BE SUMMERSET SURE

INFORMATION MEMORANDUM

This Information Memorandum has been issued to facilitate an application for the admission of Summerset Group Holdings Limited to the Official List of the Australian Securities Exchange (ASX). No offer of securities is being made pursuant to this Information Memorandum and this document is not a prospectus, investment statement or an offer information statement.

4 JULY 2013

IMPORTANT INFORMATION

ABOUT THIS INFORMATION MEMORANDUM

This Information Memorandum is prepared as at, and dated, 4 July 2013. This document is not a prospectus, investment statement or an offer information statement and does not constitute an offer of Shares or an invitation to apply for the issue of Shares in any jurisdiction. However, this Information Memorandum does contain the information that would be required under section 710 of the Corporations Act if it were a prospectus offering for subscription the same number of securities for which quotation is sought.

SUMMERSET IS A NEW ZEALAND COMPANY

There are differences in how securities and financial products are regulated under New Zealand, as opposed to Australian, law. For example, the disclosure of fees for managed investment schemes is different under New Zealand law.

The rights, remedies and compensation arrangements available to Australian investors in New Zealand securities and financial products may differ from the rights, remedies and compensation arrangements for Australian securities and financial products.

The taxation treatment of New Zealand securities and financial products is not the same as that for Australian securities and products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial advisor.

An investment in Summerset may involve a currency exchange risk. The currency for the security or financial product is in dollars that are not Australian dollars. The value of the security or financial product will go up and down according to changes in the exchange rate between those dollars and Australian dollars. These changes may be significant.

If you receive any payments in relation to the security or financial product that are not in Australian dollars, you may incur significant fees in having the funds credited to a bank account in Australia in Australian dollars.

ASX LISTING

Application will be made to ASX for permission to list Summerset and to quote the Shares on ASX. Summerset's ASX code is "SNZ". If and when this occurs, the ASX Listing Rules will apply to Summerset (subject to any waivers or rulings given from time to time by ASX). The ASX Listing Rule waivers and confirmations that have been sought from ASX are described in the *Corporate Information* section of this Information Memorandum. The ASX is not a registered market under the Securities Markets Act.

ASX does not take any responsibility for the content of this Information Memorandum. The fact that ASX may admit Summerset to its official list is not to be taken in any way as an indication of the merits of Summerset.

NZX LISTED

Summerset's Shares are currently quoted on the NZX Main Board. However, NZX accepts no responsibility for any statement in this Information Memorandum. The NZX Main Board is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act.

DISTRIBUTION RESTRICTIONS

No person may offer, sell, or deliver Shares or distribute any documents (including this Information Memorandum) to any person outside New Zealand or Australia, except in accordance with all of the legal requirements of the relevant jurisdiction.

RISK AND SUITABILITY OF AN INVESTMENT IN SUMMERSET

This Information Memorandum does not take into account each investor's investment objectives, financial situation and particular needs. Investors should read this Information Memorandum in full before deciding whether to invest. In particular, investors should consider the risk factors that could affect Summerset's performance, particularly with regard to their personal circumstances. No person guarantees the Shares or Summerset's market or financial performance. Summerset is not providing financial product advice.

FORWARD LOOKING STATEMENTS

This Information Memorandum contains certain statements that relate to the future. Such statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of Summerset and which may cause actual results, performance or achievements of Summerset to differ materially from those expressed or implied by such statements. Past performance is not an indicator of future performance.

SUPPLEMENTARY DISCLOSURE

Summerset will issue a supplementary information memorandum if Summerset becomes aware of any of the following between the issue of this Information Memorandum and the date on which the Company's securities are officially quoted by ASX:

- a material statement in this Information Memorandum is misleading or deceptive;
- there is a material omission from this Information Memorandum;
- there has been a significant change affecting a matter included in this Information Memorandum; or
- a significant new circumstance has arisen and it would have been required to be included in this Information Memorandum.

DEFINITIONS

Capitalised terms used in this Information Memorandum have the specific meaning given to them in the *Glossary*.

All references to dates and time are to dates and time in New Zealand.

This Information Memorandum refers to various legislation in force in New Zealand from time to time. Copies of any such legislation may be viewed online at www.legislation.govt.nz free of charge.

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1 SUMMERSET SNAPSHOT

SUMMERSET SNAPSHOT

Summerset builds, owns and operates retirement villages that provide quality retirement village living and aged care services to older New Zealanders. Summerset does not currently have any Australian operations.

"Best Retirement Village Operator" in New Zealand and Australia 2010, 2011 and 2012.[1]

KEY INVESTMENT THEMES

- A recognised industry leader
- Compelling sector fundamentals
- Significant increases in demand anticipated
- Summerset is the second largest developer of new retirement units in New Zealand
- Continuum of care model provides competitive advantage
- Strong development pipeline
- Significant cash flow and earnings growth potential

KEY OPERATING POINTS

- Design, build, own, operate
- Independent and assisted living, rest home and hospital care
- Recognised brand backed by proven operational and development capability
- Continuum of care is a key part of offering to residents
- Aged care facilities integrated into the Villages

1. Australasian Over 50's Housing Awards 2010, 2011 and 2012.





CURRENT OPERATIONS

- 16 Villages
- 1,646 Retirement Units[2]
- 370 Care Beds[3]
- Over 2,200 residents
- Approximately 500 staff

Strong development pipeline with 200 Retirement Units expected to be delivered in the year to 31 December 2013, and a target of increasing delivery to 300 Retirement Units per annum by 2015.

- 6 brownfield developments[4]
- 4 greenfield sites[5]
- Expect to continuously hold development sites sufficient to maintain approximately five years of development

CASH FLOWS

Summerset generates cash flows from five key sources:

- Sales of Occupation Right Agreements for new Retirement Units
- Deferred Management Fees
- Resident levies (weekly living and service fees)
- Aged care service fees
- Resales of Occupation Right Agreements for existing Retirement Units

Significant growth in Summerset's cash flows is expected as its Village portfolio matures.

Embedded value of $124 million at 31 December 2012.[6]

INTEGRATED NATIONAL BRAND OFFERING

- 16 year track record
- Increasing nationwide brand recognition
- Customer centric philosophy
- Respect for our customers at the core of everything we do

2. As at 31 December 2012.
3. Includes 41 care beds opened in Warkworth in the first quarter of 2013.
4. A brownfield development is a site presently under development and with some form of existing infrastructure.
5. A greenfield site is a site on which no facilities or structures exist.
6. Embedded value is the quantum of contractually accrued deferred management fees and other unrealised gains that would be received in cash if all of Summerset's ORAs were terminated, resold and settled at that valuation date. In practice, this value will be received as cash in the future. This reference does not, therefore, reflect the present value of future cash flows from the termination of ORAs.

2 INVESTMENT HIGHLIGHTS

A RECOGNISED INDUSTRY LEADER

16 YEAR TRACK RECORD OF ORGANICALLY GROWING ITS VILLAGE FOOTPRINT AND DELIVERING NEW RETIREMENT UNITS AND CARE BEDS…

- Second largest developer in the New Zealand retirement village and aged care sectors over the last four years[7]
- Third largest operator in the New Zealand retirement village sector[8]
- 1,646 Retirement Units and 370 Care Beds
- Consistent delivery of new Retirement Units

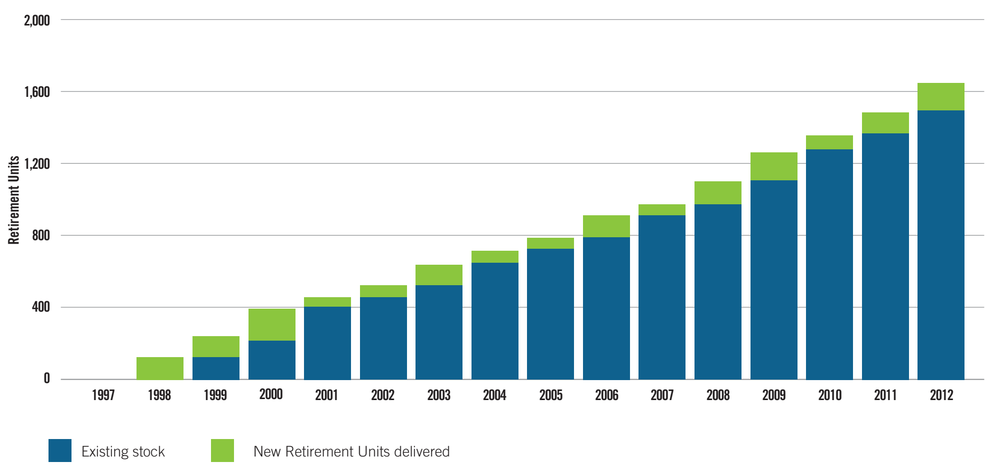
…AN INDUSTRY LEADER…

- Skilled and experienced management team
- Recognised as the 'Best Retirement Village Operator' at the 2010, 2011 and 2012 Australasian Over 50's Housing Awards
- Leading provider of the continuum of care model

…WITH A COMPELLING BRAND PROPOSITION

- Pioneer in developing a national brand
- 'Summerset Sure' - provides residents with confidence and certainty in service delivery
- Respect for everyday New Zealanders

NEW RETIREMENT UNIT DELIVERY (1997–2012)



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

7. By retirement units developed.
8. By retirement unit numbers.

COMPELLING SECTOR FUNDAMENTALS

NEW ZEALAND'S OLDER POPULATION IS PROJECTED TO GROW RAPIDLY[9]...

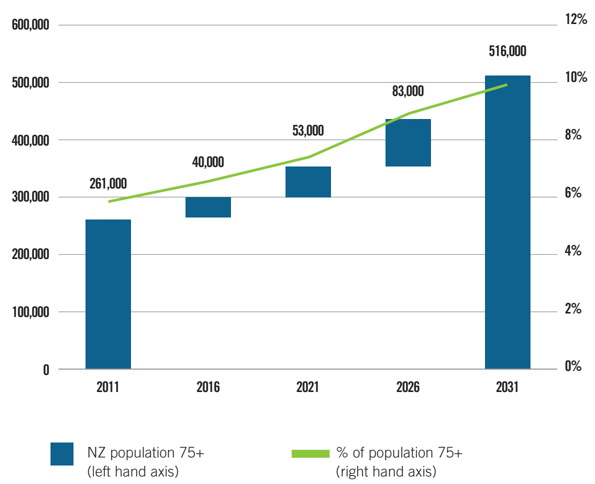
- By 2031, New Zealand's population aged 65 years and over is projected to increase to 1,072,000 from 586,000 in 2011
- Population aged 75 years and over is projected to increase to 516,000 from 261,000 over the same period
- Population aged 85 years and over is projected to increase to 144,000 from 73,000 over the same period
- Summerset's residents are typically aged 75 years and over

...AND MORE PEOPLE ARE CHOOSING TO LIVE IN RETIREMENT VILLAGES

- Nationwide penetration rates[10] are estimated to have increased from 3% in 1998 to 5% in 2011 for population aged 65 years and over, and from 5% to 9%[11] over that period for population aged 75 years and over
- In Tauranga, where there is high availability of retirement villages, the penetration rates for population aged 65 years and over are estimated to have reached 11% in 2011 (17% for population aged 75 years and over)
- The construction of new villages and increased demand from an ageing population is expected to contribute to penetration rates continuing to increase over time

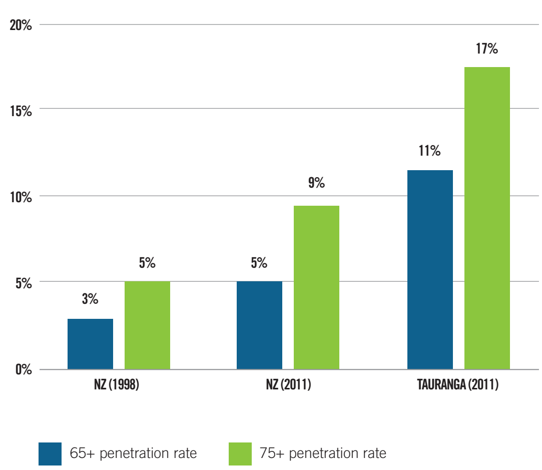
9. Statistics New Zealand, population projections (Series 5) (2009).
10. A "penetration rate" is a percentage calculated by dividing the number of people living in retirement units aged 75 years and over (or 65 years and over, as the case may be) by the number of the total population aged 75 years and over (or 65 years and over, as the case may be) in the relevant catchment area.
11. Assumes 80% of people in retirement units are aged 75 years and over.

POPULATION GROWTH 75 YEARS AND OVER



SOURCE: Statistics New Zealand.

ESTIMATED PENETRATION RATES



SIGNIFICANT INCREASES IN DEMAND ANTICIPATED

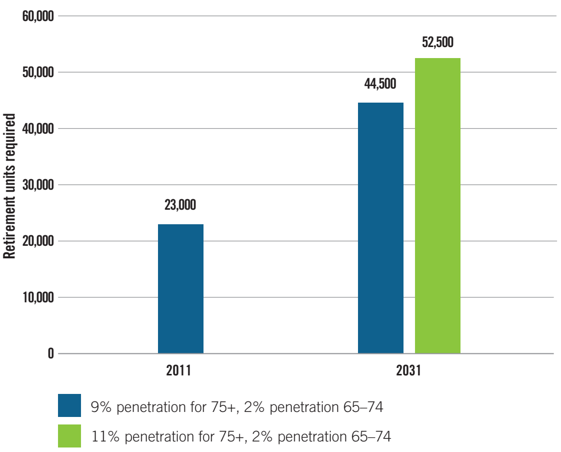
DEMAND FOR NEW RETIREMENT UNITS IS PROJECTED TO INCREASE SUBSTANTIALLY…

- If penetration rates remain constant at current estimated levels, the number of retirement units required is estimated to increase from approximately 23,000 in 2011 to 44,500 in 2031[12]
- If penetration rates for those aged 75 years and over increase to 11%[13] the number of retirement units required is estimated to increase from approximately 23,000 in 2011 to 52,500 in 2031

…DEMAND FOR AGED CARE BEDS IS ALSO PROJECTED TO INCREASE SUBSTANTIALLY

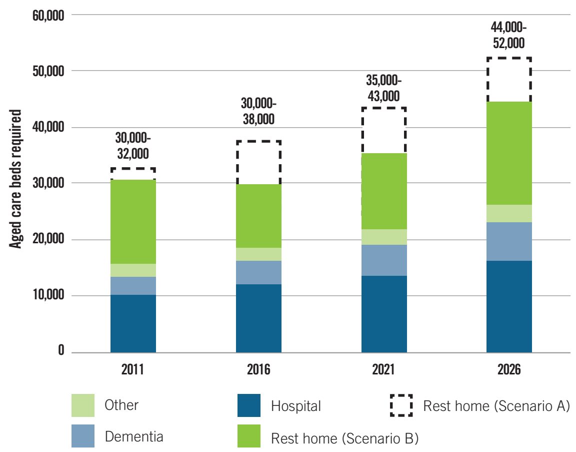
- The number of aged care beds required is estimated to increase from approximately 32,000 in 2011 to between 44,000 and 52,000 in 2026
- Demand increases in aged care are predominantly driven by the demand for hospital beds and dementia care
- Summerset has a higher concentration of hospital beds than the aged care sector average

ESTIMATED DEMAND FOR RETIREMENT UNITS



NOTE: Assumes 1.3 people : 1 retirement unit.

ESTIMATED DEMAND FOR AGED CARE BEDS



SOURCE: Grant Thornton, *Aged Residential Care Service Review*, September 2010, Scenario A and Scenario B.

12. 2011 penetration rates are estimated to be 9% for population aged 75 years and over and 2% for population aged 65 to 74 years.
13. 11% penetration rate for population aged 75 years and over and 2% for population aged 65 to 74 years.

SUMMERSET IS THE SECOND LARGEST DEVELOPER OF NEW RETIREMENT UNITS IN NEW ZEALAND

PROVEN DEVELOPMENT TRACK RECORD AND STRONG DEVELOPMENT PIPELINE…

- Summerset has delivered 525 new Retirement Units over the last four years, second only to Ryman Healthcare
- Summerset expects to deliver 200 new Retirement Units in 2013 and has a target of increasing delivery to 300 Retirement Units per annum by 2015

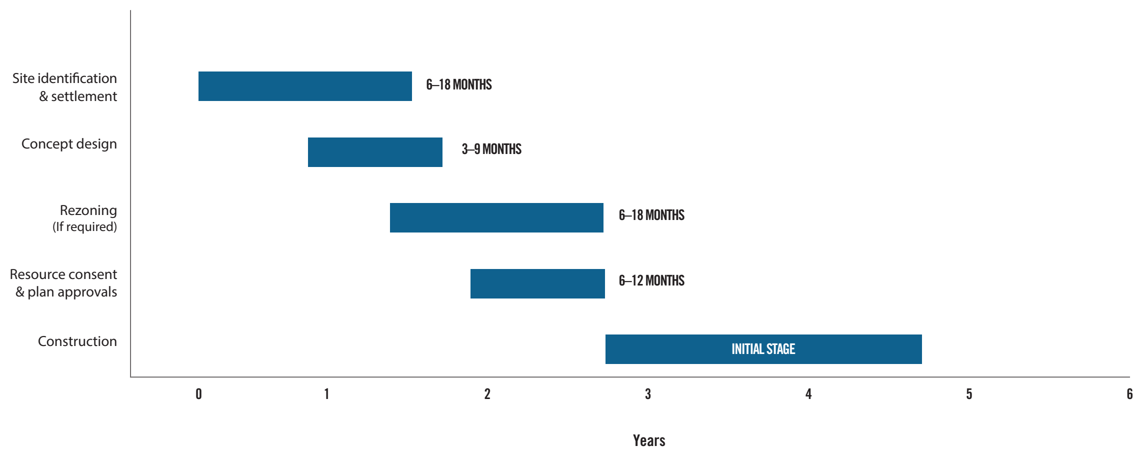
…THE GLOBAL FINANCIAL CRISIS COMPROMISED UNIT DELIVERY…

- CBRE have observed that the global financial crisis led to many retirement village construction projects being either cancelled or placed on hold in the immediate years following due to the heightened sell down risk for completed retirement unit products and construction completion risks caused by funding constraints
- As developers delay projects or exit the market, this has created an opportunity for core players such as Summerset, who have a long term commitment to the sector

…CONSIDERABLE LEAD TIME TO PROVIDE NEW SUPPLY WHICH IMPACTS INDUSTRY SUPPLY SIDE RESPONSE

- It typically takes two to four years to complete the first stage of a new retirement village from initial site identification
- Summerset has a strong portfolio of well advanced development sites

TYPICAL DEVELOPMENT TIMELINE



CONTINUUM OF CARE MODEL PROVIDES COMPETITIVE ADVANTAGE

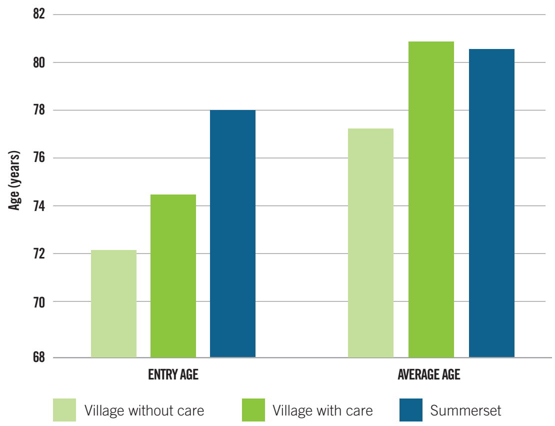
SUMMERSET IS A LEADING NATIONWIDE RETIREMENT VILLAGE OPERATOR WITH A FOCUS ON PROVIDING RESIDENTS A CONTINUUM OF CARE…

- Integration of care facilities within villages is a key attraction for residents
- Summerset matches support and care services to meet each resident's individual needs
- Regulatory and operational complexity of aged care makes providing a continuum of care challenging for new entrants and competitors who do not currently provide this

…PROVIDING A COMPETITIVE ADVANTAGE

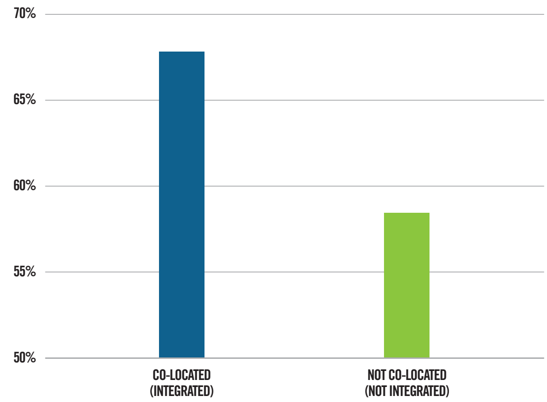
- Integrated villages offering a continuum of care generally have higher entry ages and average ages
- Integrated villages are more likely to have waiting lists for entry for licence to occupy units
- More resilient demand for retirement units through economic cycles

INDUSTRY ENTRY AGE AND AVERAGE AGE (AUSTRALIA)



SOURCE: Grant Thornton/RVA Retirement Living Survey June 2011 (Australia).

RETIREMENT VILLAGES WITH WAITING LISTS (AUSTRALIA)



SOURCE: Grant Thornton/RVA Retirement Living Survey June 2011 (Australia).

STRONG DEVELOPMENT PIPELINE

SUMMERSET HAS A STRONG DEVELOPMENT PIPELINE PROVIDED BY EXISTING VILLAGES UNDER CONSTRUCTION AND LANDBANK...

- Summerset has the sites, the management team and the funding in place to deliver the development pipeline

MANAGEMENT TEAM

- Summerset's highly regarded management team has an excellent track record, having organically grown Summerset's business and completed numerous Village developments

FUNDING

- The Summerset Group has a $180 million bank facility. The facility has a maturity of 2016. Summerset intends to use its financing headroom to fund future Village construction and additional landbank purchases
- In the medium term, much of the surplus cash flow generated by Summerset from the sale of Occupation Right Agreements will be reinvested in future developments

THE SITES

1,575 NEW RETIREMENT UNITS ("RUs") FROM EXISTING SITES → 300 RUs PER ANNUM BY 2015

BROWNFIELD DEVELOPMENT

Warkworth – 88 RUs, 54 further RUs to be built

Hamilton – 40 RUs, 212 further RUs to be built

Hastings – 109 RUs, 42 further RUs to be built

Nelson – 94 RUs, 175 further RUs to be built

Dunedin – 31 RUs, 70 further RUs to be built

Katikati – 0 RUs, 188 RUs to be built

GREENFIELD SITES

Karaka – 159 RUs

Hobsonville – 250 RUs

Ellerslie – 250 RUs

Hutt Golf Club – 175 RUs

FUTURE SITES

Funding in place to secure further sites and accelerate growth

Multiple sites being investigated

Strategy to continuously hold development sites sufficient to maintain approximately five years of development

SIGNIFICANT CASH FLOW AND EARNINGS GROWTH POTENTIAL

MATURING VILLAGE PORTFOLIO…

- An increasing proportion of Summerset's cash flow is expected to be generated from the resale of Occupation Right Agreements as its Village portfolio matures
- Increased resales from maturing Villages will provide greater cash flows from resale gains and Deferred Management Fees realised by Summerset
- Summerset's embedded value[14] is approximately $124 million at 31 December 2012, underpinning future cash flow generation

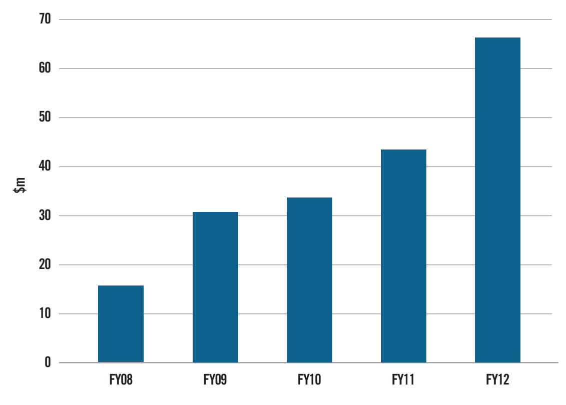
…WITH A GROWING AGED CARE CONTRIBUTION…

- Summerset intends that each new Village will be developed to include a care facility
- Aged care offering provides steady revenue streams
- Expansion of care offering through Village growth and certification of Care Apartments enhances returns on capital invested in care facilities

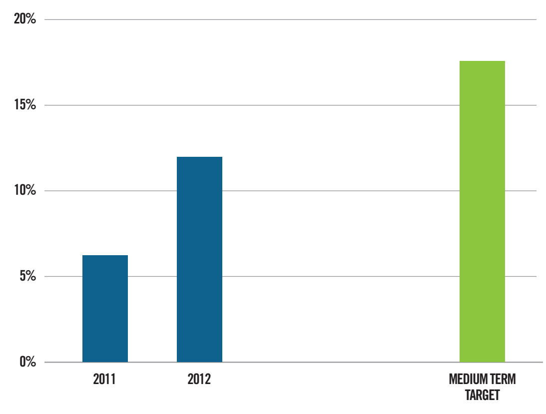
…STRONG DEVELOPMENT PIPELINE AND INCREASING DEVELOPMENT EFFICIENCIES

- Strong development pipeline expected to generate growing earnings streams
- Improving margins from the internalisation of development and project management capabilities

PRO FORMA HISTORICAL OPERATING CASH FLOWS



DEVELOPMENT MARGIN



14. Embedded value is the quantum of contractually accrued deferred management fees and other unrealised gains that would be received in cash if all of Summerset's ORAs were terminated, resold and settled at that valuation date. In practice, this value will be received as cash in the future. This reference does not, therefore, reflect the present value of future cash flows from the termination of ORAs.

3 NEW ZEALAND RETIREMENT VILLAGE AND AGED CARE INDUSTRY OVERVIEW

NEW ZEALAND RETIREMENT VILLAGE AND AGED CARE INDUSTRY OVERVIEW

INDUSTRY SNAPSHOT

- 450 RETIREMENT VILLAGES
- 25,800 RETIREMENT UNITS
- 34,500 AGED CARE BEDS
- 680 CERTIFIED AGED CARE FACILITIES

OVERVIEW OF INDUSTRY SECTORS

Summerset operates in the New Zealand retirement village and aged care industry, which comprises three related sectors: retirement villages, residential aged care and home based support. These three sectors provide accommodation and varying levels of support services to older New Zealanders.

- The retirement village sector involves the provision of independent or assisted living accommodation and services for New Zealanders generally aged 65 years and over.
- The aged care sector involves the provision of accommodation for older New Zealanders who have a greater need for healthcare services and support, including rest home and hospital care.
- The home based support sector broadly involves the provision of healthcare services to those "Ageing in Place" in their home.

The industry has grown significantly in recent years, underpinned by the steadily increasing number of older New Zealanders.

The industry was traditionally comprised of specialist village operators providing independent living accommodation options and separate aged care operators. It has progressively evolved towards integrated villages providing a continuum of care, through the integration of rest home and hospital level care within a retirement village.

The accommodation and care services provided within each sector of the retirement village and aged care industry, and an overview of how they are funded, is set out below.

RETIREMENT VILLAGES

The retirement village sector in New Zealand is estimated to comprise approximately 450 retirement villages, together providing approximately 25,800 retirement units to over 32,000 residents. The majority of retirement villages consist of 60 or fewer retirement units. This reflects the large number of smaller, independent, single site retirement village operators in New Zealand.

Retirement villages in New Zealand typically comprise a range of retirement units, such as villas and apartments designed to provide independent living. Increasingly, new living units are in modern, purpose built facilities and are integrated with aged care facilities.

OVERVIEW OF INDUSTRY SECTORS

	AGED CARE		RETIREMENT VILLAGES		HOME BASED CARE
INSTITUTION	HIGH CARE (hospital care, specialised rest homes)	LOW CARE (rest home care)	CARE APARTMENTS	RETIREMENT UNITS (villas/apartments)	HOUSE/APARTMENT
SUMMERSET'S OFFERING	Summerset				NO
FUNDING	MIX OF GOVERNMENT AND PRIVATE PAYING: • Government subsidies – Age Related Residential Care Contract • Resident fees			ALL PRIVATE PAYING: • Occupational Right Agreements • Deferred Management Fees • Resident Levies	MIXED FUNDING: • Individuals • Charities • Government

Retirement villages are funded privately, through the payment by residents for their occupation right or ownership of their retirement unit, deferred management fee and other levies for additional services or the use of certain facilities.

OCCUPATION RIGHT AGREEMENTS

The Retirement Villages Act requires every offer of a right to occupy or own a residential unit at a retirement village to be made in an Occupation Right Agreement (*ORA*). There are a variety of rights that can be offered by an ORA, such as a licence to occupy (*LTO*), unit title, lease and rental right.

LTOs are the most common form of right that is offered by retirement village operators. An LTO entitles the resident to live in a retirement unit and have access to the village facilities and services, but does not confer ownership of the retirement unit. Under the LTO model, a resident makes an initial lump sum payment to reflect the capital cost of the unit, and pays an ongoing resident levy to cover the operating costs of the village.

In New Zealand, residents are generally charged a management fee, known as a deferred management fee (*DMF*), payment of which is deferred until the expiry of their LTO. The DMF accrues during a resident's stay, but is generally capped at 20% to 30% of the initial lump sum payment for the occupation or ownership right to a retirement unit. On leaving the unit, the resident or their estate is repaid the initial cost of the LTO less an amount deducted for the accrued DMF. The retirement village operator generally retains gains realised on the resale of an LTO to a new resident.

AGED CARE

The aged care sector is estimated to comprise approximately 680 certified aged residential care facilities providing aged care services to approximately 32,000 aged care residents.

Aged care services in New Zealand are provided through rest home beds (low care), hospital care beds (high care) and specialised care for dementia or psychogeriatric patients.

Rest home care is the base level of care and makes up over half of the beds in the sector. Hospital care involves a greater dependency on nursing services and care. Dementia and psychogeriatric level care require specialist services and account for only a small proportion of aged care beds.

A high proportion of New Zealand's aged care facilities are dated, with more than half of the total number of aged care beds over 20 years old. The expected useful life of most aged care facilities is 20 to 30 years, after which they become due for redevelopment or major refurbishment.

FUNDING OF AGED CARE SERVICES

Aged care is funded publicly through Government subsidies and privately through individual contributions, or co-payments.

Government funding for aged care is managed regionally by 20 District Health Boards (*DHBs*), which in most cases contract locally with service providers under a nationwide contract (the Age Related Residential Care contract (*ARRC Contract*)). An ARRC Contract is intended to cover all contracted services including accommodation, meals, pharmaceuticals and medical supplies. Operators may charge the resident for any service not covered by an ARRC Contract.

To be eligible for a Government subsidy the individual must satisfy the Government's income and asset testing requirements. They must then choose a care provider that has a contract with the relevant DHB. Subsidies are paid directly to the provider to cover the cost of care.

Where a person does not meet the eligibility criteria for subsidised residential care, or wishes to receive care in a rest home or hospital that does not have a contract with a DHB, they are required to meet the cost of the care they require themselves.

Approximately 56% of Summerset's care revenue is Government subsidised.

HOME BASED SUPPORT

The Government has been encouraging the provision of home based aged care services through its Ageing in Place strategy, which aims to encourage and assist older people to remain in their own homes and have care and support services delivered to them.

This strategy has played a role in containing the growth in rest home beds, despite an increasing older population. Lower level care is increasingly being provided within the home, which has led to an increase in the level of needs of those entering aged care facilities. Due to this, the proportion of hospital beds to total beds in the sector has grown.

Studies have shown that demand for beds in the aged care sector should increase significantly over the next 15 years as home based support will not be able to cope with the increasing numbers of older New Zealanders.

Home based support services are partially funded publically through Government subsidies and privately through individual contributions.

MARKET CHARACTERISTICS

RESIDENT PROFILE

Retirement villages cater for a range of older New Zealanders with approximately 80% of residents aged 75 years and over.

Independent research has shown that the key factors people consider when choosing a retirement village are access to care, a maintenance free home, security, quality, affordability, companionship and the geographic location of the village (with proximity to family and friends being important). Residents often identify an event in their life which has prompted their decision to enter a village, such as a health issue, home maintenance becoming less manageable, death of a spouse, a neighbourhood change or a security event.

To meet these needs Summerset focuses on providing purpose built retirement villages designed for quality and functionality that are secure, warm and welcoming living environments. Summerset's philosophy is to create a strong sense of community with the communal and recreational facilities at the heart of each Village.

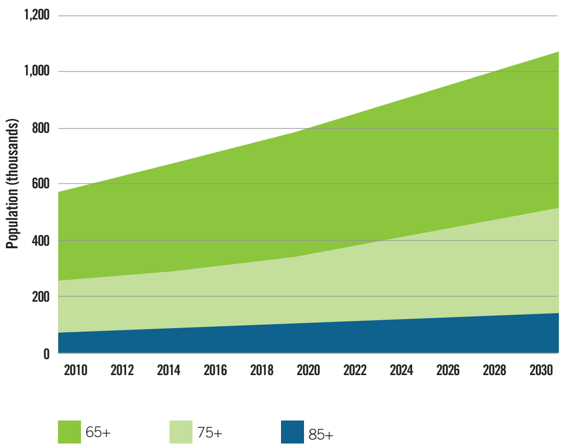
Providing on site care facilities enables residents to retain independence in a community environment whilst being able to receive various levels of care (up to hospital level care) within the Village should their needs change.

MARKET DEMOGRAPHICS

New Zealand's retirement village and aged care sectors are expected to benefit from New Zealand's ageing population and the increased acceptance and popularity of the village lifestyle.

- By 2031, New Zealand's population aged 65 years and over is projected to increase to 1,072,000 from 586,000 in 2011.
- Population aged 75 years and over is projected to increase to 516,000 from 261,000 over the same period.
- Population aged 85 years and over is projected to increase to 144,000 from 73,000 over the same period.

POPULATION FORECASTS



SOURCE: Statistics New Zealand.

PENETRATION RATES

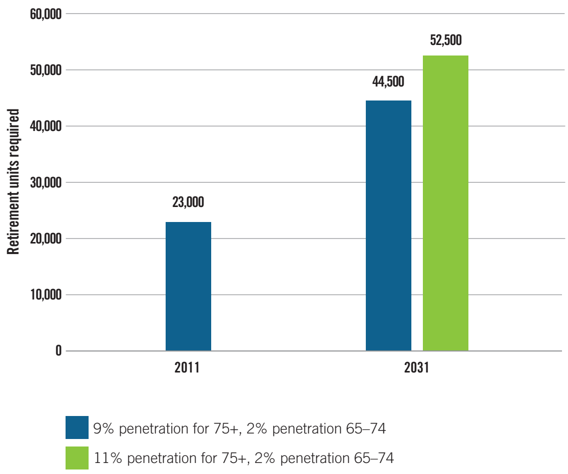
Since 1998 the number of New Zealanders aged 65 years and over living in retirement villages has grown. Nationwide penetration rates are estimated to have increased from 3% in 1998 to 5% in 2011 for the population aged 65 years and over, and from 5% to 9%[15] over the same period for the population aged 75 years and over. The increase in penetration rates has been driven by a number of factors, including the increase of modern, purpose built facilities and greater acceptance by New Zealanders to live in these facilities as they age.

The penetration rate for New Zealanders aged 65 years and over living in retirement villages is estimated to have reached 11% in Tauranga (17% for those aged 75 years and over), where there is a proportionally high number of retirement villages.

Retirement villages tend to attract 80% of residents from within 5–10km of a village. There are large parts of the country where there is an undersupply of modern, purpose built retirement villages. Therefore, it is anticipated that over time penetration rates will continue to increase as such villages are built.

Penetration rate increases are also likely to be supported by the high rates of home ownership amongst those coming into retirement villages. Approximately 78%[16] of the population aged 75 years and over are estimated to own their own home, providing them with the ability to sell their property to purchase an ORA.

ESTIMATED DEMAND FOR RETIREMENT UNITS



NOTE: Assumes 1 retirement unit : 1.3 people.

15. Assumes 80% of people in retirement units are aged 75 years and over.
16. New Zealand Treasury, *Housing in the Household Portfolio and Implications for Retirement Saving: Some Initial Findings from SOFIE*, 2007.

RESIDENTIAL PROPERTY MARKET IN NEW ZEALAND

The strength and characteristics of local property markets are important determinants for retirement village providers when selecting village locations. In particular, many prospective residents will sell an existing residential property to fund the purchase of an ORA. The price of an ORA is also influenced by local residential property prices.

For the most part of the last decade, the strong performance of the New Zealand residential property market has benefited many operators. Over the last two years median sales prices have begun to lift in many parts of the country, and in particular in Auckland.

REGULATORY ENVIRONMENT

The retirement village and aged care industry is highly regulated. There are a number of statutes and regulations which form a framework for operating in the industry. The two key statutes governing the industry are the Retirement Villages Act 2003 and the Health and Disability Services (Safety) Act 2001.

RETIREMENT VILLAGES ACT 2003

The Retirement Villages Act, its regulations and the accompanying Code of Practice and Code of Residents' Rights set out the rights and obligations of retirement village operators and residents. This framework specifically aims to promote understanding of the financial and occupancy interests of residents and intending residents, and to provide an environment in which residents have security and their rights are protected.

The Retirement Villages Act codifies a range of mechanisms for the oversight of retirement villages and retirement village operators. It gives the Retirement Commissioner additional powers to oversee the operation of the Retirement Villages Act, its regulations, the Code of Practice and Code of Residents' Rights.

Retirement village operators must register their retirement villages with the Registrar of Retirement Villages and appoint a statutory supervisor for each retirement village. The statutory supervisor is responsible for protecting the financial interests of residents. All of Summerset's Villages are registered with the Registrar of Retirement Villages and Public Trust has been appointed as the statutory supervisor of each Village.

HEALTH AND DISABILITY SERVICES (SAFETY) ACT 2001

The Health and Disability Services (Safety) Act is designed to promote the safe provision of health and disability services to the public, establish consistent standards throughout the retirement village and aged care industry and encourage providers of health and disability services to continuously improve the quality of these services.

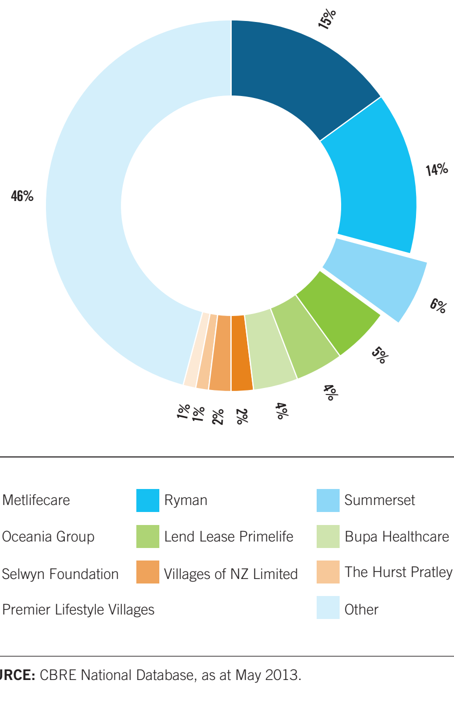
Under the Health and Disability Services (Safety) Act, all residential care facilities must be certified by the Ministry of Health before services can be provided in them. As at the date of this Information Memorandum, all of Summerset's care facilities and hospitals are certified.

COMPETITIVE LANDSCAPE

MARKET SHARE

The retirement village and aged care industry is highly fragmented, with small privately owned operators providing a significant proportion of total retirement units and care beds in each sector. Currently, the top eight industry operators account for approximately 51% of all retirement units in New Zealand. The majority of retirement villages consist of 60 or fewer retirement units. The relative market share of each participant in the retirement village sector by number of existing retirement units as at May 2013 is shown below. Summerset is the third largest operator in New Zealand by retirement unit numbers, with an estimated 6% market share.

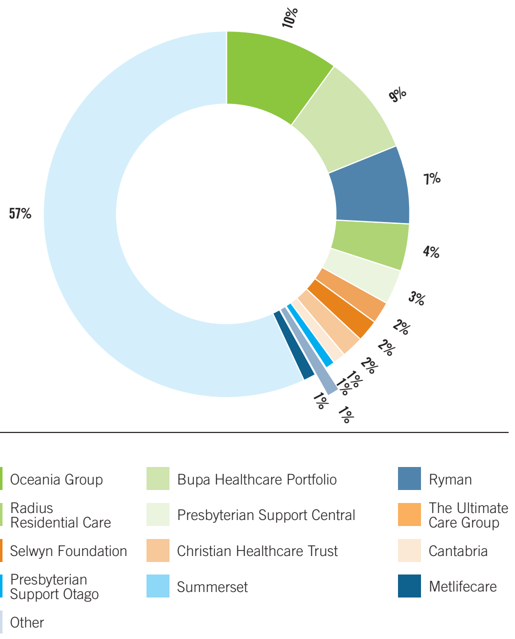
RETIREMENT VILLAGE SECTOR MARKET SHARE (BY RETIREMENT UNITS)



SOURCE: CBRE National Database, as at May 2013.

The relative market share of each participant in the aged care sector by number of care beds as at June 2013 is shown below. It is estimated that a third of the market is provided by not for profit operators.

AGED CARE SECTOR MARKET SHARE



SOURCE: CBRE, National Database, as at June 2013.

COMPETITIVE ADVANTAGES

The introduction of the Health and Disability Services (Safety) Act, the Retirement Villages Act and the Code of Practice has created an extensive regulatory environment. The complexities and cost of compliance associated with this regulatory environment has been a significant deterrent to new entrants into the retirement village and aged care industry. The compliance burden also offers larger participants advantages in terms of scale and core competency, thereby supporting Summerset's competitive advantage.

In the retirement village sector the capital cost of building new facilities and the price and availability of suitable land mean larger established operators have a competitive advantage.

Summerset is one of the few large retirement village operators to provide a full continuum of care at its Villages. Retirement villages which have integrated aged care facilities on site hold a significant competitive advantage over those that do not. The provision of care within a village provides residents with the ability to both live independently and be able to access a range of levels of care and support without leaving the village should their needs change. Independent research has indicated that provision of care within a retirement village is a key attraction to residents.

"In 2007 the New Zealand retirement village market was under threat of over supply as opportunistic, inexperienced and under capitalised operators sought to take advantage of favourable market conditions at the time. The difficult economic climate that followed the global financial crisis in 2008 resulted in many large scale construction projects being cancelled or placed on hold due to the heightened sell down risk for completed product and construction completion risk caused by funding constraints. In some cases, where retirement villages were proposed, developers either walked away or sought an alternative exit strategy. For leading industry players such as Summerset, with a long term commitment to the sector, this has created opportunity due to reduced intensity of competition and restricted resident choice. As market conditions continue to improve, core sector players such as Summerset and Ryman Healthcare, who have survived the economic downturn, who have secure funding and a development pipeline in place, are set to benefit most."

CBRE, Retirement Housing & Healthcare Division

COMPARISON OF THE NEW ZEALAND AND AUSTRALIAN RETIREMENT VILLAGE SECTORS

Both New Zealand and Australia have relatively well developed retirement village sectors with penetration rates being broadly similar. However, there are a number of differences between the sectors. In Australia many of the large private sector operators are associated with property development businesses. Many of the retirement villages associated with these businesses do not offer a continuum of care and are so called "lifestyle" villages. Research in Australia[17] shows that villages without care have lower entry ages and less of these villages have waiting lists. In Australia there are also a much wider range of contractual terms. Typically these are similar in that a lump sum is paid to secure the resident the right to occupy the unit with a deferred management fee payable when the licence payment is refunded on termination. In Australia the gain on resale is typically shared with the resident. In New Zealand the gain on resale typically accrues to the operator.

17. Grant Thornton / RVA Retirement Living Survey 2011 (Australia).

4 OVERVIEW OF SUMMERSET

OVERVIEW OF SUMMERSET

OVERVIEW OF SUMMERSET

Summerset is the third largest operator and the second largest developer of retirement villages and aged care facilities in New Zealand. Summerset is one of the few retirement village operators to provide a continuum of care at its villages.

KEY SUMMERSET STATISTICS*

Residents	Over 2,200
Staff	Approximately 500
Villages	16
Villages under development[18]	6
Landbank sites for future development	4
Retirement Units	1,646
Care Beds	370**

* As at 31 December 2012.

** Includes 41 care beds opened in Warkworth in the first quarter of 2013.

Summerset's philosophy is to build, own and operate retirement villages that provide quality, purpose built retirement village living and aged care services to older New Zealanders.

Summerset aims to create a strong sense of community with the communal and recreational facilities at the heart of each Village.

Summerset was founded on the belief that older New Zealanders have earned the right to a high standard of living in a safe, secure and enjoyable environment.

HISTORY OF SUMMERSET

Summerset's business was founded by John O'Sullivan in 1994 in the Kapiti and Horowhenua regions. In 1997, the first 14 Retirement Units and an aged care hospital were built in Wanganui and the strategy of providing a full range of aged care services and living options for residents was first implemented. Since then, prudent management has enabled Summerset to steadily grow its Village footprint.

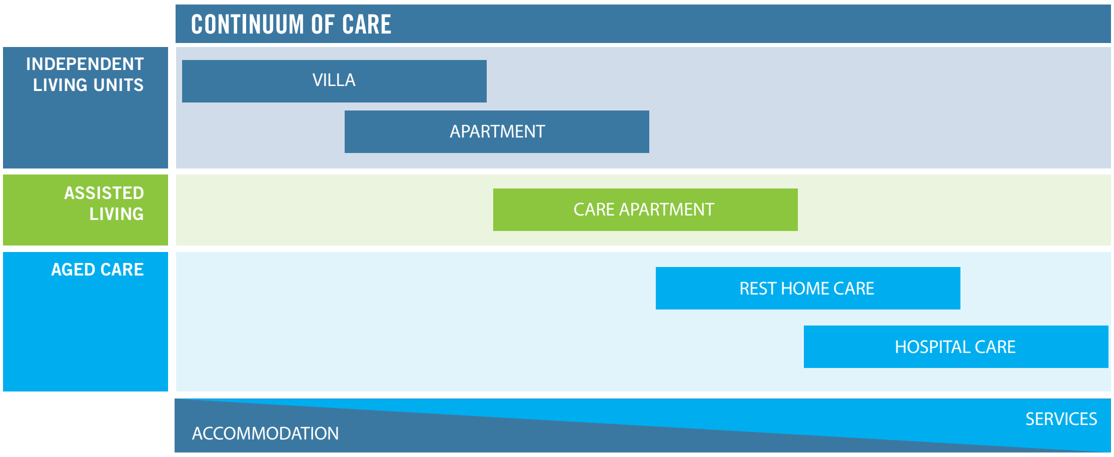
In 2006 AMP Capital Investors Limited (*AMPCI*) acquired Summerset. Funds controlled by Quadrant subsequently acquired 49% of the Summerset business in April 2009, and acquired the remaining AMPCI shareholding in April 2010 to take control of Summerset (with minority stakes being held by current and former members of the Board and senior management team).

Since Quadrant's initial investment, Summerset has pursued a number of key strategic initiatives, including:

- investing heavily in the expansion of existing Villages, development of new Villages and acquisition of new land sites;
- moving its development, project and cost management functions back within Summerset to provide the management team with greater control over costs and timeframes associated with development of its Villages;
- commencing internalisation of design and construction management;
- introducing a national brand identity and the "Summerset Sure" promises – a guarantee about the quality and reliability of Summerset's accommodation and service offering; and
- being a leader in seeking and receiving Ministry of Health certification for its Care Apartments (Summerset has 119 Care Apartments certified).

18. Five of the Villages under development are also operating Villages.

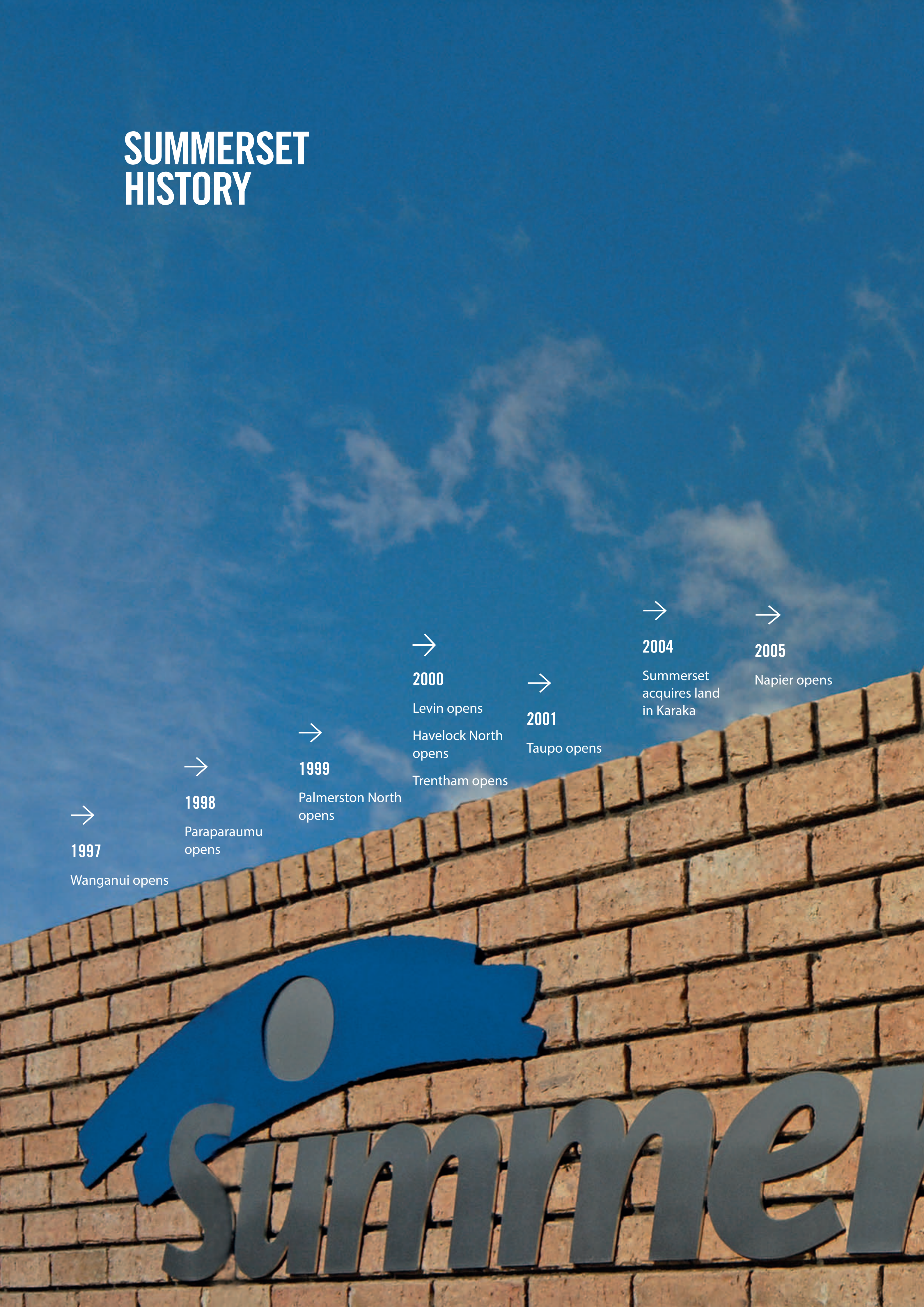
CONTINUUM OF CARE



Summerset completed an initial public offering and listed on the NZX Main Board in November 2011. A total of $123 million of Shares were sold at $1.40 per Share. Of that $123 million, $50 million was raised by the Company to accelerate the rate of its growth as outlined in the investment statement and prospectus at that time. Following the listing, Quadrant's shareholding was 56%. Since the listing, notable achievements by Summerset include:

- comprehensively exceeding the financial forecasts contained in the investment statement and prospectus prepared for the IPO;
- winning the "Best Retirement Village Operator in Australasia" in 2011 and 2012. Summerset has now won this award three times in a row;
- acquiring three strategic land holdings, two in Auckland (Hobsonville and Ellerslie) and one in Wellington (Lower Hutt); and
- increasing its build rate target in November 2012 from 250 retirement units per annum by 2016 to 300 retirement units per annum by 2015.

Since the IPO Quadrant has further sold down its stake, selling in March and May of 2013. Its shareholding as at the date of this Information Memorandum is approximately 23%.



SUMMERSET HISTORY

1997

Wanganui opens

1998

Paraparaumu opens

1999

Palmerston North opens

2000

Levin opens

Havelock North opens

Trentham opens

2001

Taupo opens

2004

Summerset acquires land in Karaka

2005

Napier opens

→

2006

Aotea (Wellington) opens

Manukau opens

→

2007

Summerset acquires land in Katikati

→

2009

Manukau main building and care facility opens

Warkworth and Hastings open

Summerset acquires land in Hamilton

→

2010

Construction completed at Aotea (Wellington) and Taupo

Summerset acquires land in Dunedin

→

2011

Hamilton opens

Summerset acquires Nelson with 12 existing Retirement Units

→

2012

Summerset acquires land in Hobsonville

Summerset acquires land in Ellerslie

Dunedin opens

→

2013

Summerset acquires land in Lower Hutt

BRAND ESSENCE

- We love the life you bring to our villages
- Customers are at the core of our thinking
- Welcome Home is the feeling we want people to get from their first contact with Summerset through to coming to live in one of our Villages

RETIREMENT VILLAGES

THE SUMMERSET VILLAGE OFFERING

Summerset provides homes for older New Zealanders enabling them to retain their independence in a community environment. Residents are able to access an increasing level of support and care within the Village should their needs change. This is fundamental to Summerset's continuum of care model which allows residents to buy an ORA to occupy a Villa or Apartment and then should the need arise, to move to a Care Apartment or Care Bed. This continuum of care provides Summerset with a competitive advantage as it allows residents to remain within the same Village should their needs change.

SUMMERSET'S RESIDENTS

Summerset's offering is aimed at everyday older New Zealanders. Typically they are aged 75 years and over. Research has indicated that many residents are attracted by the ability to access care.

The average age of Summerset's residents in Retirement Units is 81 years. Of these residents, those aged 80 years and over account for 61% and those aged 85 years and over account for 37%.

Summerset's historical average entry age for new residents in Retirement Units is approximately 77 years across all of its Villages. Over the last 24 months, as its Villages have continued to mature, the average entry age has increased to 79 years. The average age of entry for new residents will differ depending on the demographics and product offering within a Village, but typically increases as Villages mature.

THE SUMMERSET BRAND AND CUSTOMER OFFERING

At the core of Summerset's business is its brand: "We love the life you bring to our villages".

This is reflected in Summerset's core message of 'Welcome Home' - a feeling that Summerset wants its residents to genuinely experience from their first contact with Summerset and then throughout their life in the Village. Summerset's quality offering and positive resident experience was reflected in Summerset being recognised as the 'Best Retirement Village Operator in New Zealand and Australia' in 2010, 2011 and 2012 at the Australasian Over 50's Housing Awards.

Summerset is a pioneer with its national brand offering. The brand is consistently reflected in all aspects of the business, providing residents with clarity of service offering. For example, Summerset prides itself on providing certainty for its residents, detailing from the start all costs and the value provided, as well as what happens when residents leave.

In 2010 Summerset launched 'Summerset Sure', which represents three simple and clear promises:

- "THE RIGHT HOME: Choose a home that is ideal for your stage of life."
- "THE RIGHT CARE: At the right time, in the place that is right for you."
- "LOVE IT – OR YOUR MONEY BACK: 90 days to be sure your new home is right – or your money back."

Following the Christchurch earthquake in 2010, Summerset's residents are looking for support, security, companionship and community. They are looking for a place with people like them, freedom from worry and above all else a sense of certainty about the years ahead.

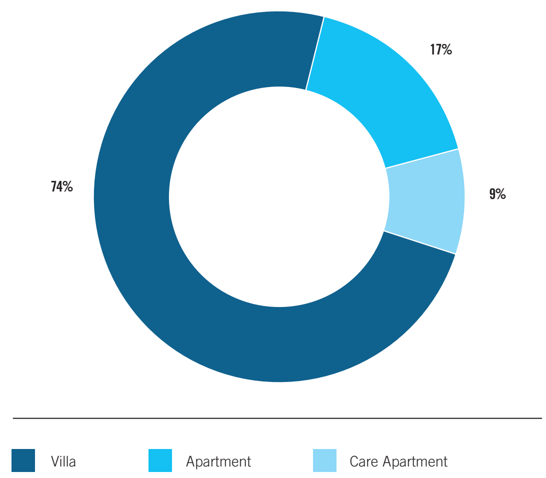
In 2011 Summerset implemented an industry leading Disaster Policy in response to the high levels of uncertainty in New Zealand to provide residents with comfort that they will always have a home, even if their Village is destroyed by a natural disaster.

ACCOMMODATION OPTIONS

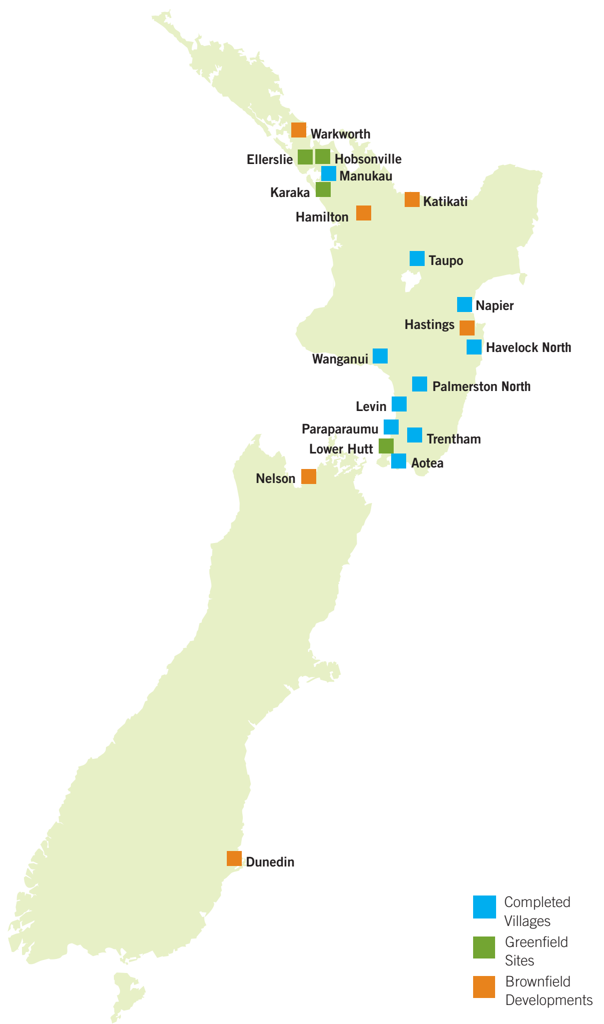
Summerset provides a range of accommodation options for residents within each Village, including Villas, Apartments and Care Apartments. In addition, care facilities offer rest home and hospital level care.

All Villages are designed to provide a minimum of rest home level care, either supplied within a resident's Villa or Apartment, in resident funded Care Apartments, or in Village integrated care facilities.

RETIREMENT UNIT MIX AS AT 31 DECEMBER 2012



SUMMERSET'S FOOTPRINT



VILLAS

Description

- Typically two or three bedrooms.
- All Villas have single or double internal access garages. They are arranged to maximise land usage whilst retaining the independent nature of the Villas. All Villas have a small private courtyard attached to the main living area, with some Villas having added conservatories.
- At approximately 95–130 square metres, Villas are larger and more spacious than Apartments or Care Apartments.
- The average age of Villa residents is currently 80 years.
- Average tenure for Villas within Mature Villages is approximately 8 years.

APARTMENTS

Description

- Apartments range from one to three bedrooms and include a fully self contained kitchen, laundry and bathroom. Apartments typically have a patio or balcony outside the living area.
- The average age of Apartment residents is currently 82 years.
- Average tenure across Apartments within Mature Villages is approximately 6–7 years.

CARE APARTMENTS

Description

- Care Apartments typically contain one bedroom and are fully self-contained with a kitchenette, laundry and bathroom.
- Care Apartments have been specifically designed to support residents rather than provide for independent living. Care Apartment residents have three options of care packages in conjunction with their ORA.
- Summerset has been certified to provide subsidised care into some of these apartments.
- The average age of Care Apartment residents is currently 86 years.
- Average tenure across Care Apartments within Mature Villages is approximately 5 years.

VILLAGE FACILITIES

Summerset's Villages are designed to make residents feel at home and to create a community atmosphere. In order to do this, Summerset provides secure, spacious living and a wide range of recreational facilities. These are designed to complement the surrounding area from which residents come. Services and facilities can include:

- cafe, dining and resident bar facilities;
- beauty and hair salon, clinic facilities;
- lounges, libraries with internet facilities and entertainment areas;
- bowling greens, mini-putt courses, petanque pistes, snooker tables, children's playgrounds and barbeque areas; and
- gym, spa and swimming facilities.

To encourage a sense of community both within the Village and with the wider community, a range of activities are run through an active residents' committee, supported by a dedicated activities coordinator. These include residents' happy hour, entertainment, shows, exhibitions, craft fairs, group exercise classes and more. Village vans provide regular excursions such as shopping, winery tours and museum visits.

Summerset offers a range of additional services to its residents such as meals, housekeeping, transportation and lifestyle services. Villages have flexible policies to meet residents' individual requirements and include a pet friendly policy and private gardens. Offering a wide degree of choice differentiates Summerset and provides a competitive advantage over many other industry operators.

CONTRACTUAL TERMS

Summerset enters into an ORA with each resident under which it grants the resident a licence to occupy (*LTO*) a Villa, Apartment or Care Apartment together with the right to use and enjoy common areas and facilities at the Village in return for a licence payment. An LTO does not grant the resident any proprietary right in the Retirement Unit to which the LTO relates nor any of the land and buildings comprising the Village.

Each resident agrees to make a lump sum interest free payment to the Village operator under the ORA, which is repaid on termination of the LTO as long as certain conditions are satisfied. In particular, Summerset requires a new ORA for the dwelling to be entered into by a new resident before it repays the previous resident.

Under the ORA, the resident also agrees to pay the Deferred Management Fee on termination. This fee is up to 25% of the amount paid by the resident for the LTO of a Villa or Apartment (accruing at 5% per annum, over five years) and up to 20% of the amount paid by the resident for the LTO of a Care Apartment (accruing at 10% per annum, over two years). The DMF is deducted from the refund of the licence payment on termination. The DMF accrues from the time that a resident enters a Village through to when that resident leaves the Village.

AGED CARE

Aged care is an integral part of Summerset's continuum of care offering. Summerset currently provides both hospital level care and rest home care. Summerset's approach is to provide care facilities located within the Village grounds, enabling residents to move through the Village to receive the support they need as their care requirements change. Summerset's portfolio of care facilities is younger than other operators in the industry. Summerset's care facilities achieve high occupancy reflecting a high quality of care in its newer, well appointed and spacious facilities.

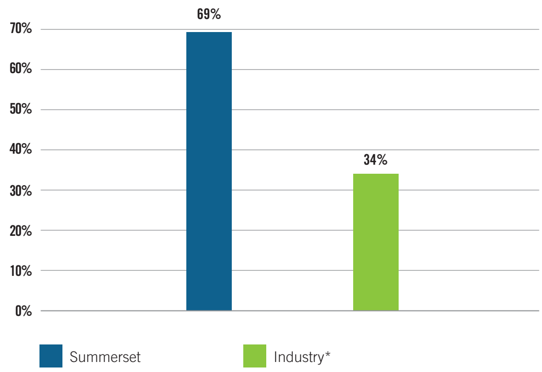
As part of its aged care strategy Summerset:

- operates 'swing' beds which allow it to alter its resident mix between rest home and hospital beds to accommodate demand, thereby maximising occupancy levels;
- has introduced charges for services outside of the ARRC Contract, such as charging for larger rooms, ensuites, and additional services that support ageing in place within its Villages. Such services include home cleaning and nursing services, with more specific support packages available in Care Apartments; and
- has attained Ministry of Health certification for 119 of its Apartments and Care Apartments.

Summerset believes the proportion of certified Care Apartments in its portfolio will continue to increase. Summerset also believes that a growing percentage of residents in certified Care Apartments will receive either a supported living care package or full rest home level care over time.

Demand for aged care beds is projected to increase substantially, driven by the increasing need for aged care services and, in particular, hospital and dementia level care. In addition, demand is needs based, due to the more acute health needs of hospital residents. Summerset has a higher concentration of hospital beds than the industry average.

PROPORTION OF HOSPITAL BEDS



*SOURCE: Grant Thornton, *Aged Residential Care Service Review*, September 2010.

For commentary on the regulation of the aged care sector in New Zealand please refer to the *New Zealand Retirement Village and Aged Care Industry Overview* section of this Information Memorandum.

SUMMERSET'S VILLAGES

WANGANUI (1997)

Summerset in the River City is located in Wanganui, an easy stroll from the city's iconic river. The Village grounds are particularly beautiful and have been recognised by a civic garden award from the City Council. Summerset in the River City was the first Village established by Summerset and as a result is a well established and respected member of the Wanganui community.

Address
40 Burton Avenue, Wanganui

Living options
- 70 Villas
- 18 Apartments
- 12 Care Apartments
- 37 Care Beds

Area
Approximately 4.5 hectares

PARAPARAUMU (1998)

Summerset on the Coast is situated in the centre of a large residential area close to the centre of Paraparaumu. The Village features a beautiful central lake, which supports bird life and provides a quiet and peaceful garden environment for residents' enjoyment. Paraparaumu is a very popular retirement location which enjoys a warm climate.

Address
104 Realm Drive, Paraparaumu

Living options
- 92 Villas
- 12 Apartments
- 10 Care Apartments
- 41 Care Beds

Area
Approximately 5.9 hectares

PALMERSTON NORTH (1999)

Summerset on Summerhill is located north east of Palmerston North city. The Village is elevated, and overlooks a lush patchwork of superb Manawatu farmland. Backed by the Tararua Ranges it is built on a spacious level site and enjoys all day sun. The Village is an easy stroll to the Summerhill Gully Reserve which links into Palmerston North's walkway system.

Address
180 Ruapehu Drive, Palmerston North

Living options
- 90 Villas
- 12 Apartments
- 41 Care Beds

Area
Approximately 5.9 hectares

Note: The above and following Village profiles are prepared as at 31 December 2012. All Retirement Units and Care Beds "to be built" in these profiles are as anticipated as at the date of this Information Memorandum. No guarantee can be made that these will eventuate.

HAVELOCK NORTH (2000)

Summerset in the Vines is situated to the north east of Havelock North on the lower slopes of Te Mata Peak. The Village is positioned for maximum sunshine and enjoys views over orchards and vineyards to the east, and to the ranges in the west. Summerset in the Vines was the first Village established in Hawke's Bay and is joined by its sister Villages in Napier and Hastings.

Address
249 Te Mata Road, Havelock North

Living options
- 94 Villas
- 18 Apartments
- 10 Care Apartments
- 41 Care Beds

Area
Approximately 5.2 hectares

LEVIN (2000)

Summerset by the Ranges is situated to the south east of Levin in the heart of the Manawatu. Framed by the beautiful Tararua Ranges, the Village sits on a flat, sunny, spacious site only a few minutes drive to the Levin town centre. Despite its central location, the Village maintains a semi rural feel, being situated in quiet, relaxing park-like grounds.

Address
102 Liverpool Street, Levin

Living options
- 64 Villas
- 12 Apartments
- 10 Care Apartments
- 28 Care Beds

Area
Approximately 5.0 hectares

TRENTHAM (2000)

Summerset at the Course is located in Upper Hutt, right next door to the Wellington Racing Club's Trentham Racecourse. The Village is at the end of a cul de sac ensuring peace and quiet with minimal traffic noise. Despite being half an hour from Wellington city and right in the heart of Upper Hutt, the Village is set in quiet pastoral surroundings on a level site looking out on farmland framed by the Tararua Ranges.

Address
Racecourse Road, Trentham

Living options
- 92 Villas
- 12 Apartments
- 20 Care Apartments
- 41 Care Beds

Area
Approximately 5.4 hectares

TAUPO (2001)

Summerset by the Lake is located across the road from the shores of the stunning Lake Taupo. The Village is not far from Rainbow Point, on the southern boundary of Taupo's town centre. To the south is the majestic view of Mt Ruapehu and Mt Ngauruhoe, to the north looms the mystical Mt Tauhara, sacred to the Tūwharetoa people who first lived in this area.

Address
2 Wharewaka Road, Taupo

Living options
- 94 Villas
- 34 Apartments
- 18 Care Apartments

Area
Approximately 6.0 hectares

NAPIER (2005)

Summerset in the Bay is situated on a level, sunny site at the northern end of Church Road. Set among world renowned vineyards, the Village is built on former orchard land in the area known locally as Citrus Grove. The location provides a quiet and peaceful environment for residents to hone their lawn bowls and petanque skills or dine al fresco at Divine Café.

Address
79 Merlot Drive, Napier

Living options
- 94 Villas
- 26 Apartments
- 20 Care Apartments
- 48 Care Beds

Area
Approximately 5.5 hectares

AOTEA (WELLINGTON) (2006)

Summerset at Aotea is located within the new Aotea residential development in Porirua, 20 minutes north of Wellington city. This modern Village is a short walk to the beautifully landscaped Aotea Lagoon, historic Gear Homestead and New Zealand Police College, and has a unique outlook across a nature reserve featuring typically Wellington hills. Plimmerton Beach and the Mana esplanade are just minutes away.

Address
15 Aotea Drive, Aotea

Living options
- 96 Villas
- 51 Apartments
- 20 Care Apartments

Area
Approximately 6.1 hectares

MANUKAU (2006)

Summerset by the Park is situated on a pleasant, sunny site opposite the new Barry Curtis Park. The Village offers a quiet, relaxing environment supported by beautifully landscaped gardens. Summerset by the Park is a modern Village, a short drive into the thriving Manukau city centre or stroll to the Botany Downs shopping complex. The Village boasts modern facilities unrivalled by any retirement village in the area.

Address

7 Flat Bush School Road, Manukau City

Living options

- 89 Villas
- 71 Apartments
- 23 Care Apartments
- 52 Care Beds

Area

Approximately 4.3 hectares

HASTINGS (2009)

Summerset in the Orchard is located in a beautiful orchard area only a few minutes drive from Hastings township. With winding paths through beautifully tended gardens, Summerset in the Orchard provides everything needed for modern retirement living in a peaceful environment overlooking pastoral surroundings. This Village is currently under development.

Address

Ada Street, Hastings

Living options

- 104 Villas
- 5 Care Apartments
- 42 Villas to be built

Area

Approximately 6.6 hectares

WARKWORTH (2009)

Summerset Falls is situated alongside the tranquil Mahurangi River in the historic riverside village of Warkworth. Set in a beautiful rural environment sloping gently towards the river, the Village maximises the sun and provides a warm and peaceful environment for its residents. Summerset Falls is a short drive to the town centre and is currently under development.

Address

31 Mansel Drive, Warkworth

Living options

- 78 Villas
- 2 Apartments
- 8 Care Apartments
- 41 Care Beds completed in March 2013
- 44 Villas to be built
- 10 Apartments to be built

Area

Approximately 5.5 hectares

NELSON (2011)

Summerset in the Sun is located just 10 minutes drive from both Nelson city and Richmond. Secluded and quiet, yet wonderfully interconnected and interwoven into a single vibrant community, adjoining the Village is a landscaped walkway providing access to both centres and a local shopping precinct, with the sea nearby and hills framing the backdrop to the Village. This Village is currently under development.

Address
16 Sargeson Street, Stoke, Nelson

Living options
- 94 Villas
- 120 Villas to be built
- 25 Apartments to be built
- 30 Care Apartments to be built
- 40 Care Beds to be built

Area
Approximately 8.1 hectares

HAMILTON (2011)

Summerset down the Lane is situated at the south west corner of Hamilton with good access to the main roads. A country style Village in the city, Summerset down the Lane is fringed by rural land and is on the edge of a vibrant new residential suburb. Zoned as part of the city council's Peacocke development area, this Village is currently under development.

Address
206 Dixon Road, Hamilton

Living options
- 40 Villas
- 142 Villas to be built
- 50 Apartments to be built
- 20 Care Apartments to be built
- 40 Care Beds to be built

Area
Approximately 6.9 hectares

DUNEDIN (2012)

Summerset at Bishopscourt is located on Shetland Street, close to the Roslyn village's shops, golf course and excellent public transport. It is a few minutes drive from the Dunedin city centre. This Village is currently under development.

Address
36 Shetland Street, Dunedin

Living options
- 31 Villas built
- 30 Villas to be built
- 20 Apartments to be built
- 20 Care Apartments to be built
- 40 Care Beds to be built

Area
Approximately 1.9 hectares

KATIKATI (2013)

Summerset by the sea is situated on Park Road in Katikati. The site is situated on the waterfront and it is close to coastal reserves and the city of Tauranga. Plans for the site involve blending the Village and facilities into the natural landscape, while the slope of the land allows the site's spectacular sea views to be maximised. This Village is currently under development.

Address
181 Park Road, Katikati

Living options
- 168 Villas to be built
- 20 Care Apartments to be built
- 40 Care Beds to be built

Area
Approximately 7.1 hectares

SUMMERSET'S LAND SITES

ELLERSLIE

Summerset Ellerslie is located in the central Auckland isthmus in the suburb of Ellerslie. The site is near the amenities of Ellerslie shops, train station and domain. Sylvia Park and the Panmure Basin are also in the wider area. A concept plan for Summerset Ellerslie has been completed and the resource consent application is currently underway.

Address
Harrison Road, Ellerslie

Living options
- 50 Villas to be built
- 150 Apartments to be built
- 50 Care Apartments to be built
- 80 Care Beds to be built

Area
Approximately 3.9 hectares

HOBSONVILLE

Summerset at Monterey Park is located in the farmland formerly known as Monterey Park. With panoramic views that stretch 180 degrees over the sea, Herald Island and Greenhithe, the land gradually slopes from the entrance down to the sea. The site is situated opposite the high profile Hobsonville Point Development being undertaken by the Crown. Summerset is currently seeking resource consent and construction is anticipated to begin once consent has been granted.

Address
Hobsonville Road, Hobsonville

Living options
- 156 Villas to be built
- 75 Apartments to be built
- 19 Care Apartments to be built
- 80 Care Beds to be built

Area
Approximately 7.6 hectares

KARAKA

Summerset at Karaka is located 35 minutes south west of the Auckland CBD. The proposed Village is included in a local comprehensive development plan that has seen a significant area rezoned from rural to residential. A concept plan for Summerset at Karaka has been completed and the resource consent application has been lodged.

Address
Hingaia Road, Karaka

Living options
- 115 Villas to be built
- 24 Apartments to be built
- 20 Care Apartments to be built
- 40 Care Beds to be built

Area
Approximately 4.8 hectares

Note: All Retirement Units and Care Beds "to be built" in the above land site profiles are as anticipated as at the date of this Information Memorandum. No guarantee can be made that these will eventuate.

LOWER HUTT

Summerset Lower Hutt is situated alongside the Boulcott's Heritage Farm Golf Club. This stunning central location is just minutes away from Lower Hutt Hospital and Westfield Queensgate Shopping Centre while looking out to the Boulcott's Heritage Farm Golf Club. A concept plan for Lower Hutt is currently underway.

Address
Boulcott, Lower Hutt

Living options
- 28 Villas to be built
- 127 Apartments to be built
- 20 Care Apartments to be built
- 40 Care Beds to be built

Area
Approximately 3.2 hectares

SUMMERSET'S BUSINESS MODEL

Summerset generates cash flows from five key sources:

SALES OF ORAS FOR NEW RETIREMENT UNITS

Summerset receives a lump sum payment for the sale of an ORA for a new Retirement Unit, which includes a development margin on the sale of the ORA. For more information on development margins, see the information under the heading "Development Margins" below.

DEFERRED MANAGEMENT FEE

Typically 20% to 25% of the ORA price, the DMF is the primary source of income for established Villages. The DMF is accrued over a resident's tenure and realised on the resale of their ORA.

RESIDENT LEVIES (WEEKLY LIVING AND SERVICE FEES)

Summerset charges residents weekly living and service fees to cover the cost of operating its Villages. These fees provide Summerset with a stable cash flow source.

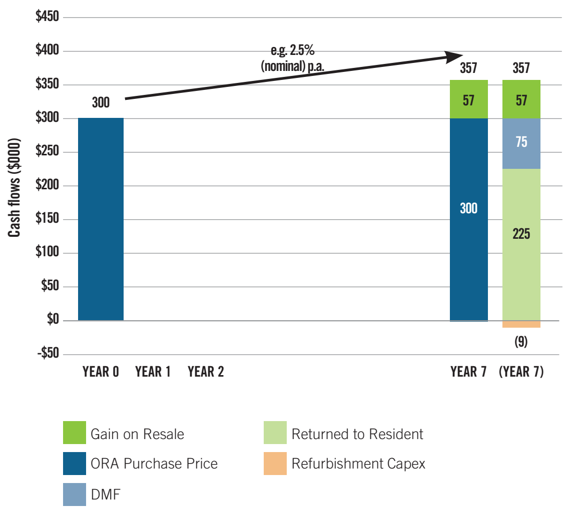
AGED CARE SERVICE FEES

Summerset receives both Government funding for specified services under ARRC Contracts and fees from residents for unsubsidised services. These fees provide Summerset with a stable cash flow source. For more information on the funding of aged care, see the information under the heading "Aged Care" in the *New Zealand Retirement Village and Aged Care Industry Overview* section of this Information Memorandum.

RESALE OF ORAS FOR EXISTING RETIREMENT UNITS

When Summerset sells an existing unit, it retains any gain on the resale of the ORA. Summerset's resales of ORAs have increased strongly as its Villages have matured. It is expected that resales will continue to increase as Summerset's Village portfolio continues to mature.

HOW AN ORA WORKS: EXAMPLE OF A SINGLE RETIREMENT UNIT OVER ONE OWNERSHIP CYCLE[19]

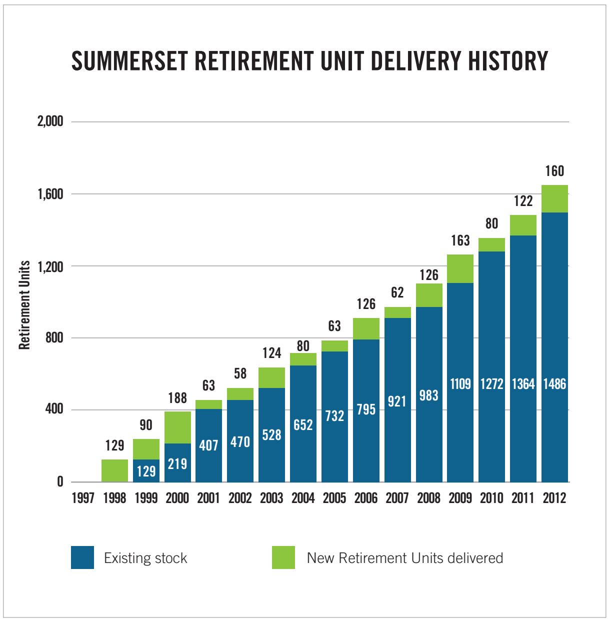


19. This is an illustrative example using a typical ORA for a new Retirement Unit. The capital appreciation assumes 2.5% nominal growth per annum and is shown for illustrative purposes only.

DEVELOPMENT

HISTORICAL DEVELOPMENT

The Summerset Group has a successful 16 year track record of developing Villages. Summerset's development history is set out below.

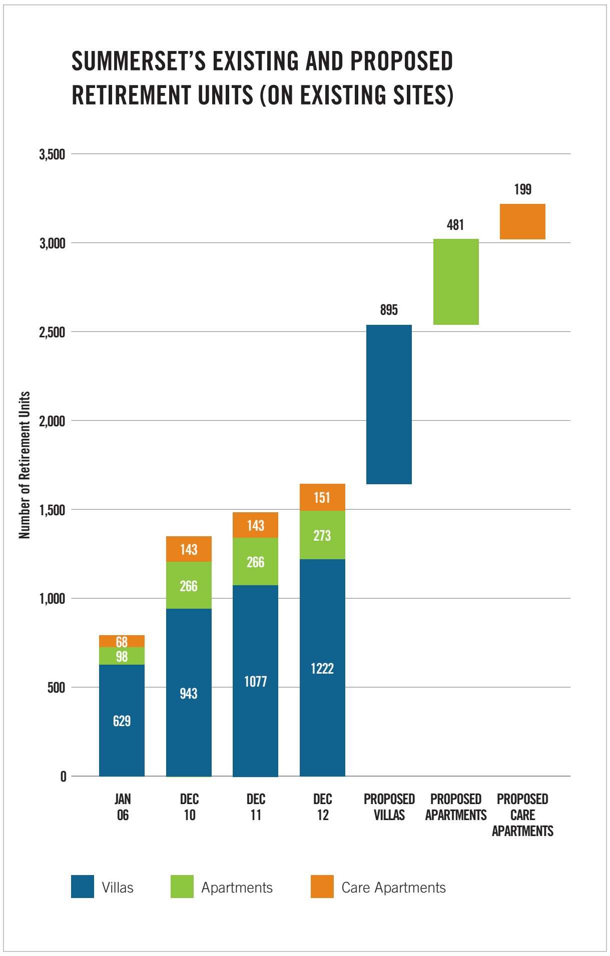


Summerset has maintained a consistent delivery of new Retirement Units. From 1 January 2006 to December 2012, Summerset increased its number of Retirement Units to 1,646 (857 additional units). As at 31 December 2012 Summerset has 1,646 completed Retirement Units in its portfolio.

GROWTH STRATEGY

Summerset will continue to build fully integrated Villages, which encompass a range of options from independent living to aged care. It also aims to continuously hold development sites sufficient to maintain approximately five years of development.

As set out in the charts below, Summerset already holds a landbank in both greenfield sites and brownfield developments to deliver a further 1,575 Retirement Units and 400 Care Beds. Summerset has a target of increasing delivery to 300 Retirement Units per annum by 2015. In addition, Summerset intends to build a care facility of at least 40 Care Beds in each new Village. On the Hobsonville and Ellerslie sites, Summerset intends to build care facilities of up to 80 Care Beds in each Village.



CURRENT STATUS OF EXISTING DEVELOPMENTS

The table below outlines the status of Summerset's brownfield developments.

	COMPLETED					TO BE DEVELOPED					TOTAL		STATUS
	V	A	CA	TOTAL	CARE BEDS	V	A	CA	TOTAL	CARE BEDS	RUs	CARE BEDS	
HASTINGS	104	-	5	**109**	-	42	-	-	**42**	-	**151**	**-**	Stage 1, 2, 3, 4 complete, stage 5 under construction
WARKWORTH	78	2	8	**88**	41	44	10	-	**54**	-	**142**	**41**	Stage 1, 2, 3, complete, stage 4 under construction
NELSON	94	-	-	**94**	-	120	25	30	**175**	40	**269**	**40**	Stage 1, 2, 3, complete, stage 4 under construction
HAMILTON	40	-	-	**40**	-	142	50	20	**212**	40	**252**	**40**	Stage 1 complete, stage 2 under construction
DUNEDIN	31	-	-	**31**	-	30	20	20	**70**	40	**101**	**40**	Stage 1 complete, stage 2 under construction
KATIKATI	-	-	-	**-**	-	168	-	20	**188**	40	**188**	**40**	Stage 1 under construction

V = Villas, A = Apartments, CA = Care Apartments, RUs = Retirement Units.

LANDBANK

Summerset currently owns four sites which will be used for future development. These sites are located in areas possessing strong demographic characteristics in terms of population growth and composition, and have a range of attractive local and site specific attributes.

	LAND (HA)	RETIREMENT UNITS				CARE BEDS	STATUS
		V	A	CA	TOTAL RUs		
KARAKA	4.8	115	24	20	**159**	40	Resource consent submitted
HOBSONVILLE	7.6	156	75	19	**250**	80	Resource consent submitted
ELLERSLIE	3.9	50	150	50	**250**	80	Concept plan underway
LOWER HUTT	3.2	28	127	20	**175**	40	Preparing for resource consent submission

V = Villas, A = Apartments, CA = Care Apartments, RUs = Retirement Units.

FUTURE LAND ACQUISITIONS

Summerset intends to bring more land into the portfolio as annual delivery increases and is currently investigating a range of prospective land opportunities.

With less competition from residential developers and more attractive pricing levels than was the case five to six years ago, current market conditions are favourable for Summerset to purchase additional sites.

INTERNALISATION OF DEVELOPMENT PROCESS

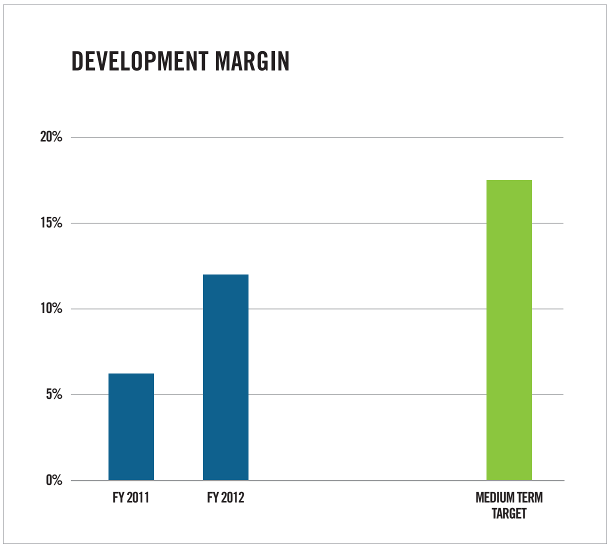
Summerset has successfully demonstrated its ability to take greenfield land sites through the construction and development process into fully completed Villages.

Prior to AMPCI becoming a Shareholder, all development activities were internally managed and were overseen by Summerset. Upon AMPCI becoming a shareholder, Summerset's development and project management capabilities were outsourced to AMPCI's own development management unit and external advisers, with Summerset remaining responsible for ultimate delivery.

Since Quadrant took control of the business, Summerset has been steadily internalising the development function. Development management was internalised in 2009 with project management and cost management (quantity surveying) following in 2010. In 2011 Summerset managed construction at the first stage in Nelson. Through late 2011 and 2012 Summerset internalised the design function with employment of a lead architect and a design team. This team now handles the bulk of Summerset's design work although some specialist design work and overflow work is still outsourced. Through 2012 Summerset managed construction on two sites, Nelson and Dunedin. In 2013 Summerset is in the process of increasing the number of sites where it manages the construction. Summerset believes that this internalisation has provided it with the ability to deliver a better quality product, faster and at a cheaper price.

DEVELOPMENT MARGIN

As Villages typically include a main building and aged care facility, Summerset generates a development margin on the sale of ORAs. This is reinvested into the Village to fund the construction of the communal and recreational areas, and the Village care facility.



Development margins in FY 2011 and FY 2012 include development costs related to projects completed under the external AMPCI development model for the Apartments in the Manukau and Aotea Villages. With consistent increasing annual unit delivery supporting further internalisation of design and construction management functions, along with larger scale procurement, Summerset expects that development margins will increase over time.

DEVELOPMENT FINANCING AND RISKS

The financial criteria for developing a new Village are broadly as follows:

- the margin on ORA sales is expected to be sufficient to cover the construction of the Village's communal and recreational areas and aged care facilities;
- the Village is expected to be able to be developed such that it can recover the full project costs from the sale of ORAs; and
- the Village is expected to be able to be built over a five to six year period, and substantially settled over a six to seven year period.

Summerset currently has debt facilities totalling $180 million which will be used to increase the size of Summerset's landbank and fund its development pipeline. These are revolving facilities so that as outstanding debt is repaid from initial ORA sales, Summerset is able to redraw these amounts to fund further development.

PRICING STRATEGY

Summerset's pricing strategy is aimed at its target market of everyday New Zealanders and is positioned to ensure new Retirement Units are sold quickly. Lead-in pricing in new Villages is generally below completed Village prices, with staged pricing increases as the Village is completed.

Summerset has developed different price points and products over its Village portfolio to provide alternative entry options for customers.

DEVELOPMENT PROCESS

LAND BANK	0 YEARS >		1 YEAR		2 YEARS
	DISTRICT PLAN CHANGE (IF REQUIRED)	RESOURCE CONSENT > BUILDING CONSENT (STAGE I) >	EARTHWORKS (STAGE I) >	CONSTRUCTION (STAGE I) >	SELLING (STAGE I) >

GREENFIELD LAND ACQUISITION

Summerset has identified locations throughout New Zealand which support Village development and ongoing operations which it will consider for acquisition.

Summerset undertakes a comprehensive due diligence process when acquiring land.

CONSENTING

District Plan changes and Resource Consent applications typically take six to 12 months to be approved.

Achieving a zoning change and gaining Resource Consent significantly increases the value of the land and represents a critical success milestone in the development process.

While awaiting consent, the project team continues to plan every aspect of the development, so that construction can begin immediately after the required consents have been obtained.

DESIGN

Summerset focuses on providing affordable quality, while incorporating leading design aspects. Designs are age appropriate and take into account the physical, social and psychological dimensions of older living. Design features are used to encourage a sense of community in each Village.

Summerset's designs meet the needs of its residents as they age. This is reflected in Summerset being a foundation member of Lifetime Design, and the first retirement village operator to be granted the right to apply the Lifemark seal of approval to its Villages. A dwelling carrying the Lifemark seal of approval is one that has been specifically designed for ease of use in the present, whilst also ensuring it can be easily adapted in the future as the occupant's needs change.

Summerset incorporates in its designs a number of low maintenance aspects which ensure its Villages minimise maintenance costs over their life.

3 YEARS		4 YEARS		5 YEARS
BUILDING CONSENT (STAGE II) > CONSTRUCTION (STAGE II) >	SELLING (STAGE II) >	BUILDING CONSENT (STAGE III) > CONSTRUCTION (STAGE III) >	SELLING (STAGE III) >	COMPLETED DEVELOPMENT

CONSTRUCTION

Typically construction will occur over a five year timeframe, with Stage I usually consisting of 25 to 40 Villas and the first module of the main building. Stage I construction generally commences within two years of land purchase, although this is dependent upon zoning at the time of purchase. Construction of subsequent stages is timed to ensure that stock is available to meet demand.

Management of the construction process has been steadily internalised over the last two years and within the next two years Summerset intends to manage construction on all sites. Actual construction activity is undertaken by external contractors.

Regular communication between the development and operation teams ensures construction, delivery, handover and occupancy is achieved with minimal disturbance to the residents and staff, while ensuring all development projects meet quality and consistency standards.

SELLING

Summerset's selling process is based on open, honest and ethical disclosure to all prospective residents, families and other key parties.

All sales managers are employed by Summerset and are fully trained in all aspects of Village operations.

Pre-sales typically commence approximately six months prior to the first Villa being completed, with typically over 25% of the units pre-sold by the time the Stage I units are ready to be occupied.

Proceeds from the sale of ORAs assist in minimising financial exposure during subsequent stages of development. Summerset matches its Village development profile to demand to minimise unoccupied Retirement Units.

MAINTENANCE

Summerset has a comprehensive long term programme that focuses on preventative maintenance of its Villages. As a result, all Villages are maintained to a high standard that preserves the quality and attractiveness of the Village.

FINANCIAL PERFORMANCE AND DIVIDEND POLICY

FINANCIAL PERFORMANCE

Since its initial public offering in November 2011, Summerset has performed well financially and exceeded the forecasts provided at the time of the initial public offering in respect of the 2012 financial year. Summerset's financial results are available at www.summerset.co.nz.

NZ$000		FY12 ACTUAL	FY12 IPO FORECAST	FY12 ACTUAL VS. FY12 IPO FORECAST	FY11 ACTUAL	FY12 ACTUAL VS. FY11 ACTUAL
Operational	New sales of occupation rights	167	134	24.6%	108	54.6%
	Resales of occupation rights	164	124	32.3%	123	33.3%
	New units delivered	160	155	3.2%	122	31.1%
Financial	Net operating cash flow	$66,254	$51,992	27.4%	$43,684	51.7%
	Underlying profit	$15,223	$9,749	56.1%	$8,080	88.4%
	Net profit before tax (NZ IFRS)	$14,414	$12,219	18.0%	$4,364	230%
	Net profit after tax (NZ IFRS)	$14,821	$13,259	11.8%	$4,324	243%

DIVIDEND POLICY

In March 2013, Summerset paid its inaugural dividend of 2.5 cents per share. This was a total payout of $5.4m compared with $4.3m indicated in the IPO forecast. Summerset's dividend policy is to distribute between 30% and 50% of underlying profit.

Despite the intentions set out above, no guarantee can be given about the level or payment of dividends, the level of imputation of such dividends or the payout ratios as these matters depend upon the future profits of Summerset and its financial and taxation position at that time.

Underlying profit differs from NZ IFRS net profit after tax. The Board uses an underlying profit measure to assist in determining the realised and non-realised components of fair value movement of investment property and tax expense in Summerset'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 Summerset uses consistently across reporting periods.

Underlying profit is calculated as follows:

NZ IFRS NET PROFIT AFTER TAX	
–/+	FAIR VALUE GAINS/LOSSES ON INVESTMENT PROPERTY
–/+	FAIR VALUE GAINS/LOSSES ON LAND AND BUILDINGS
+	REALISED CAPITAL GAINS ON RESALE OF OCCUPATION RIGHT AGREEMENTS
+	REALISED DEVELOPMENT MARGIN ON NEW SALE OF OCCUPATION RIGHT AGREEMENTS
–/+	DEFERRED TAX CREDIT/EXPENSE
=	**UNDERLYING PROFIT**

5 DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

DIRECTORS AND SENIOR MANAGEMENT

Name	Position
Rob Campbell	Chairman, Independent Director
Norah Barlow	Managing Director and Chief Executive Officer
Marcus Darville	Director
Chris Hadley	Director
James Ogden	Independent Director

DIRECTOR PROFILES

ROB CAMPBELL (CHAIRMAN, INDEPENDENT)

Rob has over 30 years experience in governance and capital markets. Rob is Chairman of Guinness Peat Plc and a director of Turners & Growers Limited, Precinct Properties Ltd, and Tourism Holdings Ltd and he is also a director of Aquasure Pty Limited and CallPlus Limited and a board or advisory board member of several private equity and hedge funds. 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 (MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER)

As Summerset's CEO, Norah has led the Company through its transition from a relatively small operator into the listed entity it is today. She started with Summerset as the group accountant in 1999 before taking on the CEO role in 2001. Norah is also an independent director for Cigna Life Insurance and a member of the government's National Advisory Council for the Employment of Women. She was president of the Retirement Villages Association for seven years until retiring in 2012.

MARCUS DARVILLE (NON EXECUTIVE DIRECTOR)

Marcus is a Director at Quadrant Private Equity, having joined them in 2006.

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

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

CHRIS HADLEY (NON EXECUTIVE DIRECTOR)

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

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

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

JAMES OGDEN (INDEPENDENT)

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

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

OTHER DIRECTORS

The Board of Summerset will give consideration to the appointment of one or more Directors following the completion of Listing. Any Director appointed following Listing would be required to seek re-election at the first annual general meeting of Shareholders following their appointment.

SENIOR MANAGEMENT

1 NORAH BARLOW (MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER)

See Board profiles.

2 JULIAN COOK (CHIEF FINANCIAL OFFICER)

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

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

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

3 PAUL MORRIS (GENERAL MANAGER, DEVELOPMENT)

Paul joined Summerset in 2000 after more than 20 years in banking. This included 15 years experience in retirement village and aged care sector business banking.

Paul held a range of senior roles at Summerset before taking up his current position. This gives him a sound understanding of all aspects of the business. Paul's position encompasses management responsibility over all development and construction functions. This includes land acquisitions and ensuring the land portfolio supports the Company's expansion plans.

4 BRIGID LONDON (GENERAL MANAGER, OPERATIONS)

Brigid was appointed to the role as General Manager of Operations in 2012 following more than eight years with Summerset. She began in 2004 as a Village Manager, becoming Operations Manager in 2008. Prior to this, Brigid held senior management positions with a home-based support service.

Brigid has a particular focus on clinical performance and service delivery, ensuring Summerset's residents receive the highest level of service and care.

5 TRISTAN SAUNDERS (GENERAL MANAGER, SALES AND MARKETING)

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

Tristan is responsible for all areas of Summerset's marketing and sales including brand management, advertising, media and public relations.

6 CATHERINE FYFE (GENERAL MANAGER, HUMAN RESOURCES)

Catherine joined Summerset in 2010. Prior to this she worked for an international management consultancy firm advising both public and private sector clients, including Summerset. Catherine has also held senior management roles in human resources with a number of financial services organisations. Catherine's focus is on recruitment, as well as developing and managing our almost 500 staff.

PETER NEVEN (SENIOR ADVISER)

Peter provides strategic advice to Summerset around development and particularly the internalisation of construction management.

Peter has recently retired from the role of General Manager of the building operations department at Fletcher Construction Limited (*Fletcher*). Peter has over 40 years experience in the construction industry including 33 years at Fletcher, nine of which were as General Manager. Peter has provided executive oversight for many of Fletcher's most challenging projects and has been at the helm of a business that has increased turnover to over $500 million per annum. Peter is also a member of the advisory board for the Department of Building and Housing, a member of the advisory board for the Construction Contracts Act 2002 and a past president of the New Zealand Institute of Building (*NZIOB*) (from 2001 to 2003). Peter is currently a member of the NZIOB and a member of the Institute of Directors.

CORPORATE GOVERNANCE

Summerset is committed to following best practice governance structures and principles and to having good governance overseeing the way in which the Company operates.

Summerset considers its governance practices comply with the Corporate Governance Best Practice Code in Appendix 16 of the NZSX Listing Rules with the exception of principle 2.7, which encourages Directors to take a portion of their remuneration under a performance-based equity security compensation plan. The Company does not currently run such a plan. In all other areas, best practice is followed.

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

ROLE OF THE BOARD OF DIRECTORS

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

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

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

- at least two, or, if there are eight or more Directors, three or one-third of the total number of Directors should be Independent as defined in the NZSX 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.

DELEGATION OF AUTHORITY

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

BOARD COMPOSITION

The Company's Constitution prescribes that the Board shall be comprised of a minimum of three Directors, with at least two Directors ordinarily resident in New Zealand. The Board currently comprises five Directors, of whom two are non-executive and also Independent as defined in the NZSX Listing Rules. The non-executive independent Directors are Rob Campbell (Chairman) and James Ogden. Christopher Hadley and Marcus Darville are non-executive Directors but are not independent directors by virtue of being Directors and employees of, and hence associated persons of, substantial security holder QPE Funds Management Pty Limited.

Norah Barlow, the Managing Director and Chief Executive Officer is not independent by virtue of her role as an executive of the Company. More information on the Directors, including their interests, qualifications and shareholdings, is provided in the Company's annual report.

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

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

RETIREMENT AND RE-ELECTION

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

INDEPENDENT PROFESSIONAL ADVICE

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

BOARD PERFORMANCE

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

BOARD COMMITTEES

The Board has two standing committees, being the Audit and Risk Committee, and the Nomination and Remuneration Committee.

Each committee operates under specific terms of reference approved by the Board, and any recommendations they make are recommendations to the Board. The terms of reference for each committee are reviewed annually. All Directors are entitled to attend committee meetings.

AUDIT AND RISK COMMITTEE

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

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

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

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

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee is comprised of Marcus Darville (Chairman), Rob Campbell and James Ogden. The Nomination and Remuneration Committee assists the Board in establishing and reviewing remuneration policies and practices for the Company and in reviewing Board composition. Specific objectives include:

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

GENDER DIVERSITY

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

The objectives set out in the policy are:

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

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

The gender composition of the Directors and Officers of the Company as at the date of this Information Memorandum is set out below. The Officers of the Company have been determined to be the executive management team.

	Total number of persons	Gender balance
Directors	5	1 female, 4 male
Officers	6	3 female, 3 male

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

ETHICAL STANDARDS

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

- Code of Ethics – This guide sets out the basic principles of legal and ethical conduct expected of all employees and Directors. The Company encourages open and honest communication by staff about any current or potential problem, complaint, suggestion, concern, or question.
- Market Disclosure and Communications – The Company has a policy of promoting shareholder confidence through open, timely and accurate market communication. This policy helps ensure that the Company meets its continuous disclosure obligations under the Rules.
- Conflicts of Interest – To maintain integrity in decision making each Director must advise the Board of any potential conflict of interest if such arises. If a significant conflict of interest exists, the Director concerned will have no involvement in the decision-making process relating to the matter.
- Securities Trading – Directors and employees of the Company are subject to limitations on their ability to buy or sell Company shares in accordance with the Company's Securities Trading Policy, the NZSX Listing Rules, and the Securities Markets Act.
- 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.

ARRANGEMENTS WITH DIRECTORS AND THE CEO

DIRECTOR REMUNERATION

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

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

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.

CEO CONTRACT

The Company has entered into an employment contract with Ms Norah Barlow relating to Norah's employment with the Company as Managing Director and Chief Executive Officer. Norah receives an annual base salary of $450,000, and has the opportunity to receive 50% of her annual remuneration in the form of a short-term incentive, payable after the annual results of Summerset are released. The payment under this short term incentive will be determined by the Board of Directors and vary depending on the amount by which actual performance exceeds targets set by the Board of Directors. The amount may be increased if the targets are materially exceeded.

Norah is also entitled to receive 321,429 shares through the Long Term Incentive Plan. These shares will be vested at $1.40 per share subject to achievement of targets in the financial year to 31 December 2013.

As disclosed in the Annual Report for the year ended 31 December 2012, for the period to 31 December 2012, the value of all monetary payments, as well as the value of share options provided to Norah, was $708,179.

Norah's employment contract commenced in 1999. Summerset may terminate Norah's employment upon the provision of at least 12 weeks notice in writing. Summerset may terminate the employment of Norah immediately and without payment in lieu of notice in certain circumstances, including serious misconduct. Norah's employment contract includes a restraint of trade period of 6 months. Enforceability of such restraints is subject to all usual legal requirements.

EMPLOYEE SHARE PLAN

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

The Group has provided Participants with interest-free limited recourse loans to fund the acquisition of these shares. The loans have a maximum expiry date of 31 October 2017.

One half of these shares vested on 26 February 2013 as a result of certain financial and operational targets in the financial year ended 31 December 2012 being met. One half of these shares are subject to certain financial and operational targets being met in the financial year ended 31 December 2013, upon which the shares will vest. The Share Plan shares were issued at $1.40, being the offer price of shares on the listing of the Group on 1 November 2011. The related shares are held by a nominee on behalf of Participants, until such time after the vesting of shares the nominee is directed by the Participant to transfer or sell the shares, or the shares are sold by the nominee if vesting criteria are not met.

The shares carry the same rights as all other ordinary shares.

At the date of this Information Memorandum the Share Plan holds 1,607,143 shares, which represents 0.7% of the total shares.

6 RISK FACTORS

RISK FACTORS

No investment is risk free and the Shares are no exception. Before investing, prospective investors should carefully consider the following risk factors and their ability to withstand loss on their investment.

The principal risk to investors is that they may not be able to recoup their original investment or they may not receive the returns they expect. This could happen for a number of reasons, including that:

- The price at which the investors are able to sell their Shares is less than the price paid for them.
- Investors are unable to sell their Shares at all – for instance, because the market for them does not develop, becomes illiquid or ceases to exist.
- Summerset does not pay dividends.
- The operational and financial performance of the Summerset Group is worse than expected.
- Summerset becomes insolvent and is placed in receivership or liquidation.

Summerset's Shares currently on issue are fully paid ordinary shares and Shareholders will have no liability to make any further payments in respect of those Shares.

If the Summerset Group's operational and financial performance is worse than investors expect, the future market price of the Shares may be less than the price paid for them and returns on the Shares may be less than anticipated.

If Summerset is placed in liquidation, the residual value of Summerset's assets may not be sufficient for Shareholders to receive the full value of their original investment (or there may be no residual value at all).

Some of the principal risk factors which may affect the ability of investors to recoup their initial investment and Summerset's share price performance are detailed in this section. These risk factors are not the only ones faced by Summerset. There may be additional risk factors that Summerset is currently unaware of, or that Summerset currently deems immaterial but which may subsequently become key risk factors for Summerset. You should consider these risk factors in conjunction with the other information in this Information Memorandum.

The risk factors described below necessarily include forward looking statements. Actual events may be materially different to those described below and may therefore affect Summerset in a different and/or more material way.

GENERAL INVESTMENT RISKS

ECONOMIC RISK

Like any other investment, returns from an investment in the Shares are influenced by the level of economic activity, for example, a contraction in the New Zealand or global economy may impact upon the performance of the Summerset Group by reducing or increasing resident interest in the Villages, and affecting costs and other underlying real estate fundamentals.

LEGAL OR REGULATORY RISK

Investments may be adversely affected by legal and regulatory changes or requirements, and actions pursuant to such requirements, especially resource management, building, local government, and other planning related legislation and regulations. Potential changes to existing laws or the introduction of new laws could result in increased compliance costs and obligations.

Failure to comply with applicable legislation or regulation can also result in fines, injunctions, penalties, requirements for remedial works, total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect on the particular investment.

There is also the possibility of future litigation that could adversely affect the Summerset Group's financial performance.

TAXATION RISKS

A change to the existing rate of company income tax will impact on Shareholder returns, as will a change to the tax on Shareholders. Any other changes to New Zealand tax law and practice which impact the Summerset Group or the retirement village and aged care industry could also have an effect on Shareholder returns.

CATASTROPHIC EVENTS

Insured or uninsured catastrophic events such as acts of God, fires, floods, earthquakes, widespread health emergencies, pandemics, epidemics, wars and strikes could affect the value of the Summerset Group's properties and the conduct of its business activities. Some events of this type are uninsurable. To the extent they do occur, there may be adverse effects on the Summerset Group's business and its financial performance.

FORWARD LOOKING STATEMENTS

Certain statements in this Information Memorandum constitute forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of Summerset to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward looking statements. In addition, under no circumstances should the inclusion of forward looking statements be regarded as a representation or warranty by Summerset or any other person referred to in this Information Memorandum, with respect to the achievement of the results set out in any such statement, or that the underlying assumption used will in fact be the case. Summerset disclaims any responsibility to update any such risk factors or publicly announce the result of any revisions to any of the forward looking statements contained in this Information Memorandum to reflect developments or events, other than where it is required to do so by the NZSX and ASX Listing Rules.

SUMMERSET SPECIFIC RISKS

FAIR VALUE ADJUSTMENTS

The Summerset Group's future financial performance is impacted by the amount of the fair value adjustment attributed to its properties each year. A change in property market conditions or a change to the valuation methodology or valuation inputs that Summerset's property valuer uses to value Summerset's properties could result in a material reduction in the amount of the fair value adjustment each year which, in turn, would impact on the Summerset Group's future financial performance.

PROPERTY MARKET RISK

The value of, and returns from, the Summerset Group's property assets may fluctuate depending on property market conditions, including property prices. The demand for property, including the Summerset Group's Retirement Units, changes over time and can be influenced by general economic factors such as interest rates and social factors such as population demographics.

As incoming retirement village residents typically move into a retirement village following the sale of their family home, there is a risk that a downturn in the property market may limit potential residents' ability to relocate into a Village. Specifically, such a downturn may affect the ability of potential incoming residents to sell their own homes or sell them at prices which allow them to purchase ORAs. The effect of this on the Summerset Group may be a reduction in the price at which sales and resales of ORAs are made and an increased timeframe to complete sales.

LAND ACQUISITION AND FUTURE GROWTH

The Summerset Group has four Villages under development, three greenfield sites for future development, and intends to maintain a landbank sufficient to maintain five years of development. Future growth is, however, dependent on many factors outside the Summerset Group's control. In addition, the Summerset Group's ability to meet its growth targets is dependent on its ability to acquire attractive sites for the development of new Villages. The success of the Summerset Group will also be dependent on its ability to identify, select and, if necessary, dispose of properties at the appropriate time. There is no assurance that the Summerset Group will secure suitable developments and acquisitions to drive future growth.

OVERSEAS INVESTMENT ACT

Summerset may be an "overseas person" (as defined in the Overseas Investment Act) by virtue of "overseas persons" holding more than 25% of the shares. The Quadrant Shareholders are "overseas persons" as defined in the Overseas Investment Act. Accordingly, Summerset's acquisition of certain New Zealand assets (including in particular certain land deemed "sensitive" by the Overseas Investment Act) requires consent under the Overseas Investment Act. The criteria used to assess consent applications may change or Summerset may not be granted consent for future acquisitions. However, as at the date of this Information Memorandum, Summerset has not been declined consent for any application submitted under the Overseas Investment Act.

CONSTRUCTION AND PROPERTY DEVELOPMENT RISK

The Summerset Group faces construction and property development risks when developing new Villages, including:

- construction risk arising from unexpected cost increases, quality issues and delays in the completion of its developments (including due to inclement weather);
- default risk arising from participants in the development process, including construction contractors, defaulting in the performance of their respective obligations;
- marketing risk arising from changing market conditions or sentiment affecting property prices, investor interest in the Summerset Group's residential offerings and payment expectations for and in respect of ORAs;
- industrial relations risk affecting construction progress; and
- the internalisation of development capabilities may not result in the advantages that Summerset expects will be achieved.

All of these may impact on the Summerset Group's ability to meet its growth targets and its financial performance.

In addition, poor site selection may result in the Summerset Group developing a Village at a site that is not attractive to potential residents. Again, this could impact on the Summerset Group's financial performance.

INTEREST RATE RISK

Adverse movements in interest rates may affect the Summerset Group's cost of funds for the development of new Villages and, therefore, its ability to complete such developments at an acceptable cost.

KEY EMPLOYEE RISK

The loss of any of the key members of the Summerset Group's management team could adversely affect the ability of the Summerset Group to identify appropriate future developments, deliver current developments and manage and market its Villages. This could adversely impact on the Summerset Group's financial performance.

LABOUR MARKET RISK

The Summerset Group's business is dependent on a specialised workforce. Any disputes with staff, including the possibility of prolonged industrial action amongst the Summerset Group's employees, may impact on the performance of the business including cash flows, customer service and business reputation. To date, the Summerset Group has not experienced labour disputes that have materially affected its performance.

In addition, the Summerset Group may be adversely affected by increases in employment costs which it is unable to pass on to residents or otherwise recover and/or difficulties in attracting or retaining appropriately skilled personnel to perform services at its Villages. In particular, the industry generally faces staff shortages in key areas such as nurses and other skilled staff. An inability to attract or retain skilled staff could also adversely impact on the Summerset Group's future performance.

COMPETITION RISKS

The industry in which the Summerset Group operates is relatively fragmented and is expected to remain competitive. Increased competition to levels not currently encountered or anticipated could result in, among other things, the Summerset Group experiencing lower occupancy rates than anticipated, price reductions, reduced operating margins and a loss of market share. Any of these occurrences could adversely affect the Summerset Group's financial performance. There is no assurance that the Summerset Group will be able to compete successfully in the future against current or future competitors.

There is also the possibility of a competitor introducing new technology or products into the market or of a competitor following an aggressive pricing strategy, thereby undermining the effectiveness and/or profitability of the Summerset Group.

REPUTATION RISK

The Summerset Group operates in a commercially sensitive market where its performance could be adversely impacted should it, or the industry in general, suffer from any adverse publicity (in particular, reports of inappropriate care of residents, health or safety issues affecting residents or poor maintenance of, or delivery of services at, the Summerset Group's Villages).

FISCAL RISK

The Summerset Group receives substantial revenues from Government sources for the provision of health care services and most of its residents receive Superannuation payments from the Government. A change in eligibility criteria, funding policy or the annual increase in relevant Government subsidies or Superannuation being less than increases in costs could adversely impact on the Summerset Group's financial performance.

SALES AND OCCUPANCY RISK

In the ordinary course of its business, Summerset faces the risk that sales and occupancy levels may remain static or fall below expectations. The Summerset Group's financial performance could be adversely affected as its borrowing and operational costs may increase while income from its residents will reduce if:

- the number of sales of ORAs for new Retirement Units and resales of existing Retirement Units is lower than expected;
- sale prices of ORAs are lower than expected;
- occupancy at Summerset's Villages is lower than expected impacting the amount of fixed costs recovered; and
- turnover (being the proportion of residents who leave a Village in any one financial year) is lower than anticipated.

FINANCING RISK

The Summerset Group may require additional funding or working capital in the future to pursue its growth plans. Given the nature of the Summerset Group's revenue profile and the potentially capital intensive nature of its business, there is no assurance that any such additional capital or funding will be available on favourable terms or at all. If adequate funds are not available, the Summerset Group may not be able to achieve its growth targets or respond to competitive pressures.

In addition, bad debts or delays in customers making payments may impact on the financial performance of Summerset.

INSURANCE RISK

Any material deterioration in the Summerset Group's safety performance or in insurance markets generally, could have a corresponding negative impact on the Summerset Group. In particular, the Summerset Group may be unable to secure insurance to cover satisfactorily all anticipated risk or the cost of insurance may increase above anticipated levels.

INFORMATION TECHNOLOGY RISK

Any failure of information systems, fraud, business continuity planning and data integrity risk could affect the Summerset Group's operations.

REGISTRATION

The Summerset Group is required by the Retirement Villages Act to maintain registration of each of its Villages with the Registrar of Retirement Villages. As at the date of this Information Memorandum, each Village is registered with the Registrar of Retirement Villages. In order to maintain registration, the Summerset Group must comply with certain disclosure standards and minimum requirements for retirement villages in New Zealand. Suspension or cancellation of registration of a Village by the Registrar of Retirement Villages would result in the Summerset Group no longer being able to offer retirement village facilities at that Village, which would have a material impact on the Summerset Group's financial performance.

CERTIFICATION

The Summerset Group must continue to meet the requirements of the Health and Disability Services (Safety) Act and be certified under it in order to provide health care services at its Villages. As at the date of this Information Memorandum, all of the Villages at which such services are provided are currently certified. Summerset must also be party to an ARRC Contract with the relevant DHB for each of its Villages that provides care services. Loss of certification, or termination of an ARRC Contract, would result in the Summerset Group no longer being able to provide residential aged care services to residents at the relevant Village. Accordingly, loss of certification or termination of an ARRC Contract would have a material impact on the Summerset Group's financial performance.

REGULATORY CHANGES

The New Zealand retirement village and aged care industry is highly regulated. Future regulatory change for the industry may have an adverse impact on the Summerset Group and the way it promotes, manages and operates its Villages. In addition, other participants in the industry may, through their actions and business practices, cause future regulatory changes to be made which have an adverse impact on the Summerset Group's financial performance.

TREATY OF WAITANGI

The titles to some of the properties on which Summerset's Taupo and Wanganui Villages are located are subject to memorials under section 27B of the State-Owned Enterprises Act 1986. These memorials allow for the Crown to resume ownership of the properties to meet a claim over the land under the Treaty of Waitangi Act 1975. If this occurred, the Crown would be required to pay full compensation to the Summerset Group. To date, the Crown has principally met Treaty claims by paying money and transferring Crown owned land and other Crown assets to claimants rather than resuming ownership of privately owned land and transferring that land to claimants.

GENERAL MARKET RISKS

There may be relatively few potential buyers or sellers of the Shares on the NZX Main Board or, if listed, the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares.

Factors such as changes in the New Zealand or international regulatory environment (including for accounting), New Zealand and international equity markets, New Zealand dollar and foreign currency movements and the New Zealand and global economy, could cause the market price of the Shares to fluctuate. These fluctuations may adversely affect the market price of the Shares after the Offer.

The market prices of stocks are, historically, particularly volatile, including in response to changes in stock markets, or the economy, generally.

7 CORPORATE INFORMATION

CORPORATE INFORMATION

This section contains important information about Summerset.

ISSUED SHARES AND REGISTERED ADDRESS

As at the date of this Information Memorandum, Summerset Group Holdings Limited currently has 215,918,535 ordinary shares on issue. Summerset's registered office is set out in the *Directory*.

RATIONALE FOR SECONDARY LISTING

Summerset considers that the proposed secondary listing has the following strategic benefits for the business:

- increased ability for Australian investors to be able to invest in Summerset; and
- increased liquidity in Summerset's shares.

NO FUNDRAISING

Summerset has enough working capital to carry out its current business plans and objectives. The Company has not raised any capital for the three months prior to the date of this Information Memorandum and will not need to raise capital for the three months after the date of issue of this Information Memorandum.

FINANCE ARRANGEMENTS

As noted earlier, the Summerset Group has in place a $180 million bank facility. The facility has a maturity of January 2016. Summerset intends to use its financing headroom to fund future Village construction and additional landbank purchases.

The Summerset Group's facility agreement permits Summerset Holdings Limited (a wholly owned subsidiary of Summerset) and its subsidiaries to make distributions from free cash flow. It contains restrictions on incurring further indebtedness, and standard financial covenants, such as loan to value ratios, free cash flow interest coverage ratios and other equivalent prudential ratios. Summerset is confident that compliance with applicable restrictions will not materially restrict the activities of the Summerset Group, or otherwise negatively impact on its operations and future plans, as described in this Information Memorandum.

Each of the Village Companies has entered into a Deed of Supervision with Public Trust, which restricts the Village Companies from borrowing without the consent of the Public Trust.

QUOTED SECURITIES

Summerset's Shares are currently quoted on the NZX Main Board operated by NZX. The NZX Main Board is a registered market under the Securities Markets Act. Each Share gives the holder the right to:

- Attend and vote at a meeting of Shareholders, including the right to cast one vote per Share on a poll on any resolution, such as a resolution to:
  - appoint or remove a Director or auditor;
  - adopt, revoke or alter the Constitution;
  - approve a major transaction (as that term is defined in the Companies Act);
  - approve the amalgamation of Summerset under section 221 of the Companies Act; or
  - place Summerset in liquidation.
- Receive an equal share in any distribution, including dividends, if any, authorised by the Board and declared and paid by Summerset in respect of that Share.
- Receive an equal share with other Shareholders in the distribution of surplus assets in any liquidation of Summerset.
- Be sent certain information, including notices of meeting and company reports sent to Shareholders generally.
- Exercise the other rights conferred upon a Shareholder by the Companies Act and the Constitution.

INFORMATION AVAILABLE UNDER SUMMERSET'S DISCLOSURE OBLIGATIONS

Summerset, as a listed issuer in New Zealand whose shares are quoted on the NZX Main Board, is subject to the continuous disclosure obligations of the NZSX Listing Rules (which are "continuous disclosure provisions" for the purposes of section 19D of the Securities Markets Act).

As such, Summerset is required to immediately notify NZX of any information concerning Summerset of which Summerset is or becomes aware and which a reasonable person would expect to have a material effect on the price of the Shares, subject to certain exceptions.

Summerset has disclosed the following material information to NZX for release on the NZX Main Board in accordance with Summerset's disclosure obligations under the NZSX Listing Rules on or after the date on which Summerset's latest financial statements were notified to NZX for release (being 26 March 2013):

Date	Announcement
5 April 2013	1Q13 Metrics – Sales of Occupation Rights
12 April 2013	Ongoing Disclosure Notice (Richard Catto)
15 April 2013	Summerset Completes Due Diligence on Boulcott's Farm Site
30 April 2013	Summerset on Track for Growth
30 April 2013	Annual Meeting – Chairman and CEO Addresses
30 April 2013	Annual Meeting – Meeting Outcome
7 May 2013	Summerset to Seek ASX Listing
17 May 2013	QPE Funds Management Announces Sale of 14% of Summerset
31 May 2013	Ongoing Disclosure Notice (Tristan Saunders)

Summerset is not aware of any material information that is not generally available to the market that Summerset is not required to notify to NZX in accordance with the NZSX Listing Rules.

Copies of the disclosed information identified above can be obtained free of charge by searching under Summerset's stockcode "SUM" on NZX's website www.nzx.com.

INTERESTS OF DIRECTORS

The table below sets out the Shares in which the Directors of Summerset are interested as at the date of this Information Memorandum.

Director	Nature of interest	Number of shares
Christopher Hadley and Marcus Darville	Christopher and Marcus are directors of Quadrant*, and accordingly are interested in the Shares held by Perpetual Trustee Company Limited (as custodian for Quadrant Private Equity Services No. 2 Pty Limited and Quadrant Private Equity Management No. 2 Pty Limited)	36,003,214
	Christopher and Marcus are directors of Quadrant*, and accordingly are interested in the Shares held by QPE Co-Investment Pty Limited	13,996,786
Norah Barlow	Registered holder and beneficial owner of Shares as trustee of the Kensington Trust	1,231,413
	Beneficial interest in Shares pursuant to a long term incentive plan	642,857
James Ogden	Registered holder and beneficial owner of Shares	365,000**
Robert Campbell	Beneficial owner of Shares held by Tutanekai Investments Limited	35,000**

* At the time of the initial public offering, as disclosed in the combined investment statement and prospectus dated 27 September 2011, Quadrant had an interest in 171,179,993 shares, 123,191,034 of which were held by Perpetual Trustee Company (as custodian for Quadrant Private Equity Services No. 2 Pty Limited and Quadrant Private Equity Management No. 2 Pty Limited) and 47,988,959 of which were held by QPE Co-Investment Pty Limited. Quadrant has subsequently sold down its holding to 50,000,000 shares, which, as at the date of this Information Memorandum, represents approximately 23% of Summerset's issued capital.

** The number of shares listed above for James Ogden and Robert Campbell reflect their current shareholdings. However, both have transacted in shares during the previous 2 years. In particular, since the initial public offering of Summerset's shares in September 2011, James has increased his holding from 200,000 shares to 365,000 shares, and Robert increased his holding to 35,000 shares.

Other than as set out in this Information Memorandum, no Director holds, or has held at any time in the two years before the date of this Information Memorandum, any interest in the promotion of Summerset or the property acquired or proposed to be acquired by Summerset.

EXPERT STATEMENTS

CBRE have given, and not withdrawn, their consent to the issue of this Information Memorandum with the inclusion of the statements attributed to CBRE in this Information Memorandum in the form and context in which they are included.

Neither CBRE, nor any of its directors, officers or employees, is or is intended to be, a director, officer or employee of Summerset. However, CBRE has provided, and may in the future provide, professional advisory services to Summerset.

ASX WAIVERS & DISCLOSURE

The Company has applied for waivers and confirmations from ASX which are standard for a New Zealand company listed on ASX (including confirmation that ASX will accept accounts denominated in New Zealand dollars and prepared and audited in accordance with New Zealand generally accepted accounting principles and New Zealand auditing standards).

SELLING SHARES ON ASX AND CHESS

Summerset will apply to participate in ASX's Clearing House Electronic Subregister System (*CHESS*) in accordance with the ASX Settlement Operating Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in a paperless form.

Shareholdings will be registered in one of two subregisters – an electronic CHESS subregister or an issuer sponsored subregister. The Shares of a Shareholder who is a participant in CHESS or a person sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the issuer sponsored subregister.

Any Shareholder who has elected to have their Shares registered in CHESS will be sent an initial statement of holding that sets out the number of Shares held. This statement will also provide details of a Shareholder's Holder Identification Number (*HIN*) or, where applicable, the Shareholder Reference Number (*SRN*) for issuer sponsored holders. Shareholders will subsequently receive statements showing any changes to their shareholding in Summerset.

APPLICABLE LAW

Summerset as a New Zealand company
Summerset is a company incorporated in New Zealand and is principally governed by New Zealand law, rather than Australian law. In Australia, it is registered with ASIC as a foreign company. As Summerset is not established in Australia, its general corporate activities (apart from any offering of securities in Australia) are not regulated by the Corporations Act or by ASIC but instead are regulated by the New Zealand Companies Act and the New Zealand Financial Markets Authority and Registrar of Companies.

Set out on the following page is a table summarising key features of the laws that apply to Summerset as a New Zealand company (under New Zealand law, including as modified by exemptions or waivers) compared with the laws that apply to Australian publicly listed companies generally. It is important to note that this summary does not purport to be a complete review of all matters of New Zealand law applicable to Summerset or all matters of Australian law applicable to Australian publicly listed companies or to highlight all provisions that may differ from the equivalent provisions in Australia.

COMPARISON OF LAWS GOVERNING SUMMERSET AS A NEW ZEALAND COMPANY WITH LAWS GOVERNING AUSTRALIAN PUBLICLY LISTED COMPANIES GENERALLY

Unless otherwise stated, the Corporations Act provisions do not apply to Summerset as a foreign company.

	NEW ZEALAND	AUSTRALIA
TRANSACTIONS THAT REQUIRE SHAREHOLDER APPROVAL	Under the Companies Act, the principal transactions or actions requiring shareholder approval include: • adopting or altering the constitution of the company; • appointing or removing a director or auditor; • major transactions (being transactions involving the acquisition or disposition of assets, the acquisition of rights or interests or the incurring of obligations or liabilities, the value of which is more than half the value of the company's total assets); • amalgamations (other than between the company and its wholly-owned subsidiaries); • putting the company into liquidation; and • changes to the rights attached to shares. In addition to the Companies Act requirements listed above, shareholder approval is required under the NZSX Listing Rules for: • director remuneration; • certain transactions with related parties; • certain issues of shares; and • in certain circumstances, the provision of financial assistance for the purpose of, or in connection with, the acquisition of shares.	Under the Corporations Act, the principal transactions or actions requiring shareholder approval are comparable to those under the Companies Act. Shareholder approval is also required for certain transactions affecting share capital (e.g. share buybacks and share capital reductions). Although there is no shareholder approval requirement for major transactions, certain related party transactions require shareholder approval. Shareholder approval is required under the ASX Listing Rules for: • increases in the total amount of directors' fees; • directors' termination benefits in certain circumstances; • certain transactions with related parties; • certain issues of shares; and • if a company proposes to make a significant change to the nature or scale of its activities or proposes to dispose of its main undertaking. The ASX Listing Rules will apply to Summerset when it is admitted to the official list of ASX.
SHAREHOLDERS' RIGHT TO REQUEST OR REQUISITION A GENERAL MEETING	A special meeting of shareholders must be called by the board on the written request of shareholders holding shares carrying together not less than 5% of the voting rights entitled to be exercised on the issue.	The Corporations Act contains a comparable right. Directors must also call a general meeting on the request of at least 100 shareholders who are entitled to vote at a general meeting. Shareholders with at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting at their own expense.
SHAREHOLDERS' RIGHT TO APPOINT PROXIES TO ATTEND AND VOTE AT MEETINGS ON THEIR BEHALF	A shareholder may exercise the right to vote at a meeting either by being present in person or by proxy. A proxy is entitled to attend and be heard, and to vote, at a meeting of shareholders as if the proxy were the shareholder. A proxy must be appointed by notice in writing signed by or, in the case of an electronic notice, sent by the shareholder to the company. The notice of appointment must state whether the appointment is for a particular meeting or a specified term.	The position is comparable under the Corporations Act.
CHANGES IN THE RIGHTS ATTACHING TO SHARES	A company must not take action that affects the rights attached to shares unless that action has been approved by a special resolution of each affected interest group. (An "interest group" in relation to an action or proposal affecting the rights attached to shares means a group of shareholders whose affected rights are identical and whose rights are affected by the action or proposal in the same way and who comprise the holders of one or more classes of shares in the company).	The Corporations Act allows a company to set out in its constitution the procedure for varying or cancelling rights attached to shares in a class of shares. If a company does not have a constitution, or has a constitution that does not set out a procedure, the rights may only be varied or cancelled by: • a special resolution passed at a meeting for a company with a share capital of the class of members holding shares in the class; or • a written consent of members with at least 75% of the votes in the class.
SHAREHOLDER PROTECTIONS AGAINST OPPRESSIVE CONDUCT	A shareholder or former shareholder of a company (or any other entitled person) who considers that the affairs of a company have been (or are being, or are likely to be) conducted in a manner that is (or any act or acts of the company have been, or are, or are likely to be) oppressive, unfairly discriminatory, or unfairly prejudicial to him or her in any capacity may apply to the court for relief. The court may, if it thinks it is just and equitable to do so, make such orders as it thinks fit.	Under the Corporations Act, shareholders have statutory remedies for oppressive or unfair conduct of the company's affairs. The court can make any order as it sees appropriate.

	NEW ZEALAND	AUSTRALIA
SHAREHOLDERS' RIGHTS TO BRING OR INTERVENE IN LEGAL PROCEEDINGS ON BEHALF OF THE COMPANY	A court may, on the application of a shareholder or director of a company, grant leave to that shareholder or director to bring proceedings in the name and on behalf of the company or any related company, or intervene in proceedings to which the company or any related company is a party, for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company or related company. Leave may only be granted if the court is satisfied that either the company or related company does not intend to bring, diligently continue or defend, or discontinue the proceedings, or it is in the interests of the company or related company that the conduct of the proceedings should not be left to the directors or to the determination of the shareholders as a whole. No proceedings brought by a shareholder or a director or in which a shareholder or a director intervenes with leave of the court (as described above) may be settled or compromised or discontinued without the approval of the court.	The Corporations Act permits a shareholder to apply to the court for leave to bring proceedings on behalf of the company, or to intervene in proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for those proceedings, or for a particular step in those proceedings. The court must grant the application if it is satisfied that: • it is probable that the company will not itself bring the proceedings, or properly take responsibility for them, or for the steps in them; • the applicant is acting in good faith; • it is in the best interests of the company that the applicant be granted leave; • if the applicant is applying for leave to bring proceedings, there is a serious question to be tried; and • either at least 14 days before making the application, the applicant gave written notice to the company of the intention to apply for leave and of the reasons for applying, or the court considers it appropriate to grant leave. Proceedings brought or intervened in with leave must not be discontinued, compromised or settled without the leave of the court.
"2 STRIKES" RULE IN RELATION TO REMUNERATION REPORTS	There is no equivalent of a "2 strikes" rule in relation to remuneration reports in New Zealand. New Zealand companies are not required to publish remuneration reports so shareholders necessarily cannot vote on them. There is, however, an obligation to state in the company's annual report, in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the relevant accounting period and, in respect of employees or former employees of the company who received remuneration and any other benefits in their capacity as employees during the relevant accounting period, the value of which was or exceeded NZ$100,000 per annum, the number of such employees, stated in brackets of NZ$10,000.	The Corporations Act requires that a company's annual report must include a report by the directors on the company's remuneration framework (called a remuneration report). A resolution must be put to shareholders at each annual general meeting of the company's shareholders (*AGM*) seeking approval for the remuneration report. That approval is advisory only, however, if more than 25% of shareholders vote against the remuneration report at 2 consecutive AGMs (i.e., 2 strikes) an ordinary (50%) resolution must be put to shareholders at the second AGM proposing that a further meeting be held within 90 days at which all of the directors who approved the second remuneration report must resign and stand for re-election.
RELATED PARTY TRANSACTIONS AND INTERESTS	The Company must comply with NZSX Listing Rule requirements in respect of related party transactions, except to the extent this obligation is modified by waivers or rulings granted by NZX Regulation in respect of the Company. In particular, shareholder approval is required for significant transactions between a listed company and a "related party". The definition of related party catches a number of persons, for example, a director of a listed company, or the holder of a relevant interest in 10% or more of a class of securities of a listed company. A related party who is a party to or a beneficiary of a material transaction (and its associates) are prohibited from voting in favour of a resolution to approve that transaction. The Securities Markets Act requires a director or officer of a public issuer who has a "relevant interest" in a public issuer to give notice of this fact to NZX and to disclose any such relevant interest in the interests register of the public issuer. The Companies Act requires companies to keep an interests register, and this register is often used for the purposes of any disclosures by directors or officers of any such "relevant interests". The companies' annual report must state particulars of entries in the interests register made during the accounting period.	Under the Corporations Act, public companies must obtain shareholder approval before giving a financial benefit to a "related party" of the public company unless an exemption applies. The exemptions include: • the arrangement is on arm's length terms; • the benefit is reasonable remuneration paid to an officer or employee of the company; • the benefit is a reasonable indemnity or insurance premium given to an officer of the company; • the benefit is a small amount given to a related entity; • the benefit is given to a closely held subsidiary; • the benefit is given to all shareholders and does not discriminate other shareholders unfairly. In addition, Summerset will be required to comply with ASX Listing Rule requirements in respect of related party transactions. Unless an exception applies, shareholder approval is required for: • the acquisition of a substantial asset from, or disposal of a substantial asset to, among other persons, a related party or a person who, together with their associates, holds a relevant interest in at least 10% of the total votes attached to the voting securities; • issuing or agreeing to issue securities to related parties; • increasing the total of directors' payments; • certain directors' termination benefits; and • directors acquiring securities under an employee incentive scheme. The definition of related party includes, among others, entities that control the public company and directors of the public company and of the entity that controls the public company. Under the ASX Listing Rules, Summerset will also be required to disclose the notifiable interests of its directors at prescribed times and any changes to those notifiable interests.

	NEW ZEALAND	AUSTRALIA
DISCLOSURE OF SUBSTANTIAL HOLDINGS	The Securities Markets Act requires every person who is a "substantial security holder" in a public issuer to give notice to that public issuer and NZX that they are a substantial security holder. "Substantial security holder" means, in relation to a public issuer, a person who has a relevant interest in 5% or more of a class of listed voting securities of that public issuer. The substantial security holder has ongoing disclosure requirements to notify the public issuer and NZX of certain changes in the number of voting securities in which the substantial security holder has a relevant interest or if there is any change in the nature of any relevant interest in the relevant holding or where that person ceases to be a substantial security holder.	The Corporations Act requires every person who is a substantial holder to notify the listed company and ASX that they are a substantial holder and to give prescribed information in relation to their holding if: • the person begins to have, or ceases to have, a substantial holding in the company or scheme; • the person has a substantial holding in the company or scheme and there is a movement of at least 1% in their holding; or • the person makes a takeover bid for securities of the company. A person has a substantial holding if the total votes attached to voting shares in the company in which they or their associates have relevant interests is 5% or more of the total number of votes attached to voting shares in the company, or the person has made a takeover bid for voting shares in the company and the bid period has started and not yet ended. These provisions do not apply to Summerset as an entity established outside Australia. However, Summerset will be required to release to ASX any substantial holder notices that are released to NZX.
HOW TAKEOVERS ARE REGULATED	The New Zealand position under the Takeovers Code and Securities Markets Act is comparable to the Australian position in relation to the regulation of takeovers. Substantial security holder notice requirements apply to relevant interests in 5% or more of a company's listed voting securities (as discussed above under the heading "Disclosure of substantial holdings"). A 20% threshold applies (under which a person is prevented from increasing the percentage of voting rights held or controlled by them in excess of that threshold or from becoming the holder or controller of an increased percentage of voting rights if they already hold or control more than 20% of the voting rights), subject to certain "compliance options" (including full and partial offers, 5% creep over 12 months in the 50% to 90% range, and acquisitions with shareholder approval). Compulsory acquisitions are permitted by persons who hold or control 90% or more of voting rights in a company.	The Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if any person's voting power in the company will increase from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%. Exceptions to the prohibition apply (e.g., acquisitions with shareholder approval, 3% creep over 6 months and rights issues that satisfy prescribed conditions). Substantial holder notice requirements apply (as discussed above under the heading "Disclosure of substantial holdings"). Compulsory acquisitions are permitted by persons who hold 90% or more of securities or voting rights in a company. The Australian takeovers regime will not apply to Summerset as a foreign company.
FILING OF DOCUMENTS	Summerset must prepare and file the following documents with the Companies Office every year: • annual financial statements as an issuer under the Financial Reporting Act 1993 (including the statement of financial position, statement of financial performance, statement of cashflows, statement of movements in equity, statement of accounting policies, notes to the accounts and an audit report); and • an annual return required under the Companies Act. The Companies Office must also be notified of certain changes (e.g., the appointment or resignation of directors or changes to the Company's constitution).	As a foreign registered company, Summerset has limited filing obligations. In accordance with the Corporations Act and Corporations Regulations 2001 (Cth), Summerset is classified as a foreign company with its place of origin in a "prescribed country" (New Zealand). Accordingly, Summerset is not required to lodge information required under Part 5B.2, Division 2 of the Corporations Act with ASIC. However, ASIC must be notified of certain changes in relation to Summerset that aren't covered by NZCO-AUST data transfer arrangements (e.g., the appointment of a director, a change of the Company's name or a change of the Company's registered office in Australia). Filing obligations applicable to Australian registered companies will not apply to Summerset as a foreign company.

Where it is noted that New Zealand law contains comparable provisions to those existing under Australian law, and vice versa, it is emphasised that the summary table only attempts to provide general guidance, and that the detailed provisions may contain differences and may also be subject to differing interpretation by Australian and New Zealand courts.

LEGAL PROCEEDINGS AFFECTING SUMMERSET

The Directors are not aware of any litigation of a material nature within the last 5 years or which is pending or threatened which may significantly affect the business of Summerset.

DIRECTORS' SIGNATURES

A copy of this Information Memorandum is authorised and has been signed by each Director of Summerset (or his or her agent authorised in writing).

DIRECTORS OF SUMMERSET GROUP HOLDINGS LIMITED:

Norah Kathleen Barlow

Robert James Campbell

Marcus Lopez Darville

Christopher Andrew Hadley

James Harold Ogden

Dated 4 July 2013

GLOSSARY

GLOSSARY

$, NZD OR NZ$	New Zealand dollars
AMPCI	AMP Capital Investors Limited
APARTMENT	A fully self contained apartment designed for independent living and provided at a Village
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ABN 98 008 624 691), or the financial market operated by ASX Limited, as the context requires
BOARD OR BOARD OF DIRECTORS	The board of directors of Summerset
BUSINESS DAY	A day on which the NZX Main Board is open for trading
CBRE	CBRE Limited
CARE APARTMENT	A fully self contained apartment designed for supported living and provided at a Village
CARE BED	A rest home bed or a hospital bed provided at a Village
CODE OF PRACTICE	The Retirement Villages Code of Practice 2008, as amended from time to time
COMPANIES ACT	The Companies Act 1993, as amended from time to time
CONSTITUTION	The constitution of Summerset, as amended from time to time
CORPORATIONS ACT	The Corporations Act 2001 (Cth), as amended from time to time
DEFERRED MANAGEMENT FEE OR DMF	A fee charged under an ORA which accrues annually and payment of which is made by deduction from the lump sum repaid to the resident upon resale of the ORA
DIRECTOR	A director of Summerset
DIRECTORY	The directory set out in this Information Memorandum
FY	Financial year
GLOSSARY	This glossary of key terms
HEALTH AND DISABILITY SERVICES (SAFETY) ACT	Health and Disability Services (Safety) Act 2001, as amended from time to time
INFORMATION MEMORANDUM	This Information Memorandum dated **[•]** 2013
IPO	The initial public offering of Shares in Summerset, pursuant to a combined investment statement and prospectus dated 27 September 2011
MATURE VILLAGES	Villages located at Wanganui, Paraparaumu, Trentham, Levin, Havelock North and Palmerston North
NZ IFRS	New Zealand equivalent to International Financial Reporting Standards
NZX	NZX Limited
NZX MAIN BOARD	The main board equity security market, operated by NZX
OCCUPATION RIGHT AGREEMENT OR ORA	A written agreement or other document that confers a right to occupy a residential unit within a retirement village on the terms and conditions set out or referred to in that agreement or other document
OVERSEAS INVESTMENT ACT	The Overseas Investment Act 2005, as amended from time to time
QUADRANT	Quadrant Private Equity
QUADRANT SHAREHOLDERS	Perpetual Trustee Company Limited (as custodian for Quadrant Private Equity Services No. 2 Pty Limited and Quadrant Private Equity Management No. 2 Pty Limited) and QPE Co-Investment Pty Limited
RETIREMENT UNIT	A Villa, Apartment or Care Apartment
RETIREMENT VILLAGES ACT	The Retirement Villages Act 2003, as amended from time to time

RVA	The Retirement Villages Association of New Zealand
SECURITIES MARKETS ACT	The Securities Markets Act 1988, as amended from time to time
SHARE	An ordinary share in Summerset
SHAREHOLDER	A holder of one or more Shares
SUMMERSET OR COMPANY	Summerset Group Holdings Limited, a company incorporated in New Zealand
SUMMERSET GROUP	Summerset and its subsidiaries
TAKEOVERS CODE	The Takeovers Code Approval Order 2000 (SR 2000 / 210), as amended from time to time
VILLA	A self contained Retirement Unit designed for independent living and provided at a Village
VILLAGES	Any retirement village and aged care facility operated, or to be operated, by the Summerset Group, including those outlined in the *Overview of Summerset* section of this Information Memorandum
VILLAGE COMPANIES	Summerset Villages (Aotea) Limited, Summerset Villages (Dunedin) Limited, Summerset Villages (Ellerslie) Limited, Summerset Villages (Hamilton) Limited, Summerset Villages (Hastings) Limited, Summerset Villages (Havelock North) Limited, Summerset Villages (Hobsonville) Limited, Summerset Villages (Karaka) Limited, Summerset Villages (Katikati) Limited, Summerset Villages (Levin) Limited, Summerset Villages (Lower Hutt) Limited, Summerset Villages (Manukau) Limited, Summerset Villages (Napier) Limited, Summerset Villages (Nelson) Limited, Summerset Villages (Palmerston North) Limited, Summerset Villages (Paraparaumu) Limited, Summerset Villages (Taupo) Limited, Summerset Villages (Trentham) Limited, Summerset Villages (Waimauku) Limited, Summerset Villages (Wanganui) Limited and Summerset Villages (Warkworth) Limited

APPENDIX 1

SUMMERSET GROUP HOLDINGS LIMITED:
2011 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

This appendix includes the audited financial statements of Summerset and the Group for the year ended 31 December 2011. These financial statements were prepared in compliance with the Financial Reporting Act 1993 and have been registered with the Companies Office and provided to NZX in accordance with the NZSX Listing Rules.

You will be able to find the most recent financial statements for Summerset and the Group on Summerset's website www.summerset.co.nz and on NZX's website www.nzx.com.

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 2011.

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 2011 and the results of the Group's operations and cash flows for the year ended 31 December 2011.

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

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

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

The financial statements were authorised for issue for and on behalf of the Board on 29 February 2012 by:

Rob Campbell	Norah Barlow
Director and Chairman	Director and Chief Executive Officer

Summerset Group Holdings Limited
Income Statement
For the year ended 31 December 2011

	Note	Group 2011 $000	Group 2010 $000	Company 2011 $000	Company 2010 $000
Care fees and village services		24,868	22,351	-	-
Deferred management fees	2	8,643	11,745	-	-
Interest received		192	109	-	-
Other income		-	30	-	-
Total revenue		**33,703**	**34,235**	**-**	**-**
Reversal of impairment of land and buildings	7	278	-	-	-
Fair value movement of investment property	8	5,841	1,628	-	-
Total income	23	**39,822**	**35,863**	**-**	**-**
Operating expenses	3	28,750	27,303	62	184
Depreciation expense	7	1,064	1,103	-	-
Total expenses		**29,814**	**28,406**	**62**	**184**
Operating profit/(loss) before financing costs		**10,008**	**7,457**	**(62)**	**(184)**
Net finance costs	4	5,644	3,410	-	-
Profit/(loss) before income tax	23	**4,364**	**4,047**	**(62)**	**(184)**
Income tax expense	5	40	5,947	-	-
Profit/(loss) for the period	23	**4,324**	**(1,900)**	**(62)**	**(184)**
Basic and diluted earnings per share (cents)	14	2.39	(1.12)		
Net tangible assets per share (cents)		109.33	99.80		

Statement of Comprehensive Income
For the year ended 31 December 2011

	Note	Group 2011 $000	Group 2010 $000	Company 2011 $000	Company 2010 $000
Profit/(loss) for the period		**4,324**	**(1,900)**	**(62)**	**(184)**
Other comprehensive income					
Fair value movement of interest rate swaps		(1,366)	-	-	-
Fair value movement transferred to income statement on de-designation		88			
Fair value movement of land and buildings	7	5,862	-	-	-
Tax on items of other comprehensive income	5	(1,374)	62	-	-
Other comprehensive income for the period net of tax		**3,210**	**62**	**-**	**-**
Total comprehensive income/(loss) for the period	**23**	**7,534**	**(1,838)**	**(62)**	**(184)**

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.

Summerset Group Holdings Limited
Statement of Changes in Equity
For the year ended 31 December 2011

Group

	Share Capital $000	Hedging Reserve $000	Revaluation Reserve $000	Maintenance Reserve $000	Retained Earnings $000	Total Equity $000
At 1 January 2010	**164,983**	**-**	**3,312**	**1,622**	**(10,875)**	**159,042**
Loss for the period	-	-	-	-	(1,900)	(1,900)
Other comprehensive income for the period	-	-	62	-	-	62
Total comprehensive income for the period	-	-	62	-	(1,900)	(1,838)
Transfer(from)/ to maintenance reserve	-	-	-	(450)	450	-
Interest on maintenance reserve	-	-	-	45	(45)	-
Shares issued	17,249	-	-	-	-	17,249
At 31 December 2010	**182,232**	**-**	**3,374**	**1,217**	**(12,370)**	**174,453**
At 1 January 2011	**182,232**	**-**	**3,374**	**1,217**	**(12,370)**	**174,453**
Profit for the period	-	-	-	-	4,324	4,324
Other comprehensive income for the period	-	(920)	4,130	-	-	3,210
Total comprehensive income for the period	-	(920)	4,130	-	4,324	7,534
Transfer (from)/to the maintenance reserve	-	-	-	(760)	760	-
Interest on maintenance reserve	-	-	-	34	(34)	-
Shares issued	53,122	-	-	-	-	53,122
Capital raising costs	(1,685)	-	-	-	-	(1,685)
At 31 December 2011	**233,669**	**(920)**	**7,504**	**491**	**(7,320)**	**233,424**

Company

	Share Capital $000	Retained Earnings $000	Total Equity $000
At 1 January 2010	**164,983**	**(36,167)**	**128,816**
Loss for the period	-	(184)	(184)
Total comprehensive income for the period	-	(184)	(184)
Shares issued	17,249	-	17,249
At 31 December 2010	**182,232**	**(36,351)**	**145,881**
At 1 January 2011	**182,232**	**(36,351)**	**145,881**
Loss for the period	-	(62)	(62)
Total comprehensive income for the period	-	(62)	(62)
Shares issued	53,122	-	53,122
Capital raising costs	(1,685)	-	(1,685)
At 31 December 2011	**233,669**	**(36,413)**	**197,256**

The accompanying notes form part of these financial statements.

Summerset Group Holdings Limited
Statement of Financial Position
As at 31 December 2011

		Group		Company	
	Note	2011 $000	2010 $000	2011 $000	2010 $000
Assets					
Cash and cash equivalents	16(a)	8,987	4,762	-	-
Trade and other receivables	6	10,620	5,083	-	20
Intercompany loan receivable	17	-	-	67,876	18,979
Investments in subsidiaries	20	-	-	126,570	126,570
Limited recourse loans	15,17	2,810	230	5,360	230
Property, plant and equipment	7	36,789	31,061	-	-
Intangible assets		548	324	-	82
Investment property	8	557,140	495,766	-	-
Total assets		**616,894**	**537,226**	**199,806**	**145,881**
Liabilities					
Trade and other payables	9	9,438	7,982	2,550	-
Employee benefits	10	1,616	1,450	-	-
Revenue received in advance		7,712	6,497	-	-
Unamortised deferred management fee		-	622	-	-
Residents' loans	11	278,408	231,801	-	-
Interest-bearing loans and borrowings	12	69,121	100,213	-	-
Interest rate swaps	13	1,553	-	-	-
Deferred tax liability	5	15,622	14,208	-	-
Total liabilities		**383,470**	**362,773**	**2,550**	**-**
Net assets		**233,424**	**174,453**	**197,256**	**145,881**
Equity					
Share capital	14	233,669	182,232	233,669	182,232
Reserves	14	7,075	4,591	-	-
Accumulated deficit		(7,320)	(12,370)	(36,413)	(36,351)
Total equity attributable to shareholders		**233,424**	**174,453**	**197,256**	**145,881**

Norah Barlow

Rob Campbell
Director and Chairman

Norah Barlow
Director and Chief Executive Officer

For and on behalf of the Board, who authorise the issue of these financial statements, 29 February 2012

The accompanying notes form part of these financial statements.

Summerset Group Holdings Limited
Statement of Cash Flows
For the year ended 31 December 2011

		Group		Company	
	Note	2011 $000	2010 $000	2011 $000	2010 $000
Cash flows from operating activities					
Receipts from residents for care fees and village services		25,093	23,371	-	-
Interest received		192	109	-	-
Payments to suppliers and employees		(28,716)	(26,385)	20	-
Receipts for residents' loans		70,987	53,695	-	-
Repayment of residents' loans		(23,872)	(16,941)	-	-
Net cash flow received from operating activities	16(b),23	**43,684**	**33,849**	**20**	**-**
Cash flows from investing activities					
Advance to subsidiary		-	-	(48,897)	(16,734)
Acquisition of investment property		(49,149)	(26,537)	-	-
Acquisition of property, plant and equipment		(691)	(931)	-	-
Acquisition of intangibles		(317)	(335)	82	(266)
Capitalised interest paid		(1,852)	(1,619)	-	-
Net cash used in investing activities	23	**(52,009)**	**(29,422)**	**(48,815)**	**(17,000)**
Cash flows from financing activities					
Repayment of borrowings		(31,092)	(15,214)	-	-
Proceeds from issue of shares		48,795	17,000	48,795	17,000
Interest paid on borrowings		(5,153)	(3,410)	-	-
Net cash used in financing activities	23	**12,550**	**(1,624)**	**48,795**	**17,000**
Net increase in cash and cash equivalents	23	4,225	2,803	-	-
Cash and cash equivalents at beginning of period		4,762	1,959	-	-
Cash and cash equivalents at end of period	16(a)	**8,987**	**4,762**	**-**	**-**

The accompanying notes form part of these financial statements.

1. Summary of accounting policies

Statement of Compliance
Summerset Group Holdings Limited (the "Company") is a for-profit listed public company incorporated and domiciled in New Zealand and is registered under the Companies Act 1993. Summerset Group Holdings Limited listed on the New Zealand stock exchange ("NZX") on 1 November 2011.

The financial statements presented for the year ended 31 December 2011 are those of Summerset Group Holdings Limited and its subsidiaries ("the Group"). The Group develops, owns and operates integrated retirement villages, rest homes and hospitals for the elderly within New Zealand. The Group is a reporting entity for the purposes of the Financial Reporting Act 1993 and these financial statements comply with that Act.

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

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

- Investment property – see Note 8
- Land and buildings – see Note 7
- Limited recourse loans – see Accounting policy 1(i)
- Interest rate swaps – see Note 13

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

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

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

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

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

- Valuation of investment property – Note 8
- Valuation of land and buildings – Note 7
- Revenue in advance – Accounting policy 1(k)
- Deferred management fee – Accounting policy 1(b)
- Interest rate swaps – Note 13

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

1. Summary of accounting policies (continued)

(a) Basis of consolidation

The Group financial statements are prepared by consolidating the financial statements of all entities that comprise the Group, being Summerset Group Holdings Limited and its subsidiaries as defined in *NZ International Accounting Standard ("IAS") - 27 : Consolidated and Separate Financial Statements*. A list of subsidiaries appears in Note 20. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. All intercompany transactions and balances, and unrealized profits arising within the Group are eliminated in full. Investments in subsidiaries are recorded at cost less any adjustment for impairment.

(b) Revenue recognition

(i) Services

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

<u>Deferred management fees</u>

Deferred management fees, which entitle residents to accommodation and the use of the community facilities within the village, are recognised over the period of service, being the greater of the expected period of tenure or the contractual right to revenue. The expected periods of tenure, being based on historical industry averages are estimated to be 7 to 8 years for villas, 5 years for apartments and 3 years for care apartments.

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

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

(ii) Interest received

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

(c) Investment property

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

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

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

(d) Property, plant and equipment

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

<u>Recognition and measurement</u>

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

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

1. Summary of accounting policies (continued)

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

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

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

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

- Buildings 2%
- Furniture and fittings 10% - 31%
- Plant and equipment 9% - 80%
- Motor vehicles 20% - 36%

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

- Licences 10%
- Software 48% - 60%

(f) Impairment
The carrying amounts of the Group’s assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

(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.

1. Summary of accounting policies (continued)

(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:

1. Summary of accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

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

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

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

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

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

(o) Change in presentation and comparative information
The Group has reviewed the presentation of its financial statements in accordance with *NZ IAS 1- Presentation of Financial Statements* to aid easier understanding of these statements, and determined to adjust the presentation of the statements where considered appropriate. The key adjustments made are:

- Separate the income statement from the statement of comprehensive income;
- Move revenue information previously found in the notes to the accounts to the face of the income statement;
- Reclassify employee expenses, repairs and maintenance and other operating expenses as operating expenses on the face of the income statement;
- Reclassify interest received from investing activities to operating activities in the statement of cash flows;
- Reclassify employee related accruals from trade and other payables to employee benefits on the face of the balance sheet and the related notes to the financial statements.

In the 2010 statement of cash flows there has been a reclassification of $5.1 million between payments to suppliers and employees and acquisition of investment property. This has no impact on net cash flow.

(p) New standards and interpretations not yet adopted
NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual report period ending 31 December 2011 are outlined below:

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

NZ IFRS 13 – Fair Value Measurement (effective from 1 January 2013)
This standard establishes a single source of guidance for determining the fair value of assets and liabilities and may result in different fair values being determined for relevant assets and liabilities. This standard also expands disclosure requirements for assets and liabilities carried at fair value. Application of this standard may impact the carrying value of land and buildings and investment property for the Group. The quantum of any impact has not yet been determined.

NZ IAS 1 - Presentation of Financial Statements (effective from 1 January 2012)
Amendments to this standard require entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods. Whilst there may be some disclosure changes, the impact of this standard is not considered to be significant for the Group.

FRS 44 – New Zealand Additional Disclosures (effective from 1 January 2012)
This standard relocates New Zealand specific disclosures from other standards to one place and revises disclosures in certain areas. This standard is not expected to affect the Group significantly.

2. Deferred management fees

	Group		Company	
	2011 $000	**2010 $000**	**2011 $000**	**2010 $000**
Change in structure of deferred management fee *	-	3,938	-	-
Deferred management fees	8,643	7,807	-	-
Total deferred management fees	8,643	11,745	-	-

* Deferred management fees for the comparative period include a one-off amount due to a change in structure of the agreement that generates this fee.

3. Operating expenses

	Group		Company	
	2011 $000	**2010 $000**	**2011 $000**	**2010 $000**
Employee expenses	14,690	15,576	62	-
Property related expenses	571	599	-	-
Other operating expenses	13,489	11,128	-	184
Total operating expenses	28,750	27,303	62	184

Other operating expenses include:

	Group		Company	
	2011 $000	**2010 $000**	**2011 $000**	**2010 $000**
Remuneration paid to auditors:				
Audit of statutory financial statements	168	217	-	-
Other assurance services	-	13	-	-
Other services (taxation)	92	144	-	-
Directors' fees	171	80	-	-
Rent and operating lease costs	429	341	-	-
Donations	19	6	-	-
Impairment of goodwill	-	184	-	184

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

4. Net finance costs

	Group		Company	
	2011 $000	**2010 $000**	**2011 $000**	**2010 $000**
Interest on bank loans	7,077	4,990	-	-
Release of interest rate swap reserve	490	-	-	-
Capitalised finance costs	(2,229)	(1,619)	-	-
Fair value movement of derivatives designated as fair value through profit or loss	187	-	-	-
Movement out of other comprehensive income on de-designation	88	-	-	-
Finance charges on finance leases	31	39	-	-
Net finance costs	5,644	3,410	-	-

5. Income tax

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

There was a change in the corporate tax rate from 30% to 28% applied to current tax from 1 January 2011.

(a) Income tax recognised in income statement

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Tax expense comprises:				
Current tax expense	-	-	-	-
Deferred tax relating to the origination and reversal of temporary differences	40	5,947	-	-
Total tax expense reported in income statement	**40**	**5,947**	**-**	**-**

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

	2011		2010	
	$000	%	$000	%
Profit before tax	**4,364**		**4,047**	
Income tax using the corporate tax rate	1,222	28.0%	1,214	30.0%
Other adjustments	422	9.7%	302	7.5%
Capitalised interest	(624)	(14.3%)	(501)	(12.4%)
Change in company tax rate	-	-	(1,032)	(25.5%)
Change in deductibility of building depreciation	-	-	5,358	132.4%
Other non-deductible expenses	17	0.4%	55	1.4%
Non-assessable land and building revaluations	(78)	(1.8%)	-	-
Non-assessable investment property revaluations	(1,635)	(37.5%)	(489)	(12.1%)
Current year losses for which no deferred tax asset was recognised	716	16.4%	1,040	25.7%
Total income tax expense	**40**	**0.9%**	**5,947**	**146.9%**

Company

	2011		2010	
	$000	%	$000	%
Loss before tax	**(62)**		**(184)**	
Income tax using the corporate tax rate	(17)	28.0%	(55)	30.0%
Other non-deductible expenses	17	(28.0%)	55	(30.0%)
Current year losses for which no deferred tax asset was recognised	-	-	-	-
Total income tax expense	**-**	**-**	**-**	**-**

5. Income tax (continued)

(b) Amounts charged or credited to other comprehensive income

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Net gain on revaluation of buildings	1,732	-	-	-
Fair value movement of interest rate swaps	(358)	-	-	-
Change in company tax rate	-	(62)	-	-
Total tax expense reported in statement of comprehensive income	**1,374**	**(62)**	**-**	**-**

(c) Income tax losses

At 31 December 2011, the Group had unrecognised tax losses of $2.6 million (2010: $9.9 million) and the Company had unrecognised tax losses of nil (2010: nil). During the year ended 31 December 2011, carried forward unrecognised tax losses of $9.9 million were forfeited due to changes in shareholder continuity.

(d) Imputation credit account

There were no imputation credits received or paid during the year and the balance at 31 December 2011 is nil (2010: nil).

(e) Deferred tax

The deferred tax balance comprises:

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Property, plant and equipment	8,010	5,951	-	-
Investment property	10,514	10,343	-	-
Revenue in advance	(2,159)	(1,817)	-	-
Interest rate swaps	(435)	-	-	-
Other items	(308)	(269)	-	-
Net deferred tax liability	**15,622**	**14,208**	**-**	**-**

Movement in the deferred tax balance comprises:

	Balance 1 Jan 2011 $000	Recognised in income $000	Recognised in OCI* $000	Balance 31 Dec 2011 $000
Property, plant and equipment	5,951	327	1,732	8,010
Investment property	10,343	171	-	10,514
Revenue in advance	(1,817)	(342)	-	(2,159)
Interest rate swaps	-	(77)	(358)	(435)
Other items	(269)	(39)	-	(308)
Net deferred tax liability	**14,208**	**40**	**1,374**	**15,622**

	Balance 1 Jan 2010 $000	Recognised in income $000	Recognised in OCI* $000	Balance 31 Dec 2010 $000
Property, plant and equipment	1,016	4,997	(62)	5,951
Investment property	9,345	998	-	10,343
Revenue in advance	(1,806)	(11)	-	(1,817)
Other items	(232)	(37)	-	(269)
Net deferred tax liability	**8,323**	**5,947**	**(62)**	**14,208**

* Other comprehensive income

6. Trade and other receivables

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Trade receivables	799	1,068	-	-
Allowance for doubtful debts	(84)	(90)	-	-
	715	978	-	-
Prepayments	1,268	392	-	-
Accrued income	398	654	-	-
Sundry debtors	8,239	3,059	-	20
	10,620	**5,083**	**-**	**20**

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

7. 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 2010	4,525	25,041	999	2,038	1,962	34,565
Additions	-	35	186	272	438	931
Balance at 31 December 2010	4,525	25,076	1,185	2,310	2,400	35,496
Additions	-	158	236	260	37	691
Reversal of impairment through profit or loss	-	278	-	-	-	278
Revaluations through other comprehensive income	(425)	5,114	-	-	-	4,689
Disposals	-	-	-	-	(39)	(39)
Balance at 31 December 2011	4,100	30,626	1,421	2,570	2,398	41,115
Accumulated depreciation						
Balance at 1 January 2010	-	-	624	1,437	1,271	3,332
Depreciation charge for the year	-	621	152	189	141	1,103
Balance at 31 December 2010	-	621	776	1,626	1,412	4,435
Depreciation charge for the year	-	552	157	217	138	1,064
Revaluations through other comprehensive income	-	(1,173)	-	-	-	(1,173)
Balance at 31 December 2011	-	-	933	1,843	1,550	4,326
Carrying amounts						
As at 31 December 2010	**4,525**	**24,455**	**409**	**684**	**988**	**31,061**
As at 31 December 2011	**4,100**	**30,626**	**488**	**727**	**848**	**36,789**

Revaluations

An independent valuation to determine the fair value of all completed resthomes and hospitals which are classified as land and buildings was carried out as at 31 December 2011 (previous valuation 31 December 2009) by Michael Gunn, an independent registered valuer of the firm CB Richard Ellis (2009: valuation carried out by Milton Bevin of the firm Darroch New Zealand Ltd). Michael Gunn is a member of the New Zealand Institute of Valuers (Inc). Valuations are carried out on a regular basis. Significant assumptions include capitalisation rates applied to individual unit earnings ranges of between 12.5% and 15.5% (2009: 8.75% to 10.5%) and market value per care bed of between $80,000 and $131,000 .

7. Property, plant and equipment (continued)

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

	Group	
	2011 $000	2010 $000
Cost	30,696	30,538
Accumulated depreciation and impairment losses	(4,618)	(4,066)
Net carrying amount	26,078	26,472

Leased motor vehicles
The Group leases motor vehicles under a number of finance lease agreements. The leased motor vehicles secure the lease obligation (refer to Note 12). At 31 December 2011 the net carrying amount of leased motor vehicles included in motor vehicles above was $0.2 million (2010: $0.3 million).

8. Investment property

	Group	
	2011 $000	2010 $000
Balance at beginning of period	495,766	460,841
Additions	56,459	33,447
Disposals	(926)	(150)
Fair value movement*	5,841	1,628
Total investment property	**557,140**	**495,766**

*Fair value movement for the year ended 31 December 2011 was made up of a $9.8 million realised gain and a $4.0 million unrealised loss.

The fair value of investment property for the year ended 31 December 2011 was determined by Michael Gunn, an independent registered valuer of the firm CB Richard Ellis (2010: fair value of the property determined by Milton Bevin of the firm Darroch New Zealand Ltd). The fair value of the Group's investment property is determined on an annual basis, based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeable, prudently and without compulsion.

Significant assumptions used by the valuer include a discount rate of between 14% and 16.5% (2010: 14%) and a long term nominal house price inflation rate of between 0% and 3.5% (2010: 2.5% to 5%). Other assumptions used by the valuer include the average age of entry of residents and occupancy periods of units.

The entity has deemed it is unable to reliably determine the fair value of WIP at 31 December 2011 and therefore is carried at cost. This equates to $17.6 million of investment property (2010: $16.8 million).

	Group	
	2011 $000	2010 $000
Valuation of manager's net interest	278,732	263,343
Liability for residents' loans	278,408	231,801
Unamortised deferred management fees	-	622
Total investment property	**557,140**	**495,766**

Operating expenses
Direct operating expenses arising from investment property that generated rental income during the period amounted to $9.6 million (2010: $9.4 million). There were 113 units (2010: 190) in investment property that did not generate rental income during the period.

8. Investment property (continued)

Security
At 31 December 2011, 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.

9. Trade and other payables

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Trade payables	523	469	-	-
Accrued expenses	6,855	7,273	-	-
Liability for puttable shares	-	-	2,550	-
Other payables	2,060	240	-	-
	9,438	**7,982**	**2,550**	**-**

10. Employee benefits

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Holiday pay accrual	1,013	1,032	-	-
Other employee benefits	603	418	-	-
Total employee benefits	**1,616**	**1,450**	**-**	**-**

11. Residents' loans

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Balance at beginning of period	247,068	215,366	-	-
Amounts repaid on termination of occupation right agreements	(23,872)	(17,673)	-	-
Reduction due to change in deferred management fees	-	(4,320)	-	-
Amounts received on issue of new occupation right agreements	78,337	53,695	-	-
Total gross residents' loans	301,533	247,068	-	-
Deferred management fees receivable	(23,125)	(15,267)	-	-
Total residents' loans	**278,408**	**231,801**	**-**	**-**

12. Interest-bearing loans and borrowings

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Repayable within 12 months				
Secured bank loans	-	89,024	-	-
Finance lease liabilities	77	62	-	-
Total interest bearing loans	77	89,086	-	-
Repayable after 12 months				
Secured bank loans	68,881	10,889	-	-
Finance lease liabilities	163	238	-	-
Total interest bearing loans	69,044	11,127		
Total loans and borrowings	**69,121**	**100,213**	**-**	**-**

The weighted average interest rate for the year to 31 December 2011 was 4.48% (2010: 4.61%). This excludes the impact of interest rate swaps (see Note 13).

The secured bank loans have an expiry date of 27 January 2015.

Security
The bank loans are secured by a general security agreement over the assets of Summerset Holdings Limited 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:

	2011			2010		
	Min lease payments	Interest	Principal	Min lease payments	Interest	Principal
Less than 1 year	97	20	77	96	34	62
Between 1 and 5 years	173	10	163	264	26	238
Total	**270**	**30**	**240**	**360**	**60**	**300**

13. Derivative financial instruments

The group has entered into 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 2011, the Group had interest rate swap agreements in place with a total notional principal amount of \$85.0 million (2010: nil). Of the swaps in place, at 31 December 2011 \$63.8 million are being used to cover approximately 92% of the loan principal outstanding and are timed to expire at the renewal dates of each loan. These agreements effectively change the Group's interest exposure on the principal from a floating rate to fixed rates, which range between 3.34% and 3.79% (2010: nil). The fair value of these agreements at 31 December 2011 is a liability of \$1.6 million (2010: nil), of which \$0.2 million is estimated to be current. The agreements cover notional amounts for a term of between two and three years.

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

	Group	
	2011 \$000	2010 \$000
Between 1 and 2 years	35,000	-
Between 2 and 3 years	50,000	-
	85,000	**-**

14. Share capital and reserves

At 31 December 2011, the Company had 214,819,360 ordinary shares on issue (2010: 176,483,645). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

Basic and diluted earnings per share have been calculated on the basis of 180,920,279 weighted average ordinary shares (2010: 169,203,065) and net profit as per the income statement.

	Group		Company	
	2011 \$000	2010 \$000	2011 \$000	2010 \$000
Share capital				
On issue at beginning of year	182,232	164,983	182,232	164,983
Shares issued during the year	53,122	17,249	53,122	17,249
Capital raising costs	(1,685)	-	(1,685)	-
On issue at end of year	**233,669**	**182,232**	**233,669**	**182,232**

	Group		Company	
	2011	2010	2011	2010
Share capital (in thousands of shares)				
On issue at beginning of year	176,484	154,200	176,484	154,200
Shares issued during the year	36,514	22,634	36,514	22,634
Shares issued under the employee share plan	-	-	1,821	-
Shares cancelled during the year	-	(350)	-	(350)
On issue at end of year	**212,998**	**176,484**	**214,819**	**176,484**

	Group		Company	
	2011	2010	2011	2010
Share capital (in thousands of shares)				
Fully paid shares	212,998	174,484	214,819	174,484
Unpaid shares	-	2,000	-	2,000
On issue at end of year	**212,998**	**176,484**	**214,819**	**176,484**

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

14. Share capital and reserves (continued)

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

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

Dividends
There were no dividends declared or paid by the group for the period ended 31 December 2011 (2010: nil).

15. Employee share plan

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

The Group has provided Participants with interest free limited recourse loans to fund the acquisition of these shares (see Note 17). The loans have a maximum expiry date of 31 October 2017.

Vesting criteria for the Share Plan is based on meeting specified financial targets for the years ended 31 December 2012 and 31 December 2013, as set out in the Share Plan rules. The Share Plan shares were issued at $1.40, being the offer price of shares on the listing of the Group on 1 November 2011. The related shares are held by a nominee on behalf of Participants, until such time after the vesting of shares the nominee is directed by the Participant to transfer or sell the shares, or the shares are sold by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

At 31 December 2011, the share plan holds 1,821,429 shares, which represents 0.8% of the total shares on issue (2010: nil).

	2011 Number of shares
Balance at beginning of the period	-
Issued during the year	1,821,429
Balance at end of the period	**1,821,429**

The Share Plan is treated as an option plan for accounting purposes. These options were valued at grant date using the Black Scholes valuation model and the option cost for the year ending 31 December 2011 of $62,000 has been recognised in the income statement of the Company and the Group for that period (2010: nil).

16. Notes to the cash flow statement

(a) Reconciliation of cash and cash flow equivalents

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Bank balances	8,973	4,758	-	-
Petty cash	14	4	-	-
Cash and cash equivalents in statement of cash flows	**8,987**	**4,762**	**-**	**-**

(b) Reconciliation of operating results and operating cash flows

	Group		Company	
	2011 $000	2010 $000	2011 $000	2010 $000
Net profit/(loss) for the period	**4,324**	**(1,900)**	**(62)**	**(184)**
Adjustments for:				
Depreciation, impairment and amortisation expense	1,157	1,362	-	184
Net gain on disposal of fixed assets	-	(30)	-	-
Reversal of impairment of land and buildings	(278)	-	-	-
Fair value movement of investment property	(5,841)	(1,628)	-	-
Net finance costs paid	5,644	3,410	-	-
Deferred tax	40	5,947	-	-
Deferred management fee amortisation	(8,643)	(11,745)	-	-
Employee share plan option cost	62	-	62	-
	(7,859)	(2,684)	62	184
Movements in working capital				
(Increase)/decrease in trade and other receivables	(4,647)	1,156	20	-
Increase/(decrease) in employee benefits	166	178	-	-
Increase/(decrease) in trade and other payables	598	346	-	-
Increase/(decrease) in residents' loans net of non cash amortisation	51,102	36,683	-	-
	47,219	38,433	20	-
Net cash flows from operating activities	**43,684**	**33,849**	**20**	**-**

17. Related party transactions

The balance owing from subsidiaries to the company at 31 December 2011 is $67.9 million (2010: $19.0 million).

The Group has loans to employees receivable at 31 December 2011 of $2.8 million (2010: $0.2 milion). The Company has loans to employees and nominees receivable at 31 December 2011 of $5.4 million (2010: $0.2 million). Refer to Note 15 for employee share plan details. All loans outstanding are interest free limited recourse loans.

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	
	2011 $000	2010 $000	2011 $000	2010 $000
Short-term employee benefits	1,536	1,000	-	-
Share based payments	62	-	62	-
Total	**1,598**	**1,000**	**62**	**-**

Refer to Note 15 for employee share plan details for 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 optimize the consolidated Group's financial result.

The Ministry of Health is a significant customer of the Group, as the Group derives care fee revenue in respect of eligible Government subsidized aged care residents. Fees earned from the Ministry of Health for the year ended 31 December 2011 were approximately 57% of total care fees (2010: 56%). The Group has no other significant customers.

20. Subsidiary companies

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

Summerset Care Limited
Welhom Developments Limited
Summerset Properties Limited
Summerset Management Group Limited
Summerset Villages (Aotea) Limited
Summerset Villages (Dunedin) Limited
Summerset Villages (Hamilton) Limited
Summerset Villages (Hastings) Limited
Summerset Villages (Havelock North) Limited
Summerset Villages (Karaka) Limited
Summerset Villages (Katikati) Limited
Summerset Villages (Nelson) Limited
Summerset Villages (Levin) Limited
Summerset Villages (Manukau) Limited
Summerset Villages (Palmerston North) Limited
Summerset Villages (Paraparaumu) Limited
Summerset Villages (Napier) Limited
Summerset Villages (Taupo) Limited
Summerset Villages (Trentham) Limited
Summerset Villages (Waimauku) Limited
Summerset Villages (Wanganui) Limited
Summerset Villages (Warkworth) Limited
Summerset Holdings Limited
Summerset LTI Trustees 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 policies for managing each of these risks as summarised below. The Group has no exposure to foreign currency or any other substantional market price risk.

Credit Risk

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

The carrying amount of financial assets represents the Group's maximum credit exposure. The status of trade receivables at 31 December is as follows:

	2011		2010	
	Gross receivable $000	Impairment $000	Gross receivable $000	Impairment $000
Not past due	450	-	235	-
Past due 31-60 days	111	-	224	-
Past due 61-90 days	36	-	96	-
Past due more than 90 days	202	84	513	90
Total	**799**	**84**	**1,068**	**90**

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

	2011 $000	2010 $000
Gross trade receivables	799	1,068
Individual impairment	-	(90)
Collective impairment	(84)	-
Net trade receivables	**715**	**978**

All amounts past due but not impaired 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 13 for details of the interest rate swap agreements.

At 31 December 2011 it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit before income tax by approximately $0.5 million (2010: $1.0 million) and would increase equity by $1.8 million (2010: nil).

21. Financial instruments (continued)

Liquidity risk

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

	2011		2010	
	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	9,438	-	7,982	-
Unamortised deferred management fee	-	-	622	-
Residents' loans	23,910	254,498	17,480	214,321
Interest-bearing loans and borrowings	3,038	75,421	90,584	11,277
Interest rate swaps	772	781	-	-
Total	**37,158**	**330,700**	**116,668**	**225,598**

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:

	2011		2010	
	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Group				
Residents' loans	(278,408)	(202,842)	(231,801)	(171,860)
Total	**(278,408)**	**(202,842)**	**(231,801)**	**(171,860)**

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% (2010: 14%).

The fair value of interest rate swaps, liabilities for puttable shares and limited recourse loans are determined using inputs from third parties that are observable, either directly (ie as prices) or indirectly (ie derived from prices). Based on this, the Company and Group has categorized these financial instruments as Level 2 under the fair value hierarchy in accordance with *NZ IFRS 7 – Financial Instruments: Disclosures*.

Categories of Financial Instruments

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

21. Financial instruments (continued)

Capital management
The Group's capital includes share capital, reserves and retained earnings. The objective of the Group's capital management is to ensure a strong credit 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 2011 (2010: 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 2011 (2010: nil).

22. Commitments and contingencies

Operating lease commitments
Non –cancellable operating lease rentals are payable as follows:

	Company and Group	
	2011 **$000**	**2010** **$000**
Less than 1 year	471	491
Between 1 and 5 years	1,850	1,858
More than 5 years	1,503	1,965
Total operating lease commitments	**3,824**	**4,314**

During the year ended 31 December 2011 $0.4 million was recognised in the income statement in respect of operating leases (2010: $0.3 million).

Guarantees
At 31 December 2011, NZX Limited holds a guaruantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (2010: nil).

Capital commitments
At 31 December 2011 construction contracts not provided for at balance date is nil (2010: nil)

Contingent liabilities
There are no known material contingent liabilities at 31 December 2011 (2010: nil)

23. Comparison against prospectus forecast

Actual amounts presented are from the full year financial statements and as such include part year costs for the pre-initial public offering financing arrangements (and higher debt levels), along with inclusion of part year costs due to operating as a listed company post 1 November 2011. The prospectus forecast reflected a normalised view to portray the equivalent expected full year result.

Summary income statement
For the year ended 31 December 2011

	Actual 2011 $000	Forecast 2011 $000
Total income	39,822	39,135
Profit before income tax expense	4,364	4,264
Profit for the period	4,324	4,994

- Total income is higher than forecast due to better than expected operational performance.
- Profit for the period is lower than forecast due to not recognising the future income tax benefit of tax losses that were forecast to be recognised.

Summary statement of comprehensive income
For the year ended 31 December 2011

	Actual 2011 $000	Forecast 2011 $000
Total comprehensive income for the period	7,534	4,994

- Total comprehensive income for the period is higher than forecast primarily due to the fair value arising from the revaluation of land and buildings being higher than expected.

Summary statement of cash flows
For the year ended 31 December 2011

	Actual 2011 $000	Forecast 2011 $000
Net cash flow from operating activities	43,684	38,333
Net cash flow used in investing activities	(52,009)	(58,497)
Net cash flow received from financing activities	12,550	19,317
Net decrease in cash and cash equivalents	4,225	(847)

- Net cash flow from operating activities is higher than forecast due to better than forecast cash from the sale and resale of occupation right agreements.
- Net cash flow used in investing activities is lower than forecast due to the timing of payment for construction costs.
- Net cash flow received from financing activities was lower than forecast due to the timing of loan repayments.

24. Subsequent events

There have been no events subsequent to 31 December 2011 which materially impact on the results reported (2010: nil).

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 74 to 99, which comprise the statement of financial position of Summerset Group Holdings Limited and the group as at 31 December 2011, 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.

Ernst & Young provides taxation and transaction advisory services to the Group.

Opinion

In our opinion, the financial statements on pages 74 to 99:

- ► 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 2011 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

29 February 2012
Wellington

APPENDIX 2

SUMMERSET GROUP HOLDINGS LIMITED:

2012 FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

This appendix includes the audited financial statements of Summerset and the Group for the year ended 31 December 2012. These financial statements were prepared in compliance with the Financial Reporting Act 1993 and have been registered with the Companies Office and provided to NZX in accordance with the NZSX Listing Rules.

You will be able to find the most recent financial statements for Summerset and the Group on Summerset's website www.summerset.co.nz and on NZX's website www.nzx.com.

Directors' Statement

The directors of Summerset are pleased to present to shareholders the financial statements of Summerset Group Holdings Limited and its subsidiaries (the "Group") for the year ended 31 December 2012.

The directors are responsible for presenting financial statements in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Group as at 31 December 2012 and the results of the Group's operations and cash flows for the year ended 31 December 2012.

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

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

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

The financial statements were authorised for issue for and on behalf of the Board on 25 February 2013 by:

Rob Campbell	Norah Barlow
Director and Chairman	Managing Director and Chief Executive Officer

Summerset Group Holdings Limited
Income Statement
For the year ended 31 December 2012

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

Statement of Comprehensive Income
For the year ended 31 December 2012

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

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

The accompanying notes form part of these financial statements.

Summerset Group Holdings Limited
Statement of Changes in Equity
For the year ended 31 December 2012

Group

	Share Capital $000	Hedging Reserve $000	Revaluation Reserve $000	Maintenance Reserve $000	Retained Earnings $000	Total Equity $000
At 1 January 2011	**182,232**	**-**	**3,374**	**1,217**	**(12,370)**	**174,453**
Profit for the period	-	-	-	-	4,324	4,324
Other comprehensive income for the period	-	(920)	4,130	-	-	3,210
Total comprehensive income for the period	-	(920)	4,130	-	4,324	7,534
Transfer(from)/ to maintenance reserve	-	-	-	(760)	760	-
Interest on maintenance reserve	-	-	-	34	(34)	-
Shares	53,122	-	-	-	-	53,122
Capital raising costs	(1,685)					(1,685)
At 31 December 2011	**233,669**	**(920)**	**7,504**	**491**	**(7,320)**	**233,424**
At 1 January 2012	**233,669**	**(920)**	**7,504**	**491**	**(7,320)**	**233,424**
Profit for the period	-	-	-	-	14,821	14,821
Other comprehensive income for the period	-	343	-	-	-	343
Total comprehensive income for the period	-	343	-	-	14,821	15,164
Transfer (from)/to the maintenance reserve	-	-	-	(452)	452	-
Interest on maintenance reserve	-	-	-	8	(8)	-
Employee share plan option cost	206	-	-	-	-	206
At 31 December 2012	**233,875**	**(577)**	**7,504**	**47**	**7,945**	**248,794**

Company

	Share Capital $000	Retained Earnings $000	Total Equity $000
At 1 January 2011	**182,232**	**(36,351)**	**145,881**
Loss for the period	-	(62)	(62)
Total comprehensive income for the period	-	(62)	(62)
Shares issued	53,122	-	53,122
Capital raising costs	(1,685)		(1,685)
At 31 December 2011	**233,669**	**(36,413)**	**197,256**
At 1 January 2012	**233,669**	**(36,413)**	**197,256**
Loss for the period	-	(206)	(206)
Total comprehensive income for the period	-	(206)	(206)
Employee share plan option cost	206	-	206
At 31 December 2012	**233,875**	**(36,619)**	**197,256**

The accompanying notes form part of these financial statements.

Summerset Group Holdings Limited
Statement of Financial Position
As at 31 December 2012

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

Rob Campbell
Director and Chairman

Norah Barlow
Managing Director and Chief Executive Officer

For and on behalf of the Board, who authorise the issue of these financial statements, 25 February 2013

The accompanying notes form part of these financial statements.

Summerset Group Holdings Limited
Statement of Cash Flows
For the year ended 31 December 2012

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

The accompanying notes form part of these financial statements.

1. Summary of accounting policies

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

The financial statements presented for the year ended 31 December 2012 are those of Summerset Group Holdings Limited and its subsidiaries ("the Group"). The Group develops, owns and operates integrated retirement villages, rest homes and hospitals for the elderly within New Zealand. The Group is a reporting entity for the purposes of the Financial Reporting Act 1993 and these financial statements comply with that Act.

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

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

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

(a) Basis of consolidation
The Group financial statements are prepared by consolidating the financial statements of all entities that comprise the Group, being Summerset Group Holdings Limited and its subsidiaries as defined in *NZ International Accounting Standard ("IAS") - 27 : Consolidated and Separate Financial Statements*. A list of subsidiaries appears in Note 20. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. All intercompany transactions and balances, and unrealized profits arising within the Group are eliminated in full. Investments in subsidiaries are recorded at cost less any adjustment for impairment.

(b) Revenue recognition
(i) Services
When the outcome of a contract to provide services can be estimated reliably, revenue is recognised by reference to the percentage of the services performed, specifically:

<u>Deferred management fees</u>
Deferred management fees, which entitle residents to accommodation and the use of the community facilities within the village, are recognised over the period of service, being the greater of the expected period of tenure or the contractual right to revenue. The expected periods of tenure, being based on historical industry averages are estimated to be 7 to 8 years for villas, 5 years for apartments and 3 years for care apartments.

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

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

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

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

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

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

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

- Licences 10%
- Software 48% - 60%

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

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

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

1. Summary of accounting policies (continued)

(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:

1. Summary of accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

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

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

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

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

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

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

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

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

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

1. Summary of accounting policies (continued)

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

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

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

(o) Comparative information
Where necessary, comparative figures have been restated to correspond with current year classifications.

(p) New standards and interpretations not yet adopted
NZ IFRS Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual report period ending 31 December 2012 are outlined below:

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

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

2. Operating expenses

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

Other operating expenses include:

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

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

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

3. Net finance costs

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

4. Income tax

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

(a) Income tax recognised in income statement

	Group		Company	
	2012 $000	**2011 $000**	**2012 $000**	**2011 $000**
Tax expense comprises:				
Current tax expense	-	-	-	-
Deferred tax relating to the origination and reversal of temporary differences	(407)	40	-	-
Total tax (credit)/ expense reported in income statement	**(407)**	**40**	**-**	**-**

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

Group

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

Company

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

4. Income tax (continued)

(b) Amounts charged or credited to other comprehensive income

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

(c) Income tax losses

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

(d) Imputation credit account

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

(e) Deferred tax

The deferred tax balance comprises:

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

Movement in the deferred tax balance comprises:

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

	Balance 1 Jan 2011 $000	Recognised in income $000	Recognised in OCI* $000	Balance 31 Dec 2011 $000
Property, plant and equipment	5,951	327	1,732	8,010
Investment property	10,343	171	-	10,514
Revenue in advance	(1,817)	(342)	-	(2,159)
Interest rate swaps		(77)	(358)	(435)
Other items	(269)	(39)	-	(308)
Net deferred tax liability	**14,208**	**40**	**1,374**	**15,622**

* Other comprehensive income

5. Trade and other receivables

	Group		Company	
	2012 $000	2011 $000	2011 $000	2010 $000
Trade receivables	1,051	799	-	-
Allowance for doubtful debts	(11)	(84)	-	-
	1,040	715	-	-
Prepayments	1,309	1,268	-	-
Accrued income	65	398	-	-
Sundry debtors	6,589	8,239	-	-
	9,003	**10,620**	**-**	**-**

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

6. Property, plant and equipment

Group

	Land $000	Buildings $000	Motor Vehicles $000	Plant and Equipment $000	Furniture and Fittings $000	Total $000
Cost						
Balance at 1January 2011	4,525	25,076	1,185	2,310	2,400	35,496
Additions	-	158	236	260	37	691
Reversal of impairment through profit or loss	-	278	-	-	-	278
Revaluations through other comprehensive income	(425)	5,114	-	-	-	4,689
Disposals	-	-	-	-	(39)	(39)
Balance at 31 December 2011	4,100	30,626	1,421	2,570	2,398	41,115
Additions	-	5,979	342	668	108	7,097
Balance at 31 December 2012	4,100	36,605	1,763	3,238	2,506	48,212
Accumulated depreciation						
Balance at 1 January 2011	-	621	776	1,626	1,412	4,435
Depreciation charge for the year	-	552	157	217	138	1,064
Revaluations through other comprehensive income	-	(1,173)	-	-	-	(1,173)
Balance at 31 December 2011	-	-	933	1,843	1,550	4,326
Depreciation charge for the year	-	700	180	310	128	1,318
Balance at 31 December 2012	-	700	1,113	2,153	1,678	5,644
Carrying amounts						
As at 31 December 2011	**4,100**	**30,626**	**488**	**727**	**848**	**36,789**
As at 31 December 2012	**4,100**	**35,905**	**650**	**1,085**	**828**	**42,568**

Revaluations

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

6. Property, plant and equipment (continued)

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

	Group	
	2012 $000	**2011 $000**
Cost	36,675	30,696
Accumulated depreciation and impairment losses	(5,318)	(4,618)
Net carrying amount	31,357	26,078

Leased motor vehicles

The Group leases motor vehicles under a number of finance lease agreements. The leased motor vehicles secure the lease obligation (refer to Note 11). At 31 December 2012 the net carrying amount of leased motor vehicles included in motor vehicles above was $0.1 million (2011: $0.2 million).

7. Investment property

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

The fair value of investment property for the year ended 31 December 2012 was determined by Michael Gunn, an independent registered valuer of the firm CB Richard Ellis. The fair value of the Group's investment property is determined on an annual basis, based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeable, prudently and without compulsion.

Significant assumptions used by the valuer include a discount rate of between 14% and 16.5% (2011: 14 to 16.5%) and a long term nominal house price inflation rate of between 0% and 3.8% (2011: 0% to 3.5%). Other assumptions used by the valuer include the average age of entry of residents and occupancy periods of units.

The Group has deemed it is unable to reliably determine the fair value of capital work in progress at 31 December 2012 and therefore is carried at cost. This equates to $24.5 million of investment property (2011: $17.6 million).

	Group	
	2012 $000	**2011 $000**
Valuation of manager's net interest	308,373	278,732
Liability for residents' loans	336,133	278,408
Total investment property	**644,506**	**557,140**

Operating expenses

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

7. Investment property (continued)

Security

At 31 December 2012, all investment property was subject to a registered first mortgage in favour of the Statutory Supervisor to secure the Group's obligations to the occupation agreement holders.

8. Trade and other payables

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade payables	538	523	-	-
Accrued expenses	10,183	6,855	-	-
Liability for puttable shares	-	-	2,550	2,550
Other payables	1,284	2,060	-	-
	12,005	**9,438**	**2,550**	**2,550**

9. Employee benefits

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Holiday pay accrual	1,241	1,013	-	-
Other employee benefits	313	603	-	-
Total employee benefits	**1,554**	**1,616**	**-**	**-**

10. Residents' loans

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

11. Interest-bearing loans and borrowings

	Group		Company	
	2012 $000	**2011 $000**	**2011 $000**	**2010 $000**
Repayable within 12 months				
Finance lease liabilities	46	77	-	-
Total interest bearing loans	46	77	-	-
Repayable after 12 months				
Secured bank loans	77,999	68,881	-	-
Finance lease liabilities	117	163	-	-
Total interest bearing loans	78,116	69,044		
Total loans and borrowings	**78,162**	**69,121**	**-**	**-**

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

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

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

Finance Lease Liabilities
Finance Lease Liabilities for the Group are payable as follows:

	2012			2011		
	Min lease payments	**Interest**	**Principal**	**Min lease payments**	**Interest**	**Principal**
Less than 1 year	47	1	46	97	20	77
Between 1 and 5 years	126	9	117	173	10	163
Total	**173**	**10**	**163**	**270**	**30**	**240**

12. Derivative financial instruments

The group holds interest rate swaps in order to minimise the impact of rising interest rates. Under these agreements, the Group has a right to receive interest at variable rates and to pay interest at fixed rates. At 31 December 2012, the Group had interest rate swap agreements in place with a total notional principal amount of $85.0 million (2011: $85.0 million). Of the swaps in place, at 31 December 2012 $58.8 million (2011: $63.8 million) are being used to cover approximately 75% (2011: 92%) of the loan principal outstanding. These agreements effectively change the Group's interest exposure on the principal covered by the interest rate swaps from a floating rate to fixed rates, which range between 3.34% and 3.79% (2011: 3.34% and 3.79%).

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

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

	Group	
	2012 $000	2011 $000
Less than 1 year	35,000	-
Between 1 and 2 years	50,000	35,000
Between 2 and 3 years	-	50,000
	85,000	**85,000**

13. Share capital and reserves

At 31 December 2012, the Company had 214,819,360 ordinary shares on issue (2011: 214,819,360). All ordinary shares are fully paid and have no par value. All shares carry one vote per share and carry the right to dividends.

Basic and diluted earnings per share have been calculated on the basis of 212,997,932 weighted average ordinary shares (2011: 180,920,279) and net profit as per the income statement.

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

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

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

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

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

14. Employee share plan

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

The Group has provided Participants with interest free limited recourse loans to fund the acquisition of these shares (see Note 16). The loans have a maximum expiry date of 31 October 2017.

Vesting criteria for the Share Plan is based on meeting specified financial targets for the years ended 31 December 2012 and 31 December 2013, as set out in the Share Plan rules. The Share Plan shares were issued at $1.40, being the offer price of shares on the listing of the Group on 1 November 2011. The related shares are held by a nominee on behalf of Participants, until such time after the vesting of shares the nominee is directed by the Participant to transfer or sell the shares, or the shares are sold by the nominee if vesting criteria are not met. The shares carry the same rights as all other ordinary shares.

At 31 December 2012, the share plan holds 1,821,429 shares (2011: 1,821,429 shares), which represents 0.8% (2011: 0.8%) of the total shares on issue.

	2012 Number of shares	2011 Number of shares
Balance at beginning of the period	1,821,429	-
Issued during the year	-	1,821,429
Balance at end of the period	**1,821,429**	**1,821,429**

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

15. Notes to the cash flow statement

(a) Reconciliation of cash and cash flow equivalents

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

(b) Reconciliation of operating results and operating cash flows

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

16. Related party transactions

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

The Group has loans to employees receivable at 31 December 2012 of $2.8 million (2011: $2.8 milion). The Company has loans to employees and nominees receivable at 31 December 2012 of $5.4 million (2011: $5.4 million). Refer to Note 14 for employee share plan details. All loans outstanding are interest free limited recourse loans.

17. Key management personnel compensation

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

	Group		Company	
	2012 $000	2011 $000	2012 $000	2011 $000
Short-term employee benefits	2,208	1,536	-	-
Share-based payments	206	62	206	62
Total	**2,414**	**1,598**	**206**	**62**

Refer to Note 14 for employee share plan details for key management personnel.

18. Segment reporting

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

The Ministry of Health is a significant customer of the Group, as the Group derives care fee revenue in respect of eligible Government subsidized aged care residents. Fees earned from the Ministry of Health for the year ended 31 December 2012 were approximately 56% of total care fees (2011: 57%). The Group has no other significant customers. All revenue is earned in New Zealand.

19. Subsidiary companies

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

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

20. Financial instruments

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

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

The carrying amount of financial assets represents the Group's maximum credit exposure. The status of trade receivables at 31 December is as follows:

	2012		2011	
	Gross receivable $000	Impairment $000	Gross receivable $000	Impairment $000
Not past due	876	-	450	-
Past due 31-60 days	87	-	111	-
Past due 61-90 days	20	-	36	-
Past due more than 90 days	68	11	202	84
Total	**1,051**	**11**	**799**	**84**

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

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

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

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

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

At 31 December 2012 it is estimated that a general increase of one percentage point in interest rates would increase the Group's profit before income tax by approximately $0.3 million (2011: $0.5 million) and would increase equity by $0.7 million (2011: $1.8 million).

20. Financial instruments (continued)

Liquidity risk

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

	2012		2011	
	Less than 1 year $000	Greater than 1 year $000	Less than 1 year $000	Greater than 1 year $000
Financial liabilities				
Trade and other payables	12,005	-	9,438	-
Residents' loans	30,938	305,195	23,910	254,498
Interest-bearing loans and borrowings	3,057	84,360	3,038	75,421
Interest rate swaps	600	354	772	781
Total	**46,600**	**389,909**	**37,158**	**330,700**

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

Fair values

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

	2012		2011	
	Carrying amount $000	Fair value $000	Carrying amount $000	Fair value $000
Group				
Residents' loans	(336,133)	(226,915)	(278,408)	(202,842)
Total	**(336,133)**	**(226,915)**	**(278,408)**	**(202,842)**

The fair value of residents' loans is based on the present value of projected cash flows. Future cash flows are based on the assumption that the average tenure periods are those disclosed above and have been discounted at 14% (2011: 14%).

The fair value of interest rate swaps, liabilities for puttable shares and limited recourse loans are determined using inputs from third parties that are observable, either directly (ie as prices) or indirectly (ie derived from prices). Based on this, the Company and Group has categorized these financial instruments as Level 2 under the fair value hierarchy in accordance with *NZ IFRS 7 – Financial Instruments: Disclosures*.

Categories of Financial Instruments

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

20. Financial instruments (continued)

Capital management

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

The Group's capital is managed through Summerset Holdings Limited and its subsidiaries ("SHL Group"). The SHL Group is subject to capital requirements imposed by the bank through the Group Deed of Covenant. The SHL Group has met all externally imposed capital requirements for the year ended 31 December 2012 (2011: all requirements met).

Summerset Holdings Limited's capital structure is managed, and adjustments are made, with Board approval. There were no changes to objectives, policies or processes during the year ended 31 December 2012 (2011: nil).

21. Commitments and contingencies

Operating lease commitments

Non –cancellable operating lease rentals are payable as follows:

	Company and Group	
	2012 $000	2011 $000
Less than 1 year	462	471
Between 1 and 5 years	1,850	1,850
More than 5 years	1,040	1,503
Total operating lease commitments	**3,352**	**3,824**

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

Guarantees

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

Capital commitments

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

Contingent liabilities

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

22. Comparison against prospectus forecast

Summary income statement
For the year ended 31 December 2012

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

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

Summary statement of comprehensive income
For the year ended 31 December 2012

	Actual 2012 $000	Forecast 2012 $000
Total comprehensive income for the period	15,164	13,259

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

Summary statement of cash flows
For the year ended 31 December 2012

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

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

23. Subsequent events

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

ERNST & YOUNG

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 103 to 128, which comprise the statement of financial position of Summerset Group Holdings Limited and the group as at 31 December 2012, and the income statement, statement of changes in equity and statement of cash flows for the year then ended of the company and group, and a summary of significant accounting policies and other explanatory information.

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

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Ernst & Young provides taxation services to the group.

Opinion

In our opinion, the financial statements on pages 103 to 128:

► comply with generally accepted accounting practice in New Zealand;

► comply with International Financial Reporting Standards; and

► give a true and fair view of the financial position of Summerset Group Holdings Limited and the group as at 31 December 2012 and the financial performance and cash flows of the company and group for the year then ended.

Report on Other Legal and Regulatory Requirements

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

► We have obtained all the information and explanations that we have required.

► In our opinion proper accounting records have been kept by Summerset Group Holdings Limited as far as appears from our examination of those records.

Ernst + Young

25 February 2013
Wellington

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