place for the effective engagement of representatives of residents and clinical staff.

The Clinical Governance Committee must comprise a minimum of three Directors. The Committee currently comprises Dr Marie Bismark (Chair), Anne Urlwin, Gráinne Troute and Dr Andrew Wong.

## Development and Construction Committee

The role of the Development and Construction Committee is to assist the Board in:

- Supporting management to establish and achieve development and construction objectives within the Company's long-term plan;
- Supporting management to develop and implement strategies to achieve the Company's development and construction objectives in line with best practice;
- Helping the Company maintain appropriate risk management strategies to identify, mitigate and manage development and construction risks;
- Maintaining a good understanding of, and confidence in, the Company's frameworks, systems, processes and personnel required to manage the Company's development and construction activities effectively, including the assessment and realisation of opportunities and the application of appropriate risk management;
- Working with management to identify areas for improvement and innovation in construction and development practices.

The Development and Construction Committee must comprise a minimum of three Directors. The Committee currently comprises Anne Urlwin (Chair), James Ogden and Rob Campbell.

## Attendance at Board and committee meetings

A total of six Board meetings, seven Audit Committee meetings, five People and Culture Committee meetings, three Clinical Governance Committee meetings and three Development and Construction Committee meetings were held in 2020. Director attendance at Board meetings and committee member attendance at committee meetings is shown below.

| | Board | Audit Committee | People and Culture Committee | Clinical Governance Committee | Development and Construction Committee |
|---|---|---|---|---|---|
| **Total number of meetings held** | **6** | **7** | **5** | **3** | **3** |
| Rob Campbell | 6 (Chair) | 7 | 5* | 3* | 3 |
| Anne Urlwin | 6 | 7 | 5 | 3 | 3 (Chair) |
| Dr Andrew Wong | 6 | 7* | 5* | 3 | 3* |
| Gráinne Troute | 6 | 7 | 5 (Chair) | 3 | 3* |
| James Ogden | 6 | 7 (Chair) | 5 | 3* | 3 |
| Dr Marie Bismark | 6 | 7* | 5 | 3 (Chair) | 2* |
| Venasio-Lorenzo Crawley | 6 | 5* | 2** | 2* | 2* |

* *attended the meeting as a non-committee member*
** *appointed to the People and Culture Committee on 24 February 2020 (after the first two meetings had been held)*

## Principle 4: Reporting and disclosure

**"The board should demand integrity in financial and non-financial reporting, and in the timeliness and balance of corporate disclosures."**

### Making timely and balanced disclosures

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

Copies of key governance documents, including the Code of Ethics, Securities Trading Policy and Guidelines, Board and Committee Charters, Diversity and Inclusion Policy, Board and Executive Remuneration Policy, and Market Disclosure and Communications Policy are all available on the Company's website at https://www.summerset.co.nz/investor-centre/governance-documents/.

Non-financial disclosures, such as the Company's approach to health and safety, our people, the community and the environment are included within this Annual Report. The Company recognises it is in the early stages of reporting on non-financial information, and intends to continue to enhance future disclosure in this area.

## Principle 5: Remuneration

**"The remuneration of directors and executives should be transparent, fair and reasonable."**

Remuneration of Directors and the Executive Leadership Team is reviewed by the Board's People and Culture Committee. Its membership and role are set out under Principle 3. The Committee makes recommendations to the Board on remuneration packages, keeping in mind the requirements of the Board and Executive Remuneration Policy. The level of remuneration paid to the Directors and the Executive Leadership Team will be determined by the Board. However, Directors' fees must be within the limits approved by the Shareholders of the Company.

Further details on remuneration are provided in the Remuneration section of this Annual Report.

## Principle 6: Risk management

**"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."**

Summerset has robust risk management and reporting frameworks in place whereby material business risks are regularly identified, monitored and managed. The Board reviews this risk management framework on an annual basis to ensure it remains fit for purpose. A review was undertaken by the Board during the 2020 financial year.

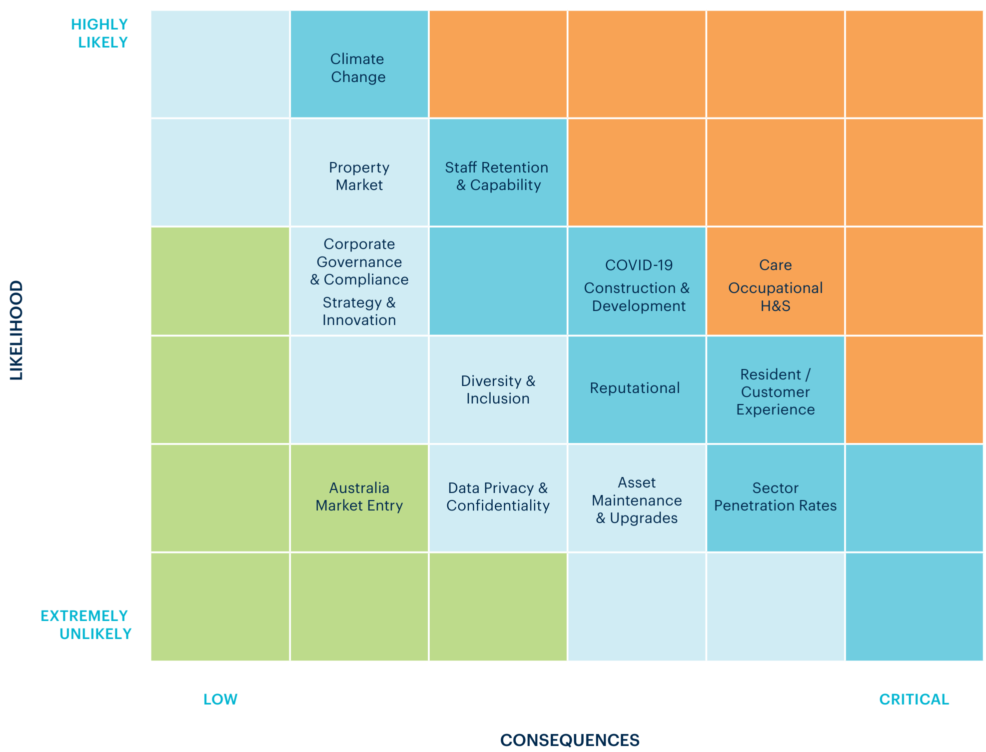
The members of Summerset's Executive Leadership Team are required to regularly identify the major risks affecting the business, record them in the risk register (which identifies the likelihood and consequence of each risk to Summerset's business), and develop structures, practices and processes to manage and monitor these risks.

Summerset has introduced a co-sourced model for internal audit with an in-house Internal Audit Manager appointed. As part of the co-sourced model, Summerset has engaged KPMG as its partner to assist with carrying out internal audit work on various parts of the Group's operations and all major risk and internal control issues are reported on at each Board meeting.

Health and safety (including in relation to risks, performance and management) is discussed regularly at Board meetings and specific reviews are sought as required. Monthly reporting is prepared and used to assist in risk management, covering areas such as health and safety incidents, injury and near miss frequency rates, and actions undertaken. Further information is covered in the health and safety section of this Annual Report.

Summerset has a Tax Governance Policy in place which sets out its tax risk management objectives, tax reporting requirements to the Audit Committee and policies and processes to manage tax risk. This Tax Governance Policy is reviewed by the Board every two years. It is next due for review in December 2022. The Board is satisfied that Summerset has effective policies and processes in place to ensure the Company is meeting its obligations. Summerset adopts a risk averse stance in relation to tax issues and, where possible, seeks certainty on tax positions through proactive engagement with tax authorities.

## Summerset's Current Key Strategic Residual Risks




Summerset has considered whether it has any material exposure to economic, environmental and social sustainability risks (as defined in the ASX Corporate Governance Principles) and has determined the following:

- **Climate change risk:** Over the longer term, Summerset expects to operate in a climate that will progressively depart from the weather conditions and events currently experienced, to more acute challenges and risks arising from increasing climate variability. This is likely to have various impacts on the longer-term plans and operation of the Group – specifically in relation to the design, build and construction of villages, as well as in the provision of care services to frail residents and the overall lifestyle satisfaction enjoyed in Summerset's villages.

  Summerset responds to these risks in the following way:

  - Summerset is a certified carbonzero organisation. This requires us to measure our greenhouse gas emissions, understand our carbon liabilities, and put in place management plans to reduce emissions within the organisation and more widely through our supply chain.
  - The Company is structured internally with two key working groups in place. One which focuses on future proofing our designs, understanding emerging risks and improving our resilience, with the other responsible for implementing specific actions and initiatives identified in our emissions reduction plan. Both of these working groups report into the Sustainability Forum who report through to the Board on sustainability strategy and targets, including our key climate-related targets and risks.
  - Climate change considerations are integrated into the due diligence process for potential acquisitions to assess the climate change risks inherent at each site.
  - Climate related risks are included within our corporate risk matrix.
  - The Board has oversight of climate-related issues and responsibility for sustainability.

These measures and our approach to sustainability are discussed in more detail on page 31 of this report.

- **Property market risk:** Property market factors could adversely affect sales, occupancy levels or revenue streams. This may have a flow on impact to the value of Summerset's property assets and the associated investment property valuation, which would in turn impact Summerset's financial performance.
- **Staff retention and capability risk:** In a tight and highly competitive labour market, Summerset is at risk of staff shortages. Key areas within our construction and nursing teams will continue to be monitored closely. Given COVID-19, this is currently not considered an extreme risk, but one for consideration in the medium to long term.
- **Corporate governance and compliance:** Changes in regulation could have a material impact on Summerset's business operations. Summerset's governance procedures are continually monitored. Failure to comply with regulatory, societal and investor expectations in relation to corporate and environmental sustainability could impact Summerset's reputation and financial performance over the longer term.
- **Strategy and innovation:** There is a moderate risk with regard to Summerset's strategic direction and ability to continue to innovate. Summerset's intention is to stay at the forefront in all areas of its business including technology, design, development and care. However, there is a risk that a competitor may bring something new to market.
- **Diversity and inclusion:** Developments in our diversity and inclusion strategy mean there is some level of risk in terms of fulfilling all our obligations in this area, especially in a tight labour market. This needs to be monitored closely and the staff survey will bring out useful research and information in this area.
- **COVID-19:** The unknown factors surrounding the COVID-19 pandemic mean this remains a high-risk area at the time of writing this report. However, global research and work on various vaccines, better management of care overall and New Zealand's positive response to date all mean we are in a good position. The risk of community transmission and moving alert levels remains.
- **Construction and development risk:** Summerset faces construction and property development risks when developing new villages. These risks include project delays, default risk, governance and design risk and potential labour and materials shortages.
- **Care:** This is a high-risk area for Summerset, which requires constant monitoring, management and policy review. Good training and professional development, retention of staff and investment into health and safety all help mitigate risk in this area.
- **Resident and customer experience:** Providing top level resident and customer experience at all times is a challenge due to the nature of the organisation. Summerset has various methods in which it manages and monitors these issues closely, including move-in surveys, on-going resident feedback surveys, close one-on-one feedback sessions and close contact with residents, families, next of kin and prospects.
- **Occupational health and safety risk:** This remains a material risk. Its importance has increased further this year for staff given the mental health risks associated with the uncertainty of COVID-19. The physical and mental wellbeing of all Summerset staff is one of our top priorities.
- **Australia market entry:** Entering a new market requires a measured and well researched approach. Summerset is mitigating many new market entry risks by setting up a new local team, entering a well-researched market and developing product and service offerings, procedures and processes tailored for the new market. Progress in Australia will be closely managed.
- **Data privacy and confidentiality:** Summerset actively monitors and manages these risks through the risk management and reporting frameworks.
- **Asset maintenance and upgrades:** Summerset has a co-ordinated approach to asset management and upgrades in all areas of the business. This is constantly up for review and progress is managed accordingly.
- **Sector penetration rates:** Summerset is fortunate to operate in the high growth New Zealand retirement sector. The risk is a declining penetration (or participation) in the market. Current forecasts show this is unlikely to be the case in New Zealand but is a risk to be monitored. Competitors making significant changes to their revenue models or pricing strategy could impact on the revenue earned by Summerset.
- **Reputational risk:** Summerset operates in a sensitive market involving care of vulnerable members of society. Summerset's performance and reputation could be adversely impacted should it suffer adverse publicity, particularly in respect of care or health and safety issues.

## Principle 7: Auditors

**“The board should ensure the quality and independence of the external audit process.”**

The Board’s relationship with its auditors, both external and internal, is governed by the Audit Committee Charter, External Audit Independence Policy and the Internal Audit Charter. These charters and policies set out the types of engagements that can be performed by the external and internal auditors.

The external auditor (Ernst & Young) attends the Company’s Annual Shareholder Meeting, and is available to answer questions from Shareholders in relation to the external audit.

External audit work for the Group was tendered during 2017, with Ernst & Young remaining in this role.

KPMG was appointed in the role of internal auditor of the Company in December 2016 and with the establishment of a co-source model approach to internal audit in 2020, they currently remain the Company's co-source partner. Their internal audit role is governed by the Internal Audit Charter.

The primary objective of internal audit is to increase the strength of the Company’s control environment. This is guided by a philosophy of adding value to improve the operations of the Company. It assists the Company in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of its governance, risk management and internal controls.

The scope of the internal audit programme is set by the Audit Committee.

## Principle 8: Shareholder rights and relations

**“The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.”**

### Respecting the rights of Shareholders

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

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

The Company’s major communications with Shareholders during the financial year include its annual and half-year reports and the Annual Shareholder Meeting. The annual and half-year reports are available in electronic and hard-copy format.

### Communicating with Shareholders

The Company welcomes communication and feedback from Shareholders. The Company’s investor centre (on its website) provides a Company phone number and email address for communications from Shareholders and investor relations enquiries. All Shareholder communications are responded to within a reasonable time frame.

The Company provides options for Shareholders to receive and send communications electronically, to and from both the Company and its share and bond registrar. The Company’s investor centre includes contact details for Link Market Services, through which all Company shares and bonds are managed.

### Shareholder voting rights

Shareholders have the right to vote on major decisions as required by the NZX Listing Rules. Further information on Shareholder voting rights is set out in the Company’s Constitution.

### Notice of Annual and Special Shareholder Meetings

Notice of Annual and Special Shareholder Meetings are sent to Shareholders and published on the Company’s website at least 20 working days prior to the relevant meeting.

# Board of Directors

## Rob Campbell *(BA (Hons 1st), MPhil (Econ))*

**Chair, Independent**

Rob is the Chair of the Board. He has over 40 years' experience as a director and an investor.

He is currently the Chair of SKYCITY Entertainment Group, WEL Group, Tourism Holdings and a director of Precinct Properties NZ.

Rob is also an investor and director of a number of substantial private companies and is a director of, or an advisor to, a number of private investment funds.

Rob has been Chair of Summerset since 2011, when he was appointed to Summerset to lead its listing on the NZX.



## Dr Marie Bismark *(MBChB, LLB, MBHL, MPH, MD, MPsych, FAICD, FAFPHM)*

**Independent**

Marie is the Chair of Summerset's Clinical Governance Committee. She holds degrees in law, medicine, bioethics and public health, and has completed a Harkness Fellowship in Healthcare Policy at Harvard University.

Marie works as a psychiatry registrar with Melbourne Health, and as an Associate Professor at Melbourne University.

Her research focuses on patients' rights, quality of care, and medical regulation. Marie is an experienced company director, serving on the board of GMHBA Health Insurance, Royal Womens Hospital in Melbourne and on the Veterans' Health Advisory Panel.

Marie has been a director of Summerset since 2013.

## Venasio-Lorenzo Crawley *(MBA, BA)*

**Independent**

Venasio-Lorenzo is the Chief Customer Officer at Contact Energy and an Advisory Board Member at the Auckland University of Technology. He has also recently completed a term as a Future Board Director for The Warehouse Group.

Venasio-Lorenzo's previous directorships and trustee positions include the Electricity Retailers Association of NZ Electricity, Gas Complaints Commission (now Utilities Disputes), Loyalty New Zealand and Workbase.

He has held senior executive positions at ASB Group and at IAG in both New Zealand and the United Kingdom and has worked across a wide variety of areas including strategy, finance, IT, pricing, data analytics, digital technology, culture and brand.

Venasio-Lorenzo has been a director of Summerset since 2020.

## James Ogden *(BCA (Hons 1st), FCA, CFinstD, INFINZ (Cert))*

**Independent**

James is the Chair of Summerset's Audit Committee. He is a director of Vista Group International and Foundation Life (NZ). James is the Chair of the Investment Committee of Pencarrow Private Equity.

James has had a career as an investment banker, including six years as Country Manager for Macquarie Bank and five years as a director of Credit Suisse First Boston. He also worked in the New Zealand dairy industry for eight years in chief executive and finance roles.

He holds a Bachelor of Commerce and Administration with First Class Honours, and is a Chartered Fellow of the Institute of Directors and a Fellow of Chartered Accountants Australia and New Zealand (CAANZ).

James has been a director of Summerset since 2011 when he was appointed to Summerset prior to its listing on the NZX.

## Gráinne Troute *(GradDipBusStuds, CMInstD)*

**Independent**

Gráinne is Chair of Summerset's People and Culture Committee. She is a Chartered Member of the Institute of Directors and is also Chair of Tourism Industry Aotearoa and a director of Tourism Holdings and Investore Property.

Gráinne is a professional director with many years' experience in senior executive roles. She was General Manager, Corporate Services at SKYCITY Entertainment Group and Managing Director of McDonald's Restaurants (NZ). She also held senior management roles with Coopers and Lybrand (now PwC) and HR Consultancy Right Management.



Gráinne has vast expertise in operating customer-focused businesses in highly competitive sectors. She has also spent many years as a trustee and Chair in the not-for-profit sector, including having been the Chair of Ronald McDonald House Charities New Zealand for five years.

Gráinne has been a director of Summerset since 2016.

## Anne Urlwin *(BCom, FCA, CFInstD, MAICD, ACIS, FNZIM)*

**Independent**

Anne is the Chair of Summerset's Development and Construction Committee. She is a professional director with experience in a diverse range of sectors including construction, health, infrastructure, telecommunications, regulation and financial services.

She is the Deputy Chair of Southern Response Earthquake Services, and a director of Precinct Properties New Zealand, Tilt Renewables and Queenstown Airport Corporation. Her other directorships include City Rail Link and Cigna Life New Zealand.

Anne is a former director of Chorus and a former Chair of national commercial construction group Naylor Love Enterprises and of the New Zealand Blood Service.

Anne is a Chartered Accountant with experience in senior finance management roles in addition to her governance roles.

Anne has been a director of Summerset since 2014.

## Dr Andrew Wong *(BHB, MbChB, MPH)*

**Independent**

Andrew is the Managing Director of Mercy Ascot Hospitals and HealthCare Holdings, having held these positions since 2009.

He holds a medical degree and has previously practised as a Public Health Medicine specialist.

Andrew is also a director of a number of medical organisations. These cover a diverse range of areas such as surgical hospitals, day surgeries, diagnostic radiology and cancer care.

Andrew has been a director of Summerset since 2017.

# Executive Leadership Team

## Julian Cook

(MAF, MSc, BSc, BA)

### Chief Executive Officer

Julian has overall responsibility for Summerset and is focused on developing and operating vibrant villages, and ensuring that respect for our customers is always at the core of everything we do.

Prior to becoming Chief Executive Officer in 2014, Julian was Summerset's Chief Financial Officer after joining Summerset in 2010. He oversaw Summerset's transition to become a publicly listed company on the New Zealand Stock Exchange and the Australian Securities Exchange.

Julian is a member of the Executive Committee for the New Zealand Retirement Villages Association.

## Scott Scoullar

(CA, FCPA, BCA)

### Deputy Chief Executive Officer and Chief Financial Officer

Scott has overall responsibility for the financial management of the company and corporate services functions.

Before joining Summerset in 2014, Scott held CFO roles at Housing New Zealand and Inland Revenue.

Scott was named CFO of the Year at the New Zealand CFO Summit Awards in 2019 and was NZICA's Public Sector CFO of the Year in 2011. Scott is also a Fellow of CPA Australia, and a CPA New Zealand Council Board Member.

## Dave Clegg

(MBA)

### General Manager Human Resources

Dave is responsible for leading Summerset's Human Resources and Health and Safety teams to build and grow Summerset's people capability and engagement.

Before joining Summerset in 2018, Dave was the General Manager of People and Culture at Steel & Tube. Dave has over 25 years' experience in human resources leadership roles in New Zealand and overseas.

Dave holds an MBA from Southern Cross University in Australia.

## Fay French

(RNZcmpN)

### General Manager Sales

Fay leads our national sales team and can be found at Summerset's Wellington office or at one of our many New Zealand villages.

Fay has a breadth of experience across sales, hospitality and the health sector. Prior to joining Summerset in 2015, she held a sales leadership role at a leading New Zealand e-commerce platform, where she was responsible for leading a team of business development managers.

Trained as a registered nurse, Fay has worked in various nursing roles and medical sales for Roche Pharmaceuticals.

## Paul Morris

(Dip. BS)

General Manager
Development Australia

Paul leads Summerset's investigation of development opportunities in the Australian market.

Paul has been with Summerset since early 2000. He commenced in the GM Development Australia role in 2018, having previously been GM Development New Zealand since 2003.

## Aaron Smail

(BE (Civil), BBS)

General Manager
Development

Aaron leads Summerset's development team in New Zealand, which covers identifying and purchasing new sites, project feasibilities, consents, design concepts, master planning and design standards for villages.

Previous roles in his 25 plus years of property and development experience include senior positions at Todd Property Group and Kiwi Property.

Aaron has been with Summerset since 2015.

## Dean Tallentire

(BSc (Hons), HND, RICS)

General Manager
Construction

Dean leads our design management, building consents, procurement, cost management, construction management and administration support teams in the construction team.

Dean has extensive construction and development experience and has led teams in the public and private sectors within developer and main contractor environments.

Dean has been with Summerset since 2015.

## Eleanor Young

(BSc (Hons))

General Manager
Operations and Customer Experience

Eleanor oversees the operational performance across all Summerset villages. Her focus on service experience and delivery ensures Summerset's residents receive the highest quality facilities and care.

Before joining Summerset in 2016, Eleanor held senior roles at Inland Revenue. This included four years as the Group Manager of Customer Services, managing over 2,000 staff across New Zealand to deliver services to customers.

Eleanor has a background in human resources within both the public and private sectors, having worked in managerial roles for the Ministry of Social Development, Mighty River Power and Air New Zealand.

# Remuneration

## Director remuneration

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

The total amount of remuneration and other benefits received by each Director during the year ended 31 December 2020 is provided below.

| Director | Board Fees | Audit Committee | Clinical Governance Committee | People and Culture Committee | Development and Construction Committee | Other committees[1] | Total remuneration |
|---|---|---|---|---|---|---|---|
| Rob Campbell | $173,077 (Chair) | | | | | $9,372 | $182,449 |
| Dr Andrew Wong | $86,538 | | | | | $4,500 | $91,038 |
| Anne Urlwin | $86,538 | | | | $7,212 (Chair) | $9,372 | $103,122 |
| Gráinne Troute | $86,538 | | | $7,212 (Chair) | | | $93,750 |
| James Ogden | $86,538 | $17,308 (Chair) | | | | $9,372 | $113,218 |
| Dr Marie Bismark | $86,538 | | $14,423 (Chair) | | | | $100,961 |
| Venasio-Lorenzo Crawley[2] | $76,154 | | | | | | $76,154 |
| **Total** | **$681,921** | **$17,308** | **$14,423** | **$7,212** | **$7,212** | **$32,616** | **$760,692** |

*1 Fees for being on additional sub-committees of the Board throughout the period, including a Due Diligence Committee in relation to the issue of retail bonds in September 2020 and a sub-committee formed in relation to group strategy.*

*2 Venasio-Lorenzo Crawley was appointed as a Director on 1 February 2020.*

The above amounts reflect the 20% pay reduction that Directors took for a period of 10 weeks in response to the COVID-19 pandemic.

Directors' fees were reviewed during 2020 and an increase to the Directors' fees pool was approved by Shareholders, in order to provide a surplus for payment of non-standard fees to Directors for assuming additional responsibilties above and beyond the normal duties of the Board or any standard committee. Standard Directors' fees remained unchanged. However, the appointment of a seventh Director in February 2020 increased the total amount of Directors' fees payable.

As at 31 December 2020, the maximum aggregate amount of remuneration payable by Summerset to Directors (in their capacity as Directors) was $840,000 per annum (2019: $750,000) and annualised standard Directors' fees were $768,000, inclusive of additional remuneration for committee Chairs (2019: $678,000).

As at 31 December 2020, the standard Director fees per annum are as follows:

| | Position | Fees (per annum) |
|---|---|---|
| Board of Directors | Chair | $180,000 |
| | Member | $90,000 |
| Audit Committee | Chair | $18,000 |
| Clinical Governance Committee | Chair | $15,000 |
| People and Culture Committee | Chair | $7,500 |
| Development and Construction Committee | Chair | $7,500 |

No additional fees are paid to committee members.

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

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

## Executive remuneration

The remuneration of members of the Executive Leadership Team (Chief Executive Officer and direct reports) is designed to promote a high-performance culture and to align Executive reward to the development and achievement of strategies and business objectives to create sustainable value for Shareholders.

The Board is assisted in delivering its responsibilities and objectives for Executive remuneration by the People and Culture Committee. The role and membership of this Committee is set out in the Statement of Corporate Governance.

Summerset's remuneration policy for members of the Executive Leadership Team provides the opportunity for them to receive, where performance merits, a total remuneration package in the upper quartile for equivalent market-matched roles. The People and Culture Committee reviews the annual performance appraisal outcomes for all Executive Leadership Team members, including the Chief Executive Officer. The review takes into account external benchmarking to ensure competitiveness with comparable market peers, along with consideration of an individual's performance, skills, expertise and experience.

Total remuneration is made up of three components: fixed remuneration, short-term performance-based cash remuneration and long-term performance-based equity remuneration.

### Fixed remuneration

Fixed remuneration consists of base salary and benefits. Summerset's policy is to pay fixed remuneration with reference to the fixed pay market median.

### Short-term incentives

Short-term incentives (STIs) are at-risk payments designed to motivate and reward for performance, typically in that financial year. The target value of an STI payment is set annually, as a percentage of the Executive Leadership Team member's fixed remuneration. For 2020, the relevant percentages were 25% to 50%.

A proportion (80% for the Chief Executive Officer, 30% to 40% for other Executive Leadership Team members) of the STI is related to achievement of annual performance metrics which aim to align executives to a shared set of key performance indicators (KPIs) based on business priorities for the next 12 months. Target areas for the shared KPIs for 2020 are outlined below:

| Target | Weighting |
|---|---|
| Underlying EBITDA | 40% |
| Retirement unit delivery | 20% |
| New sales development margin | 10% |
| Resales net cash | 10% |
| Customer satisfaction | 5% |
| Customer clinical quality of care | 5% |
| Health and safety | 5% |
| Staff - HR | 5% |

There are three performance levels within each target area - gate-opener, on-target and maximum performance - with 100% of the amount allocated to that target area being payable when the on-target level is achieved. The maximum performance levels allow employees to be rewarded for performance above target levels. The maximum amount of an STI payment for an Executive Leadership Team member is 112% of the STI on-target amount for that Executive Leadership Team member.

The balance of the STI is related to individual performance measures.



In the event that gate-opener underlying EBITDA performance against budget is not achieved, no STI payment will be made.

## Long-term incentives

Long-term incentives (LTIs) are at-risk payments through a share option plan, designed to align the reward of Executive Leadership Team members with the enhancement of shareholder value over a multi-year period.

### LTI Plan

The Executive Leadership Team members are participants of an LTI option plan. Under this plan, Executive Leadership Team members are granted share options. These share options are exercisable in relation to shares in Summerset Group Holdings Limited.

Option grants are made annually, with the value of each grant being set at the date of each grant and determined as a percentage of the Executive Leadership Team member's fixed remuneration. There have now been three option grants under this plan. For 2020, the relevant percentages were 20% to 40% (2019: 20% to 40%). Vesting of the share options is subject to achievement of performance hurdles, which are assessed over two and three-year periods.

The performance hurdles for the option grant made in 2020 are based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget);
- 20% relative earnings (earnings per share growth of the Group compared to a defined peer group);
- 10% clinical delivery;
- 5% staff engagement;
- 5% staff turnover;
- 5% customer satisfaction - village residents;
- 5% customer satisfaction - care centre residents

The performance hurdles above were consistent with those for 2019.

Performance hurdles are set by the Board with the objective of aligning Executive reward to the development and achievement of strategies and business objectives to create sustainable value for Shareholders. The Board considers that the performance hurdles reflect the drivers of sustainable value for Shareholders.

In addition to the LTI share option plan in place for Executive Leadership Team members, Summerset also operates an unhurdled LTI share option plan for other senior managers.

A total of 262,324 share options were granted to Executive Leadership Team members in December 2020. A total of 1,618,274 share options have been granted to Executive Leadership Team members in the 2018, 2019 and 2020 grants. 386,528 of these share options vested as at 31 December 2020, (out of a total of 386,528 eligible to vest), and subsequently became exercisable. The Executive Leadership Team includes the Chief Executive Officer. The Chief Executive Officer section provides further details of share option movements under the LTI Plan for the Chief Executive Officer.

**LTI Plan prior to 2018**

Prior to 2018, Executive Leadership Team members were able to purchase shares in Summerset Group Holdings Limited under an LTI share purchase plan. The shares under this plan are held by a nominee on behalf of the Executive Leadership Team members until such time after the vesting of shares that the nominee is directed by the Executive Leadership Team member to transfer or sell the shares, or the shares are sold or cancelled by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

The Group has provided Executive Leadership Team members participating in the LTI share purchase plans with interest-free limited recourse loans to fund the acquisition of the shares for these plans. These loans must be repaid in full before shares are transferred to Executives from the nominee.

Grants under this plan were made annually, with performance measured over two and three-year periods. The value of each grant was set at the date of the grant and determined as a percentage of the Executive Leadership Team member's fixed remuneration, ranging from 15% to 40%. Vesting of shares is subject to achievement of performance hurdles, which were assessed over two and three-year periods.

The performance hurdles for each grant under the LTI plan made between 2013 and 2015 are based on Summerset's total shareholder return (TSR) relative to the performance of relevant peers and the NZX 50.

The performance hurdles for the grants made in 2016 and 2017 were based on:

- 50% absolute earnings (cumulative actual underlying net profit after tax for the Group against budget);
- 25% relative earnings (earnings per share growth of the Group compared to a defined peer group);
- 10% employee initiatives;
- 10% customer initiatives;
- 5% clinical strategy initiatives.

Performance hurdles were set by the Board with the objective of aligning Executive reward to the development and achievement of strategies and business objectives to create sustainable value for Shareholders. The Board considers that the performance hurdles reflect the drivers of sustainable value for Shareholders.

In addition to the LTI share purchase plan in place for Executive Leadership Team members, Summerset also operated an unhurdled LTI share purchase plan for other senior managers.

A total of 1,169,450 shares are held by Summerset LTI Trustee Limited under the LTI share purchase plan on behalf of the Executive Leadership Team as at 31 December 2020. As at 31 December 2020, 335,170 shares vested to the Executive Leadership Team (out of a total 335,170 available to vest at this date). These shares have a first exercise date of 25 February 2021. This is the final tranche of shares to vest under the LTI share purchase plan. The Executive Leadership Team includes the Chief Executive Officer. The following section provides further details of share movements under the LTI Plan for the Chief Executive Officer.

# Chief Executive Officer remuneration

## Remuneration for years ended 31 December 2018 to 2020

| | Fixed remuneration | | | Pay for performance | | | |
|---|---|---|---|---|---|---|---|
| | Salary | Other benefits[1] | Subtotal[2] | STI | LTI | Subtotal | Total remuneration |
| FY2020 | $623,242 | $1,758 | $625,000 | $261,625[3] | $0[4] | $261,625 | $886,625 |
| FY2019 | $623,405 | $1,595 | $625,000 | $282,734[5] | $250,000[6] | $532,734 | $1,157,734 |
| FY2018 | $547,720 | $2,280 | $550,000 | $271,400[7] | $220,000[8] | $491,400 | $1,041,400 |

1 *Other benefits include medical insurance. The Chief Executive Officer chooses not to participate in KiwiSaver*

2 *Fixed remuneration reflects entitlement for the year, and therefore excludes the 20% pay reduction the Chief Executive Officer took for a period of 10 weeks in response to the COVID-19 pandemic during FY2020*

3 *STI for FY2019 performance period (paid FY2020)*

4 *No LTI value granted in FY2020*

5 *STI for FY2018 performance period (paid FY2019)*

6 *LTI value granted in FY2019 period (which was to vest based on performance in FY2020 to FY2022)*

7 *STI for FY2017 performance period (paid FY2018)*

8 *LTI value granted in FY2018 period (which was to vest based on performance in FY2019 to FY2021)*

## Three-year summary

| | Total remuneration | % STI awarded against on-plan performance | STI performance period | % LTI vested against on-plan performance | Span of LTI performance periods |
|---|---|---|---|---|---|
| FY2020 | $886,625 | 83.7% | FY2019 | 100%[1] | FY2017 - FY2019 |
| FY2019 | $1,157,734 | 102.8% | FY2018 | 97.9%[2] | FY2016 - FY2018 |
| FY2018 | $1,041,400 | 98.7% | FY2017 | 83.7%[3] | FY2015 – FY2017 |

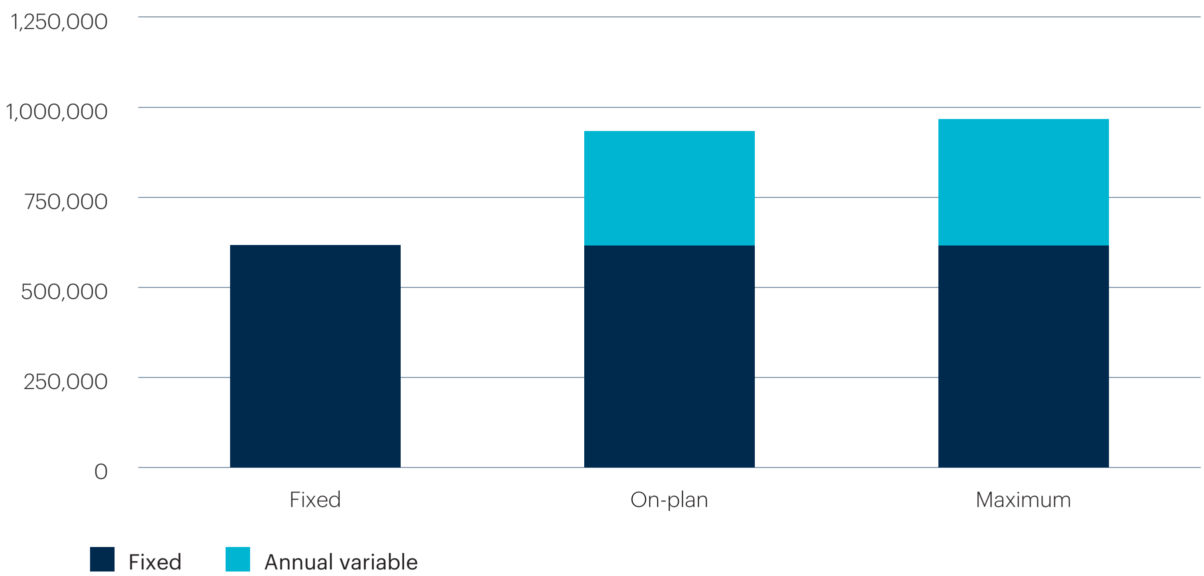
1 *Vesting date 31 December 2019, release date 27 February 2020*

2 *Vesting date 31 December 2018, release date 27 February 2019*

3 *Vesting date 31 December 2017, release date 26 February 2018*

The STI in the table above is based on amounts paid in the financial period. The LTI vested in the table above refers to shares eligible for vesting during the financial period.

## Components of CEO remuneration




As at 31 December 2020, the Chief Executive Officer's fixed remuneration comprised salary and taxable benefits set at $625,000 per annum. The annual variable element pays out at 50% of fixed remuneration for on-plan performance or 56% for maximum performance.

## Description of Chief Executive Officer remuneration for performance for the year ended 31 December 2020

| Plan | Description | Performance measures | Percentage awarded against on-plan performance |
|---|---|---|---|
| STI | Set at 50% of fixed remuneration for FY2020 on-plan performance, up to a maximum of 1.12 times (equal to 56% of fixed remuneration), where the highest levels of both company and individual performance measures are achieved. | 80% based on the company target areas (see table on page 123 for weightings)<br>20% based on individual measures | 100.0%<br>100.0% |
| LTI | In February 2020, vesting for 108,434 shares issued under the LTI Scheme at $4.76 on 14 December 2016 was assessed per the Plan Rules. The assessment period was 1 January 2017 to 31 December 2019. The vesting criteria were met and all shares vested. | 50% based on absolute earnings<br>25% based on relative earnings<br>10% based on employee initiatives<br>10% based on customer initiatives<br>5% based on clinical strategy initiatives | 100.0% |
| | In February 2020, vesting for 142,857 shares issued under the LTI Scheme at $5.24 on 12 December 2017 was assessed per the Plan Rules. The assessment period was 1 January 2018 to 31 December 2019. The vesting criteria were met and all shares vested. | 50% based on absolute earnings<br>25% based on relative earnings<br>10% based on employee initiatives<br>10% based on customer initiatives<br>5% based on clinical strategy initiatives | 100.0% |

The above STI payment will be paid in FY2021.

### Chief Executive Officer LTI share movements for the year ended 31 December 2020

| | Dec 2015 issue | Dec 2016 issue | Dec 2017 issue | Total |
|---|---|---|---|---|
| Balance at 1 January 2020 | 139,355 | 237,005 | 263,736 | 640,096 |
| Forfeited | - | - | - | - |
| Loan repaid and shares transferred to CEO | (139,355) | (128,571) | - | (267,926) |
| **Balance at 31 December 2020** | **-** | **108,434** | **263,736** | **372,170** |
| Vesting status | Vested | Vested | Vested | |
| Issue price | $3.91 | $4.76 | $5.24 | |

120,879 shares were vested on 31 December 2020 (out of a potential 120,879 shares eligible to vest on that date). These vested shares are not eligible for exercise until 25 February 2021.

### Chief Executive Officer LTI share option movements for the year ended 31 December 2020

| | Dec 2018 grant | Dec 2019 grant |
|---|---|---|
| Balance at 1 January 2020 | 224,074 | 200,352 |
| Forfeited | - | - |
| Granted | - | - |
| Exercised | - | - |
| **Balance at 31 December 2020** | **224,074** | **200,352** |
| Vesting status | Partially vested | Unvested |
| Exercise price at grant | $6.34 | $7.62 |



122,222 share options were vested on 31 December 2020 (out of a potential 122,222 share options eligible to vest on that date).

### Employee remuneration

The number of employees or former employees (including employees holding office as Directors of subsidiaries), who received remuneration and other benefits valued at or exceeding $100,000 during the financial year ended 31 December 2020 is specified in the table below.

The remuneration figures shown in the "Remuneration" column include all monetary payments actually paid during the course of the year ended 31 December 2020. The table also includes the grant value of shares issued to individual employees under Summerset's LTI Plan during the same period. The table does not include amounts paid after 31 December 2020 that relate to the year ended 31 December 2020.

The method of calculating remuneration is consistent with the method applied for the previous year.

| Remuneration | No. of employees | Remuneration | No. of employees |
| --- | --- | --- | --- |
| $100,000 to $109,999 | 42 | $250,000 to $259,999 | 1 |
| $110,000 to $119,999 | 35 | $260,000 to $269,999 | 2 |
| $120,000 to $129,999 | 42 | $270,000 to $279,999 | 3 |
| $130,000 to $139,999 | 33 | $310,000 to $319,999 | 2 |
| $140,000 to $149,999 | 22 | $340,000 to $349,999 | 1 |
| $150,000 to $159,999 | 15 | $350,000 to $359,999 | 1 |
| $160,000 to $169,999 | 4 | $370,000 to $379,999 | 1 |
| $170,000 to $179,999 | 8 | $390,000 to $399,999 | 1 |
| $180,000 to $189,999 | 5 | $480,000 to $489,999 | 1 |
| $190,000 to $199,999 | 10 | $500,000 to $509,999 | 1 |
| $200,000 to $209,999 | 6 | $510,000 to $519,999 | 1 |
| $210,000 to $219,999 | 2 | $540,000 to $549,999 | 1 |
| $220,000 to $229,999 | 2 | $810,000 to $819,999 | 1 |
| $230,000 to $239,999 | 1 | $910,000 to $919,999 | 1 |
| $240,000 to $249,999 | 4 | | |

## Pay gap

The pay gap represents the number of times greater the Chief Executive Officer remuneration is to the remuneration of an employee paid at the median of all Summerset employees. For the purposes of determining the median paid to all Summerset employees, all permanent full-time, permanent part-time and fixed-term employees are included, with part-time employee remuneration adjusted to a full-time equivalent amount.

At 31 December 2020, the Chief Executive Officer's base salary of $625,000 was 11.6 times (2019: 11.8 times) that of the median employee at $53,830 per annum. The Chief Executive Officer's total remuneration, including STI and LTI, of $886,625, was 16.0 times (2019: 21.5 times) the total remuneration of the median employee at $55,445.

# Disclosures

## Director changes during the year ended 31 December 2020

Venasio-Lorenzo Crawley was appointed to the Board on 1 February 2020.

## Directors' interests

Directors made the following entries in the Interests Register pursuant to Section 140 of the Companies Act 1993 during the year ended 31 December 2020:

**Rob Campbell:** Disclosed the following positions in respect of the following entities: New Zealand Rural Land Company Limited (Chair), Paua Wealth Management Limited (Advisory Board Member), Ara Ake Limited (Chair), UFF Holdings Limited (Director), He Toutou Mo Te Ahika Trust (Trustee). Disclosed he ceased to hold the following position in respect of the following entity: King Tide Asset Management Limited (Chair).

**Anne Urlwin:** Disclosed the following positions in respect of the following entities: Cigna Life New Zealand Limited (Director), Tilt Renewables Insurance Limited (Director), Queenstown Airport Corporation Limited (Director). Disclosed she ceased to hold the following positions in respect of the following entities: Onepath Life (NZ) Limited (Director), Steel and Tube Holdings Limited (Director).

**James Ogden:** No new disclosures were made.

**Dr Marie Bismark:** Disclosed the following positions in respect of the following entities: Royal Women's Hospital, Melbourne (Director), North Western Mental Health (Psychiatry Registrar). Disclosed she ceased to hold the following positions in respect of the following entities: Royal Children's Hospital Melbourne (Psychiatry Registrar).

**Gráinne Troute:** Disclosed the following position in respect of the following entity: Tourism Industry Aotearoa (Chair).

**Dr Andrew Wong:** Disclosed the following positions in respect of the following entities: Auckland University of Technology (Adjunct Professor), MyACC (Director). Disclosed he ceased to hold the following positions in respect of the following entities: Ninety Nine Investments Limited (Director), Mercy Angiography Limited (Director).

**Venasio-Lorenzo Crawley**: Disclosed the following positions in respect of the following entities: Contact Energy Limited (Chief Customer Officer and Shareholder), Crawley Rowlands Family Trust (Trustee).

## 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.

## Directors' security holdings

Securities in the Company in which each Director has a relevant interest as at 31 December 2020 are specified in the table below:

| Director | Ordinary shares | SUM010 retail bonds | SUM020 retail bonds | SUM030 retail bonds |
|---|---|---|---|---|
| Rob Campbell | 60,274 | - | - | - |
| Anne Urlwin | 31,413 | 30,000 | - | 30,000 |
| James Ogden | 239,504 | 15,000* | 100,000* | 150,000* |
| Dr Marie Bismark | 23,828 | - | - | - |
| Gráinne Troute | 25,000 | - | - | - |
| Dr Andrew Wong | 10,500 | - | - | - |
| Venasio-Lorenzo Crawley | - | - | - | - |
| **Total** | **390,519** | **45,000** | **100,000** | **180,000** |

**James Ogden has a non-beneficial interest in 15,000 SUM010 retail bonds of which he is the registered holder in his capacity as trustee of the Wakapua Trust. Clara Ogden has a legal and beneficial interest in 100,000 SUM020 retail bonds and 150,000 SUM030 retail bonds, of which James Ogden has the power to acquire or dispose.*

## 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 securities acquired/(disposed) | Consideration |
|---|---|---|---|
| Rob Campbell | 23 March 2020 | 570 | Issue of shares under dividend reinvestment plan at $5.36 per share |
| | 11 September 2020 | 424 | Issue of shares under dividend reinvestment plan at $8.47 per share |
| Anne Urlwin | 23 March 2020 | 250 | Issue of shares under dividend reinvestment plan at $5.36 per share |
| | 28 May 2020 | 5,000 | On-market acquisition of ordinary shares at an average price of $6.01 per share |
| | 11 September 2020 | 148 | Issue of shares under dividend reinvestment plan at $8.47 per share |
| | 21 September 2020 | 30,000 | Issue of SUM030 retail bonds during initial offer period at $1.00 per bond |
| James Ogden | 21 September 2020 | 150,000 | Issue of SUM030 retail bonds during initial offer period at $1.00 per bond |
| | 10 November 2020 | (150,000) | On-market disposal of ordinary shares at average price of $10.85 per share |
| Dr Marie Bismark | 23 March 2020 | 285 | Issue of shares under dividend reinvestment plan at $5.36 per share |
| | 11 September 2020 | 142 | Issue of shares under dividend reinvestment plan at $8.47 per share |

## Director appointment dates

The date of each Director's first appointment to the position of Director is provided below. Since the date of appointment, Directors have been re-appointed at Annual Meetings when retiring by rotation as required.

| Director | Appointment date |
|---|---|
| Rob Campbell | 2 September 2011 |
| Anne Urlwin | 1 March 2014 |
| James Ogden* | 2 September 2011 |
| Dr Marie Bismark | 1 September 2013 |
| Gráinne Troute | 1 September 2016 |
| Dr Andrew Wong | 1 March 2017 |
| Venasio-Lorenzo Crawley | 1 February 2020 |

**James Ogden was also a Director from 1 October 2007 to 26 March 2009.*

## 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.

## Directors of subsidiary companies

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

Julian Cook, Scott Scoullar, Aaron Smail and Robyn Heyman were Directors of all the Company's New Zealand incorporated subsidiaries as at 31 December 2020, with the exception of Summerset LTI Trustee Limited (the Directors of which are Rob Campbell and Dr Marie Bismark). Julian Cook, Scott Scoullar, Paul Morris and Robyn Heyman were Directors of all the Company's Australian incorporated subsidiaries as at 31 December 2020. No extra remuneration is payable to any Director of the Company for any Directorship of a subsidiary.

## Top 20 Shareholders as at 31 December 2020

| Rank | Registered Shareholder | Number of shares | % of shares |
|---|---|---|---|
| 1 | New Zealand Central Securities Depository Limited | 131,739,136 | 57.58% |
| 2 | FNZ Custodians Limited | 6,270,443 | 2.74% |
| 3 | Forsyth Barr Custodians Limited | 6,014,003 | 2.63% |
| 4 | Custodial Services Limited | 6,004,756 | 2.62% |
| 5 | Hobson Wealth Custodian Limited | 5,041,801 | 2.20% |
| 6 | Custodial Services Limited | 4,884,744 | 2.14% |
| 7 | New Zealand Depository Nominee Limited | 3,684,294 | 1.61% |
| 8 | Custodial Services Limited | 2,676,051 | 1.17% |
| 9 | Custodial Services Limited | 2,010,100 | 0.88% |
| 10 | Motutapu Investments Limited | 1,894,283 | 0.83% |
| 11 | Summerset LTI Trustee Limited | 1,678,240 | 0.73% |
| 12 | Paul Stanley Morris & Clive Stephen Morris | 1,623,487 | 0.71% |
| 13 | Custodial Services Limited | 1,191,680 | 0.52% |
| 14 | ASB Nominees Limited | 1,049,913 | 0.46% |
| 15 | JBWere (NZ) Nominees Limited | 980,793 | 0.43% |
| 16 | FNZ Custodians Limited | 927,434 | 0.41% |
| 17 | PT Booster Investments Nominees Limited | 925,139 | 0.40% |
| 18 | Custodial Services Limited | 897,014 | 0.39% |
| 19 | Investment Custodial Services Limited | 738,130 | 0.32% |
| 20 | Loto Jade Pty Limited | 678,977 | 0.30% |
| | **Total** | **180,910,418** | **79.07%** |



## Shareholders held through the NZCSD as at 31 December 2020

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 31 December 2020, the ten largest shareholdings in the Company held through NZCSD were:

| Rank | Registered Shareholder | Number of shares | % of shares |
|---|---|---|---|
| 1 | Citibank Nominees (NZ) Limited | 20,230,475 | 8.84% |
| 2 | Tea Custodians Limited | 17,914,549 | 7.83% |
| 3 | HSBC Nominees (New Zealand) Limited | 16,986,945 | 7.42% |
| 4 | National Nominees New Zealand Limited | 13,219,709 | 5.78% |
| 5 | Accident Compensation Corporation | 10,754,926 | 4.70% |
| 6 | JPMorgan Chase Bank | 10,385,719 | 4.54% |
| 7 | HSBC Nominees (New Zealand) Limited | 9,127,270 | 3.99% |
| 8 | New Zealand Superannuation Fund Nominees Limited | 6,630,837 | 2.90% |
| 9 | Cogent Nominees Limited | 6,248,634 | 2.73% |
| 10 | BNP Paribas Nominees NZ Limited (BPSS40) | 5,418,993 | 2.37% |

## Spread of Shareholders as at 31 December 2020

| Size of shareholding | Shareholders Number | Shareholders % | Shares Number | Shares % |
|---|---|---|---|---|
| 1 to 1,000 | 3,152 | 33.74% | 1,412,576 | 0.62% |
| 1,001 to 5,000 | 4,029 | 43.13% | 10,213,552 | 4.46% |
| 5,001 to 10,000 | 1,214 | 13.00% | 8,774,188 | 3.84% |
| 10,001 to 50,000 | 829 | 8.87% | 15,507,653 | 6.78% |
| 50,001 to 100,000 | 58 | 0.62% | 4,006,761 | 1.75% |
| 100,001 and over | 60 | 0.64% | 188,870,584 | 82.55% |
| **Total** | **9,342** | **100.00%** | **228,785,314** | **100.00%** |

## Substantial product holder notices received as at 31 December 2020

According to the records kept by the Company and notices given under the Financial Market Conducts Act 2013 the following were substantial holders in the Company as at 31 December 2020. The total number of voting products on issue at 31 December 2020 was 228,785,314 ordinary shares.

| Shareholder | Relevant interest | % held at date of notice | Date of notice |
|---|---|---|---|
| Jarden Securities Limited* | 18,981,594 | 8.296% | 2 October 2020 |
| Harbour Asset Management Limited** | 18,981,594 | 8.296% | 2 October 2020 |
| Milford Funds Limited | 12,006,954 | 5.267% | 6 May 2020 |
| Fisher Funds Management Limited | 14,184,637 | 6.222% | 28 April 2020 |

* As at the date of the notice, Jarden Securities Limited held 2,691,168 shares (1.176% of issued capital). The relevant interest disclosed includes the interest of Harbour Asset Management Limited as related body corporate.

** As at the date of the notice, Harbour Asset Management Limited held 16,290,426 shares (7.120% of issued capital). The relevant interest disclosed includes the interest of Jarden Securities Limited as related body corporate.



## Spread of bondholders as at 31 December 2020

### SUM010

| Size of bondholding | Bondholders Number | Bondholders % | Bonds Number | Bonds % |
|---|---|---|---|---|
| 1 to 5,000 | 79 | 9.26% | 395,000 | 0.40% |
| 5,001 to 10,000 | 217 | 25.44% | 2,109,000 | 2.11% |
| 10,001 to 50,000 | 466 | 54.63% | 12,775,000 | 12.77% |
| 50,001 to 100,000 | 54 | 6.33% | 4,561,000 | 4.56% |
| 100,001 and over | 37 | 4.34% | 80,160,000 | 80.16% |
| **Total** | **853** | **100.00%** | **100,000,000** | **100.00%** |

### SUM020

| Size of bondholding | Bondholders Number | Bondholders % | Bonds Number | Bonds % |
|---|---|---|---|---|
| 1 to 5,000 | 45 | 6.68% | 225,000 | 0.18% |
| 5,001 to 10,000 | 128 | 19.02% | 1,220,000 | 0.97% |
| 10,001 to 50,000 | 409 | 60.77% | 11,234,000 | 8.99% |
| 50,001 to 100,000 | 45 | 6.69% | 3,937,000 | 3.15% |
| 100,001 and over | 46 | 6.84% | 108,384,000 | 86.71% |
| **Total** | **673** | **100.00%** | **125,000,000** | **100.00%** |

### SUM030

| Size of bondholding | Bondholders Number | Bondholders % | Bonds Number | Bonds % |
|---|---|---|---|---|
| 1 to 5,000 | 48 | 6.40% | 240,000 | 0.16% |
| 5,001 to 10,000 | 173 | 23.06% | 1,680,000 | 1.12% |
| 10,001 to 50,000 | 428 | 57.07% | 11,571,000 | 7.71% |
| 50,001 to 100,000 | 53 | 7.07% | 4,452,000 | 2.97% |
| 100,001 and over | 48 | 6.40% | 132,057,000 | 88.04% |
| **Total** | **750** | **100.00%** | **150,000,000** | **100.00%** |



## Waivers from the NZX Listing Rules

No waivers from the application of NZX Listing Rules have been utilised by the Company during the year ended 31 December 2020.

## Credit rating

The Company has no credit rating.

## Auditor fees

Ernst & Young Wellington has continued to act as auditors of the company. The amount payable by Summerset and its subsidiaries to Ernst & Young Wellington in respect of FY20 audit fees was $205,000. In addition, Ernst & Young Wellington undertook assurance services in relation to Summerset's long term incentive plan during the year, the fees for this engagement were $4,000. No other non-audit work was undertaken by Ernst & Young during the year.

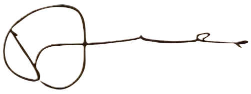
## Donations

In accordance with section 211(1)(h) of the Companies Act 1993, Summerset records that it donated $34,000 during the year ended 31 December 2020.

## Dividend reinvestment plan

The last date of receipt for a participation election from a shareholder who wishes to participate in the dividend reinvestment plan is 10 March 2021.

This Annual Report is authorised for and on behalf of the Board by:



**Rob Campbell**
Director and Chair of
the Board

**James Ogden**
Director and Chair of the
Audit Committee

*Authorised for issue on 22 February 2021*

# Directory

## New Zealand

### Northland

**Summerset Mount Denby**
7 Par Lane, Tikipunga,
Whangarei 0112
Phone (09) 470 0282

### Auckland

**Summerset Falls**
31 Mansel Drive,
Warkworth 0910
Phone (09) 425 1200

**Summerset Milldale**[1]
Argent Lane, Milldale,
Wainui 0992
Phone (0800) 786 637

**Summerset at Monterey Park**
1 Squadron Drive, Hobsonville,
Auckland 0618
Phone (09) 951 8920

**Summerset at Heritage Park**
8 Harrison Road, Ellerslie,
Auckland 1060
Phone (09) 950 7960

**Summerset by the Park**
7 Flat Bush School Road,
Flat Bush 2019
Phone (09) 272 3950

**Summerset at Karaka**
49 Pararekau Road,
Karaka 2580
Phone (09) 951 8900

**Summerset Parnell**[1]
23 Cheshire Street, Parnell,
Auckland 1052
Phone (09) 950 8212

**Summerset Half Moon Bay**[1]
25 Thurston Place
Half Moon Bay,
Auckland 2012
Phone (09) 306 1422

**Summerset St Johns**
188 St Johns Road, St Johns,
Auckland 1072
Phone (09) 950 7982

### Waikato – Taupo

**Summerset down the Lane**
206 Dixon Road,
Hamilton 3206
Phone (07) 843 0157

**Summerset Rototuna**
39 Kimbrae Drive,
Rototuna North 3281
Phone (07) 981 7822

**Summerset by the Lake**
2 Wharewaka Road, Wharewaka,
Taupo 3330
Phone (07) 376 9470

**Summerset Cambridge**[1]
80 Laurent Road,
Cambridge 3493
Phone (07) 839 9482

### Bay of Plenty

**Summerset by the Sea**
181 Park Road,
Katikati 3129
Phone (07) 985 6890

**Summerset by the Dunes**
35 Manawa Road,
Papamoa Beach, Tauranga 3118
Phone (07) 542 9082

1 *Proposed villages*

## Hawke's Bay

**Summerset in the Bay**
79 Merlot Drive, Greenmeadows,
Napier 4112
Phone (06) 845 2840

**Summerset in the Orchard**
1228 Ada Street, Parkvale,
Hastings 4122
Phone (06) 974 1310

**Summerset Palms**
136 Eriksen Road,
Te Awa, Napier 4110
Phone: (06) 833 5852

**Summerset in the Vines**
249 Te Mata Road,
Havelock North 4130
Phone (06) 877 1185

## Taranaki

**Summerset Mountain View**
35 Fernbrook Drive, Vogeltown,
New Plymouth 4310
Phone (06) 824 8900

**Summerset at Pohutukawa Place**
Pohutukawa Place, Bell Block,
New Plymouth 4312
Phone (06) 824 8532

## Manawatu – Wanganui

**Summerset in the River City**
40 Burton Avenue, Wanganui East,
Wanganui 4500
Phone (06) 343 3133

**Summerset on Summerhill**
180 Ruapehu Drive, Fitzherbert,
Palmerston North 4410
Phone (06) 354 4964

**Summerset by the Ranges**
104 Liverpool Street,
Levin 5510
Phone (06) 367 0337

## Wellington

**Summerset Waikanae[1]**
Park Avenue,
Waikanae 5036
Phone (04) 293 0002

**Summerset on the Coast**
104 Realm Drive,
Paraparaumu 5032
Phone (04) 298 3540

**Summerset on the Landing**
1-3 Bluff Road, Kenepuru,
Porirua 5022
Phone (04) 230 6722

**Summerset at Aotea**
15 Aotea Drive, Aotea,
Porirua 5024
Phone (04) 235 0011

**Summerset at the Course**
20 Racecourse Road, Trentham,
Upper Hutt 5018
Phone (04) 527 2980

**Summerset Lower Hutt**
Boulcott's Farm, Military Road,
Lower Hutt 5010
Phone (04) 568 1442

## Nelson – Tasman

**Summerset in the Sun**
16 Sargeson Street, Stoke,
Nelson 7011
Phone (03) 538 0000

**Summerset Richmond Ranges**
1 Hill Street North, Richmond,
Tasman 7020
Phone (03) 744 3432

## Marlborough

**Summerset Blenheim[1]**
183 Old Renwick Road, Springlands,
Blenheim 7272
Phone (03) 520 6042

1 *Proposed villages*

## Canterbury

**Summerset Rangiora[1]**
141 South Belt, Waimakariri,
Rangiora 7400
Phone (03) 364 1312

**Summerset at Wigram**
135 Awatea Road, Wigram,
Christchurch 8025
Phone (03) 741 0870

**Summerset at Avonhead**
120 Hawthornden Road, Avonhead,
Christchurch 8042
Phone (03) 357 3202

**Summerset on Cavendish**
147 Cavendish Road, Casebrook,
Christchurch 8051
Phone (03) 741 3340

**Summerset Prebbleton[1]**
578 Springs Road,
Prebbleton 7604
Phone (03) 353 6312

## Otago

**Summerset at Bishopscourt**
36 Shetland Street, Wakari,
Dunedin 9010
Phone (03) 950 3102

# Australia

## Victoria

**Summerset Cranbourne North[1]**
1435 Thompsons Road,
Cranbourne North,
Melbourne, Australia
Phone (1800) 321 700

**Summerset Torquay[1]**
Grossmans Road and Briody Drive,
Torquay,
Victoria, Australia
Phone (1800) 321 700

1 *Proposed villages*

# Company information

## Registered offices

**New Zealand**
Level 27, Majestic Centre,
100 Willis Street, Wellington 6011,
New Zealand

PO Box 5187,
Wellington 6140

Phone: +64 4 894 7320
Email: reception@summerset.co.nz
www.summerset.co.nz

**Australia**
Deutsche Bank Place,
Level 4, 126 Phillip Street,
Sydney, NSW, 2000
Australia

**Auditor**
Ernst & Young

**Solicitor**
Russell McVeagh

**Bankers**
ANZ Bank New Zealand Limited
Australia and New Zealand Banking Group Limited
Bank of New Zealand
National Australia Bank
Commonwealth Bank of Australia
Westpac New Zealand Limited
Westpac Banking Corporation
Industrial and Commercial Bank of China (New Zealand) Limited

**Statutory Supervisor**
Public Trust

**Bond Supervisor**
The New Zealand Guardian Trust
Company Limited

**Share Registrar**
Link Market Services,
PO Box 91976, Auckland 1142,
New Zealand

Phone: +64 9 375 5998
Email: enquiries@linkmarketservices.co.nz

**Directors**
Rob Campbell
Dr Marie Bismark
Venasio-Lorenzo Crawley
James Ogden
Gráinne Troute
Anne Urlwin
Dr Andrew Wong

**Company Secretary**
Robyn Heyman

Summerset

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summerset.com.au