SunnyCove™
Lifestyle Rental Accommodation For Seniors

# SunnyCove Management Limited

# Managing Director's Operational Review

# 1st Annual General Meeting

Wednesday 24th November 2004
10.00am – 11.00am
ASX Lecture Theatre
Level 5, 123 Eagle Street, Brisbane

# Managing Director's Address

Good Morning Ladies and Gentlemen

In my address today I would like to outline to you the milestones that SunnyCove has achieved since its listing on the 1st July 2004, provide a current status on our projects and explain further our strategies to achieve a greater critical mass of units under SunnyCove's management.

As stated in the Annual Report, the year in review has been a pivotal one for SunnyCove Management Limited, its staff, residents and shareholders. We have remained focused on consolidating our existing position in the affordable housing market, expanding our portfolio of management rights, and continuing the development and evolution of our new renter-by-choice™ model, which will broaden our target market base, increase our earnings from our communities and strengthen the SunnyCove brand.

**Strategic focus**
The SunnyCove model and brand continues to attract strong resident interest in our communities. In fact, we are currently constrained only by the availability of our product. To address this, SunnyCove remains focused on a three-tiered strategy that will increase our units under management and ultimately increase our revenues:

- The acquisition of management rights of existing affordable accommodation;
- The development of Greenfield sites that will broaden our product offering (including 1 bedroom apartments) and attract a wider range of potential residents; and
- Licensing our intellectual property to developers to generate revenue, increase our units under management, and strengthen our product range.

**Acquisition of Management Rights**
Since listing on 1 July 2004, SunnyCove has increased its number of units under management from 162 to 560 surpassing our prospectus expectations of 500 units by Year End 2005.

This rapid growth has demonstrated our serious commitment to becoming a leading long-term rental accommodation provider in Australia and taking advantage of the enormous opportunities this sector offers. Equally as important is the location of these acquisitions. The majority of SunnyCove's affordable housing portfolio is now in the greater Brisbane area, meeting our strategic objective of locating our seniors' communities where people want to live - namely major cities or large regional coastal areas.

**SunnyCove Developments**
Since listing, SunnyCove has also concentrated on developing a number of renter-by-choice™ communities in large regional coastal towns in Queensland including Cairns, Townsville, Rockhampton and Gladstone, which are currently in advanced stages of development process with tenders being sought.

The bulk earthworks on SunnyCove's developments in Forest Lake, Gladstone and Townville are targeted to be completed by Christmas 2004. This will allow the builders appointed for those projects to commence building work in early 2005, following the successful negotiation of current tenders. The Cairns project has received its development approval and the Rochampton approval is currently pending.

The senior debt and mezzanine debt for all five projects are in the final stages of negotiation. The projects are highly geared, with structured financing up to and in some cases exceeding a 95% LVR, allowing SunnyCove to retain cash for use elsewhere in the company.

**SunnyCove's Intellectual Property (IP)**

The documentation and planning process for the SunnyCove developments has achieved two key strategic outcomes:

- **It ensures we achieve a higher critical mass of units under management**, in particular embracing a broader product offering that delivers 'choice' to residents, targeting seniors that not only rent by necessity, but those that rent by choice. Our new developments will attract a broader target market and moves us away from the industry sentiment that "one size suits all", and
- **We have developed a strong intellectual property (IP) position.** Our management strategy includes focusing on licensing SunnyCove's IP to external developers throughout Australia, rather than on continuing to develop our own product. This scaleable model will help us achieve fast growth, without the associated development risk, while attracting revenues, increasing our units under management, and increasing our brand recognition across Australia. We have already attracted interest from developers who have recognised the growth in this sector and find the access to clearance of stock, proven systems, building plans, financiers etc an attractive method in mitigating their own development risk and achieving development profit.

**SunnyCove's Approach**

In 2006 tens of thousands of baby boomers will be celebrating their 60th birthday. This changing demographic will bring new demands to the senior housing sector. Residents will be more demanding in their choice of accommodation, will look for more choice under a 'user-pays' framework, and communities will need to be located where people want to live, which will usually be higher density areas, with developments based on smaller footprint sites to achieve location advantages.

SunnyCove believes there will also be a greater emphasis on the delivery of services. Residents will choose their accommodation provider not just on price, but based on product choice and value added services. SunnyCove's focus on our people, our service delivery systems and our future product range (which offers accommodation and service choice), positions us well to be a standout performer in the growing market for long-term rental accommodation for seniors.

The company's growing portfolio of units under management is managed by the SunnyCove's unique hospitality style and is already achieving consistently high occupancy rates. Our style of operations management will be important as the sector grows, and becomes more demanding. It will also open up new opportunities for us to promote and deliver value-added services that can positively contribute to our revenues.

In the past six months we have been working very hard to achieve critical mass in the Queensland market. The next stage is to explore opportunities to leverage our systems interstate.

In closing, we listed on the ASX with a strategy that will remain and will continue to mature and evolve in producing accommodation for independent seniors who desire community style accommodation, without the upfront fees associated with retirement village packages.

We will tightly manage our cashflow, stay focused on growth and generating value. We look forward to an exciting year focused on growth, taking advantage of the significant opportunities this sector offers.

**Mark Roberts**
**Managing Director**