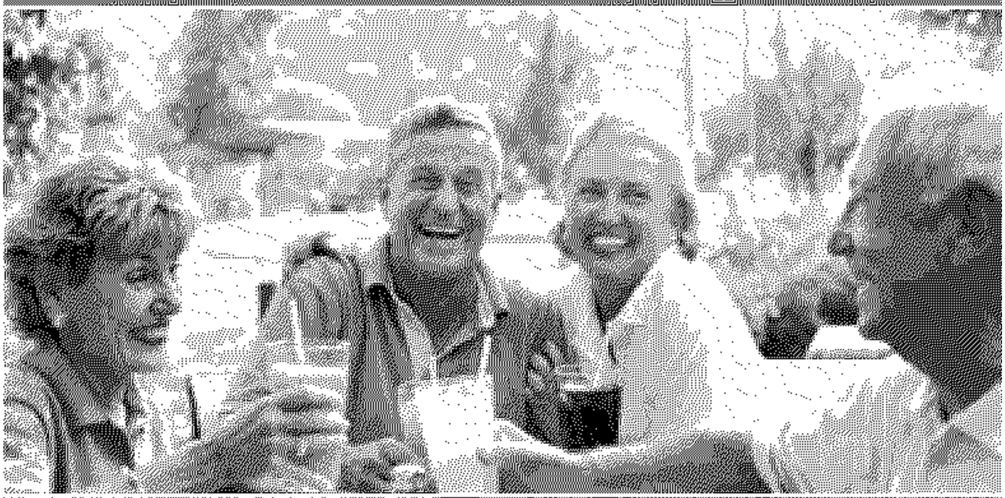
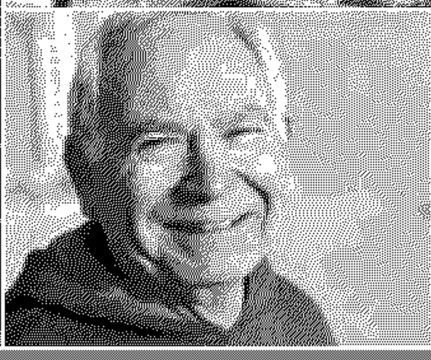
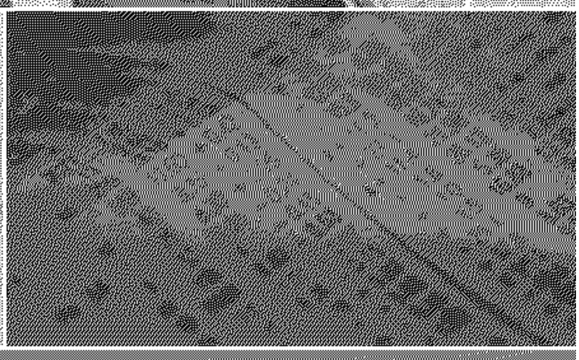
ANNUAL REPORT 2004

SunnyCove™







SunnyCove Management Limited
ABN 15 097 241 159

CONTENTS

At a glance

Established
June 2001

Listed
1 July 2004

Chairman
Andrew Kemp

Managing Director
Mark Roberts

Principal business
Provides affordable long-term seniors' accommodation for the growing "renter-by-choice" market: a large and growing market of Australians who make the choice to rent.

No of units under management
(as at 30 June 2004): 162

No of units under management
(prospectus forecast)
by 30 June 2005: 500

Capital raising:
$12 million, June 2004

SunnyCove Management Limited

SunnyCove is an ASX-listed 'pure play' long-term rental accommodation provider, targeting the "renter-by-choice" market in Australia, and focusing on long-term growth in annuity-style revenues from its managed communities.

The Company successfully listed on the ASX in July 2004 as a growth investment with a scaleable business model and relatively low capital requirements in a high-growth sector.

SunnyCove acquires management rights and develops and manages residential communities that offer an outstanding environment for seniors choosing long-term affordable rental accommodation, and who desire the convenience and lifestyle afforded by quality community-style accommodation.

Evolution

The 2004 financial year has been one of consolidation in preparation for the Company's aggressive growth and expansion plans. Our aim during 2004 was to consolidate our position in preparation for the listing on the ASX and to accelerate the growth of the business through:

- expanding the number of units under management;
- exploring new locations to extend the Company's reach and market penetration within Queensland; and
- ensuring our ability to grow exponentially through listing the Company on the ASX.

In going forward, our focus will continue to be on building this momentum and taking the Company to the next level in its development.

Performance Highlights

Financial Year 2004 Highlights

- A loss after tax for the year to 30 June 2004 of $1.36 million, 5.7% better than forecast in the Company's prospectus.
- The Company's net assets increased to $8.888 million (2003: ($0.589 million)).
- The Morayfield and Maroochydore communities were completed, opened, and achieved strong sales and occupancy.
- Relocated corporate headquarters to larger premises in Maroochydore, designed to accommodate the Company's anticipated future growth.
- Established a back-office operation to achieve greater efficiencies and flatten the organisational structure.
- Finalised the Board's composition during the second half of the financial year.
- Developed a scalable business model, focused on long-term growth in annuity-style revenue from managed Seniors' Communities.
- Completed feasibility and due diligence analyses on properties and management rights acquisitions.
- Undertook capital raising activities ($12 million), including a successful initial public offering which resulted in the Company's listing on the Australian Stock Exchange (ASX).

Highlights Post ASX Listing - 1 July 2004

- Acquired the management rights of a number of Seniors' Communities to bring the number of units in SunnyCove's portfolio to 468, an increase of 306 since listing.
- Progressed the planning and pending developments as outlined in the prospectus, including the design and construct documentation for future intellectual property licensing.
- Contracted land at Mackay for development of seniors' accommodation.
- Developed an acquisition and financing strategy to acquire management rights for Seniors' Communities and land for the future growth of SunnyCove.

CHAIRMAN'S REPORT

On behalf of your Board of Directors, I am pleased to present our first annual report as a listed public company.

The year in review was a period of consolidation for SunnyCove, with an emphasis on preparing the Company for a public listing and establishing prudent financial and operational systems and processes to support its aggressive growth plans.

Financial Performance

Financially, while the Company reported a loss after tax for the year to 30 June 2004 of $1.36 million, the result was 5.7% better than forecast in the Company's prospectus dated 18 May 2004. Much of this cost resulted from SunnyCove investing in improving the quality of its existing communities by: establishing an efficient back-office operation and development division; researching and developing its new "renter-by-choice" model; and preparing the Company for its initial public offering. These essential steps have positioned SunnyCove for its aggressive growth plans for the coming year.

Revenue increased during the period to $6.704 million (2003: $3.853 million) primarily as a result of the sale of its strata title units at communities in Morayfield and Maroochydore, which had been completed during the year. Other revenue was generated from the operation of the communities under management.

The Company's net assets increased to $8.888 million (2003: ($0.589 million)) primarily as a result of the $12 million capital raising in the June 2004 quarter. Total liabilities decreased by $1.704 million to $6.381 million (2003: $8.085 million) at year-end due to the retirement of founding shareholder loans from proceeds of the initial public offering. All founding shareholders have maintained an equity interest in SunnyCove.

Key Achievements

A great deal was achieved during the year in review, particularly during the second half. Key achievements included the:

- development of a scalable business model, focused on long-term growth in annuity style revenue from its managed communities;
- consolidation of the management team tasked with implementing this model;
- completion of feasibility and due diligence analyses on properties and management rights acquisitions;
- successful negotiation of takeout and long term lease-back for the first five development projects with property funds manager Clarence Property Corporation Limited; and
- successful capital raising activities ($12 million), culminating in 1 July 2004 listing on ASX.

Board

The Board's final composition was established during the second half of the financial year, with my appointment as Chairman (March 2004), Craig Wallace as a director (March 2004), and Matthew Madsen as a director (May 2004). These appointments were made to augment the existing skills and experience of Mark Roberts, the Company's founder, who continued as the Company's Managing Director, and to help position SunnyCove for future growth as an ASX-listed public Company.

Strategy

During the year, the Board and management embarked on the development and execution of a two part strategy, aimed at significantly expanding the Company's current operations and its future revenue streams.

Initially, the Company will continue to focus on acquiring existing seniors' affordable housing operations to achieve a higher critical mass of units under management. SunnyCove will improve the operating efficiencies of these Seniors' Communities by implementing its SunnyCove systems at each site.

The second element of SunnyCove's strategy, which is a key part of the Company's long-term growth plans, is the development and management of the "renter-by-choice" model. Significant investment was made during the year to confirm the applicability of this model in the Australian marketplace. This scalable business model focuses on long-term growth in annuity-styled revenues from managed Seniors' Communities.

To date we have made substantial progress against these strategies and will continue to execute its key elements during FY2005.

Outlook

Based on the progress made over recent months with the acquisition of Seniors' Communities and our own developments, we are ahead of forecast as at the date of this report. We expect to be able to provide guidance to shareholders and the investment community on the outlook for the June 2005 financial year and beyond when we release our half year results in February 2005.

The expanded capital base provides potential for strong shareholder returns as we focus on expanding the number of units under management and the development of our rental models.

Our goal is to become a leading listed long-term seniors' rental accommodation provider in Australia, focused on long-term growth in annuity-style revenues from our managed communities.

I am confident about SunnyCove's future - we have a scaleable business model with a strong growth capability in this exciting sector.

Andrew Kemp

Chairman

MANAGING DIRECTOR'S REPORT

The year in review has been a pivotal one for SunnyCove and its staff, residents, and shareholders. Our focus has been on consolidating our existing position in the affordable housing market, the expansion of our property portfolio, the development of a new "renter by choice" model (which is an evolution and broadening of our existing seniors' accommodation model) and listing the Company on ASX.

In essence, we concentrated on establishing strong foundations in preparation for significant future growth and profitability.

Operational Highlights

Community Acquisition and Development

During the year in review, SunnyCove's Morayfield and Maroochydore communities were completed, and achieved strong sales. Occupancy rates at both communities reached target levels in a short period of time after completion. The established Sunnybank Hills community continues to maintain the Company's standard occupancy level of 98%.

SunnyCove also acquired a number of new properties during the financial year including sites at Forest Lake, Gladstone, Rockhampton, Townsville and Cairns. Once developed, these properties will add approximately 551 seniors' units under management to SunnyCove's portfolio. Each acquisition is in line with SunnyCove's strategy to choose communities based in cities and large coastal towns where market growth is anticipated to be the strongest and provide the best returns.

Capital Raising

A concentrated effort and focus was also given to the Company's $12 million capital raising. The resulting listing on ASX was an important part of SunnyCove's expansion plans. The funds raised will greatly assist the Company with its plans for accelerated growth, and will be used primarily for the acquisition of management rights of established Seniors' Communities and the development of new Seniors' Communities that will be funded by a combination of mezzanine and senior debt.

Internal Changes

In preparation for the Company's IPO, SunnyCove made a number of internal changes. Most significantly, the Company:

- relocated its corporate headquarters in November 2003 to larger premises in Maroochydore, Queensland, designed to accommodate the Company's anticipated future growth;
- established a back office property management operation to achieve greater efficiencies consistent with its flat organisational structure;
- made changes to its Human Resources model whereby all site staff are employees of the Company - not merely on-site managers contracted to the Company;
- appointed a number of new executives to complement existing expertise and in preparation for the IPO, including Grant Vayro, Chief Financial Officer, and Geoff Little, Development Manager; and
- developed policies and procedures and a corporate governance charter to ensure compliance with all statutory and legislative requirements.

SunnyCove's Target Market

The market for long-term seniors' rental accommodation continues to mature, and is expected to grow exponentially over the next 50 years. In the United States, research strongly suggests that more and more people are choosing to rent, and economic indicators suggest that this trend is being replicated in Australia. In addition to the current market for affordable housing, Australian Bureau of Statistics data indicates that an increasing proportion of Australians are starting to rent by choice.

While SunnyCove's main consumer base continues to be seniors over the age of 65, the Company's product offering is currently being expanded to target two market segments.

- **Affordable housing:** this segment is aimed at the single pensioner accommodation market currently offered under the SunnyCove brand. This business model is strata-titled and SunnyCove operates the management rights with the rent calculated as a percentage of pension and rent subsidy, with common community facilities and meal services provided. This model has limited opportunity to extract more value in earnings per unit because of the narrow target market and rent ceiling. This prompted the evolution of the "renter-by-choice" model.

- **"Renter-by-choice":** this model attracts a broader target market with a range of tariffs. While still calculated on pension and rent subsidy formulas, it targets both singles and couples, and can also include older renters who can afford home ownership, but make the decision to rent for lifestyle reasons. This group may or may not be on the pension, may be self-funded retirees, and are seeking community lifestyle living without the upfront financial commitment. These higher amenity Seniors' Communities provide a higher earning capacity on a per unit basis.

To cement this strategic direction, SunnyCove entered into an arrangement with Clarence Property Corporation Limited to purchase the next five communities at Forest Lake, Cairns, Townsville, Gladstone and Rockhampton. These "renter-by-choice" communities are purchased in one-line on a lease back to SunnyCove. The decision and confidence to purchase these SunnyCove communities by a well respected property trust, that has traded since 1994 and has currently $104 million in property assets under management, was a pivotal milestone for SunnyCove alleviating strata-title sales risk and providing a strategic advantage in the future of the Company.

Outlook

SunnyCove expects to substantially improve its overall financial performance during 2004/5, anticipating solid growth through new acquisitions and portfolio expansion, and we expect the Company will exceed forecast unit numbers under management by the end of the financial year.

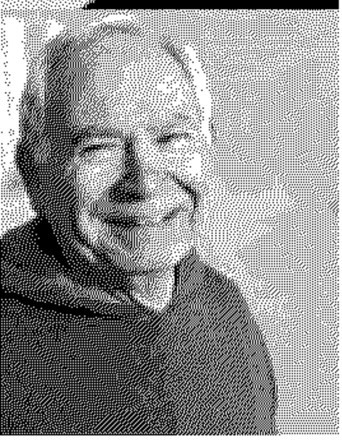
Specifically, the Company will look to grow revenue through the continued acquisition of management rights of existing seniors' affordable housing communities and increase their earnings per unit by the introduction of SunnyCove management systems. The Company will also acquire and develop communities aimed at the "renter-by-choice" market and continue to scale without increasing our back office support systems.

SunnyCove's market segmentation, product range, long-term strategic approach and the systems we established during the year in review, position us well to take advantage of the enormous potential in this maturing seniors' market in the coming years.

I would like to thank the team at SunnyCove both internal and external, and the Board for the hard work and the value created for SunnyCove during the year and look forward to sharing their passion and commitment to SunnyCove in what promises to be another landmark year for the Company.

Mark Roberts

REVIEW OF OPERATIONS



Existing Communities

As at 30 June 2004, SunnyCove operated three communities in Queensland located at Sunnybank Hills, Morayfield, and Maroochydore. All of the units at these communities have been sold to investors. SunnyCove manages these units and communities on behalf of the owners under 25 year agreements to let and manage. See figure 1.

These Seniors' Communities were developed as part of SunnyCove's affordable housing model, and reflect SunnyCove's service standards and philosophy of "choice" in lifestyle for the seniors' market.

The occupancy rate at each of these communities remains strong, averaging between 95% and 100% after the initial letting period. The Company's successful marketing campaign "Your Community - Your Choice" helped achieve these high occupancy rates. The campaign focused on SunnyCove's key points of differentiation, emphasising the quality and personal approach of management, and the tailored approach the Company adopts for each community. This approach spans various facets of community living, from involving residents in menu planning, to establishing cafes, gazebos, and other specific design features within the community.

Seniors' Management Rights Acquisitions

SunnyCove completed due diligence on the management rights of a number of additional communities during the financial year and has acquired those rights and commenced operation of these Seniors' Communities at the time of this report. These communities are described in figure 2.

At the time of reporting, SunnyCove was conducting due diligence on, or waiting to settle the acquisition of the management rights to an additional three communities in Brisbane. The successful finalisation of these contracts will add another 140 units to the Company's total and cement its presence in the long-term seniors' rental accommodation market. These communities are described in figure 3.

The completion of these acquisitions will see SunnyCove increase its seniors' units under management to 468. The Company will continue to look for opportunities in this market segment, and will implement its systems across each community to improve operating efficiencies to increase profit per unit.

Development Projects

In addition to the above communities, SunnyCove currently has five "renter-by-choice" projects in planning. Approval documentation has commenced for all of these projects, with modifications progressively made to accommodate relevant cost savings. Once developed, these communities will add an additional 551 units under management. Each development is in line with SunnyCove's strategy to choose communities based in cities and large coastal towns where market growth is anticipated to be the strongest and provide the best returns. These five projects are the subject of an arrangement with Clarence Property Corporation Limited, which will enable SunnyCove to sell these communities and lease them back under a long-term arrangement.

The SunnyCove model

SunnyCove has identified a significant opportunity in Australia's changing demographic, lifestyle and housing needs, particularly in relation to its ageing population. As such, the Company has evolved its business model to capture a number of key segments in this growing market.

SunnyCove's original business model concentrated heavily on capturing the affordable accommodation market. This segment includes the lower budget, bed-sit accommodation currently offered under the SunnyCove brand. Rent is calculated as a percentage of pension and rent subsidy, and common community and meal services are provided. In this segment, residents' accommodation choices are limited due to financial constraints.

Units Under Management

Figure 1
Management Rights Held at 30 June 2004

Community	No of Units	Commenced SCV Operations	Status
22 Farne Street **Sunnybank Hills**	30	Feb 2002	Developed by associate of SunnyCove and management rights retained
21-23 Barossa Crescent **Morayfield**	84	April 2003	Developed by SunnyCove and management rights retained
26 Yinni Street **Maroochydore**	48	June 2004	Developed by SunnyCove and management rights retained
Total Units	**162**		

Figure 2
Management Rights Acquired Post 30 June 2004

Community	No of Units	Commenced SCV Operations	Status
4 Don Wright Drive Andergrove **Mackay**	38	August 2004	Acquired management rights
Kedron Wavell Terraces, 12 Ballantine Street **Chermside**	44	August 2004	Acquired management rights
Park View Gardens 10 Geeba Street **Slacks Creek**	84	September 2004	Acquired management rights
Total Units	**166**		

Figure 3
Management Rights Under Contract at 30 September 2004

Community	No of Units	Estimated Settlement Date	Status
12 Yeates Place **Meadowbrook**	38	7 October 2004	Conditional upon Body Corporate approval
348 Stafford Road **Stafford**	54	4 October 2004	Conditional upon Body Corporate approval
3 Snedden Street **Bethania**	48	November 2004	New Community, conditional upon set up of Body Corporate, and issue of CMS.
Total Units	**140**		

Following extensive market research both locally and internationally, SunnyCove has evolved its model to capture broader segments of the rental accommodation market. As part of this evolution, SunnyCove has developed the "renter-by-choice" product. Significant investment was made during the year to confirm the applicability of this product in the Australian marketplace.

Unlike traditional bed-sit accommodation, which was aimed at the single pension market, operated by licensed managers, and financed through charging a percentage of pension and rent subsidy, the "renter-by-choice" product:

- provides a range of accommodation structures still based on a percentage of the pension but with a range of tariffs;
- appeals to a broader market base, with a lower age demographic;
- offers improved 'service levels' for residents at communities due to Company employees working in specific roles rather than being operated by licensed managers; and
- provides strong investment returns, with an emphasis on future earnings from management rather than development profit.

Key elements of the new product provide an upside for both investors and residents alike. Once developed, SunnyCove's "renter-by-choice" communities will:

- increase bottom line profit from management fees as a result of change in unit configuration and tariff mix;
- be situated in areas where people want to live - namely major cities or large regional coastal areas;
- occupy smaller footprints allowing purchase of key strategic sites (i.e. higher density projects);
- attract a broader market base;
- provide a range of tariffs attracting a broad cross section of the market from those that are seeking affordable accommodation to self-funded retirees;
- employ Company managers with a support relief staff management system, avoiding 24-hour 7-day week operations with early staff burn-out;
- provide catering, menu planning and stock purchasing from central head office ensuring audit, cost control and quality assurance for food service to residents; and
- use a flexible user-pays food system.

Staff

During the financial year, substantial investment was made in the area of staff training, with all new managers employed for the communities that SunnyCove has acquired, together with the managers from its existing communities, completing an intensive training program.

This training included: an introduction and overview of the Company, property management and related legislation and paperwork; familiarisation with the Accommodation and Accreditation Act 2002; marketing and communication with residents; emergency response and senior first aid training; food hygiene practices; workplace health and safety and chemical handling; grounds maintenance and caretaking; budget management; food ordering and menu planning.

The head office management structure is based on principles of collaborative management and mutual responsibility. SunnyCove employees, both site and head office staff, work as a cohesive team but within that, each member is accountable to the Company and to each other for delivering on different parts of the business and its strategy. Principles, ethics and care of our residents are very important to all team members.

Use of Prospectus Funds

Consistent with the use of the $12 million capital raising described in the Prospectus dated 18 May 2004, SunnyCove prior to balance date completed the following: retired related party loans totalling $3 million; repaid short term funding from Dynamic Capital Solutions of $500,000; repaid bank overdraft facilities of $726,793 and creditors of $169,253; and repurchased 410,537 shares at $1.00 per share from Ian Zande. Post balance date, the remaining debts were paid to Dynamic Capital Solutions and $750,000 was allocated for payment of prospectus costs. The balance of funds have been kept readily convertible to allow the Company to achieve its business objectives and purchase the management rights of existing Seniors' Communities and provide equity for development projects.

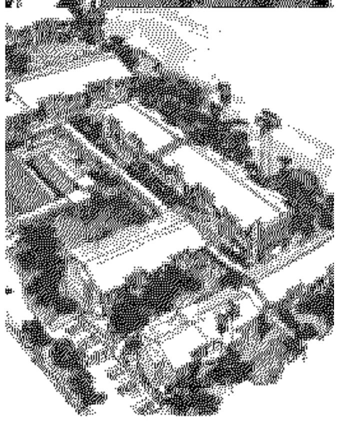
Operational Outlook

SunnyCove's opportunities for growth are directly linked to Australia's ageing population. The following statistics support the opportunities identified by the Company:

* as at January 2001, there were 2.4 million Australians aged 65 and over, representing 12.5% of the population;
* this sector is expected to continue to grow over the next 50 years to reach six million people, or 25% of the total population;
* from 1999 to 2019, the number of people aged between 55 and 64 is expected to rise by 71%;
* from 1999 to 2019, the number of people aged 65 to 74 is expected to rise by 73%;
* the government pension is by far the largest source of income for people over the age of 65 and in retirement. In the year 2000, 79% of these people received financial assistance through an aged pension; and
* 28% of Australians live in some form of rental accommodation of which there is an overall market shortage indicating potential for significant growth.

SunnyCove's primary focus for the 2005 financial year will be to:

* grow organically through the acquisition, development and operation of new SunnyCove communities;
* acquire existing management rights and improve bottom line through efficient operations;
* licence development intellectual property to development / building companies on a design and construct basis to accelerate development program;
* initially focus on developing in the Queensland market, but continuing to nurture past and existing business relationships in southern states;
* explore opportunities that are emerging with changes in the legislative and regulatory environment;
* purchase development sites in key strategic locations;
* explore enhancement of tenure of tenancy to residents; and
* continue to build the branding of SunnyCove.



EXECUTIVE MANAGEMENT TEAM

Mary Mickan
General Manager and Company Secretary

From a background of holding senior positions for accounting and financial planning practices and management of her own employment agency, Mary joined the SunnyCove Group in March 2002 to oversee the Company secretarial, general office management and administration reporting to the Board of Directors. Mary is a graduate of the Australian Maritime College.

Grant Vayro
Chief Financial Officer

Having previously worked as a chartered accountant for leading accountancy practices in Brisbane and in private practice, Grant joined SunnyCove in March 2004 as Chief Financial Officer. His role at SunnyCove sees him responsible for managing the financial and accounting practices to enable superior commercial outcomes. Grant holds a Bachelor of Business in Accountancy and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia.

Geoff Little
Development Manager

With over 20 years experience in the construction and property development industry, Geoff has brought considerable experience and expertise to the Group since being appointed Development Manager in January 2004. He has worked extensively throughout Australia and New Zealand on retail, commercial, hotel resort and residential projects with some of the country's leading property development groups and draws on this experience in his role with SunnyCove, where he is responsible for overseeing the development functions. Geoff holds qualifications in Building and Architecture.

Garry Myrtle
Operations Manager

Garry worked in the hospitality industry, where he held a variety of management and senior chef positions. Since joining SunnyCove as Operations Manager in June 2003, Garry has been responsible for enhancing the human dimensions of the SunnyCove system, taking care of the operation and auditing of SunnyCove's communities. Garry is a qualified Rehabilitation Coordinator and Workplace Health and Safety Officer.

John Chapman
Business Development Manager

With more than 20 years experience working for financial institutions responsible for general management, acquisitions and establishing new sites and offices, John joined SunnyCove in October 2002. As Business Development Manager, John's extensive experience is utilised to build relationships and to source, assess and acquire new sites to continue to expand the number of SunnyCove communities.

Introduction

This policy outlines the main corporate governance practices that are in place for the Company and to which both the Board collectively and the directors individually are committed. SunnyCove's Corporate Governance Charter was accepted by the Board on 15 May 2004 and has since been reviewed and updated to reflect listing on the ASX. In formulating and adopting its corporate governance principles, the directors have taken into account and adopted ASX Corporate Governance Council best practice recommendations except where otherwise stated.

The conduct of the Board is also governed by the Company's Constitution and, to the extent that the terms of the Constitution are inconsistent with this document, the Constitution prevails.

The Role of the Board

The Board will, in carrying out its function and exercising its powers, at all times fulfil its overriding responsibility to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Shareholders, with a view to building sustainable value for them, and those of both employees of the Group and those the Group has dealings with.

Function

The Board's broad function is to:

1. chart strategy and set financial targets for the Group;
2. monitor the implementation and execution of strategy and performance against financial targets; and
3. appoint and oversee the performance of executive management, and generally to take and fulfil an effective leadership role in relation to the Group.

Powers

The Board has responsibility for the matters specified above and, in addition to those matters reserved to it by law, reserves to itself the following matters and all power and authority in relation to those matters:

1. composition of the Board itself including appointment and retirement or removal of directors;
2. oversight of the Group including its control and accountability systems;
3. appointing and removing where appropriate the CEO;
4. ratifying the appointment and, where appropriate, the removal of the CFO and the secretary;
5. reviewing and overseeing the operation of systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and regulatory compliance;
6. monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
7. approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
8. approving and monitoring financial and other reporting;
9. performance of investment and treasury functions;
10. monitor industry developments relevant to the Group and its business;
11. developing suitable key indicators of financial performance for the Group and its business;
12. input into and final approval of management's development of corporate strategy and performance objectives;
13. the overall corporate governance of the Group including the strategic direction, establishing goals for management and monitoring the achievement of these goals; and
14. oversight of Committees.

To assist in the execution of its responsibilities, the Board has the authority to establish Committees (and delegate powers accordingly) to consider such matters as it may consider appropriate including, by way of example only, audit matters, finance and business risks, remuneration, and nominations, and to establish a framework for the effective and efficient management of the Company and the Group.

Composition

The composition of the Board is determined according to the following principles:

1. the Board must comprise members with a broad range of experience, expertise, skills and contacts relevant to the Group and its business;
2. there must be at least four directors;
3. the number of directors may be increased where the Board considers that additional expertise is required in specific areas or when an outstanding candidate is identified;
4. the Chairman must be a non-executive director who is also independent; and
5. at least half of the Board must be non-executive directors at least two of whom must also be independent.

Independence

The Board has adopted the following definition of an Independent Director:

An Independent Director is a director who is not a member of management (a non-executive director) and who:

1. is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
2. has not, within the last three years, been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;
3. is not a principal of a professional advisor to the Company or another Group member, or an employee materially associated with the service provided, except in circumstances where the adviser might be considered to be independent notwithstanding their position as a professional advisor due to the fact that fees payable by the Company to the advisor's firm represent an insignificant component of its overall revenue;
4. is not a significant supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a significant supplier or customer;
5. has no significant contractual relationship with the Company or another Group member other than as a director;
6. is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and
7. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

The Board will regularly assess the independence of each director in the light of the interests disclosed by them, and each director will provide the Board with all relevant information for this purpose. The independence of the directors will be disclosed in the annual report. Where the independence of a director is lost, this will be immediately disclosed to the market.

Performance Review and Evaluation

- The performance of all other directors is reviewed and assessed each year by the Chairman.
- The performance of the Chairman is reviewed and assessed each year by the other directors.
- The evaluation criteria and process to be followed is the same in each case.
- The Chairman determines the evaluation criteria and process.
- Members of the Board whose performance is unsatisfactory are asked to retire.

Committees

The Board may establish Committees to assist it in carrying out its function and for its effective and efficient performance and will adopt a charter for each Committee established dealing with the scope of its responsibility and relevant administrative and procedural arrangements.

The Committees established and subsisting at the date of this document are the following:

* audit and Risk Management Committee;
* nominations Committee; and
* remuneration Committee.

Ethical Standards and Values

All directors and officers and of the Company must act with the utmost integrity and objectivity striving at all times to enhance the reputation and performance of the Company and the Group and, where possible, to act in accordance with the interests of Shareholders, staff, clients and all other stakeholders in the Company.

The directors must comply with SunnyCove's Code of Ethics in the exercise of their duties.

Dealings in Securities

The Constitution permits directors to acquire Securities. Company policy prohibits any dealing in, or procuring the dealing in Securities except in accordance with the Code of Conduct for Transaction in Securities.

Business Risks

The Board has the responsibility for the maintenance of the strategy of the Company which includes the identification of significant business risks. This responsibility is fulfilled by the Audit and Risk Management Committee which reviews the major risks affecting each business segment and develops strategies to mitigate these risks and reports to the Board following each meeting.

The Group Operating Policies and Procedures, which are provided to all staff and with which they are required to comply, contains risk management procedures that aim to address risk management issues including the risk that professional indemnity claims may be made against the firm.

The CEO and CFO must each provide a statement to the Board with any financial report to the effect that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Continuous Disclosure

The Board understands and respects that prompt disclosure of price sensitive information is central to the efficient operation of ASX's securities market and has adopted comprehensive policies covering dissemination of information to the public and analysts. The Chairperson, Managing Director, Company Secretary and Chief Financial Officer together with the Communications Manager have responsibility for disclosure to the ASX.

Communication With Shareholders

The Board aims to ensure that Shareholders are informed of all major developments affecting the Group's state of affairs. Information is communicated to Shareholders through the distributions of financial reports, announcements through ASX, shareholder newsletters and SunnyCove's comprehensive website.

Board Committees

Audit Committee

The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Group.

It also gives the Board additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report. The Committee has responsibility for reviewing the risk management framework and policies within the Company and monitoring their implementation.

The Committee has responsibility for the following:

1. ensuring an appropriate Board and Committee structure is in place so as to facilitate a proper review function by the Board;
2. monitoring the establishment of an appropriate internal control framework, including information systems, and its operation and considering enhancements;
3. monitoring corporate risk assessment and compliance with internal controls;
4. overseeing business continuity planning and risk mitigation arrangements;
5. assessing the objectivity and performance of the internal audit function and considering enhancements;
6. reviewing reports on any material defalcations, frauds and thefts from the Group;
7. reviewing reports on the adequacy of insurance coverage;
8. monitoring compliance with relevant legislative and regulatory requirements (including continuous disclosure obligations) and declarations by the Secretary in relation to those requirements;
9. reviewing significant transactions which are not a normal part of the Group's business;
10. reviewing the nomination, performance and independence of the external auditors, including recommendations to the Board for the appointment or removal of any external auditor;
11. liaising with the external auditors and ensuring that the annual audit is conducted in an effective manner that is consistent with Committee members' information and knowledge and is adequate for shareholder needs;
12. reviewing management processes supporting external reporting;
13. reviewing financial statements and other financial information distributed externally;
14. preparing and recommending for approval by the Board the corporate governance statement for inclusion in the annual report or any other public document;
15. reviewing external audit reports to ensure that, where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management; and
16. reviewing and monitoring compliance with the Code of Ethics.

Powers
The Committee has an advisory role, consistent with its purpose of assisting the Board in relation to the matters with which it is charged with responsibility, and does not have any power to commit the Board to any recommendation or decision made by it except:

- for matters relating to the appointment, oversight, remuneration and replacement of the external auditors; and
- where and to the extent that (in other respects) it has express delegated authority from the Board.

The Committee has unrestricted access to management and to internal audit personnel as well as to the external auditors as it may consider appropriate for the proper performance of its function.

Internal control framework
The Company's internal control framework is as follows.

Secretary
The Secretary is accountable to the Board, through the Chairman, on all corporate governance matters and is responsible for monitoring that the Charter is duly followed and for coordinating the completion and despatch of Board and Committee agenda and briefing materials as well as draft minutes of meetings of the Board and all Committees for approval at the next meeting.

Risk management

The Committee fulfils the responsibility for the identification of significant business risks and reviews the major risks affecting each business segment and develops strategies to mitigate these risks. It reports specifically to the Board following each meeting.

The Committee must approve any action plan instigated. Corrective action is taken as soon as practicable. Major business risks arise from such matters as actions by competitors, changes in government policy and use of information systems.

Auditors

The external auditors are selected according to criteria set by the Committee which include most significantly:

1. the lack of any current or past connection or association with the Company or with any member of senior management that could in any way impair, or be seen to carry with it any risk of impairing, the independent external view they are required to take in relation to the Company and the Group;
2. their general reputation for independence and probity and professional standing within the business community; and
3. their knowledge of the industry within which the Company and the Group operate.

Audit staff employed by the external audit partner, including the partner or other principal with overall responsibility for the engagement, are required to be rotated periodically, and in any event at intervals not exceeding five years, so as to avoid any risk of impairing the independent external view that the external auditors are required to take in relation to the Company and the Group.

Financial Reporting

The Board approves an annual budget prepared by management and reviewed and commented on by the Committee. Actual results, including balance sheet, profit and loss statement and cash flow statement, are reported on a monthly basis against budget, and revised forecasts for the year are prepared regularly. The Group provides half-yearly financial reports.

Price sensitive information, and generally all information reasonably required by an investor to make an informed assessment of the Company and Group's activities and results, must be reported to the ASX in accordance with continuous disclosure requirements which are considered as a standing agenda item at each regular meeting of the Committee as well as of the Board.

Quality and integrity of personnel

The Group's policies are detailed in the Group Operating Policies and Procedures. Written confirmation of compliance with policies is obtained from all staff members. Formal appraisals are conducted at least annually for all employees.

Investment appraisal

The Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal, review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Operating unit controls

Financial controls and procedures, including information systems controls are detailed in the Group Operating Policies and Procedures.

Remuneration Committee

Purpose

The role of the Committee is to advise on remuneration and issues relevant to remuneration policies and practices including those for senior management and non-executive directors.

Scope of responsibility

The Committee has responsibility for the following:

1. reviewing and evaluating market practices and trends in relation to remuneration relevant to the Group;
2. reviewing and making recommendations to the Board in relation to the Group's remuneration practices;

3. overseeing the performance of the CEO and CFO and other members of senior management and non-executive directors; and
4. remuneration is in each case taken as including not only monetary payments (salary and wages) but all other monetary and non-monetary emoluments and benefits.

Nominations Committee

Purpose

The role of the Committee is to assist the Board and make recommendations to it in relation to the appointment of new directors (both executive and non-executive) and of the CEO and CFO and, to the extent delegated to it by the Board and other members of senior management.

Scope of responsibility

The Committee has responsibility for the following:

1. developing suitable criteria and identifying individuals (as regards experience, expertise, skills, qualifications, contacts or other qualities) for Board candidates;
2. establishing procedures, for recommendation to the Chairman, for the proper oversight of the Board and management; and
3. ensuring that the performance of each director, and of all members of senior management, is reviewed and assessed each year in accordance with procedures adopted by the Board, but does not have responsibility for considering or advising on remuneration issues which are reserved to the Remuneration Committee.

SECURITY HOLDER INFORMATION
FOR THE YEAR ENDED 30 JUNE 2004

Distribution of Securities as at 27 September 2004.

Number of Securities	No of Shareholders	No of Option holders
1 – 1,000	2	172
1,001 – 5,000	365	283
5,001 – 10,000	99	46
10,001 – 100,000	141	92
100,001 and Over	20	7
Total Security Holders	**627**	**600**

The number of security holders owning less than a marketable parcel of 589 ordinary shares ($.850 on 23/09/2004) is nil. The number of security holders owning less than a marketable parcel of 5,264 options ($.095 on 27/09/2004) is 456 and they hold 814,217 securities.

Voting Rights

Ordinary shares carry voting rights of one vote per share. Options carry no voting rights.

Twenty Largest Ordinary Shareholders

The names of the 20 largest holders of ordinary and escrowed shares as at 27 September 2004 are listed below:

Name	No. of Ordinary Shares Held	% of Issued Share Capital
Maja Holdings Pty Ltd Roberts Family A/C	2,333,000	16.45
Budfield Pty Ltd Budfield Super Fund A/C	376,451	2.65
Glenard John Tickle and Marion Tickle SJ Superannuation Fund A/C	376,451	2.65
Survey Consultants Pty Ltd	300,000	2.11
Trebenna Pty Ltd Super Fund A/C	300,000	2.11
UBS Nominees Pty Ltd Prime Broking A/C	300,000	2.11
Findlay William Andrews Appledore S/Fund No 2 A/C	250,000	1.76
Crossborder Investments Pty Ltd	250,000	1.76
Bamson Pty Ltd No 1 Account	200,000	1.41
Invia Custodian Pty Limited Black A/C	200,000	1.41
Mereltel Pty Ltd GD Constructions St S/F A/C	200,000	1.41
United National Investments Pty Ltd	200,000	1.41
ANZ Nominees Limited	170,000	1.20
City Investor Group Pty Ltd	160,000	1.13
Kbam Pty Ltd	156,000	1.10
Colex Pty Ltd Carroll Family S/Fund A/C	150,000	1.06
Govest Pty Limited	150,000	1.06
JH Nominees Australia Pty Ltd Harry Family Super Fund A/C	150,000	1.06
Peter Sawyer and Kathleen Sawyer Sawyer Super Fund A/C	150,000	1.06
Shareholding Pty Ltd	150,000	1.06
TOTAL	**6,521,902**	**45.97**

Substantial Shareholders and Option Holders as at 27 September 2004

	Shares	Options
Maja Holdings Pty Ltd Roberts Family A/C	2,333,000	333,334

Twenty Largest Option Holders

The names of the 20 largest holders of options as at 27 September 2004 are listed below:

Name	No. of Options Held	% of Total Options Issued
Maja Holdings Pty Ltd Roberts Family A/C	333,334	6.22
Survey Consultants Pty Ltd	150,000	2.80
Trebenna Pty Ltd Super Fund A/C	150,000	2.80
UBS Nominees Pty Ltd Prime Broking A/C	150,000	2.80
Mr Paul Young	145,999	2.72
Findlay William Andrews Appledore S/Fund No 2 A/C	125,000	2.33
Crossborder Investments Pty Ltd	125,000	2.33
Bamson Pty Ltd No 1 Account	100,000	1.87
Invia Custodian Pty Limited Black A/C	100,000	1.87
Mereltel Pty Ltd GD Constructions St S/F A/C	100,000	1.87
United National Investments Pty Ltd	100,000	1.87
Orbit Capital Pty Ltd	90,000	1.68
ANZ Nominees Limited	85,000	1.59
Colex Pty Ltd Carroll Family S/Fund A/C	75,000	1.40
Govest Pty Limited	75,000	1.40
Peter Sawyer and Kathleen Sawyer Sawyer Super Fund A/C	75,000	1.40
Shareholding Pty Ltd	75,000	1.40
Jennifer Hutson	65,000	1.21
Mr Albert John Lohrisch and Mrs Rosemary Rhyl Lohrisch	60,000	1.12
City Investor Group Pty Ltd	59,996	1.12
TOTAL	**2,239,329**	**41.77**

Securities In Which Directors Have A Relevant Interest as at 27 September 2004

	Ordinary Shares	Options
Andrew Kemp	136,000	181,330
Maja Holdings Pty Ltd Roberts Family A/C	2,333,000	1,666,500
Matthew Madsen	40,000	120,000
Craig Wallace	-	20,000

Escrowed Securities as at 27 September 2004

	Ordinary Shares	Options
Andrew Kemp	-	124,000
Maja Holdings Pty Ltd Roberts Family A/C	1,333,000	1,333,166
Matthew Madsen	-	101,333
Craig Wallace	-	20,000
John Shadforth	-	20,000
Ian Zande (Zande Family A/C)	100,000	50,000
Budfield Pty Ltd (Budfield Super Fund A/C)	376,451	188,226
Glennard & Marion Tickle (SJ Tickle Superannuation Fund)	376,451	188,226
Crossborder Investments Pty Ltd	-	100,000
Habania Pty Ltd	-	100,000
Ore Sizer Australia Pty Ltd	-	120,000

All shares and options held in escrow cannot be traded before 1 July 2006.

DIRECTORS' REPORT

Your directors present their report on SunnyCove Management Limited and controlled entities for the year ended 30 June 2004.

1. Principal Activities

The principal activities of the consolidated entity during the year were:

- Identifying and developing purpose-built seniors rental housing communities (Seniors Communities);
- Selling ownership of individual strata-titled units within the Seniors Communities to investors and owner-occupiers;
- Letting units bought by investors to seniors who pay a fortnightly rental equivalent to a percentage of the aged pension;
- Managing the Seniors Communities under 25 year management and services agreements with the unit owners.

There was no significant change in the operations of the business during the year.

2. Review of Operations and Results

The net loss for the consolidated entity for the year after providing for income tax amounted to $1,364,992 (2003: $358,080).

The consolidated entity ended the year with 162 units under management (2003:104).

During the year the Morayfield community was completed and fully tenanted and the Maroochydore community was started, completed and partially tenanted at year-end.

3. Significant Changes in State of Affairs

Other than as disclosed above and the Share Restructure and Capital Raising by way of prospectus set out below, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

4. Dividends

No dividends have been paid during the year (2003: $nil). No dividends have been recommended at the date of this report.

5. Capital Restructure and Share Issue

During the year the following events occurred:

- The original 32 ordinary shares on issue by the Company were split into 166,625 shares each, resulting in a total of 5,332,000 ordinary shares;
- A selective buy-back of 2,735,561 shares at 0.01 cent per share leaving 2,596,439 ordinary shares issued;
- A selective buy-back of 410,537 shares at $1.00 per share leaving 2,185,902 ordinary shares issued;
- Capital raisings via an information memorandum and a prospectus resulting in issuing 1,700,000 and 10,300,000 ordinary shares at $1.00 each respectively.

The balance of ordinary shares on issue at 30 June 2004 is 14,185,902.

6. Share Options

7,706,400 options were issued under the terms of the prospectus. These options expire on 31 May 2009 and are exercisable on or after 31 May 2007 at $1.50 per share. No shares have been issued by virtue of the exercise of the options.

DIRECTORS' REPORT

7. Likely Developments and Expected Results

Likely developments in the operations of the consolidated entity are to continue to expand the SunnyCove Seniors Communities brand across Australia and continue to develop and manage the Seniors Communities in its own right.

The directors estimate that the consolidated entity will have at least 500 units under management by 30 June 2005. SunnyCove Management Limited continues its program to identify and acquire suitable management rights to existing Seniors Communities as well as the acquisition of greenfield sites to develop new Seniors Communities.

8. Subsequent Events

SunnyCove Management Limited listed on the Australian Stock Exchange on 1 July 2004. Other than as disclosed in note 23 to the financial report, no other matter or circumstance has arisen since the end of the year that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations or the consolidated entity's state of affairs, in subsequent financial years.

9. Environmental Regulation

The consolidated entity's operations are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory.

10. Indemnifying Officer or Auditor

During or since the end of the financial year the consolidated entity has not given any indemnity or entered into any agreement to indemnify, or paid or agreed to pay insurance premiums on behalf of any person who is or has been an officer or an auditor of the Company.

11. Directors and Meetings Attended

The names of all directors since the beginning of the year together with the numbers of meetings of the Company's directors held during the year, and the numbers of meetings attended by each director are:

	Directors' Meetings	
Name	**Held while a Director**	**Attended**
Mark Roberts	13	13
Andrew Kemp (appointed 15/3/04)	8	8
Craig Wallace (appointed 15/3/04)	8	8
John Shadforth (appointed 15/3/04, resigned 23/4/04)	3	2
Matthew Madsen (appointed 18/5/04)	5	5
Ian Zande (resigned 15/3/04)	5	5
John Limpus (resigned 15/3/04)	5	5
Glen Tickle (resigned 15/3/04)	5	5

The Company has established an Audit Committee, a Nominations Committee and a Remuneration Committee. There were no committee meetings held prior to 30 June 2004. There has been one Audit Committee meeting between balance date and the date of this report.

DIRECTORS' REPORT

12. Information on Directors

The details of each director's qualifications, experience and special responsibilities for those in office during the year are:

Mark Roberts – Managing Director

Mark Roberts has more than 20 years experience in senior management, primarily with his own property development and property management company, the Maja Group, which independently developed and evolved the concepts and detail for the SunnyCove Management Limited senior rental-housing product.

Mark was born and educated in Melbourne and to pursue his business career moved to Queensland in 1977. Prior to his direct involvement in property development and property management, Mark gained his experience managing large and small projects in a wide variety of industries including driver education, event and sports management, resort and tourism, ranging in locations from Australia and overseas including France and New Zealand.

Mark has become widely respected for his ability to reposition real estate assets through creative marketing, sound management and cost controls. This ability has seen his involvement and directing of property projects ranging from green-street housing, managed resorts and themed master planned projects.

Through his family entity, Mark has owned and managed residential management rights and holds a corporate real estate licence. In recent years as the rental model for senior housing evolved, he founded SunnyCove Management Limited with a single primary strategy to add value to the existing industry product which has resulted in winning two well respected state awards from the Urban Development Institute of Australia.

Mark is primarily responsible for the strategic planning and execution of the SunnyCove Management Limited business model.

Andrew Kemp – Director (Chairman) – appointed 15/3/04

Andrew Kemp is an executive director of Huntington Group Pty Ltd, a Brisbane based corporate advisory and investment banking firm, specialising in capital raisings, and company acquisitions and divestments.

Andrew graduated in Commerce from the University of Melbourne and is a chartered accountant. After working for KPMG and Littlewoods Chartered Accountants in Melbourne and Sydney, Andrew joined AIFC, the merchant banking affiliate of the ANZ Banking Group, in Sydney in 1978. From 1979 until 1985, Andrew was Queensland Manager of AIFC. He joined the North Queensland based Coutts Group as general manager early in 1985, and continued with this group until January 1987 when he formed Huntington Group.

Since 1980, Andrew has been involved in a range of listings, acquisitions and divestments which have equipped him with the skills necessary to assist a company such as SunnyCove Management Limited. He has structured and implemented the ASX listing of ten companies.

Andrew was a Director of PrimeLife Corporation, one of Australia's largest for-profit aged care providers, from August 1988 to December 2003.

Craig Wallace – Director – appointed 15/3/04

Formerly a director of KPMG Corporate Finance and now principal of The Alternative Advisory Firm, Craig has over 25 years experience in investment banking and corporate advice, dealing with transactions involving property, construction, tourism and accommodation as well as other industries.

His major focus in these transactions has been corporate strategy and finance. His expertise involves corporate restructures, divestments, acquisitions and financing with the objective of improving returns on assets. He has specific experience in the aged care industry, having previously provided advice to other major participants.

DIRECTORS' REPORT

12. Information on Directors (continued)

Matthew Madsen – Director – appointed 18/5/04

Matthew holds a Diploma in Financial Markets from the Securities Institute of Australia of which he is an affiliate member and has undertaken other studies focused on property investment and finance and shopping centre management. Matthew has worked in the property sector for 10 years predominantly in funds management. His principal areas of expertise include property analysis and acquisitions, funds management and property finance.

Matthew has previously held senior executive and director's roles within various property funds management organisations where he has been responsible for property acquisition and the funds management associated with over $200 million in assets. In these roles he has had responsibility for various property developments and refurbishments that have been undertaken on properties forming part of those portfolios.

John Shadforth – Director – appointed 15/3/04, resigned 23/4/04

John has been successfully developing real property for 38 years. He began his career after studying Agriculture and Farm Land Development at Gatton Agricultural College. After leaving North Queensland in 1973, John moved into tourism and then into the property development industry.

He has been involved in all stages of project development, from property selection and acquisition, through to obtaining development approval and finance, and ultimately the development, marketing and sale of properties. The projects with which he has been involved have varied from ocean and riverfront luxury units to broadacre rural and residential land development. Shadforth Dickson projects have been successful over the years due mainly to thorough research, attractive acquisition costs, appropriate levels of equity and conservative financial management.

Ian Zande – Director – resigned 15/3/04

Ian has been self employed as a registered builder since 1977. He has developed his own commercial sites and has since the mid 1990's undertaken substantial owner occupied unit developments in South East Queensland. Ian's development experience and understanding of building systems and quality control is an invaluable asset in the planning and development of SunnyCove Management Limited projects.

John Limpus – Director – resigned 15/3/04

John is a graduate of Gatton Agricultural College and was extensively involved as a researcher and advisor in the beef Industry over a period of 12 years. In 1981, John's rural experience prompted his direction into land subdivisions throughout the northern corner of South East Queensland. John has been involved in numerous successful individual and joint venture developments in the tourism, accommodation and agricultural industries with the key focus being the development of a joint venture retirement community with fellow Director, Glen Tickle.

Glen Tickle – Director – resigned 15/3/04

Glen is a seasoned property developer and investor. Glen spent the first 15 years of his career as a pastoralist in western Queensland before developing and operating his own successful rural retail business. Glen's involvement in the accommodation industry commenced in 1978 with the purchase of a tourism park. Since 1996, Glen in a joint venture with fellow SunnyCove Management Limited Director, John Limpus, has jointly concentrated on the concept, planning and development of a 210 home retirement community benchmark known as Edgewater Village on the Sunshine Coast.

13. Interests of directors

At the date of this report the following interests were held by directors who are holding office:

Name	Ordinary $1.00 shares in SunnyCove Management Limited	Options in SunnyCove Management Limited exercisable at $1.50 per share
Andrew Kemp	136,000	181,330
Mark Roberts	2,333,000	1,666,500
Matthew Madsen	40,000	120,000
Craig Wallace	-	20,000

14. Emoluments of directors and senior executives

Emoluments of non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriately qualified independent persons.

Emoluments of executive directors and other senior executives are determined by the Board. In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility. Emoluments comprise salaries, bonuses, contributions to superannuation funds, options and shares. The value attributed to the options is the ASX traded market value on 1 July 2004, namely 10.5 cents per share.

Parent & consolidated entity:

Director	Emoluments Nature	Amount $
Andrew Kemp	Fees	6,000
	Value of options issued	12,600
		18,600
Mark Roberts	Salary	36,346
	Superannuation	3,271
	Value of options issued	52,500
		92,117
Craig Wallace	Fees	3,750
	Value of options issued	2,100
		5,850
Matthew Madsen	Fees	3,750
	Value of options issued	10,500
		14,250
John Shadforth	Fees	Nil
	Value of options issued	2,100
Ian Zande	Fees	Nil
	Value of options issued	Nil
John Limpus	Fees	Nil
	Value of options issued	Nil
Glen Tickle	Fees	Nil
	Value of options issued	Nil

DIRECTORS' REPORT

14. Emoluments of directors and senior executives (Continued)

Five most highly remunerated officers:

Parent & consolidated entity:

	Emoluments	
Executive officers	Nature	Amount
Mary Mickan	Salary	31,153
(appointed 12/1/04)	Superannuation	2,803
	Value of options issued	5,250
		39,206
Grant Vayro	Salary	21,635
(appointed 15/3/04)	Superannuation	1,947
		23,582
Geoff Little	Fees	
(appointed 5/1/04)		
		44,980
Garry Myrtle	Salary	54,725
	Bonus	784
	Superannuation	4,188
		59,697
John Chapman	Salary	45,000
	Bonuses	27,439
	Superannuation	4,050
	Value of options issued	2,625
		79,114

This report is made in accordance with a resolution of the directors.

Director

Dated this 24th day of September, 2004

DIRECTORS' DECLARATION

In the directors' opinion

a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001, comply with Accounting Standards and give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Director

Dated this 24th day of September, 2004

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

		Consolidated		Parent Entity	
	Note	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
Revenues from ordinary activities					
Sale of goods		6,272,288	3,819,231	6,272,288	3,819,231
Other		432,130	34,061	431,948	34,061
Total revenues from ordinary activities	2	6,704,418	3,853,292	6,704,236	3,853,292
Expenses from ordinary activities					
Cost of goods sold		5,921,763	3,216,425	5,921,763	3,216,425
Employee expenses		537,602	274,854	537,602	274,854
Development expenses		10,161	8,614	10,161	8,614
Community operating expenses		276,261	13,714	276,261	13,714
Borrowing costs		168,214	53,781	168,204	53,781
Selling expenses		257,075	26,572	257,075	26,572
Marketing expenses		133,178	244,835	133,178	244,835
Consultancy expenses		335,885	12,791	335,885	12,791
Other expenses		429,271	359,786	246,619	359,786
Total expenses from ordinary activities		8,069,410	4,211,372	7,886,748	4,211,372
Loss from ordinary activities before income tax expense		(1,364,992)	(358,080)	(1,182,512)	(358,080)
Income tax expense	4	-	-	-	-
Loss from ordinary activities after income tax expense		(1,364,992)	(358,080)	(1,182,512)	(358,080)
Net loss	16(a)	(1,364,992)	(358,080)	(1,182,512)	(358,080)
Total revenues, expenses & valuation adjustments attributable to members of the parent entity and recognised directly in equity	15	(747,083)	-	(747,083)	-
Total changes in equity other than those resulting from transactions with owners as owners	16(b)	(2,112,075)	(358,080)	(1,929,595)	(358,080)
Basic Earnings per share (cents per share)	26	(40.63cents)			
Diluted Earnings per share (cents per share)	26	(40.63cents)			

The statements of financial performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2004

		Consolidated		Parent Entity	
	Note	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
Current Assets					
Cash assets		6,385,205	732,167	6,375,972	732,167
Receivables	5	4,402,852	2,658,423	4,402,852	2,658,423
Inventories	6	2,794,815	3,954,201	1,071,654	3,954,201
Other	7	82,833	4,530	82,833	4,530
Total Current Assets		13,665,705	7,349,321	11,933,311	7,349,321
Non-Current Assets					
Receivables	5	-	-	1,102,804	-
Inventories	6	567,448	-	81,296	-
Property, plant and equipment	9	804,065	146,858	804,065	146,858
Other financial assets	8	-	-	41	1
Intangible assets	10	231,846	-	231,846	-
Total Non-Current Assets		1,603,359	146,858	2,220,052	146,859
Total Assets		15,269,064	7,496,179	14,153,363	7,496,180
Current Liabilities					
Payables	11	1,946,104	778,308	1,946,104	778,309
Interest bearing liabilities	12	4,398,481	4,611,502	3,100,300	4,611,502
Provisions	13	36,372	8,455	36,372	8,455
Total Current Liabilities		6,380,957	5,398,265	5,082,776	5,398,266
Non-Current Liabilities					
Interest bearing liabilities	12	-	482,000	-	482,000
Other	14	-	2,204,922	-	2,204,922
Total Non-Current Liabilities		-	2,686,922	-	2,686,922
Total Liabilities		6,380,957	8,085,187	5,082,776	8,085,188
Net Assets / (Liabilities)		8,888,107	(589,008)	9,070,587	(589,008)
Equity					
Contributed equity	15	10,842,139	32	10,842,139	32
Retained losses	16	(1,954,032)	(589,040)	(1,771,552)	(589,040)
Total Equity		8,888,107	(589,008)	9,070,587	(589,008)

The statements of financial position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2004

		Consolidated		Parent Entity	
	Note	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
Cash Flows from Operating Activities					
Receipts from customers		6,731,599	1,314,357	6,731,599	1,314,357
Payments to suppliers and employees		(7,507,715)	(6,527,083)	(5,522,148)	(6,527,083)
Interest received		15,151	-	14,969	-
Borrowing costs		(189,251)	(196,800)	(189,241)	(196,800)
Net cash flow provided by/(used in) operating activities	18(b)	(950,216)	(5,409,526)	1,035,179	(5,409,526)
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(237,232)	(9,095)	(237,232)	(9,095)
Payments for intangible assets		(23,818)	-	(23,818)	-
Investment in Subsidiaries		-	-	(41)	-
Costs associated with management rights acquisitions		(83,885)	-	(83,885)	-
Net cash flow used in investing activities		(344,935)	(9,095)	(344,976)	(9,095)
Cash Flows from Financing Activities					
Proceeds from borrowings		6,374,929	5,948,392	5,274,929	5,948,392
Repayments of borrowings		(9,711,041)	-	(9,711,041)	-
Loans to Subsidiaries		-	-	(894,587)	-
Proceeds from share issue		10,958,500	-	10,958,500	-
Payments for share buy-back		(410,537)	-	(410,537)	-
Payments for share issue costs		(63,662)	-	(63,662)	-
Net cash flow from financing activities		7,148,189	5,948,392	5,153,602	5,948,392
Net increase/(decrease) in cash held		5,853,038	529,771	5,843,805	529,771
Cash at beginning of financial year		532,167	2,396	532,167	2,396
Cash at end of financial year	18(a)	6,385,205	532,167	6,375,972	532,167

The statements of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

1. Summary of Accounting Policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared on an accruals basis and is based on historical costs and does not take into account changing money values, or, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied, unless otherwise stated.

The following material accounting policies have been adopted in the preparation of this financial report:

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by SunnyCove Management Limited as at 30 June 2004 and the results of all controlled entities for the year then ended. SunnyCove Management Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

b) Revenue recognition

Management fees and catering revenue

The consolidated entity is entitled to receive a fee from unit owners for managing the units under a management services agreement. The consolidated entity also receives a fee from the tenants of the units for the provision of catering services. Revenue is recognised when the services are provided.

Sale of Goods (Units)

Revenue for the sale of units which are under construction is recognised in accordance with Urgent Issues Group Consensus View Abstract 53 'Pre-Completion Contracts for the Sale of Residential Development Properties' by application of the percentage of completion method for that part of the development project for which unconditional sales contracts have been exchanged where the projects' outcome can be reliably estimated. No emerging profit is recognised where the outcome cannot be reliably estimated.

Rental Income

Rental income is brought to account on an accruals basis in accordance with the terms of the underlying agreement.

c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statements of financial performance is matched with the accounting profit after allowing for permanent differences. The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

d) Cash

For the purpose of the statements of cash flows, cash includes cash at bank and on hand as well as highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts (refer Note 18(a)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

1. Summary of Accounting Policies (Continued)

e) Receivables

Pre-completion development contract debtors are recognised in accordance with Urgent Issues Group Consensus View Abstract 53 'Pre-Completion Contracts for the Sale of Residential Development Properties' by application of the percentage of completion method for that part of the development project for which unconditional sales contracts have been exchanged where the projects' outcome can be reliably estimated. Morayfield and Maroochydore projects were 100% complete at 30 June 2003 and 30 June 2004 respectively, and accordingly these debtors are classified as trade debtors.

Trade debtors are recognised at the amounts due and collectable in time frame set out in the sales contract.

Other receivables are recognised at the amount due and are also generally due within 30 days.

Recoverability is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when significant doubt as to collection exists.

f) Other financial assets (Non-current)

The parent entity's interests in controlled entities are brought to account at cost and dividends are recognised in the statements of financial performance when received or receivable.

g) Depreciation

Depreciation is calculated on the straight line (SL) or diminishing value (DV) basis so as to write off the net cost of each item of property, plant and equipment over its expected useful life to the consolidated entity. The depreciation rates used for each class of depreciable asset are:

Class	Rate	Method
Plant and equipment	11.25-50%	SL/DV
Manager units	2.5%	SL
Leasehold improvements	20%	SL

h) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

i) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. When the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The expected net cash inflows included in determining recoverable amounts of non-current assets have not been discounted to their present values.

j) Inventories

Inventories comprise development projects (Seniors' Communities) and catering stock.

i. **Development Projects – Work in Progress**

Development projects under construction are valued at cost. Costs include the costs of acquisition, development, borrowing costs (until the project is completed) and other directly attributable cost including professional, project management and other related costs. Projects are reviewed to ensure that any foreseeable losses are brought to account.

1. Summary of Accounting Policies (Continued)

ii. **Development Projects – Completed Stock**

Development projects that are completed are valued at the lower of cost and net realisable value. Costs include the costs of acquisition, development, borrowing costs (until the project is completed) and other directly attributable cost including professional, project management and other related costs.

iii. **Catering Stock**

Catering stock is valued at the lower of cost and net realisable value.

k) Intangibles

Plans and trade marks are amortised using the straight line method over five years being the estimated period of time during which benefits will be derived from their use in operations. Management rights and letting rights are carried at the lower of cost or recoverable amount. The management rights and letting rights are amortised using the straight line method over 40 years being the estimated period of time during which benefits will be derived from their use in operations.

l) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are generally settled within 30-60 days.

m) Interest bearing liabilities

The consolidated entity's interest bearing liabilities are carried in the statements of financial position at principal amount. Interest is accrued over the period it becomes due and is recognised in payables or interest bearing liabilities as appropriate.

n) Employee benefits

i. **Wages and Salaries and Annual Leave**

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amounts expected to be paid when the liabilities are settled. Sick leave is non vesting and is expensed as paid.

ii. **Long Service Leave**

A liability for long service leave expected to be settled within 12 months of the reporting date is recognised and is measured in accordance with the above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields as at the reporting date on national government bonds with the terms to maturity that match, as closely as possible, the estimated future cash outflows.

iii. **Superannuation**

Contributions are made by the consolidated entity to accumulation superannuation funds. Contributions are charged to expenses as they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

1. Summary of Accounting Policies (Continued)

o) Borrowing costs

Borrowing costs incurred whilst Seniors Communities are under construction are capitalised in the period in which they are incurred. Once each project is completed and ready for sale, subsequent borrowing costs are expensed when incurred. Borrowing costs include interest on short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs in connection with the arrangement of borrowings and finance lease charges.

p) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

q) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

r) General

This financial report covers both SunnyCove Management Limited as an individual entity (parent entity) and the consolidated entity consisting of SunnyCove Management Limited and its controlled entities. SunnyCove Management Limited is the ultimate parent entity.

SunnyCove Management Limited is a public company limited by shares (formerly a proprietary company until 3 March 2004), incorporated and domiciled in Australia. Its registered office and principal place of business is 6 Pikki Street, Maroochydore Qld 4558.

The principal activities of the consolidated entity during the year were:

- Identifying and developing purpose-built seniors rental housing communities (Seniors Communities);
- Selling ownership of individual strata-titled units within the Seniors Communities to investors and owner-occupiers;
- Letting units bought by investors to seniors who pay a fortnightly rental equivalent to a percentage of the aged pension;
- Managing the Seniors Communities under 25 year management and services agreements with the unit owners.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
2. Revenue				
Operating revenue				
Sale of goods	6,272,288	3,819,231	6,272,288	3,819,231
Rent	56,736	24,136	56,736	24,136
Management	62,716	-	62,716	-
Catering	198,288	5,112	198,288	5,112
Other	92,732	3,549	92,732	3,549
	6,682,760	3,852,028	6,682,760	3,852,028
Non-Operating revenue				
Interest from other than related parties	15,151	-	14,969	-
Other	6,507	1,264	6,507	1,264
Total revenue	6,704,418	3,853,292	6,704,236	3,853,292
3. Profit From Ordinary Activities				
Profit from ordinary activities before income tax expense includes the following specific items:				
Write off inventory	182,652	-	-	-
Interest expense				
- director related entities	16,085	-	16,085	-
- other	152,129	-	152,119	-
	168,214	-	168,204	-
Amortisation				
- management rights	1,604	-	1,604	-
- leasehold improvements	3,800	-	3,800	-
- other intangibles	2,375	-	2,375	-
	7,779	-	7,779	-
Depreciation				
- plant and equipment	28,641	2,297	28,641	2,297
- manager units	3,401	570	3,401	570
	32,042	2,867	32,042	2,867
4. Income Tax				
Loss from ordinary activities before income tax expense	(1,364,992)	(358,080)	(1,182,512)	(358,080)
Income tax calculated at 30%	(409,498)	(107,424)	(354,754)	(107,424)
Tax effect on permanent differences:				
- Amortisation of management rights	481	-	481	-
- Capital raising costs	(45,621)	-	(45,621)	-
- Amortisation of leasehold improvements	1,140	-	1,140	-
- Amortisation of other intangibles	713	-	713	-
Future income tax benefit not recognised	452,785	107,424	398,041	107,424
Income tax expense	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

4. Income Tax (Continued)

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
Income tax losses				
Future income tax benefit arising from tax losses and timing differences of the consolidated entity are not recognised at reporting date and are comprised of the following:				
Benefit arising from Tax Losses	711,855	355,094	593,747	335,094
Offset by net deferred tax liabilities as a result of timing differences between accounting and taxable income	(71,940)	(147,964)	(8,576)	(147,964)
Net Future income tax benefit not recognised at reporting date	639,915	187,130	585,171	187,130

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

SunnyCove Management Limited and its controlled entities have not yet made any election to implement the tax consolidation legislation as at the date of this report. The impact on the income tax expense and results of SunnyCove Management Limited is unlikely to be material because it is likely that a tax sharing arrangement will be put in place. This is not expected to have a material impact on the consolidated assets and liabilities and results.

The balance of the franking account at 30 June 2004 is $ nil (30 June 2003: nil).

5. Receivables

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
Current				
Trade debtors	3,280,744	2,658,423	3,280,744	2,658,423
Other debtors	1,122,108	-	1,122,108	-
Total	4,402,852	2,658,423	4,402,852	2,658,423
Non-current				
Amounts owing by controlled entities	-	-	1,102,804	-
Total	-	-	1,102,804	-
Included in trade debtors are aggregate amounts receivable from a director related entity	135,000	-	135,000	-
Included in other debtors is an amount receivable from an entity associated with Mark Roberts, being the deferred payment for fully paid ordinary shares in SunnyCove Management Limited as detailed in the prospectus. The terms of this agreement are for the payment of $450,000 in September 2004 and the remaining $450,000 to be paid in March 2005.	900,000	-	900,000	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
6. Inventories				
Current				
Development Projects – at cost				
- Cost of acquisition	1,040,648	903,785	9,317	903,785
- Development costs	610,110	2,982,268	126,497	2,982,268
- Borrowing costs capitalised during development	212,666	63,194	4,449	63,194
Total Development Projects – at cost	1,863,424	3,949,247	140,263	3,949,247
Development Projects – at net realisable value				
- Cost of acquisition	152,044	-	152,044	-
- Development costs	738,859	-	738,859	-
- Borrowing costs capitalised during development	33,384	-	33,384	-
Total Development Projects – at net realisable value	924,287	-	924,287	-
Total Development Projects	2,787,711	3,949,247	1,064,550	3,949,247
Catering inventory	7,104	4,954	7,104	4,954
Total Current Inventory	2,794,815	3,954,201	1,071,654	3,954,201
Non-current				
Development Projects				
- Cost of acquisition	28,000	-	5,000	-
- Development costs	539,448	-	76,296	-
- Borrowing costs capitalised during development	-	-	-	-
Total Development Projects/Inventory	567,448	-	81,296	-

At balance date there were 11 (2003: 86) units of inventory complete.

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
7. Other Current Assets				
Deposits on property, plant & equipment	49,370	-	49,370	-
Electricity bonds	8,462	4,530	8,462	4,530
Prepayments	25,001	-	25,001	-
Total	82,833	4,530	82,833	4,530

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

8. Other Financial Assets

Investments in Controlled Entities

Name of Entity	Country of Formation or Incorporation	Equity Holding (ordinary shares) 30 June 2004 %	Equity Holding (ordinary shares) 30 June 2003 %	Cost of Parent Entity's Investment 30 June 2004 $	Cost of Parent Entity's Investment 30 June 2003 $
SunnyCove Forest Lake Pty Limited	Australia	100	100	1	1
SunnyCove Management Limited atf Cairns Unit Trust (acquired 18 December 2003)	Australia	100	-	10	-
SunnyCove Management Limited atf Gladstone Unit Trust (acquired 28 May 2004)	Australia	100	-	10	-
SunnyCove Management Limited atf Rockhampton Unit Trust (acquired 23 December 2003)	Australia	100	-	10	-
SunnyCove Management Limited atf Townsville Unit Trust (acquired 21 April 2004)	Australia	100	-	10	-
				41	1

	Consolidated 30 June 2004 $	Consolidated 30 June 2003 $	Parent Entity 30 June 2004 $	Parent Entity 30 June 2003 $
9. Property, Plant and Equipment				
Manager's units – at cost	569,990	136,263	569,990	136,263
Accumulated depreciation	(5,398)	(570)	(5,398)	(570)
	564,592	135,693	564,592	135,693
Leasehold Improvements – at cost	56,978	-	56,978	-
Accumulated amortisation	(3,800)	-	(3,800)	-
	53,178	-	53,178	-
Plant and equipment – at cost	217,437	15,094	217,437	15,094
Accumulated depreciation	(31,142)	(3,929)	(31,142)	(3,929)
	186,295	11,165	186,295	11,165
Total	804,065	146,858	804,065	146,858

9. Property, Plant and Equipment (Continued)

Movements during the year

Consolidated	Manager's Units	Plant & Equipment	Leasehold Improvements	Total
Opening written down value	135,693	11,165	-	146,858
Transfer between asset classes	(1,429)	1,429	-	-
Additions at cost	170,001	130,881	56,978	357,860
Transfers from inventories	263,728	71,461	-	335,189
Depreciation/Amortisation expense	(3,401)	(28,641)	(3,800)	(35,842)
Closing written down value	564,592	186,295	53,178	804,065

The parent entity has the same assets as the consolidated entity.

	Consolidated 30 June 2004 $	Consolidated 30 June 2003 $	Parent Entity 30 June 2004 $	Parent Entity 30 June 2003 $
10. Intangible Assets				
Intellectual property – at cost	1	-	1	-
Management rights – at cost	110,000	-	110,000	-
Less accumulated amortisation	(1,604)	-	(1,604)	-
	108,396	-	108,396	-
Plans and trademarks – at cost	23,818	-	23,818	-
Less accumulated amortisation	(2,375)	-	(2,375)	-
	21,443	-	21,443	-
Other	102,006	-	102,006	-
Total	231,846	-	231,846	-
11. Payables				
Trade creditors and accruals	1,946,104	778,308	1,946,104	778,309
Total	1,946,104	778,308	1,946,104	778,309
Included above are aggregate amounts payable to director related entities	120,311	18,039	120,311	18,039

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
12. Interest Bearing Liabilities				
Current				
Secured				
Loans – DCS (director related entity)	1,298,181	-	-	-
Commercial Advance	2,567,883	-	2,567,883	-
Commercial Bill	-	4,411,502	-	4,411,502
Bank overdraft	-	200,000	-	200,000
Unsecured				
Loans – DCS (director related entity)	532,417	-	532,417	-
Total	4,398,481	4,611,502	3,100,300	4,611,502
Non-current				
Unsecured				
Loans – director related entities	-	482,000	-	482,000
Total	-	482,000	-	482,000

Terms and Conditions

Loans – Dynamic Capital Solutions Limited (director related entity)

As at 30 June 2004, four loans had been provided by Dynamic Capital Solutions Limited (DCS). The first loan of $400,000 was provided to fund working capital in relation to the settlement and sales of the Maroochydore Seniors Community. The second loan of $1,100,000 was provided to fund the purchase of the land for the Forest Lake Seniors Community. The third and fourth loans of $250,000 and $300,000 respectively were provided to assist in funding construction of the Maroochydore Seniors Community. All of the loans were sourced prior to DCS becoming a director related entity.

Prior to 30 June 2004, $250,000 of the $400,000 loan had been repaid, and $250,000 of the $300,000 loan had been repaid, thereby reducing the facility by the same amount.

The first, third and fourth loans were secured by unlimited personal guarantees from each of the four founding directors of SunnyCove Management Limited, namely Mark Roberts, Glen Tickle, Ian Zande and John Limpus.

The second loan was secured by:

- a mortgage over the Forest Lake site; and
- unlimited personal guarantees from each of the four founding directors of SunnyCove Management Limited.

The loans from DCS had maturity dates equivalent to the sales settlement dates of the properties to which the respective loans applied. The first loan was subject to fixed simple interest of 25% and the second loan was subject to fixed simple interest of 24%. From 1 June 2004 the interest rate on the first loan was reduced to 12%. The third and fourth loans were subject to fixed simple interest rates of 8% and 10% respectively. Interest on the loans was payable at maturity. At balance date the loans were recorded inclusive of accrued interest.
On 7 July 2004 all loans from DCS were fully repaid.

Matthew Madsen, a director of SunnyCove Management Limited, is also a director of DCS. Andrew Kemp, chairman of SunnyCove Management Limited, was also a director of DCS until he resigned that directorship on 23 August 2004.

12. Interest Bearing Liabilities (Continued)

Loans – Director Related Entities

Loans from director related entities which existed at 30 June 2003 and for part of the year to 30 June 2004 were unsecured and subject to a simple interest rate of 10%. There were no fixed repayment terms. These loans were paid out prior to 30 June 2004 (refer to note 14 for terms and conditions).

Interest paid to director related entities during the year of $60,085 related to these loans, of which $44,000 was capitalised into inventory while it was a qualifying asset and $16,085 incurred after the asset was constructed and available for sale was expensed (see note 3).

Bank Overdraft

At 30 June 2004, SunnyCove Management Limited had no bank overdraft facility.

At 30 June 2003, SunnyCove Management Limited had a bank overdraft secured by:

- a mortgage over unsold Morayfield site;
- a mortgage over the under construction Maroochydore site; and
- unlimited personal guarantees from each of the four founding directors of SunnyCove Management Limited.

The bank overdraft had an interest rate of 8.65%.

Commercial Bills

The Commercial Bills were secured by registered mortgage debenture given by the Company over the whole of the Company's assets and undertaking including uncalled and called but unpaid capital, registered mortgages over property situated at 21-23 Barossa Crescent Caboolture and 26 Yinni Street Maroochydore, and a guarantee and indemnity for $3,000,000 given by Mark Roberts, Ian Zande, John Fredrick Limpus and Glenard John Tickle.

The Bills had an interest rate of 6.51% (inclusive of facility fee). These Bills were repaid prior to 30 June 2004 and the bill facility has expired and the security has been released.

Commercial Advances

The Commercial Advances were secured by registered mortgage debenture given by the Company over property situated at 26 Yinni Street Maroochydore, and an unlimited joint and several guarantee and indemnity given by Mark Roberts, Ian Zande, John Fredrick Limpus and Glenard John Tickle.

The Advances had an interest rate of 7.04% (inclusive of facility fee). Subsequent to 30 June 2004 these Advances have been repaid and the bill facility has expired and the security has been released.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
13. Provisions				
Current				
Employee benefits	36,372	8,455	36,372	8,455
Aggregate liability arising from employee benefits:				
- current provisions	36,372	8,455	36,372	8,455
- current creditors and accruals	18,268	-	18,268	-
- non current	-	-	-	-
	54,640	8,455	54,640	8,455

The above aggregate liability consists of all employee entitlements at year-end, including leave provisions, superannuation contributions owing and other employee benefits and related on-costs accrued but unpaid.

Employee numbers				
Number of employees at the end of the financial year	17	5	17	5

14. Other Liabilities				
Non-current				
Loans from Director Related Entities (unsecured)	-	2,204,922	-	2,204,922

Together with the director related entity interest bearing loans in note 12 (excluding DCS loans), these loans were repaid prior to 30 June 2004. These loans were owed to entities related to three of the founding directors (Ian Zande, John Limpus and Glen Tickle) and were unsecured. There were no fixed repayment terms.

The total loans owing to these director related entities received during the year were $1,490,660 and the total loans repaid during the year were $4,173,176.

15. Contributed Equity

	Number of shares		Consolidated and Parent Entity	
	30 June 2004	**30 June 2003**	**30 June 2004 $**	**30 June 2003 $**
Issued Shares				
Fully paid Ordinary Shares	**14,185,902**	**32**	**10,842,139**	**32**
Opening balance	32	32	32	32
Shares issued during the year				
Restructure opening shares (share split)	5,331,968	-	-	-
Less: Shares bought back at 0.01 cent consideration	(2,735,561)	-	(273)	-
Less: Shares bought back at $1 cash consideration	(410,537)	-	(410,537)	-
Shares issued at $1 cash consideration from Information memorandum	1,700,000	-	1,700,000	-
Shares issued at $1 cash consideration from Initial public offering	9,300,000	-	9,300,000	-
Shares issued at $1 cash consideration to an entity associated with Mark Roberts	1,000,000		1,000,000	
Less: Share issue costs	-	-	(747,083)	-
Shares on issue at end of year	14,185,902	32	10,842,139	32
Ordinary Shares reserved for issue under options:				
On issue at beginning of year	-	-	-	-
Issued during the year:				
Options exercisable at $1.50 on or after 31 May 2007 and expiring 31 May 2009	7,706,400	-	-	-
On issue at end of year	7,706,400	-	-	-

Ordinary Shares

Ordinary Shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and on a poll, each share is entitled to one vote.

Options

SunnyCove Management Limited has issued 7,706,400 options for nil consideration to investors as outlined in the prospectus exercisable at $1.50 per share. These options expire on 31 May, 2009 and are exercisable on or after 31 May 2007. No shares have been issued by virtue of the exercise of the options. These options were all outstanding at 30 June 2004.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
16. Changes in Equity				
(a) Retained Losses				
Retained Losses at the beginning of the financial year	(589,040)	(230,960)	(589,040)	(230,960)
Loss for the year	(1,364,992)	(358,080)	(1,182,512)	(358,080)
Retained Losses at the end of the financial year	(1,954,032)	(589,040)	(1,771,552)	(589,040)
(b) Total Equity				
Total equity at beginning of year	(589,008)	(230,928)	(589,008)	(230,928)
Total changes in equity recognised in the Statement of Financial Performance	(2,112,075)	(358,080)	(1,929,595)	(358,080)
Transactions with owners as owners				
- Contributions of equity	12,000,000	-	12,000,000	-
- Share buy back at 0.01 cent	(273)		(273)	
- Share buy back at $1	(410,537)	-	(410,537)	-
Total Equity at end of year	8,888,107	(589,008)	9,070,587	(589,008)

17. Dividends

No dividends were paid or proposed during the year (2003 – nil)

	Consolidated		Parent Entity	
18. Cash Flow information				
(a) Reconciliation of cash				
Cash at Bank and on hand	6,385,205	732,167	6,375,972	732,167
Bank Overdraft	-	(200,000)	-	(200,000)
Cash assets	6,385,205	532,167	6,375,972	532,167
(b) Reconciliation of net profit to net cash flow from operating activities				
Net profit	(1,364,992)	(358,080)	(1,182,512)	(358,080)
Depreciation and amortisation	39,821	2,867	39,821	2,867
(Increase)/decrease in:				
- development contract and other debtors	(712,314)	(2,658,422)	(712,314)	(2,658,422)
- inventories - land and construction in progress	677,732	(3,201,155)	2,480,647	(3,201,155)
- other current assets	(25,001)	(4,530)	(25,001)	(4,530)
Increase/(decrease) in:				
- payables	502,557	802,135	502,557	802,135
- GST clearing	(95,936)	-	(95,936)	-
- provision for employee benefits	27,917	7,659	27,917	7,659
Net cash flow from operating activities	(950,216)	(5,409,526)	1,035,179	(5,409,526)

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
(c) Financing facilities				
Total facilities				
Loan – director related entities	-	2,686,922	-	2,686,922
Loan – DCS (director related entity) #	1,550,000	-	450,000	-
Commercial Bill	-	4,411,502	-	4,411,502
Commercial advances	3,220,000	-	3,220,000	-
Bank Overdraft	-	200,000	-	200,000
	4,770,000	7,298,424	3,670,000	7,298,424
Used at balance date				
Loan – director related entities	-	2,686,922	-	2,686,922
Loan – DCS (director related entity) #	1,550,000	-	450,000	-
Commercial Bill	-	4,411,502	-	4,411,502
Commercial advances	2,567,883	-	2,567,883	-
Bank Overdraft	-	200,000	-	200,000
	4,117,883	7,298,424	3,017,883	7,298,424
Unused at balance date				
Loan – director related entities	-	-	-	-
Loan – DCS (director related entity) #	-	-	-	-
Commercial Bill	-	-	-	-
Commercial advances	652,117	-	652,117	-
Bank Overdraft	-	-	-	-
Total available	652,117	-	652,117	-

Details in relation to loans are disclosed in notes 12 and 14.

- the amounts shown for the DCS facility represent the principal component only.

(d) Non Cash Financing and Investing Activities

During the year the following non-cash transactions occurred:

- The parent entity acquired a managers unit, management rights and intellectual property for combined consideration of $280,001 from SunnyCove Developments Pty Ltd, a director related entity of John Limpus and Glen Tickle (2003: nil);
- Assets with a cost of $335,189 (2003: $136,262) were transferred from inventory to property plant and equipment;
- Interest of $280,598 was accrued in the closing balance of the consolidated entity's liability to DCS (a director related entity of Andrew Kemp and Matthew Madsen) (parent entity: $82,418) (2003: nil);
- Interest of $56,206 was accrued in the closing balance of the consolidated entity's liability to Bank West (parent entity: $56,206) (2003: nil);
- $747,083 of share issue costs were directly recognised in equity, of which $683,421 were accrued for at 30 June 2004 (2003: nil).

None of the above transactions are reflected in the statements of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

19. Information about Specified Directors and Specified Executives

(a). Specified Directors and Specified Executives

The names of persons who were specified directors and specified executives of SunnyCove Management Limited at any time during the financial year are shown in the following table. Specified executives are defined as those who have a direct impact on the strategic direction of the Company.

Name	Role	Period in role
Specified Directors		
Mark Roberts	Managing Director	1/7/03 to 30/6/04
Andrew Kemp	Chairman	15/3/04 to 30/6/04
Craig Wallace	Non-executive director	15/3/04 to 30/6/04
Matthew Madsen	Non-executive director	18/5/04 to 30/6/04
John Shadforth	Non-executive director	15/3/04 to 23/4/04
Ian Zande	Non-executive director	1/7/03 to 15/3/04
John Limpus	Non-executive director	1/7/03 to 15/3/04
Glen Tickle	Non-executive director	1/7/03 to 15/3/04
Specified Executives		
Grant Vayro	Chief Financial Officer	15/3/04 to 30/6/04
Mary Mickan	General Manager	12/1/04 to 30/6/04

(b). Determination of remuneration of Specified Directors and Specified Executives

Remuneration of specified non-executive directors comprise fees determined having regard to industry practice and the need to obtain appropriately qualified independent persons.

Remuneration of specified executive directors and specified executives are determined by the Board. In this respect, consideration is given to normal commercial rates of remuneration for similar levels of responsibility. Emoluments comprise salaries, bonuses, contributions to superannuation funds, options and shares.

There are no clauses relating to bonuses or termination benefits contained in employment contracts of specified directors and executives.

Remuneration paid by the Company to specified directors and specified executives during the financial year is shown in the following table:

	Primary Remuneration		Post Employment	Equity	Total
	Salary & Fees	Bonus	Superannuation	Options	$
Specified Directors					
Mark Roberts	36,346	-	3,271	52,500	92,117
Andrew Kemp	6,000	-	-	12,600	18,600
Craig Wallace	3,750	-	-	2,100	5,850
Matthew Madsen	3,750	-	-	10,500	14,250
John Shadforth	-	-	-	2,100	2,100
Ian Zande	-	-	-	-	-
John Limpus	-	-	-	-	-
Glen Tickle	-	-	-	-	-
Total	**49,846**	**-**	**3,271**	**79,800**	**132,917**
Specified Executives					
Grant Vayro	21,635	-	1,947	-	23,582
Mary Mickan	31,153	-	2,803	5,250	39,206
Total	**52,788**	**-**	**4,750**	**5,250**	**62,788**

19. Information about Specified Directors and Specified Executives (Continued)

(c). Number of Shares held: Specified Directors and Specified Executives

	Balance 1 July 2003	Share Split	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2004
Specified Directors:						
Mark Roberts	8	1,332,992	-	-	1,000,000	2,333,000
Andrew Kemp	-	-	-	-	122,000	122,000
Craig Wallace	-	-	-	-	-	-
Matthew Madsen	-	-	-	-	40,000	40,000
John Shadforth	-	-	-	-	100,000	100,000
Ian Zande	8	1,332,992	-	-	(1,233,000)	100,000
John Limpus	8	1,332,992	-	-	(956,549)	376,451
Glen Tickle	8	1,332,992	-	-	(956,549)	376,451
Specified Executives:						
Grant Vayro	-	-	-	-	20,000	20,000
Mary Mickan	-	-	-	-	5,000	5,000
Total	32	5,331,968	-	-	(1,859,098)	3,472,902

(d). Number of Options held: Specified Directors and Specified Executives

	Balance 1 July 2003	Received as Remuneration (1)	Options Exercised	Net Change Other	Balance 30 June 2004	Total vested as at 30 June 2004 (2)	Exercis-able	Held in Escrow (3)
Specified Directors:								
Mark Roberts	-	500,000	-	1,166,500	1,666,500	1,666,500	-	1,333,166
Andrew Kemp	-	120,000	-	60,667	180,667	180,667	-	124,000
Craig Wallace	-	20,000	-	-	20,000	20,000	-	20,000
Matthew Madsen	-	100,000	-	20,000	120,000	120,000	-	101,333
John Shadforth	-	20,000	-	50,000	70,000	70,000	-	20,000
Ian Zande	-	-	-	50,000	50,000	50,000	-	50,000
John Limpus	-	-	-	188,226	188,226	188,226	-	188,226
Glen Tickle	-	-	-	188,226	188,226	188,226	-	188,226
Specified Executives:								
Grant Vayro	-	-	-	6,667	6,667	6,667	-	-
Mary Mickan	-	50,000	-	1,667	51,667	51,667	-	-
Total	-	**810,000**	-	**1,731,953**	**2,541,953**	**2,541,953**	-	**2,024,951**

1. All options issued as remuneration during this financial year were granted as at 22 June 2004, at an exercise price of $1.50, and may be exercised at any time between 31 May 2007 and 31 May 2009. The market value of these options was 10.5 cents, based on the ASX market trading on 1 July 2004.
2. All grants of options vest immediately.
3. All options held in escrow cannot be traded before 1 July 2006.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
20. Remuneration of Auditor				
Audits of financial reports	44,300	4,000	44,300	4,000
Other Services	17,000	-	17,000	-
	61,300	4,000	61,300	4,000

21. Related Parties

Specified Directors' and Executive Remuneration

Details of remuneration is disclosed in note 19.

Loans from Specified Director Related Entities

The loans from specified director related entities are detailed in notes 12 and 14.

Related Party Transactions

Unless otherwise stated, all related party transactions are on commercial terms and conditions.

Other transactions with Specified Directors and Specified Director Related Entities

During the financial year project fees, marketing, design, serviced office and management fees in the amount of $799,174 (2003: $617,482) were paid or accrued to an entity controlled by Mark Roberts a director of SunnyCove Management Limited.

During the financial year fees relating to the building contract for the Maroochydore site in the amount of $2,566,919 (2003: nil) were paid or accrued to an entity controlled by Ian Zande a former director of SunnyCove Management Limited.

During the financial year fees relating to advice regarding debt structuring and placement of debt in the amount of $24,750 (2003: nil) were paid to Dynamic Capital Solutions, a director related entity of Matthew Madsen and Andrew Kemp.

During the financial year fees relating to advice regarding debt structuring and placement of debt in the amount of $50,500 (2003: nil) were accrued to an entity controlled by Craig Wallace a director of SunnyCove Management Limited.

During the financial year, an entity associated with Mark Roberts, a director of SunnyCove Management Limited, purchased an investment unit at the Maroochydore community for an amount of $135,000 (2003: nil).

21. Related Parties (Continued)

As part of the capital raising during June 2004, commissions and costs for the placement of shares were accrued by the Huntington Group for $50,396 (2003: nil). Huntington Group is a director related entity of Andrew Kemp.

On 29 November 2003, the parent entity purchased the Manager's unit at Sunnybank Hills Seniors Community, the associated Management rights to the community and intellectual property from SunnyCove Developments Pty Ltd, a director related entity of John Limpus and Glen Tickle for $170,000, $110,000 and $1 respectively (2003: nil).

Included in other debtors is an amount receivable from an entity associated with Mark Roberts, being the deferred payment for fully paid ordinary shares in SunnyCove Management Limited as detailed in the prospectus. The terms of this agreement are for the payment of $450,000 in September 2004 and the remaining $450,000 to be paid in March 2005.

The consolidated entity employs relatives of directors on a full-time and part-time basis on terms and conditions no more favourable than those available to other employees.

Other transactions with specified executives and specified executive related entities

During the financial year there were no transactions with specified executives or specified executive related entities.

Wholly-owned group

The ultimate parent entity in the wholly-owned group is SunnyCove Management Limited. Details of other entities within the wholly-owned group are set out in note 8.

SunnyCove Management Limited provided financial and technical support to its wholly owned subsidiaries during the year ended 30 June 2004. These transactions between SunnyCove Management Limited and the other entities in the wholly owned group resulted in the following amounts receivable at balance date:

Wholly owned entities	Receivable by Parent Company 30 June 2004 $	Receivable by Parent Company 30 June 2003 $
SunnyCove Forest Lake Pty Ltd	443,090	-
SunnyCove Gladstone Unit Trust	173,560	-
SunnyCove Rockhampton Unit Trust	167,447	-
SunnyCove Townsville Unit Trust	152,963	-
SunnyCove Cairns Unit Trust	165,744	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

22. Financial Instruments

As at 30 June 2004

	Non-Interest Bearing	Fixed Interest Rate 1 Year or Less	Fixed Interest Rate 1 to 5 Years	Floating Interest Rate	Total	Weighted Average Effective Interest Rate
	$	$	$	$	$	%
Financial Assets:						
Cash	2,212,102	-	-	4,173,103	6,385,205	3.27
Receivables	4,402,852	-	-	-	4,402,852	0.00
Deposits	8,462	-	-	-	8,462	0.00
	6,623,416	-	-	4,173,103	10,796,519	
Financial Liabilities:						
Trade accounts payables	1,946,104	-	-	-	1,946,104	0.00
Loans – DCS (director related entity)	-	1,830,598	-	-	1,830,598	19.87
Commercial advances	-	-	-	2,567,883	2,567,883	7.04
	1,946,104	1,830,598	-	2,567,883	6,344,585	
Net Financial Assets/ (Liabilities)	4,677,312	(1,830,598)	-	1,605,220	4,451,934	

As at 30 June 2003

	Non-Interest Bearing	Fixed Interest Rate 1 Year or Less	Fixed Interest Rate 1 to 5 Years	Floating Interest Rate	Total	Weighted Average Effective Interest Rate
	$	$	$	$	$	%
Financial Assets:						
Cash	47	732,120	-	-	732,167	3.90
Receivables	2,658,423	-	-	-	2,658,423	0.00
	2,658,470	732,120	-	-	3,390,590	
Financial Liabilities:						
Trade Accounts Payables	778,308	-	-	-	778,308	0.00
Bank Overdraft		-	-	200,000	200,000	8.65
Commercial Bills		4,411,502	-	-	4,411,502	6.51
Loan – director related entities	2,204,922	-	482,000	-	2,686,922	10.00
	2,983,230	4,411,502	482,000	200,000	8,076,732	
Net Financial Assets/ (Liabilities)	(324,760)	(3,679,382)	(482,000)	(200,000)	(4,686,142)	

22. Financial Instruments (Continued)

(a) Interest Rate Risk

Cash at bank – is held in at call bank accounts with generally no interest receivable thereon.
Business investment account – has an interest rate at year end of 5.00%.
Receivables/other current assets – generally no interest is receivable thereon.
Payables – generally no interest is payable thereon.
Amounts owing to director related entity / other loan – refer notes 12 and 14.
Bank and other loans – refer note 12.

(b) Credit Risk

The credit risk on financial assets of the consolidated entity, which have been recognised in the statement of financial position is generally the carrying amount, net of any provision. The consolidated entity has no significant concentration of credit risk.

(c) Net Fair Values

The consolidated entity's financial assets and liabilities are carried at amounts that approximate net fair value. The loans payable to DCS (a director related entity of Andrew Kemp and Matthew Madsen) were repaid in full on 7 July 2004. Accordingly, the reported liability represents net fair value.

(d) Derivative Financial Instruments

The consolidated entity does not use derivative financial instruments.

23. Subsequent Events

On 1 July 2004 the Company was listed on the Australian Stock Exchange.

Since the end of the year, the Company has entered into contracts to acquire sites upon which to construct additional Seniors Communities. These contracts are conditional upon satisfactory due diligence and development approvals on terms and conditions satisfactory to the Company.

Additionally, since the end of the year, the Company has entered into contracts to acquire existing management rights over additional Seniors Communities. These contracts are conditional upon satisfactory due diligence and assignment from the relevant body corporate.

24. Segment Information

The consolidated entity operates in one business segment being the development and management of Seniors Communities.
The consolidated entity operates only in Australia.

25. Commitments for Expenditure

Commitment for office rental and linen services:
Minimum lease payments under non-cancellable operating leases according to the time expected to elapse to the expected date of payment:

	Consolidated		Parent Entity	
	30 June 2004 $	30 June 2003 $	30 June 2004 $	30 June 2003 $
Within 1 year	95,511	11,777	95,511	11,777
Greater than 1 year but not longer than 5 years	331,272	9,092	331,272	9,092
	426,783	20,869	426,783	20,869

The amounts disclosed above for the lease for the office rental does not include any adjustments for CPI or market rental reviews.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

26. Earnings per Share

	Consolidated
	30 June 2004 $
Net profit/(loss) used in calculating basic earnings per share	(1,364,992)
Net profit/(loss) used in calculating diluted earnings per share	(1,364,992)
Weighted average number of ordinary shares used in calculating basic earnings per share	3,359,246
Dilutive potential ordinary shares	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	3,359,246
Potential ordinary shares that are not dilutive and not used in the calculation of diluted earnings per share	7,706,400
Basic earnings per share (cents per share)	(40.63 cents)
Diluted earnings per share (cents per share)	(40.63 cents)

Due to the share split which occurred during the year the weighted average number of shares has been calculated as if the share split occurred at the start of the year so to provide an accurate measure of earnings per share.

27. Impacts of Adopting Australian Equivalents to International Financial Reporting Standards (IFRSs)

Australian equivalents to International Financial Reporting Standards (AIFRS) will be adopted in the financial report for the year ending 30 June 2006 and the comparative information presented in that report for the year ending 30 June 2005. In preparation for the transition, opening balances as at 1 July 2004 for the comparative year ending 30 June 2005 will be converted to AIFRS in accordance with new accounting standard AASB 1 "First Time Adoption of Australian International Financial Reporting Pronouncements".

The transition to AIFRS is being managed through the following measures:

- Selection of appropriately skilled personnel with the consolidated entity and external advisors to help manage the process;
- Establishment of a formal timetable to manage the process and satisfy the disclosure requirements of AASB 1047 "Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards";
- Identification of Australian Equivalents to International Financial Reporting Standards (AIFRS) which apply to the consolidated entity;
- Review of current accounting policies and the compatibility with AIRFS;
- Preliminary assessment of key differences and likely financial impact by 30 June 2004 as noted below;
- Ongoing review of accounting policies to ensure the consolidated entity is able to disclose the financial impact in detail for future financial reports as required by AASB 1047; and
- Providing access to ongoing training for relevant personnel.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2004

27. Impacts of Adopting Australian Equivalents to International Financial Reporting Standards (IFRSs) (Continued)

The key differences in accounting policies expected to arise from adoption of AIFRS are listed as follows:

Income Tax

AASB 112 "Income Tax" requires all income tax balances to be calculated using the comprehensive balance sheet liability method. Deferred tax items will be calculated by comparing the difference in carrying amounts to tax bases for all assets and liabilities and multiplying this by the tax rates expected to apply to the period when the asset is realised or the liability settled. Recognition of the resulting amounts are subject to some exceptions, but generally deferred tax balances must be calculated for each item in the statement of financial position. Deferred tax assets will only be recognised where there exists the probability that future taxable profit will be available to recognise the asset.

Inventories

Inventories will continue to be measured at the lower of cost and net realisable value under the new AASB 102. All items of inventory are subject to an impairment test. In the event that the circumstances that lead to an impairment write-down no longer exist or are favourable a reversal of the write-down through the statement of financial performance is required to be effected.

Property, Plant & Equipment

Any consideration on disposal, which is deferred is recognised as the net present value of that amount using an appropriate discount rate.

Property, plant and equipment is subject to an impairment test when there is an indication that impairment exists by reference to internal and external market factors. Any item of property, plant & equipment which is impaired must be written down to its recoverable amount. The amount of the impairment write down for assets carried at cost will be expensed through the statement of financial performance.

Intangible Assets

AASB 138 "Intangible Assets" generally requires derecognition of all items that do not qualify as identifiable intangible assets. The transition rules allow items that were purchased as part of a business combination and do not qualify as an identifiable intangible to be transferred back to the related goodwill balance. The treatment of each specific intangible is set out below:

- All licences, plans and trademarks have been assessed as having a finite useful life;
- All items classified as finite lifed assets will be amortised over the useful life of the asset;
- Regardless of the useful life classification the directors must assess at the end of each reporting period the classification, subsequent method employed and rates used to ensure appropriateness;
- Management rights have been assessed as having a finite life linked to the finite life of the Seniors' Communities they relate to and such assets will therefore be amortised over the life of the asset. Such assets will also be subject to a rigorous annual impairment test.

Share Based Payments

The entity currently engages in the practice of allocating to its employees and directors, shares and share options as part of their remuneration packages. AASB 2 "Share Based Payments" require that these payments and also payments made to other counterparties in return for goods and services shall be measured at the more readily determinable fair value of the good/service or the fair values of the equity instrument. This amount will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

SunnyCove Management Limited Options vesting after 1 July 2005 will be subject to the requirements of AASB 2. The fair value of Options granted to employees and directors will be expensed over the period from their grant date to vesting date, or at grant date if there is no vesting period.

INDEPENDENT AUDIT REPORT TO MEMBERS OF SUNNYCOVE MANAGEMENT LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Sunnycove Management Limited (the company) and SunnyCove Management Limited and Controlled Entities (the consolidated entity) for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We perform procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we consider the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit Opinion

In our opinion, the financial report of SunnyCove Management Limited is in accordance with:

(a) The Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

PKF

PKF
Brisbane Partnership
Chartered Accountants

C G Bellamy
Partner

Brisbane
Dated this 24th day of September, 2004.

CORPORATE DIRECTORY

SunnyCove Management Limited
ACN 097241159

Directors
Andrew Kemp (Chairman)
Mark Roberts (Managing Director)
Craig Wallace
Matthew Madsen

Company Secretary
Mary Mickan

Auditors
PKF Chartered Accountants
Level 6, 120 Edward Street
Brisbane QLD 4000

Bankers
National Australia Bank
Carnaby Street
Maroochydore, QLD 4558

Lawyers
McCullough Robertson
Level 12, 66 Eagle Street
Brisbane, QLD 4000

Registered Office
6 Pikki Street
Maroochydore, QLD 4558

Share Registry
ASX Perpetual Registrars - Brisbane
Level 22, 300 Queen Street
Brisbane, QLD 4000

Listing Details
Australian Stock Exchange Limited
Brisbane
Code - Shares - SCV
Code - Options - SCVO

dtb SUN12918

SunnyCove™

SunnyCove Management Limited
ABN 15 097 241 159

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