
Summerset
ANNUAL
REPORT
2014

Cover: Jean and Stanley Morris, Summerset's 3,000th residents, join Summerset on the Coast, Paraparaumu.

This page: Summerset by the Sea, Katikati: village centre completed in November 2014.

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SUMMERSET SNAPSHOT

More than
3,000
residents

Nearly
700
staff

2,116
retirement units

485
care beds

261
retirement units built in 2014

300
retirement units: approximate build rate for 2015

20
villages nationwide

3
greenfield sites in land bank

Land bank of
1,881
retirement units

Land bank of
556
care beds

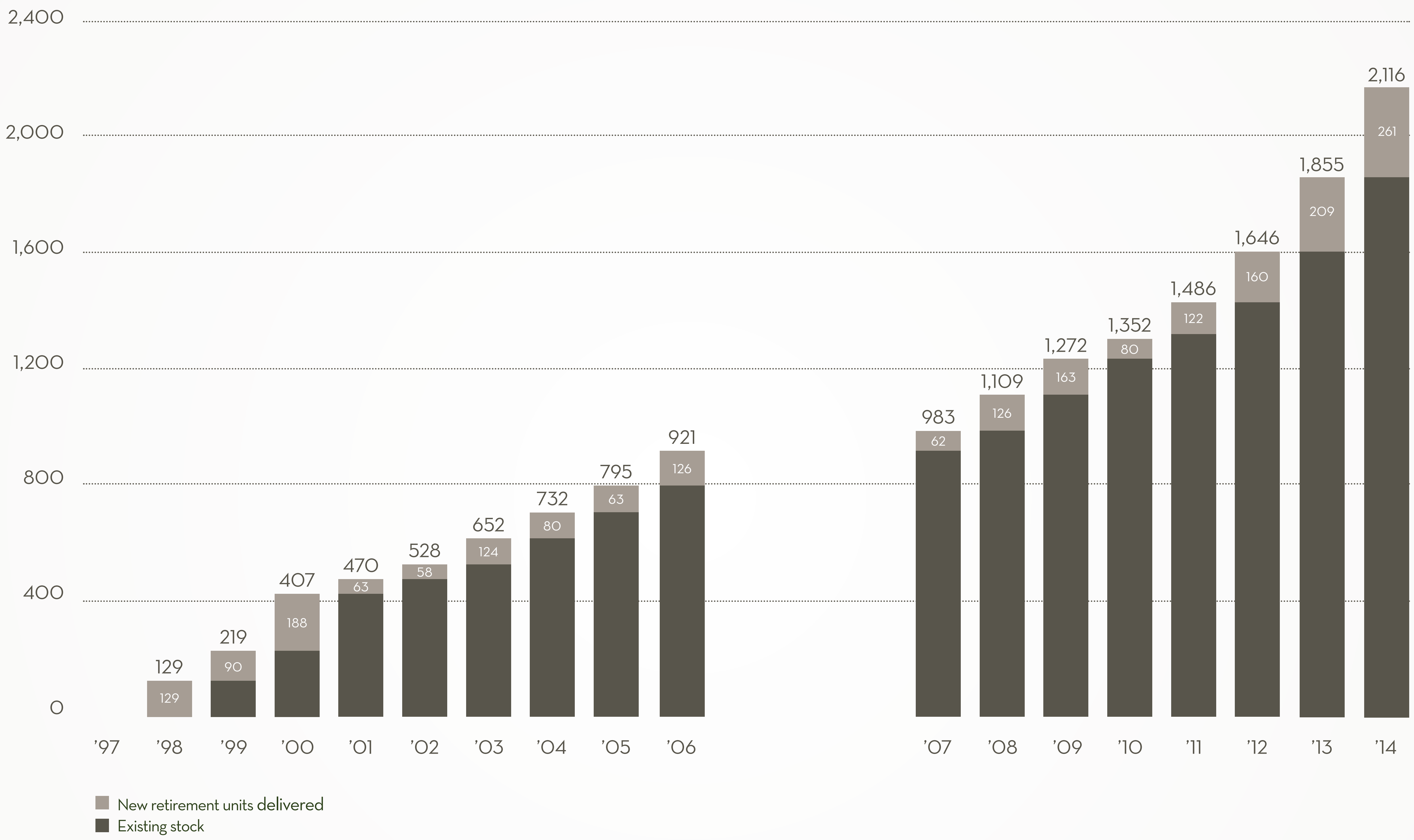






PORTFOLIO GROWTH

17 YEARS OF CONSISTENT DELIVERY AND GROWTH



2014

NEW RECORD

261

new retirement units completed

25%

more than in 2013

2,116

total retirement units in portfolio

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

The number of people aged 75 and over is projected to increase from 274,000 in 2014 to 1,001,300 by 2068. This is an increase from 6% of the population to 16%.

The number of people aged 85 and over is projected to increase from 77,700 in 2014 to 387,400 in 2068. This is an increase from 1.7% of the population to 6.3%.

Our Katikati village opened in 2013 and the village centre was officially opened in late 2014.

BUSINESS HIGHLIGHTS

4

new villages opened: Hobsonville, Karaka, New Plymouth and Trentham (extension)

3

care centres opened: Hamilton, Nelson and Dunedin

42

new care beds delivered

458

record total sales of retirement units

Clinical Governance Committee

of the Board established

Milestone of more than

2,000

retirement units reached

FINANCIAL HIGHLIGHTS

$24.4M
underlying profit for FY2014

10%
increase on FY2013

$54.2M
NPAT for FY2014

58%
increase on FY2013

$1.0B
in total assets

23%
increase on FY2013

$110.4M
operating cash flow

25%
increase on FY2013

Our Dunedin village centre was completed in May 2014.

FINANCIAL HIGHLIGHTS

CONTINUED

UNDERLYING PROFIT

$000	FY2014	FY2013	% CHANGE
Reported profit after tax *	54,173	34,223	58.3%
Less fair value movement of investment property *	(52,481)	(29,722)	76.6%
Less reversal of impairment of land and buildings *	(1,882)	-	N/A
Add realised gain on resales	8,090	9,671	(16.3%)
Add realised development margin	16,699	10,450	59.8%
Less deferred tax credit *	(179)	(2,468)	(92.7%)
Underlying profit	**24,420**	**22,154**	**10.2%**

**Figure has been extracted from financial statements*

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

FY2014 RESULTS HIGHLIGHTS - FINANCIAL

$000	FY2014	FY2013	% CHANGE
Net operating cash flow	110,433	88,590	24.7%
Net profit before tax (NZ IFRS)	53,994	31,755	70.0%
Net profit after tax (NZ IFRS)	54,173	34,223	58.3%
Underlying profit *	24,420	22,154	10.2%
Total assets	1,043,189	844,932	23.5%
Net tangible assets (cents per share)	153.33	131.24	16.8%

**Underlying profit differs from NZ IFRS net profit after tax.*

FY2014 RESULTS HIGHLIGHTS - OPERATIONAL

	FY2014	FY2013	% CHANGE
New sales of occupation rights	286	228	25.4%
Resale of occupation rights	172	174	(1.1%)
New retirement units delivered	261	209	24.9%
Realised development margin ($000)	16,699	10,450	59.8%
Gross proceeds (new sales) ($000)	106,252	79,274	34.0%
Realised gains on resales ($000)	8,090	9,671	(16.3%)

Retirement units at Summerset in the Orchard, Hastings.

Divine Café, Summerset Falls, Warkworth.

PEOPLE HIGHLIGHTS

More than
3,000
residents

Nearly
700
staff

93%
care resident and family satisfaction

97%
village resident satisfaction

Our 2,000th retirement unit was delivered this year

Bruce and Nan Robinson move into the 2,000th retirement unit at Summerset by the Sea, Katikati.

CHAIRMAN'S REPORT

More than three years on from listing on the NZX, we continue to build the business as planned, with the completion of our 2,000th retirement unit, more than 3,000 residents, and increasing profit.

2014 was a year of investment in future growth and in strengthening our systems and processes to set a platform to deliver the expected facilities and experience for our residents and to prepare the business for continued growth.

What is pleasing about Summerset's result for 2014?

In 2014 we opened four new villages and three village centres, built 261 retirement units and delivered 42 care beds; a year of considerable growth. We have invested significantly in the future of our business, which has meant that our earnings for 2014 have grown at a slower rate than in previous years. We are in this business for the long term and this investment will contribute to increased earnings in 2015 and beyond. We also spent significant effort and energy investing in our clinical systems and quality of care, and in our existing villages, ensuring that facilities are maintained and upgraded to both meet and exceed the expectations of our residents.

We have been operating in a market with strong demand for our facilities and services, coupled with relatively low funding costs. Investors should expect that we take advantage of such a period to make good earnings progress and to build our business so that we can also succeed in less benign market conditions. I believe that we have made good progress in this respect.

How has Summerset performed this year for its shareholders?

We have delivered a record underlying profit in 2014 of $24.4m for 2014, an increase of 10.2% on FY2013. Net profit after tax was $54.2m.

Sales of occupation rights were 14% higher than in 2013, with 458 rights sold. New sales growth was a key contributor to this with 286 sales, up 58 retirement units, a 25% increase on 2013. Resales of occupation rights were flat compared to 2013 at 172 retirement units. This flat resales result was driven by the natural variation of retirement units becoming available. Resales of those rights that have become available have been strong, with only 26 unsold retirement units across the entire group as at 31 December 2014.

The Board has declared a final dividend of 2.1 cents per share. Combined with the interim dividend of 1.4 cents per share, this represents a total dividend for the year of 3.5 cents per share. This is up 7.7% on the full-year dividend for 2013.

How have our residents benefited?

It is our goal to be the first-choice retirement village and aged-care operator in this country.

To achieve this, we focus on creating communities that really make a difference for those who live in them, and for their loved ones and friends – communities that become an integral part of their wider community. We firmly believe that in order to succeed in this sector, we must listen to, and act on, the needs of our residents. It is this basic respect for our customers that has led to more than 3,000 people choosing to live in a Summerset village.

Our recent customer satisfaction survey showed that 97% of our residents were satisfied or very satisfied with life at Summerset. In our care centres, resident and family satisfaction is 93%, an industry-leading result. Care is a very important part of our village life and a significant factor for those looking at retirement village options. We are committed to excellence in care and making a real difference to the lives of those we care for.

> "We firmly believe that in order to succeed in this sector, we must listen to, and act on, the needs of our residents. It is this basic respect for our customers that has led to more than 3,000 people choosing to live in a Summerset village."

In 2014 we established a Clinical Governance Committee at Board level, and we have also continued to strengthen our quality control and internal audit systems, increased our investment in clinical oversight and education, and increased the wages of the caregivers who are the heart of the care we provide.

What change has Summerset seen in 2014?

Julian Cook began as Chief Executive Officer in April 2014, having previously been Chief Financial Officer. We are pleased with the seamless transition and Julian's valuable contribution. The direction and strategy of the business are unchanged and our focus is firmly on establishing Summerset as a major force in this rapidly growing sector, providing quality communities, support and care to older New Zealanders.

What will 2015 bring for Summerset?

Looking ahead to 2015, we are on track to deliver 300 retirement units and a development margin of 17% or greater. We have a strong land bank in place, with 1,881 retirement units and 556 care beds, and will build at least 300 retirement units per annum beyond 2015. We are already building on our village in Wigram, Christchurch, our 20th village, and have begun work on our village in Ellerslie, Auckland.

Thank you to all who have made the choice to live with Summerset. We are grateful to you, and will continue to work hard to be the best we can for you.

To our shareholders, thank you for your continued support of our business. We look forward to keeping you up to date on our progress.

Rob Campbell
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

It is now a year since I began as Chief Executive Officer, and Summerset is at a very exciting point. Only 18 years old, we are much younger than many others in the sector, but in that time we have become the third-largest operator, second-largest developer and on many measures the fastest-growing business in the sector on a relative basis. We have industry-leading customer satisfaction ratings and are well positioned to make a real and positive difference to people's lives, and grow as a business at the same time.

2014 was characterised by heavy investment into the ongoing growth of the business. In particular we opened four new villages and three new village centres. This is a record for us and such expansion takes a lot of management focus as well as financial investment. These openings have all run better than expected and this is a credit to the staff involved. As a result of this investment, our earnings growth is lower than in previous years. However, we are focused on long-term value creation and believe this investment will support stronger earnings growth in the future.

Last year we also set about strengthening our people, systems and processes to support the growth of the business, and there are initiatives underway in many parts of the business. A prime example is the work we have undertaken to ensure we have the best clinical quality at all times.

These initiatives are designed to create a business platform that enables the best-quality experience for the resident, supported by systems and processes able to handle the growth of the business over the coming years.

These will take some years to put into place properly, and to some extent such improvements will always be required, but certainly this is a focus for us ahead of the forecast upswing in the growth of numbers of people aged over 75.

What were some of the highlights of the year?

The year heralded a number of exciting milestones for the company. We have now built more than 2,000 retirement village units since we started back in 1997 in Wanganui. I was lucky enough to meet the residents of our 2,000th unit, Nan and Bruce Robinson, who moved to our Katikati village in June 2014. This village is situated on the waterfront of the Tauranga harbour with stunning views out to sea.

"These initiatives are designed to create a business platform that enables the best-quality experience for the resident, supported by systems and processes able to handle the growth of the business over the coming years."

The results of our satisfaction surveys were also a highlight: 97% of village residents told us they were satisfied or very satisfied with life at Summerset, and that number is 93% for care residents and their families. These are industry-leading results, but I will stress that this is an area in which we always seek to do better.

When we listed on the NZX in November 2011, we indicated that we would build 250 retirement units in 2016, with a development margin of 17% achieved by around the 2016 financial year. We later increased our build rate guidance to 300 retirement units in 2015, and maintained our development margin forecast. This guidance has been a key plank for our shareholders. With work progressing well on all of our development sites, we are on track to achieve the build rate of 300 in 2015. We are also pleased that in the second half of 2014 we reported a development margin of 16.6%, just shy of our 17% target and two years earlier than expected. We expect to reach 17% or greater in 2015.

What development activity has there been in 2014?

In 2014, we broke ground on six new sites: Hobsonville, Karaka, New Plymouth, Ellerslie, Wigram and the extension to our Trentham village. Demand for homes in these villages has been high and we have brought the construction of new stages forward to meet that demand. Opening new villages is always an exciting time – for us as developers and operators, and for the residents who are joining new communities and moving into new homes.

We most recently broke ground at our 20th village, Summerset at Wigram, our first in Christchurch. The suburb of Wigram is busy with construction and development, providing much-needed housing to the city as it rebuilds. With another site planned for Casebrook, in the north of Christchurch, we hope to be an important contributor to the city and will spend almost $200 million bringing the Summerset philosophy to Christchurch.

We have also started work at our village in Ellerslie, Auckland, which is already generating strong interest from Aucklanders.

Previously we would start the construction of a new village with homes, then later progress the village centre, which forms both the hub of the village's communal life, and houses the village's care facilities. As a larger company with greater financial resources, we are now able to build the village centre at the same time as the first stage of homes. This provides residents earlier enjoyment of the facilities and community created by the village centre, and the access to care should they need it. This improvement for residents has resulted in faster sales of occupation rights. Over time we expect that this will assist the rate of sales in our new villages.

In 2014, we opened village centres at Nelson, Dunedin and Katikati, and watched as these communities flourished. We are currently working on village centres on our new sites at Hobsonville, Karaka, New Plymouth and Wigram.

With a land bank of 1,881 retirement units and 556 care beds, we are in a good position to continue our growth by at least 300 retirement units per annum.

We will continue to assess the suitability and desirability of sites for future villages as they come up, although we are under no pressure to purchase sites and can be selective in what we acquire.

As well as opening new villages, we have continued to invest in our existing villages. Café facilities are now a standard feature of our new villages, and we have been adding cafés to those villages that did not have one to bring them up to standard. Taupo and Palmerston North have both had these facilities completed in the last year. We have also refurbished and improved apartments and villas in several existing villages to ensure that our product always remains attractive and current.

> “With a land bank of 1,881 retirement units and 556 care beds, we are in a good position to continue our growth by at least 300 retirement units per annum.”

Turning briefly to the property market, we are sometimes asked what effect the housing market has on our business, and whether a potential downturn will have a negative impact on what we do. We see no imminent signs of any downturn; in fact, we see the reverse. However, we are conscious there is a cycle in the housing market and that we have no crystal ball to predict the future. Our business is based on meeting the needs of community and caring for older New Zealanders. That is why people choose to make Summerset their home, and this need will exist regardless of the stage of the property cycle.

How important is aged care to Summerset’s business?

Care is integral to what we do. We understand that our residents have varying requirements when it comes to care and support, and that a one-size-fits-all approach does not work. As the population ages, care will be an increasingly important factor for those choosing a retirement village. We want to make sure we offer the choice, certainty, care and community that people desire. In 2014, we restructured and streamlined support packages offered in our care apartments. These changes were designed to help people better understand our packages and make it easier and more affordable to get the appropriate support. Our packages offer the best of both worlds – residents can receive care and support tailored to the level they choose, which allows them to retain the independence of staying in their own home.

The Board has introduced a Clinical Governance Committee, led by one of our directors, Dr. Marie Bismark, to provide guidance and oversight of our clinical operations, and to continually improve the quality of care we provide and the quality of life our residents can expect. We are also focusing on improvement to our quality systems, improving our internal audit capability, and investing further in clinical support, education and monitoring across the group.

What changes did 2014 bring for staff?

Our staff are the people who make our philosophy a reality. They are an integral part of this business and I would like to take this opportunity to thank them for the commitment and passion they have shown for this business.

Our company grew by nearly 100 staff during the year, to nearly 700 by the end of FY2014. This increase has seen a focus across Summerset on inducting new people into our business.

At the Executive Team level a number of appointments have been made, namely: Chief Financial Officer, Scott Scoullar, and General Manager Human Resources, Carol McNaught, in late March, followed by General Manager Marketing, Sadhana Raman, in September.

In 2013, we partnered with Careerforce, our Industry Training Organisation, to launch a tailored training programme that supports our commitment to a high standard of care in our care centres. We are proud to report that in a little over a year we now have around 80% of our caregiver staff qualified or in training. The uptake of this programme has been tremendous, and we consider it a testament to the commitment and professionalism of our people.

> “Our company grew by nearly 100 staff during the year, to nearly 700 by the end of FY2014.”

The topic of caregiver wages was top of our mind in 2014. The case brought by caregiver Kristine Bartlett against her employer, TerraNova, arguing that her rate of pay was a result of gender discrimination, has highlighted the issue. We believe that the job our caregivers do is paramount to our provision of excellent care and quality of life to residents. In 2014, we increased caregiver wages by between 2.4% and 7.5%. All caregivers with qualifications higher than the entry level received pay increases averaging 7%, well above the increase in government funding in the sector. In the longer term we believe government needs to fund caregiver wages commensurate with the value of the work they provide, but in the meantime we have chosen to lead on this issue. Our annual Applause Awards recognise the achievements of our village staff, including caregivers, gardeners, village managers, registered nurses, and site foremen. In 2014, Napier Head Gardener Matt Wallace won the Supreme Award for his dedication to creating an extraordinary and well-maintained environment for the residents at his village and in helping other villages achieve the same results.

Health and safety is a topic that is rightly gathering considerable attention in New Zealand currently. We are conscious that as we grow, particularly in the construction realm of the business, we need to ensure that we develop and maintain durable systems and a culture focused on the health and safety of our staff and our residents. Last year we became a member of the Business Leaders’ Health and Safety Forum. This organisation is a coalition of business and government committed to improving the performance of workplace health and safety. As part of this I have signed a pledge to take personal responsibility for making health and safety a vital part of our business and to create a workplace where health and safety is viewed as important. To help us meet these objectives this year, we are undertaking a comprehensive overhaul of our health and safety governance framework, systems, procedures and culture.

What does the future look like for Summerset?

We have reached the milestone of 20 villages but we are still a young business in a fast-growing sector. There is still much work to be done as we stake out our platform to be a major player as the sector continues to grow over the next 30 years and beyond. There is increasing competition, but I believe that we are well placed for future progress and success. We have a strong brand and lead the way in customer satisfaction, and I am excited to take this company into the future.

To all of our residents, thank you for choosing to live with Summerset. We know it is a big decision and I look forward to seeing you as I make my way through all of our villages again this year.

I would like to thank the Board for their support during my first year as Chief Executive Officer. To our shareholders, thank you for your ongoing support and, again, I look forward to meeting with as many of you as I can through the year.

Julian Cook
Chief Executive Officer

DIRECTORS' PROFILES

ROB CAMPBELL

Independent Chairman

Rob has over 25 years' experience in governance and capital markets. He is also Chairman of Tourism Holdings Ltd and Harmoney Ltd, and is a member of a number of boards, including Turners and Growers Ltd, Guinness Peat Group Plc and Precinct Properties Ltd. He has previously directed the investments of a large family office, and held board appointments in numerous private and public sector organisations in New Zealand.

NORAH BARLOW

Non-executive

Norah is an accountant by profession who formed her own practice, now known as Barlow McCormack, in 1992. In 1999, Norah sold that practice to join Summerset, then a fledgling retirement village developer and operator, where she served first as group accountant, and then CEO until 2013. Norah continues on the board of Summerset and is now a professional director. She is a member of the National Advisory Council for the Employment of Women, which advises the Ministry of Women's Affairs. In June 2014, Norah was made an officer of the New Zealand Order of Merit for her services to business.

JAMES OGDEN

Non-executive Independent

James is a director of The Warehouse Group, Vista Group International, Alliance Group Ltd and DEKRA New Zealand Ltd, as well as chair of Summerset's Audit Committee. 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. James also worked in the New Zealand dairy industry for eight years in chief executive and finance roles.

DR. MARIE BISMARK

Non-executive Independent

Marie is dually trained as a lawyer and doctor, and divides her time between Australia and New Zealand. She has worked in the health sector for many years, her areas of expertise including patient safety and healthcare complaints resolution. She is a senior research fellow at the University of Melbourne and a consultant on the health law team at legal firm Buddle Findlay in Wellington. She serves as director on the boards of the Young and Well CRC and GMHBA Health Insurance.

ANNE URLWIN

Non-executive Independent

Anne is a professional director, chartered accountant and business consultant with more than 20 years of directorship experience in sectors ranging from infrastructure and telecommunications, to information technology, regulation, banking and health. Anne is Chairman of Naylor Love Enterprises Ltd, a privately owned construction company, and has a strong knowledge of the construction industry in New Zealand. She is also Deputy Chairman of Southern Response Earthquake Services Ltd. Anne's other directorships include Steel and Tube NZ Ltd, Chorus Ltd and OnePath (NZ) Ltd.

MANAGEMENT PROFILES

JULIAN COOK
Chief Executive Officer

Julian assumed the role of CEO in April 2014, having first joined Summerset in 2010 as Chief Financial Officer. As CEO Julian has overall responsibility for the company and its strategy.

In his previous role as CFO, Julian oversaw Summerset as it became a publicly listed company, first on the NZX in November 2011, and then the Australian Securities Exchange (ASX) in July 2013.

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

SCOTT SCOULLAR
Chief Financial Officer

Scott leads the finance, legal and IT teams at Summerset. Before joining the company in 2014, Scott was CFO at Housing New Zealand for two years, and CFO at Inland Revenue for four years prior to that. A chartered accountant, Scott has a background in banking and was at National Bank in various roles for 12 years. He was the recipient of NZICA's Public Sector CFO of the Year award for 2011, and received a Special Commendation at the 2012 New Zealand CFO Summit Awards. Scott is also a Fellow of CPA Australia and a CPA New Zealand Council Board Member.

PAUL MORRIS
General Manager, Development

Paul joined Summerset in 2000 after more than 20 years in banking, including 15 years in retirement village and aged-care sector business banking. Paul held several senior roles at Summerset before taking up his current position, giving him a sound understanding of all aspects of the business. Paul's primary focus is to ensure that new land is procured to meet the group's growth and expansion plans, along with responsibility for design, cost management and construction delivery.

BRIGID LONDON
General Manager, Operations

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

TRISTAN SAUNDERS
General Manager, Sales

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

Tristan is responsible for all aspects of Summerset's sales function and is a strong customer advocate. In his time at Summerset, Tristan has elevated the company to a nationally recognised brand and has driven rapid sales growth in the business.

MANAGEMENT PROFILES

SADHANA RAMAN
General Manager, Marketing

Sadhana joined Summerset in September 2014 and leads the marketing team. Her role is to build a strong Summerset brand in the market, finding new and different ways to engage and support Summerset's sales and operations teams as the company continues to grow.

Prior to joining Summerset, Sadhana spent many years in the banking sector with Westpac, Kiwibank, and, most recently, The Co-operative Bank, building their brands and marketing strategies.

CAROL MCNAUGHT
General Manager, Human Resources

Carol joined Summerset in mid-2014. Her focus lies in ensuring that Summerset has the culture, the people capability and the leadership needed to allow it to deliver on its promise.

Before joining Summerset, Carol spent a decade at TelstraClear in a variety of senior HR roles, ending with three years as Chief of Staff and Human Resources. She has also worked for a small multinational IT systems integrator, and in several HR roles with the New Zealand Police.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

FIVE YEAR HISTORICAL SUMMARY

Key operational and financial statistics for the five year period up to and including FY2014 are as follows:

OPERATIONAL

	FY2014	FY2013	FY2012	FY2011	FY2010
New sales of occupation rights	286	228	167	108	80
Resales of occupation rights	172	174	164	123	105
Total sales of occupation rights	458	402	331	231	185
Development margin	15.7%	13.2%	12.0%	6.2%	N/A *
New retirement units delivered	261	209	160	122	80
Retirement units in portfolio	2,116	1,855	1,646	1,486	1,352
Care beds in portfolio	485	442	327	327	327

FINANCIAL ($000)

Net operating cash flow	110,433	88,590	66,254	43,684	33,849
Total assets	1,043,189	844,932	702,339	616,894	537,226
Net assets	332,270	281,912	248,794	233,424	174,453
Underlying profit	24,420	22,154	15,223	8,080	N/A *
Net profit before tax (IFRS)	53,994	31,755	14,414	4,364	4,047
Net profit after tax (IFRS)	53,994	31,755	14,414	4,324	(1,900)
Dividend per share (cents)	3.50	3.25	2.50	-	-
Basic earnings per share (cents)	25.16	15.99	6.96	2.39	(1.12)

* Not calculated

DIRECTORS' STATEMENT

The directors of Summerset are pleased to present to shareholders the financial statements of Summerset Group Holdings Limited and its subsidiaries (the "Group") for the year ended 31 December 2014.

The directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 31 December 2014 and the results of the Group's operations and cash flows for the year ended 31 December 2014.

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

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

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

The financial statements were authorised for issue for and on behalf of the Board on 23 February 2015 by:

Rob Campbell
Director and Chairman

James Ogden
Director and Chairman of the Audit Committee

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP		COMPANY	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Care fees and village services		37,452	30,724	-	-
Deferred management fees		16,526	14,275	-	-
Interest received		307	209	-	-
Total revenue		**54,285**	**45,208**	**-**	**-**
Reversal of impairment on land and buildings	6	1,882	-	-	-
Fair value movement of investment property	7	52,481	29,722	-	-
Total income		**108,648**	**74,930**	**-**	**-**
Operating expenses	2	45,279	36,981	163	62
Depreciation expense	6	2,540	1,585	-	-
Total expenses		**47,819**	**38,566**	**163**	**62**
Operating profit/(loss) before financing costs		**60,829**	**36,364**	**(163)**	**(62)**
Net finance costs	3	6,835	4,609	-	-
Profit/(loss) before income tax		**53,994**	**31,755**	**(163)**	**(62)**
Income tax credit	4	(179)	(2,468)	-	-
Profit/(loss) for the period		**54,173**	**34,223**	**(163)**	**(62)**
Basic earnings per share (cents)	14	25.16	15.99		
Diluted earnings per share (cents)	14	24.94	15.87		
Net tangible assets per share (cents)	14	153.33	131.24		

The accompanying notes form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP		COMPANY	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Profit/(loss) for the period		**54,173**	**34,223**	**(163)**	**(62)**
Fair value movement of interest rate swaps	12	(1,628)	1,417	-	-
Tax on items of other comprehensive income	4	455	(397)	-	-
Other comprehensive income which will be reclassified subsequently to profit or loss for the period net of tax		**(1,173)**	**1,020**	**-**	**-**
Fair value movement of land and buildings	6	5,053	-	-	-
Tax on items of other comprehensive income	4	(1,514)	-	-	-
Other comprehensive income which will not be reclassified subsequently to profit or loss for the period net of tax		**3,539**	**-**	**-**	**-**
Total comprehensive income/(loss) for the period		**56,539**	**35,243**	**(163)**	**(62)**

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

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

GROUP	SHARE CAPITAL $000	HEDGING RESERVE $000	REVALUATION RESERVE $000	MAINTENANCE RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
As at 1 January 2013	**233,875**	**(577)**	**7,504**	**47**	**7,945**	**248,794**
Profit for the period	-	-	-	-	34,223	34,223
Other comprehensive income for the period	-	1,020	-	-	-	1,020
Total comprehensive income for the period	**-**	**1,020**	**-**	**-**	**34,223**	**35,243**
Transfer (from)/to maintenance reserve	-	-	-	(47)	47	-
Dividends paid	-	-	-	-	(5,342)	(5,342)
Shares issued	3,155	-	-	-	-	3,155
Employee share plan option cost	62	-	-	-	-	62
As at 31 December 2013	**237,092**	**443**	**7,504**	**-**	**36,873**	**281,912**
As at 1 January 2014	**237,092**	**443**	**7,504**	**-**	**36,873**	**281,912**
Profit for the period	-	-	-	-	54,173	54,173
Other comprehensive income for the period	-	(1,173)	3,539	-	-	2,366
Total comprehensive income for the period	**-**	**(1,173)**	**3,539**	**-**	**54,173**	**56,539**
Dividends paid	-	-	-	-	(10,035)	(10,035)
Shares issued	3,691	-	-	-	-	3,691
Employee share plan option cost	163	-	-	-	-	163
As at 31 December 2014	**240,946**	**(730)**	**11,043**	**-**	**81,011**	**332,270**

COMPANY	SHARE CAPITAL $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
As at 1 January 2013	**233,875**	**(36,619)**	**197,256**
Loss for the period	-	(62)	(62)
Total comprehensive income for the period	**-**	**(62)**	**(62)**
Dividends paid	-	(5,370)	(5,370)
Shares issued	4,280	-	4,280
Employee share plan option cost	62	-	62
As at 31 December 2013	**238,217**	**(42,051)**	**196,166**
As at 1 January 2014	**238,217**	**(42,051)**	**196,166**
Loss for the period	-	(163)	(163)
Total comprehensive income for the period	**-**	**(163)**	**(163)**
Dividends paid	-	(10,075)	(10,075)
Shares issued	3,916	-	3,916
Employee share plan option cost	163	-	163
As at 31 December 2014	**242,296**	**(52,289)**	**190,007**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

		GROUP		COMPANY	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Assets					
Cash and cash equivalents	16(a)	4,890	3,044	-	-
Trade and other receivables	5	13,685	10,313	-	-
Interest rate swaps	12	-	615	-	-
Intercompany loan receivable	17	-	-	60,634	66,238
Investments in subsidiaries	20	-	-	126,570	126,570
Limited recourse loans	15,17	1,520	2,260	8,002	6,482
Property, plant and equipment	6	63,559	51,421	-	-
Intangible assets		1,364	642	-	-
Investment property	7	958,171	776,637	-	-
Total assets		**1,043,189**	**844,932**	**195,206**	**199,290**
Liabilities					
Trade and other payables	8	13,462	16,926	5,199	3,124
Employee benefits	9	2,548	2,048	-	-
Revenue received in advance		15,237	11,275	-	-
Interest rate swaps	12	1,013	-	-	-
Residents' loans	10	513,683	414,226	-	-
Interest-bearing loans and borrowings	11	150,819	105,268	-	-
Deferred tax liability	4	14,157	13,277	-	-
Total liabilities		**710,919**	**563,020**	**5,199**	**3,124**
Net assets		**332,270**	**281,912**	**190,007**	**196,166**
Equity					
Share capital	13	240,946	237,092	242,296	238,217
Reserves	13	10,313	7,947	-	-
Retained earnings		81,011	36,873	(52,289)	(42,051)
Total equity attributable to shareholders		**332,270**	**281,912**	**190,007**	**196,166**

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2014

		GROUP		COMPANY	
	NOTE	2014 $000	2013 $000	2014 $000	2013 $000
Cash flows from operating activities					
Receipts from residents for care fees and village services		36,211	31,797	-	-
Interest received		307	209	-	-
Payments to suppliers and employees		(42,023)	(36,910)	-	-
Receipts for residents' loans		159,167	129,447	-	-
Repayment of residents' loans		(43,229)	(35,953)	-	-
Net cash flow from operating activities	16(b)	**110,433**	**88,590**	-	-
Cash flows from investing activities					
Purchase and construction of investment property		(130,725)	(97,109)	-	-
Purchase and construction of property, plant and equipment		(9,105)	(10,961)	-	-
Purchase of intangibles		(333)	(292)	-	-
Capitalised interest paid		(1,907)	(1,171)	-	-
Net cash flow from investing activities		**(142,070)**	**(109,533)**	-	-
Cash flows from financing activities					
Net proceeds from borrowings		45,551	27,109	-	-
Repayment of limited recourse loans		740	-	-	-
Proceeds from issue of shares		3,691	3,705	-	-
Interest paid on borrowings		(6,464)	(4,270)	-	-
Dividends paid		(10,035)	(5,342)	-	-
Net cash flow from financing activities		**33,483**	**21,202**	-	-
Net increase in cash and cash equivalents		1,846	259	-	-
Cash and cash equivalents at beginning of period		3,044	2,785	-	-
Cash and cash equivalents at end of period	16(a)	**4,890**	**3,044**	-	-

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Summary of accounting policies

Statement of Compliance

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

The financial statements presented for the year ended 31 December 2014 are those of Summerset Group Holdings Limited and its subsidiaries ("the Group"). The Group develops, owns and operates integrated retirement villages, rest homes and hospitals for the elderly within New Zealand. The Group is a reporting entity for the purposes of the Financial Reporting Act 1993 and these financial statements comply with that Act.

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

Basis of Preparation

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

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

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

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

Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable given relevant circumstances, the results of which form the basis of making the judgements. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

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

Significant Accounting Policies

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

(a) Basis of consolidation

The Group financial statements are prepared by consolidating the financial statements of all entities that comprise the Group, being Summerset Group Holdings Limited and its subsidiaries as defined in *NZ International Financial Reporting Standard ("NZ IFRS") –10 : Consolidated Financial Statements*. A list of subsidiaries appears in Note 20. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. All intercompany transactions and balances, and unrealised profits arising within the Group are eliminated in full. Investments in subsidiaries are recorded at cost less any adjustment for impairment.

(b) Revenue recognition

(i) Services

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

Deferred management fees

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

Care fees and residents' levies

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

(ii) Interest received

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

Notes to the Financial Statements
(continued)

1. Summary of accounting policies (continued)

(c) Investment property

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

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

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

(d) Property, plant and equipment

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

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

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

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

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

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

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

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

(e) Intangible assets

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

- Software 48% to 60%

(f) Impairment

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

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

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

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

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

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

(g) Leased assets (Group as lessee)

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

(h) Occupation right agreements

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

(i) Financial instruments

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

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

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

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

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

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

Investment in subsidiaries
Investment in subsidiaries is stated at cost less any impairment.

Limited recourse loans
All limited recourse loans have been designated as fair value through profit or loss.

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

Notes to the Financial Statements
(continued)

1. Summary of accounting policies (continued)

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

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

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

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

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

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

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

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

(iv) Share capital
Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(j) Short-term employee benefits

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

(k) Share-based payments

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

(l) Revenue in advance

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

(m) Expenses

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

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

(n) Income tax

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

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

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

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

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

(o) GST

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

(p) Comparative information

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

(q) New standards and interpretations not yet adopted

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

NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual report period ended 31 December 2014 are outlined below:

NZ IFRS 9 – Financial Instruments
This standard will replace *NZ IAS 39 – Financial Instruments: Recognition and Measurement* and will specify how an entity should classify and measure financial assets and financial liabilities and amends the rules for hedge accounting. Whilst there may be some disclosure changes, the impact of this standard is not considered to be significant for the Group.

NZ IFRS 15 – Revenue from contracts with customers
This standard will replace the current revenue recognition guidance in *NZ IAS 18 – Revenue* and *NZ IAS 11 – Construction Contracts.* This standard requires an entity to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The impact of this standard has not been assessed.

Notes to the Financial Statements (continued)

2. Operating expenses

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Employee expenses	20,998	16,271	163	62
Property-related expenses	7,157	6,363	-	-
Other operating expenses	17,124	14,347	-	-
Total operating expenses	**45,279**	**36,981**	**163**	**62**

Other operating expenses include:

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Remuneration paid to auditors:				
Audit and review of financial statements	180	170	-	-
Other services (assurance)	-	27	-	-
Amortisation of intangibles	357	337	-	-
Donations	6	6	-	-
Impairment of furniture and fittings	445	-	-	-
Rent	423	421	-	-

Other services (assurance) in 2013 relate to an information privacy and security review.

3. Net finance costs

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Interest on bank loans and related fees	7,959	5,536	-	-
Interest on swaps	592	679	-	-
Capitalised finance costs	(1,750)	(1,483)	-	-
Fair value movement of derivatives designated as fair value through profit or loss	-	(152)	-	-
Finance charges on finance leases	34	29	-	-
Net finance costs	**6,835**	**4,609**	**-**	**-**

4. Income tax

(a) Income tax recognised in income statement

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Tax expense comprises:				
Current tax expense	-	-	-	-
Deferred tax relating to the origination and reversal of temporary differences	(179)	(2,468)	-	-
Total tax credit reported in income statement	**(179)**	**(2,468)**	**-**	**-**

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

GROUP	2014		2013	
	$000	%	$000	%
Profit before tax	**53,994**		**31,755**	
Income tax using the corporate tax rate	15,118	28.0%	8,891	28.0%
Capitalised interest	(490)	(0.9%)	(415)	(1.4%)
Other non-deductible expenses	69	0.1%	82	0.3%
Non-assessable investment property revaluations	(14,695)	(27.2%)	(8,322)	(26.2%)
Prior period losses recognised as a deferred tax asset	-	-	(2,755)	(8.7%)
Other	405	0.8%	51	0.2%
Prior period adjustments	(586)	(1.1%)	-	-
Total income tax credit	**(179)**	**(0.3%)**	**(2,468)**	**(7.8%)**

COMPANY	2014		2013	
	$000	%	$000	%
Loss before tax	**(163)**		**(62)**	
Income tax using the corporate tax rate	(46)	28.0%	(17)	28.0%
Other non-deductible expenses	46	(28.0%)	17	(28.0%)
Total income tax expense	**-**	**-**	**-**	**-**

(b) Amounts charged or credited to other comprehensive income

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Tax expense comprises:				
Net gain on revaluation of buildings	1,514	-	-	-
Fair value movement of interest rate swaps	(455)	397	-	-
Total tax expense reported in statement of comprehensive income	**1,059**	**397**	**-**	**-**

(c) Imputation credit account

There were no imputation credits received or paid during the year and the balance at 31 December 2014 is nil (2013: nil).

Notes to the Financial Statements (continued)

(d) Deferred tax

The deferred tax balance comprises:

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Property, plant and equipment	9,764	7,604	-	-
Investment property	12,248	11,310	-	-
Revenue in advance	(4,266)	(3,157)	-	-
Interest rate swaps	(283)	172	-	-
Income tax losses not yet utilised	(2,754)	(2,198)	-	-
Other items	(552)	(454)	-	-
Net deferred tax liability	**14,157**	**13,277**	**-**	**-**

Movement in the deferred tax balance comprises:

GROUP	BALANCE 1 JAN 2014 $000	RECOGNISED IN INCOME $000	RECOGNISED IN OCI* $000	BALANCE 31 DEC 2014 $000
Property, plant and equipment	7,604	646	1,514	9,764
Investment property	11,310	938	-	12,248
Revenue in advance	(3,157)	(1,109)	-	(4,266)
Interest rate swaps	172	-	(455)	(283)
Income tax losses not yet utilised	(2,198)	(556)	-	(2,754)
Other items	(454)	(98)	-	(552)
Net deferred tax liability	**13,277**	**(179)**	**1,059**	**14,157**

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

* Other comprehensive income

5. Trade and other receivables

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Trade receivables	1,145	891	-	-
Allowance for doubtful debts	(40)	(20)	-	-
	1,105	871	-	-
Prepayments	912	1,019	-	-
Accrued income	336	134	-	-
Sundry debtors	11,332	8,289	-	-
Total trade and other receivables	**13,685**	**10,313**	**-**	**-**

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

6. Property, plant and equipment

GROUP	LAND $000	BUILDINGS $000	MOTOR VEHICLES $000	PLANT AND EQUIPMENT $000	FURNITURE AND FITTINGS $000	TOTAL $000
Cost						
Balance at 1 January 2013	**4,100**	**36,605**	**1,763**	**3,238**	**2,506**	**48,212**
Additions	-	9,402	310	577	149	10,438
Balance at 31 December 2013	**4,100**	**46,007**	**2,073**	**3,815**	**2,655**	**58,650**
Additions	-	4,000	270	3,072	846	8,188
Reclassification	(1,100)	1,100	-	-	-	-
(Impairment)/reversal of impairment through profit or loss	(15)	1,897	-	-	(835)	1,047
Revaluations through other comprehensive income	95	2,108	-	-	-	2,203
Balance at 31 December 2014	**3,080**	**55,112**	**2,343**	**6,887**	**2,666**	**70,088**
Accumulated depreciation						
Balance at 1 January 2013	**-**	**700**	**1,113**	**2,153**	**1,678**	**5,644**
Depreciation charge for the year	-	894	204	359	128	1,585
Balance at 31 December 2013	**-**	**1,594**	**1,317**	**2,512**	**1,806**	**7,229**
Depreciation charge for the year	-	1,256	251	785	248	2,540
Revaluations through other comprehensive income	-	(2,850)	-	-	-	(2,850)
Impairment	-	-	-	-	(390)	(390)
Balance at 31 December 2014	**-**	**-**	**1,568**	**3,297**	**1,664**	**6,529**
Carrying amounts						
As at 31 December 2013	**4,100**	**44,413**	**756**	**1,303**	**849**	**51,421**
As at 31 December 2014	**3,080**	**55,112**	**775**	**3,590**	**1,002**	**63,559**

Reclassification

Components of care facilities with a carrying value of $1.1 million have been reclassified from land to buildings in 2014.

Impairment

A reversal of previously impaired care facility buildings of $1.9 million has been recorded for the year ended 31 December 2014, following the valuation of all completed rest homes and hospitals undertaken by CBRE Limited as at 31 December 2014. An impairment of $445,000 has also been recognised for furniture and fittings following a decision to relocate head office to another Wellington location.

Revaluations

An independent valuation to determine the fair value of all completed rest homes and hospitals which are classified as land and buildings was carried out as at 31 December 2014 by Michael Gunn, an independent registered valuer of the firm CBRE Limited. Michael Gunn is a member of the New Zealand Institute of Valuers (Inc). Valuations are carried out every three years unless there are indicators of a significant change in fair value. Significant assumptions used in the most recent valuation include capitalisation rates applied to individual unit earnings ranges of between 12.25% and 15.5% (2011: 12.5% and 15.5%) and market value per care bed of between $79,000 and $144,000 (2011: $80,000 and $131,000).

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

Notes to the Financial Statements (continued)

6. Property, plant and equipment (continued)

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

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

Cost model

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

	GROUP	
	2014 $000	2013 $000
Cost	50,077	46,077
Accumulated depreciation and impairment losses	(7,468)	(6,212)
Net carrying amount	**42,609**	**39,865**

7. Investment property

	GROUP	
	2014 $000	2013 $000
Balance at beginning of period	776,637	644,506
Additions	129,080	102,409
Disposals	(27)	-
Fair value movement:		
Realised	24,789	20,121
Unrealised	27,692	9,601
Total investment property	**958,171**	**776,637**

The fair value of investment property as at 31 December 2014 was determined by Michael Gunn, an independent registered valuer of the firm CBRE Limited. The fair value of the Group's investment property is determined on a semi-annual basis, based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Significant assumptions used by the valuer include a discount rate of between 14% and 16.5% (2013: 14% to 16.5%) and a long term nominal house price inflation rate of between 0% and 3.5% (2013: 0% to 3.5%). Other assumptions used by the valuer include the average age of entry of residents and occupancy periods of units.

The Group has deemed it is unable to reliably determine the fair value of non-land capital work in progress at 31 December 2014 and therefore is carried at cost. This equates to $56.3 million of investment property (2013: $38.1 million).

	GROUP	
	2014 $000	2013 $000
Valuation of manager's net interest	444,488	362,411
Liability for residents' loans	513,683	414,226
Total investment property	**958,171**	**776,637**

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

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

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

Operating expenses

Direct operating expenses arising from investment property that generated rental income during the period amounted to $14.1 million (2013: $12.2 million). There were 60 retirement units (2013: 41) in investment property that did not generate rental income during the period.

Security

At 31 December 2014, all investment property was subject to a registered first mortgage in favour of the Statutory Supervisor to secure the Group's obligations to the occupation agreement holders.

8. Trade and other payables

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Trade payables	715	911	-	-
Accruals	11,689	14,711	-	-
Liability for puttable shares	-	-	5,199	3,124
Other payables	1,058	1,304	-	-
Total trade and other payables	**13,462**	**16,926**	**5,199**	**3,124**

9. Employee benefits

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Holiday pay accrual	1,889	1,583	-	-
Other employee benefits	659	465	-	-
Total employee benefits	**2,548**	**2,048**	**-**	**-**

10. Residents' loans

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Balance at beginning of period	458,872	368,978	-	-
Amounts repaid on termination of occupation right agreements	(43,321)	(39,553)	-	-
Amounts received on issue of new occupation right agreements	159,167	129,447	-	-
Total gross residents' loans	574,718	458,872	-	-
Deferred management fees receivable	(61,035)	(44,646)	-	-
Total residents' loans	**513,683**	**414,226**	**-**	**-**

Note 21 provides a split between current and non-current residents' loans.

Notes to the Financial Statements (continued)

11. Interest-bearing loans and borrowings

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Repayable within 12 months				
Finance lease liabilities	-	60	-	-
Total interest-bearing loans	**-**	**60**	**-**	**-**
Repayable after 12 months				
Secured bank loans	150,819	105,208	-	-
Total interest-bearing loans	**150,819**	**105,208**	**-**	**-**
Total loans and borrowings	**150,819**	**105,268**	**-**	**-**

The weighted average interest rate for the year to 31 December 2014 was 4.27% (2013: 3.82%). This excludes the impact of interest rate swaps (see Note 12).

The secured bank loan facility was extended in December 2014 and has a maximum of $255.0 million (2013: $180.0 million). $160.0 million of lending expires in December 2017 and $95.0 million of lending expires in December 2019.

Security

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

Finance lease liabilities

Finance lease liabilities for the Group are payable as follows:

GROUP	2014 MIN LEASE PAYMENTS $000	2014 INTEREST $000	2014 PRINCIPAL $000	2013 MIN LEASE PAYMENTS $000	2013 INTEREST $000	2013 PRINCIPAL $000
Less than 1 year	-	-	-	62	2	60
Total	**-**	**-**	**-**	**62**	**2**	**60**

12. Derivative financial instruments

The Group holds interest rate swaps in order to minimise the impact of rising interest rates. Under these agreements, the Group has a right to receive interest at variable rates and to pay interest at fixed rates. At 31 December 2014, the Group had interest rate swap agreements in place with a total notional principal amount of $94 million (2013: $120 million). Of the swaps in place, at 31 December 2014 $94 million (2013: $70 million) is being used to cover approximately 62% (2013: 67%) of the loan principal outstanding. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating rate to fixed rates, which range between 3.55% and 4.43% (2013: 3.55% and 4.43%).

The fair value of these agreements at 31 December 2014 is a liability of $1.0 million (2013: asset of $0.6 million), of which a liability of $8,000 (2013: $200,000) is estimated to be current. The agreements cover notional amounts for a term of between one and eight years.

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

	GROUP 2014 $000	GROUP 2013 $000
Less than 1 year	5,000	50,000
Between 1 and 2 years	30,000	5,000
Between 2 and 3 years	29,000	30,000
Between 3 and 4 years	10,000	5,000
Between 5 and 6 years	10,000	10,000
Between 6 and 7 years	10,000	10,000
Between 7 and 8 years	-	10,000
Total	**94,000**	**120,000**

13. Share capital and reserves

At 31 December 2014, the Company had 218,548,736 ordinary shares on issue (2013: 216,543,091). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

	GROUP 2014 $000	GROUP 2013 $000	COMPANY 2014 $000	COMPANY 2013 $000
Share capital				
On issue at beginning of year	237,092	233,875	238,217	233,875
Shares issued under the dividend reinvestment plan	2,791	2,855	2,791	2,855
Shares issued under employee share plan	-	300	-	300
Shares vested under employee share plan	-	-	1,125	1,125
Shares paid under employee share plan	900	-	-	-
Employee share plan option cost	163	62	163	62
On issue at end of year	**240,946**	**237,092**	**242,296**	**238,217**

	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
Share capital (in thousands of shares)				
On issue at beginning of year	214,311	212,998	216,543	214,819
Shares issued under the dividend reinvestment plan	861	1,099	861	1,099
Shares issued under the employee share plan	643	214	1,145	625
On issue at end of year	**215,815**	**214,311**	**218,549**	**216,543**

Differences between share capital for the Company and the Group are due to shares held by Summerset LTI Trustee Limited for employee share plans. Refer to Note 15 for further details.

Revaluation reserve

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

Maintenance reserve

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

Notes to the Financial Statements (continued)

13. Share capital and reserves (continued)

Hedging reserve

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

Dividends

On 24 March 2014 a dividend of 3.25 cents per ordinary share was paid to shareholders and on 8 September 2014 a dividend of 1.4 cents per share was paid to shareholders. (2013: on 20 March 2013 a dividend of 2.5 cents per ordinary share was paid to shareholders).

A dividend reinvestment plan applied to the dividends paid. 585,959 ordinary shares were issued in relation to the plan for the March 2014 dividend and 274,956 ordinary shares were issued in relation to the plan for the September 2014 dividend (2013: 1,099,175 ordinary shares were issued in March 2013).

14. Earnings per share and net tangible assets per share

Basic earnings per share

GROUP	2014	2013
Earnings ($000)	54,173	34,223
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	215,322	214,040
Basic earnings per share (cents per share)	**25.16**	**15.99**

Diluted earnings per share

GROUP	2014	2013
Earnings ($000)	54,173	34,223
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	217,254	215,706
Diluted earnings per share (cents per share)	**24.94**	**15.87**

Number of shares

GROUP	2014	2013
Weighted average number of ordinary shares for the purpose of earnings per share (basic)	215,322	214,040
Weighted average number of ordinary shares issued under employee share plans	1,932	1,666
Weighted average number of ordinary shares for the purpose of earnings per share (diluted)	**217,254**	**215,706**

At 31 December 2014, there were 2,733,572 shares issued under employee share plans (Dec 2013: 2,231,699 shares).

Net tangible assets per share

GROUP	2014	2013
Net tangible assets ($000)	330,906	281,270
Shares on issue at end of period (basic and in thousands)	215,815	214,311
Net tangible assets per share (cents per share)	**153.33**	**131.24**

15. Employee share plan

The Group operates employee share plans for selected key management personnel ("Participants") to purchase shares in Summerset Group Holdings Limited. There are currently two plans in place. The first plan commenced on 1 November 2011 ("2011 Share Plan") and all shares in this plan have vested. The second plan commenced on 16 December 2013 ("2013 Share Plan") and has two tranches. The shares relating to the first tranche ("2014 Tranche") have a maximum vesting date being the day after the day on which the Company releases to NZX Limited its preliminary audited financial results for the year ended 31 December 2016, and the shares relating to the second tranche ("2015 Tranche") have a maximum vesting date being the day after the day on which the Company releases to NZX Limited its preliminary audited financial results for the year ended 31 December 2017.

The Group has provided Participants with interest-free limited recourse loans to fund the acquisition of the shares for both the 2011 Share Plan and the 2013 Share Plan (see Note 17). The loans for the 2011 Share Plan have a maximum expiry date of 31 October 2017 and the loans for the 2013 Share Plan have a maximum expiry date of 30 June 2019.

Vesting criteria for the 2011 Share Plan was based on meeting specified performance hurdles for the years ended 31 December 2012 and 31 December 2013, as set out in the 2011 Share Plan rules. The 2011 Share Plan shares were issued at $1.40, being the offer price of shares on the listing of the Group on 1 November 2011. Vesting criteria for the 2013 Share Plan is based on meeting specified performance hurdles for the years ended 31 December 2015, 31 December 2016 and 31 December 2017, as set out in the 2013 Share Plan rules. The 2013 Share Plan shares for the 2014 Tranche were issued at $3.20 and $3.47, being the volume-weighted average price of the Company's shares traded on the NZX Main Board in the ten trading day periods which commenced on 2 December 2013 and 10 March 2014 respectively. The 2013 Share Plan shares for the 2015 Tranche were issued at $2.68, being the volume-weighted average price of the Company's shares traded on the NZX Main Board in the ten trading day period which commenced on 1 December 2014.

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

At 31 December 2014, the 2011 Share Plan holds 964,286 shares (2013: 1,607,143 shares), which represents 0.4% (2013: 0.7%) of the total shares on issue. All of these shares have vested but the related loans have not yet been repaid. At 31 December 2014, the 2013 Share Plan holds 1,769,286 shares (2013: 624,556 shares), which represents 0.8% (2013: 0.3%) of the total shares on issue. These shares have not yet vested.

GROUP	2014		2013	
	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES 000'S	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES 000'S
Balance at beginning of the period	$1.90	2,232	$1.40	1,821
Issued during the year	$2.80	1,145	$3.20	625
Issued to employees following vesting and repayment of loans	$1.40	(643)	$1.40	(214)
Balance at end of the period	**$2.40**	**2,734**	**$1.90**	**2,232**

642,857 shares were sold under the 2011 Share Plan on 7 April 2014. The share price at the date of sale was $3.45. The range of exercise prices at 31 December 2014 is $1.40 to $3.47 (2013: $1.40 to $3.20).

The 2011 Share Plan and the 2013 Share Plan are equity-settled schemes and treated as option plans for accounting purposes. These options were valued at the grant dates using the Black Scholes valuation model and the option cost for the year ending 31 December 2014 of $163,000 has been recognised in the income statement of the Company and the Group for that period (2013: $62,000).

Significant assumptions used in the valuation models are a discount to reflect the potential that shares may not meet market vesting criteria of 20% and volatility of 20% for the 2011 Share Plan, and a discount to reflect the potential that shares may not meet market vesting criteria of 30% and volatility of between 21% and 22% for the 2013 Share Plan.

Notes to the Financial Statements (continued)

16. Notes to the cash flow statement

(a) Reconciliation of cash and cash flow equivalents

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Bank balances	4,883	3,036	-	-
Petty cash	7	8	-	-
Cash and cash equivalents in statement of cash flows	**4,890**	**3,044**	**-**	**-**

(b) Reconciliation of operating results and operating cash flows

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Net profit/(loss) for the period	**54,173**	**34,223**	**(163)**	**(62)**
Adjustments for:				
Depreciation and amortisation expense	2,897	1,922	-	-
Reversal of impairment on land and buildings	(1,882)	-	-	-
Impairment of furniture and fittings	445	-	-	-
Fair value movement of investment property	(52,481)	(29,722)	-	-
Net finance costs paid	6,835	4,609	-	-
Deferred tax	(179)	(2,468)	-	-
Deferred management fee amortisation	(16,526)	(14,275)	-	-
Employee share plan option cost	163	62	163	62
	(60,728)	**(39,872)**	**163**	**62**
Movements in working capital				
Increase/(decrease) in trade and other receivables	(5,235)	631	-	-
Increase/(decrease) in employee benefits	500	493	-	-
Increase/(decrease) in trade and other payables	269	(1,139)	-	-
Increase in residents' loans net of non-cash amortisation	121,454	94,254	-	-
	116,988	**94,239**	**-**	**-**
Net cash flows from operating activities	**110,433**	**88,590**	**-**	**-**

17. Related party transactions

The balance owing from subsidiaries to the company at 31 December 2014 is $60.6 million (2013: $66.2 million).

The Group has loans to employees receivable at 31 December 2014 of $1.5 million (2013: $2.2 million) with repayment due by 31 October 2016. The Company has loans to employees and nominees (Summerset LTI Trustee Limited) receivable at 31 December 2014 of $8.0 million (2013: $6.5 million). Refer to Note 15 for employee share plan details. All loans outstanding are interest-free limited recourse loans.

Norah Barlow retired from her role as Chief Executive Officer of Summerset Group Holdings Limited on 4 April 2014. On 7 April 2014, she sold 1,390,179 shares in the Company on-market and subsequently repaid a limited recourse loan of $740,000 to the Company in relation to a previous share issue of 700,000 shares. She also repaid $900,000 which was outstanding in accordance with the terms of the Company's employee share plan, following the sale of 642,857 shares under the plan. Norah Barlow does not have any further loans outstanding with Summerset Group Holdings Limited or any of its subsidiaries.

18. Key management personnel compensation

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

	GROUP		COMPANY	
	2014 $000	2013 $000	2014 $000	2013 $000
Directors' fees	485	337	-	-
Short-term employee benefits	2,535	2,372	-	-
Share-based payments	163	62	163	62
Total	**3,183**	**2,771**	**163**	**62**

Refer to Note 15 for employee share plan details for key management personnel and Note 17 for loans advanced to key management personnel.

19. Segment reporting

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

The Ministry of Health is a significant customer of the Group, as the Group derives care fee revenue in respect of eligible government subsidised aged-care residents. Fees earned from the Ministry of Health for the year ended 31 December 2014 were approximately 52% of total care fees (2013: 54%). The Group has no other significant customers. All revenue is earned in New Zealand.

20. Subsidiary companies

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

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

21. Financial instruments

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

Categories of financial instruments

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

Notes to the Financial Statements (continued)

21. Financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a resident or counterparty to a financial instrument fails to meet their contractual obligations. The Group's exposure to credit risk relates to receivables from residents, bank balances and limited recourse loans. The Group manages its exposure to credit risk. The Group's cash is held with its principal banker, with the level of exposure to credit risk considered minimal owing to the 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. The Group does not require collateral from its debtors and the Directors consider the Group's exposure to any concentration of credit risk to be minimal.

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

GROUP	2014		2013	
	GROSS RECEIVABLE $000	IMPAIRMENT $000	GROSS RECEIVABLE $000	IMPAIRMENT $000
Not past due	763	-	739	-
Past due 31 to 60 days	181	-	69	-
Past due 61 to 90 days	98	-	30	-
Past due more than 90 days	103	(40)	53	(20)
Total	**1,145**	**(40)**	**891**	**(20)**

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

GROUP	2014 $000	2013 $000
Gross trade receivables	1,145	891
Collective impairment	(40)	(20)
Net trade receivables	**1,105**	**871**

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

Market risk

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

Interest rate risk

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

At 31 December 2014 it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before income tax by approximately $0.5 million (2013: decrease by $0.3 million) and would decrease equity before tax by nil (2013: decrease equity before tax by $nil).

Liquidity risk

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

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

GROUP	2014		2013	
	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	13,462	-	16,926	-
Residents' loans	42,924	470,759	33,155	381,071
Interest-bearing loans and borrowings	6,440	176,579	4,019	119,291
Interest rate swaps	7	2,095	685	2,178
Total	**62,833**	**649,433**	**54,785**	**502,540**

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

Fair values

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

GROUP	2014		2013	
	CARRYING AMOUNT $000	FAIR VAUE $000	CARRYING AMOUNT $000	FAIR VALUE $000
Residents' loans	(513,683)	(332,859)	(414,226)	(274,959)
Total	**(513,683)**	**(332,859)**	**(414,226)**	**(274,959)**

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% (2013: 14%). The fair value of residents' loans is categorised as Level 3 under the fair value hierarchy in accordance with *NZ IFRS 13 – Fair Value Measurement*.

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

Capital management

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

The Group's capital is managed through Summerset Holdings Limited and its subsidiaries ("SHL Group"). The SHL Group is subject to capital requirements imposed by the bank through the Group Deed of Covenant. The SHL Group has met all externally imposed capital requirements for the year ended 31 December 2014 (2013: all requirements met).

Summerset Holdings Limited's capital structure is managed, and adjustments are made, with Board approval. There were no changes to objectives, policies or processes during the year ended 31 December 2014 (2013: nil).

Notes to the Financial Statements (continued)

22. Commitments and contingencies

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

COMPANY AND GROUP	2014 $000	2013 $000
Less than 1 year	469	462
Between 1 and 5 years	2,752	1,850
More than 5 years	4,576	578
Total operating lease commitments	**7,797**	**2,890**

During the year ended 31 December 2014 $0.4 million was recognised in the income statement in respect of operating leases (2013: $0.4 million).

Guarantees

At 31 December 2014, NZX Limited held a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2013: $75,000).

Capital commitments

At 31 December 2014, the Group had capital commitments in relation to construction contracts of $35.4 million.

Contingent liabilities

There were no known material contingent liabilities at 31 December 2014 (2013: nil).

23. Subsequent events

On 23 February 2015, the directors approved a final dividend of 2.1 cents per share. The dividend record date is 10 March 2015 with a payment date of 25 March 2015.

There have been no other events subsequent to 31 December 2014 which materially impact on the results reported (2013: nil).

EY
Building a better working world

Chartered Accountants

Independent Auditor's Report

To the Shareholders of Summerset Group Holdings Limited

Report on the Financial Statements

We have audited the financial statements of Summerset Group Holdings Limited and its subsidiaries on pages 32 to 56, which comprise the statement of financial position of Summerset Group Holdings Limited and the group as at 31 December 2014, and the statement of comprehensive income, income statement, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Other than in our capacity as auditor we have no relationship with, or interest in, Summerset Group Holdings Limited or any of its subsidiaries.

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.

Opinion

In our opinion, the financial statements on pages 32 to 56:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the financial position of Summerset Group Holdings Limited and the group as at 31 December 2014 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

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

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

Ernst & Young

23 February 2015
Wellington

STATEMENT OF CORPORATE GOVERNANCE

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

Summerset's corporate governance practices reflect the ASX Corporate Governance Council's Good Corporate Principles and Recommendations (3rd edition) ('ASX Principles') and the NZX Corporate Governance Best Practice Code ('the Code') except as set out at the end of this section.

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

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

1. Ensuring Solid Foundations for Management and Oversight

Role of the Board of Directors

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

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

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

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

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

Delegation of Authority

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

Senior Executive Performance

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

2. Structuring the Board to Add Value

Board Composition

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

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

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

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

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

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

Retirement and Re-election

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

At the Annual Meeting to be held on 30 April 2015, James Ogden and Dr. Marie Bismark will retire by rotation and stand for re-election.

Board Committees

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

Audit Committee

Details for this Committee can be found in section 4 of this Statement of Corporate Governance.

Nominations and Remuneration Committee

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

- Assist the Board in planning the Board's composition;
- Evaluate the competencies required of prospective Directors (both non-executive and executive);
- Identify those prospective Directors and establish their degree of independence;
- Develop the succession plans for the Board, and make recommendations to the Board accordingly;
- Oversee the process of the Board's annual performance self-assessment and the performance of the Directors; and
- Establish remuneration policies and practices and set and review the remuneration of the company's Chief Executive Officer, executive management team and Directors.

The Nominations and Remuneration Committee must be comprised of a minimum of three Directors, the majority of whom must be Independent. The Committee is currently comprised of Anne Urlwin (Chairman), Dr. Marie Bismark and James Ogden.

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

There have been no new Directors appointed to the Board since the date of the last Annual Report of the Company.

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:

- Provide assurance that appropriate clinical governance mechanisms are in place and are effective throughout the organisation;

2. Structuring the Board to Add Value (continued)

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

The Clinical Governance Committee must be comprised of a minimum of three Directors. The Committee is currently comprised of Dr. Marie Bismark (Chairman), Norah Barlow and Anne Urlwin.

Attendance at Board and Committee Meetings

A total of eight Board meetings, three Nominations and Remunerations Committee meetings, six Audit Committee meetings and one Clinical Governance Committee meeting were held in 2014. Director attendance at Board meetings and committee member attendance at committee meetings is shown below. Directors that were not members of committees also attended some committee meetings as invited attendees. Their attendance is not recorded in the table that follows.

Board meetings

Director	Attendance
Rob Campbell (Chair)	8/8
James Ogden	8/8
Anne Urlwin *	7/7
Dr. Marie Bismark	8/8
Norah Barlow	6/8

** Appointed to the Board on 1 March 2014*

Nominations and Remuneration Committee Meetings

Director	Attendance
Anne Urlwin (Chair) *	2/2
James Ogden	3/3
Dr. Marie Bismark	3/3
Rob Campbell **	1/1

** Appointed to Committee as Chair on 11 August 2014*
*** Retired from Committee on 11 August 2014*

Audit Committee Meetings

Director	Attendance
James Ogden (Chair)	6/6
Anne Urlwin *	4/4
Dr. Marie Bismark **	5/5
Norah Barlow ***	1/1
Rob Campbell	5/6

** Appointed to the Committee on 1 March 2014*
*** Retired from the Committee on 11 August 2014*
**** Appointed to the Committee on 11 August 2014*

Clinical Governance Committee Meetings

Director	Attendance
Dr. Marie Bismark (Chair)	1/1
Anne Urlwin	1/1
Norah Barlow	1/1

The Clinical Governance Committee was set up during 2014, with the first meeting held in November 2014. Going forward, it is expected a minimum of four meetings per year will be held.

Board Performance

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

3. Promoting Ethical and Responsible Decision Making

Ethical Standards

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

- Code of Ethics – This guide sets out the basic principles of legal and ethical conduct expected of all employees and Directors. The Company encourages open and honest communication by staff about any current or potential problem, complaint, suggestion, concern, or question.
- Conflicts of Interest – To maintain integrity in decision making each Director must advise the Board of any potential conflict of interest if such arises. If a significant conflict of interest exists, the Director concerned will have no involvement in the decision-making process relating to the matter.
- Securities Trading – Directors and employees of the Company are subject to limitations on their ability to buy or sell Company shares in accordance with the Company's Securities Trading Policy, the Rules, and the Securities Markets Act 1988.
- Gifts, Entertainment and Inducements – The Company has a gifts, entertainment and inducements policy governing the acceptance and reporting of benefits given to staff by third parties.
- Interest Register – In accordance with the Companies Act 1993 and the Securities Markets (Disclosure of Relevant Interests by Directors and Officers) Regulations 2003, the Company maintains an Interests Register in which all relevant transactions and matters involving the Directors are recorded.

Gender Diversity

The Company has a Gender Diversity Policy which sets objectives that will be measured annually to assess performance.

The objectives set out in the policy are:

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

These objectives are measured annually, with all objectives being met for the 2014 year. As at 31 December 2014 (and 31 December 2013 for the prior comparative period), the mix of gender of those employed by the company is set out below:

Category	Gender	2014	2013
Directors	Male	2	2
	Female	3	2
	Total	5	4
Officers	Male	3	2
	Female	-	1
	Total	3	3
Senior Executives	Male	4	3
	Female	3	3
	Total	7	6
All staff	Male	185	141
	Female	486	436
	TOTAL	671	577

Officers of the Company are the Chief Executive Officer, Chief Financial Officer and General Manager Development. Senior Executives are defined as the executive management team.

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

4. Safeguarding the Integrity of Financial Reporting

Audit Committee

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

- An appropriately resourced Audit Committee operating under a written charter with specific responsibilities for financial reporting and risk management;
- Review and consideration by the Audit Committee of the financial information and preliminary releases of results to the market, which then make recommendations to the Board;
- A process to ensure the independence and competence of the Company's external auditors and a process to ensure their compliance with the Company's Audit Independence Policy;
- Responsibility for appointment of the external auditors residing with the Audit Committee;

One of the main purposes of the Audit Committee is to ensure the quality and independence of the audit process. The Chairman of the Audit Committee and the Chief Financial Officer work with the external auditors to plan the audit approach. All aspects of the audit are reported back to the Audit Committee and the auditors are given the opportunity at Audit Committee meetings to meet with the Board.

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

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

5. Making Timely and Balanced Disclosure

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

6. Respecting the Rights of Shareholders

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

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

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

7. Recognising and Managing Risk

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

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

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

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

8. Remunerating Fairly and Responsibly

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

Director Remuneration

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

Directors' fees are reviewed from time to time.

The maximum aggregate amount of remuneration payable by Summerset to Directors (in their capacity as Directors) was set at $600,000 per annum in April 2014 for the non-executive Directors. Current annualised Directors' fees are $515,000, inclusive of additional remuneration for Committee Chairmen.

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 whilst acting for Summerset. There are some exclusions within the policy. The insurance cover is supplemented by the provision of Director and Officer indemnities from the Company but this does not extend to criminal acts.

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

Executive Remuneration

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

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

The Share Plans in place for long-term performance-based equity remuneration are described in note 15 to the financial statements.

Compliance with ASX Corporate Governance Principles

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

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

Compliance with NZX Corporate Governance Best Practice Code

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

STATUTORY INFORMATION

1. Directors' Interests

Directors disclosed, pursuant to Section 140 of the Companies Act 1993, a change in, or cessation of, interest in the following entities during the year ended 31 December 2014.

Rob Campbell: Changes in interests: Harmoney Limited (Director), The Foundry Limited (trading as Localist) (Director), Third Age Health Advisory Board (Member).

Anne Urlwin: Disclosure in interests on appointment to the role of Director on 1 March 2014: Naylor Love Enterprises Limited (Chairman), Te Runanga Audit and Risk Committee of Te Runanga o Ngai Tahu (Chairman), Southern Response Earthquake Services Limited (Deputy Chairman), Chorus Limited (Director), Maigold Holdings Limited (Director), One Path Life (NZ) Limited (Director), Steel and Tube Holdings Limited (Director).

James Ogden: Changes in interests: Alliance Group Limited (Director), Vista Group International Limited (Director). Cessation of interests: Ministry of Social Development Value for Money Advisory Board (Chairman), Seaworks Limited (Director), AMP Capital Property Portfolio Fund Governance Committee (Member).

Dr. Marie Bismark: Changes in interests: Veteran's Health Advisory Panel (Chairman), Family Planning Victoria (Member). Cessation of interests: Family Planning Council of New Zealand (Member).

Norah Barlow: Changes in interests: Estia Health Pty Limited (Director), Evolve Education Group Limited (Director), Ingenia Communities Holdings Limited (Director), Lifemark Design Limited (Director), Methven Limited (Director), Vigil Monitoring Limited (Director), Netball Central Zone Board (Member), Third Age Health Advisory Board (Member), Allied Health, Science and Technical Workforces Taskforce Governance Group (Appointee). Cessation of interests: Various subsidiaries of Summerset Group Holdings Limited (Director).

2. Information used by Directors

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

3. Director Remuneration

The total amount of remuneration and other benefits received by each Director during the year ended 31 December 2014 are provided below.

The remuneration figure shown in the "Salaries and Incentives" column includes all monetary payments actually paid during the course of the year ended 31 December 2014 to the former Chief Executive Officer, Norah Barlow. She retired from this role on 4 April 2014. There were no share options provided to her during the course of the same period. The figure include amounts paid for incentives relating to the year ended 31 December 2013 that were paid during the year ended 31 December 2014.

Director	Directors' Fees	Salary and Incentives	Responsibility
Rob Campbell	$161,250	-	Chairman
Anne Urlwin (A)	$69,164	-	Director, Chair of Nomination and Remuneration Committee
James Ogden	$92,500	-	Director, Chair of Audit Committee
Dr. Marie Bismark	$85,625	-	Director, Chair of Clinical Governance Committee
Norah Barlow	$60,000	$464,539	Director

Where an (A) is included next to the Director, the Director was appointed to the role on 1 March 2014.

Directors' fees above reflect changes to amounts paid for Director fees following shareholder approval at the April 2014 Annual Meeting for a change in the fee pool. The fees above also include standard remuneration for holding Committee Chairman roles.

As at 31 December 2014, the standard annual Director fees per annum are $165,000 for the Chairman, $80,000 for non-executive Directors, the additional fee for the Chairman of the Audit Committee is $15,000 and the additional fees for the Chairman of the Nomination and Remuneration Committee and the Chairman of the Clinical Governance Committee are $7,500 each.

4. Directors' Shareholdings

Securities in the Company in which each Director has a relevant interest as at 31 December 2014 are specified in the table below.

Director	Shares held
Rob Campbell	46,325
Anne Urlwin	10,000
James Ogden	402,928
Dr. Marie Bismark	-
Norah Barlow	501,609

5. Securities Dealings of Directors

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

Director	Date of transaction	Number of shares acquired/(disposed)	Consideration
Rob Campbell	24 March 2014	225	Issue of shares under dividend reinvestment plan at $3.39 per share
	15 August 2014	5,000	On-market purchase of shares at average price of $2.88 per share
	9 October 2014	6,100	On-market purchase of shares at average price of $2.81 per share
Anne Urlwin	22 May 2014	10,000	On-market purchase of shares at average price of $3.49 per share
James Ogden	24 March 2014	2,564	Issue of shares under dividend reinvestment plan at $3.39 per share
	8 September 2014	1,293	Issue of shares under dividend reinvestment plan at $2.91 per share
Norah Barlow	24 March 2014	7,965	Issue of shares under dividend reinvestment plan at $3.39 per share
	7 April 2014	(1,390,179)	On-market sales of shares at average price of $3.45 per share
	8 September 2014	1,609	Issue of shares under dividend reinvestment plan at $2.91 per share

6. 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.

7. Subsidiary Companies' Directors

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

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

8. 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 2014 are specified in the following table.

The remuneration figures shown in the "Remuneration" column includes all monetary payments actually paid during the course of the year ended 31 December 2014. The table also includes the value of any share options provided to individuals during the course of the same period. The table does not include amounts paid post 31 December 2014 that relate to the year ended 31 December 2014.

8. Employee Remuneration (continued)

Remuneration	No. of employees
$100,000 to $109,999	6
$110,000 to $119,999	9
$120,000 to $129,999	5
$130,000 to $139,999	1
$140,000 to $149,999	1
$150,000 to $159,999	2
$160,000 to $169,999	1
$170,000 to $179,999	2
$180,000 to $189,999	2
$230,000 to $239,999	1
$250,000 to $259,999	1
$290,000 to $299,999	1
$340,000 to $349,999	1
$440,000 to $449,999	1
$640,000 to $649,999	1
TOTAL	35

9. Top 20 Shareholders as at 27 February 2015

Rank	Registered Shareholder	Shares Held	%
1	New Zealand Superannuation Fund Nominees Limited	18,338,005	8.39%
2	National Nominees New Zealand Limited	16,035,638	7.34%
3	FNZ Custodians Limited	14,333,844	6.56%
4	Accident Compensation Corporation	12,745,540	5.83%
5	Tea Custodians Limited	12,319,943	5.64%
6	HSBC Nominees (New Zealand) Limited	11,321,903	5.18%
7	Cogent Nominees Limited	7,991,739	3.66%
8	Custodial Services Limited	7,510,627	3.44%
9	JPMorgan Chase Bank	7,490,599	3.43%
10	HSBC Nominees (New Zealand) Limited	4,464,134	2.04%
11	Forsyth Barr Custodians Limited	4,355,625	1.99%
12	Citibank Nominees (NZ) Limited	3,787,683	1.73%
13	Custodial Services Limited	2,753,560	1.26%
14	Summerset LTI Trustee Limited	2,733,572	1.25%
15	Investment Custodial Services Limited	2,669,556	1.22%
16	Forsyth Barr Custodians Limited	2,232,678	1.02%
17	Custodial Services Limited	2,028,310	0.93%
18	Custodial Services Limited	1,944,520	0.89%
19	Paul Stanley Morris & Clive Stephen Morris	1,701,143	0.78%
20	Forsyth Barr Custodians Limited	1,537,537	0.70%
	TOTAL	138,296,156	63.28%

10. Spread of Shareholders as at 27 February 2015

Size of shareholding	Shareholders		Shares	
	NUMBER	%	NUMBER	%
1 to 1,000	1,089	14.07%	646,297	0.30%
1,001 to 5,000	3,586	46.32%	9,959,387	4.56%
5,001 to 10,000	1,623	20.96%	12,042,276	5.51%
10,001 to 50,000	1,272	16.43%	24,925,643	11.40%
50,001 to 100,000	91	1.17%	6,651,409	3.04%
100,001 and over	81	1.05%	164,323,724	75.19%
TOTAL	7,742	100.00%	218,548,736	100.00%

At 27 February 2015 there were three shareholders holding less than a marketable parcel of shares as defined in the ASX Listing Rules, based on the closing price of A$3.20. The ASX Listing Rules define a marketable parcel as a parcel of shares not less than AU$500.

There is no current share buyback in place.

11. Substantial Security Holder Notices Received as at 27 February 2015

According to the file kept by the Company under the Securities Market Act 1988 the following were substantial holders in the Company as at 27 February 2015. The total number of voting securities on issue at 31 December 2014 was 218,548,736 ordinary shares.

Shareholder	Relevant interest	Percentage held at date of notice	Date of notice
New Zealand Superannuation Fund Nominees Limited	20,251,704	9.31%	12 December 2014
Fisher Funds Management Limited	10,901,011	5.02%	27 May 2014
Accident Compensation Corporation	13,357,315	6.15%	9 April 2014
Coopers Investors Pty Limited	13,870,973	6.42%	21 October 2013

12. Waivers from the NZX and ASX Listing Rules

There have been no waivers from the application of NZX Listing Rules for the year ended 31 December 2014.

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

13. Voting Rights

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

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

14. Limitations on the Acquisition of Company Securities

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

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

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

In accordance with the requirements of the ASX waiver from Listing Rules 7.1 provided at the time of the Company's admission to the ASX, the Company certifies that during the period from 1 January 2014 to 31 December 2014, it has been subject to, and has complied with, the requirements of the NZX with respect to the issue of new securities and that it continues to comply with these requirements.

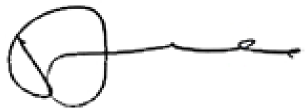
15. Use of Cash and Cash Equivalents

In accordance with ASX Listing Rule 4.10.19, the Board has determined that the Company has used the cash and cash equivalents that it had at the time of its admission to the ASX in a way consistent with its business objectives, from the period of its admission to the ASX on 1 January 2014 to 31 December 2014.

16. Credit Rating

The Company has no credit rating.

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



Rob Campbell

Director and Chairman

James Ogden

Director and Chairman of the Audit Committee

COMPANY INFORMATION

Registered Offices

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Australia
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Auditor
Ernst & Young

Bankers
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ASB Bank Limited
Bank of New Zealand Limited

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Public Trust

Share Registrar
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Directors
Rob Campbell
Norah Barlow
Dr. Marie Bismark
James Ogden
Anne Urlwin

Company Secretary
Leanne Walker

DIRECTORY

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Summerset down the Lane (Hamilton)
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Summerset in the Orchard (Hastings)
1228 Ada Street, Parkvale, Hastings 4122
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Summerset in the Vines (Havelock North)
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Summerset at Monterey Park (Hobsonville)
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Summerset at Karaka (Karaka)
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Summerset by the Sea (Katikati)
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Summerset by the Ranges (Levin)
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Summerset by the Park (Manukau)
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Summerset in the Bay (Napier)
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Summerset in the Sun (Nelson)
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Summerset Mountain View (New Plymouth)
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Summerset by the Lake (Taupo)
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Summerset at the Course (Trentham)
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Summerset Falls (Warkworth)
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