Summerset

# Half Year Report 2020

The text of this document is printed on 120gsm Lenza Green 100% recycled paper sourced from recovered fibre certified FSC Recycled, cover is 350gsm Impress Satin FSC Mix board from responsible sources printed using vegetable oil inks and manufactured under a strict ISO14001 Environmental Management System.

TOITŪ CARBON ZERO ISO 14064-1 ORGANISATION

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

FSC www.fsc.org RECYCLED Paper made from recycled material FSC® C089459

# Contents






# Summerset Snapshot

More than
5,700
residents

More than
1,700
staff members

31
Villages completed or under development

10
Greenfield sites

4,225
Retirement units in portfolio

901
Care beds in portfolio

Land bank of
5,241
retirement units

Land bank of
783
care beds

Sales of
264
occupation rights

139
Retirement units delivered

# Chair and CEO Report

Welcome to Summerset's half year report for the six months ended 30 June 2020. This report covers an extraordinary period with the COVID-19 pandemic sending shockwaves around the world. Our priority through this time has been keeping our residents and staff safe and we can report that to date we have had no COVID-19 cases.

Reported profit for the first half of 2020 has been impacted with underlying profit of $45.1 million, down 5.7% on the prior period and IFRS net profit after tax of $1.0 million. Independent valuers CBRE have adopted a more conservative position in relation to short term growth assumptions due to COVID-19 uncertainty. Summerset achieved a core fair value gain in 1H20 of $37.2 million from retirement unit pricing and the delivery of 139 new units. Overall, the value of investment property remains largely unchanged, the fair value decrease of $14.7 million being less than 1% of our total investment property asset base.

Through the April-May lockdown period, access to our villages was considerably restricted in order to prevent COVID-19 transmission. In April at alert level four, sales and settlements of occupation rights largely ceased with a small recovery in level three. In addition to this we have incurred around $4 million of extra costs to date from measures to protect our residents and staff. This has had a significant impact on the business.

Following the April-May lockdown, sales and settlements largely recovered and we were seeing higher than normal enquiry and sales rates during alert level one.

**Our COVID-19 response**

Early action to activate our pandemic planning and buy additional supplies of personal protective equipment put us in a good position. We are able to move quickly to protect residents in our villages and support them through the periods of lockdown.

Protections in place at alert levels four, three and two included manned gates to restrict visitor access, temperature screening of staff, 14-day isolation for new care centre residents, staff wearing face masks and additional cleaning protocols. We also required that incoming residents to our care centres return a negative COVID-19 test. These actions have strong evidential support and go over and above Ministry of Health recommendations.

Support for our residents and their families during the April-May lockdown period included regular email and newsletter contact, a grocery ordering service and a restructured activity programme to provide connection and stimulus for residents. In our care centres we provided iPads so residents could video call their families and we organised remote consultations for medical practitioners. The response from our residents and their families to our management of the crisis has been very positive.


Residents enjoying a free concert during lockdown

At the time of finalising this report, a further outbreak of COVID-19 in New Zealand has seen various restrictions put in place across the country. We are ready to resume all of the protections which we had previously put in place during the first outbreak as required.

At the outset of the crisis there was commentary that the appeal of retirement villages could be lessened due to the risks of COVID-19 transmission. In fact, the appeal of retirement villages for some people has been enhanced as residents have seen the benefit of the protections put in place to keep COVID-19 out and the support provided to them.

To keep our residents safe, at the outset of the first lockdown period we employed around 120 additional staff in our villages and introduced an additional monetary allowance for village staff through the time spent at levels four and three. This was a key part of the additional costs incurred in our initial COVID-19 response.

In May we received $700,000 as part of the Government's $26 million COVID-19 funding for aged care providers. The extra funding went towards supporting aged care providers with the additional costs incurred. It is noted that this is considerably less than our actual costs to date.

We also applied for the first tranche of the Government's wage subsidy scheme in late March at alert level four, a time of significant uncertainty. Sales and settlements of occupation rights had largely ceased – which had a significant impact on our revenue. The wage subsidy provided us with a grant of $8.7 million. At this time, we also introduced a number of cost-saving measures including moving more than 200 staff based in our corporate offices to a four-day week for a period of 10 weeks to reduce wage costs. The Executive Leadership Team and our Board of Directors also took a 20% pay reduction during this period.

Coming out of the April-May lockdown period we were buoyed by a return to good sales figures in June, but remain cognisant of the impact of community outbreaks and the effect these have on sales going forward. As the events of the current outbreak shows, we will be dealing with this virus for some time. Additionally, we face the impact of a likely economic recession in New Zealand.

**Growth and development**

Our 13 construction sites in New Zealand were closed and secured in March at the start of alert level four, with staff returning under level three in late April with appropriate health and hygiene processes. Like the rest of the country we had two days' notice of moving into the level four lockdown and our construction teams and contractors moved quickly to shut down sites.

**In the first half of this year we launched sales on three new retirement villages in Tauranga, Napier and New Plymouth. We are in the midst of construction on all these sites and hope to complete the first units this year.**

In early March we opened the main building at our Casebrook village in Christchurch. The main building includes a 43-bed care centre, 56 serviced apartments, swimming pool, resident lounges, and 20 memory care apartments. Sales of the serviced and memory care apartments have been strong with over half already sold and the care centre is almost full.

Preliminary earthworks started at our St Johns site in Auckland's eastern suburbs in January, following a December 2019 resource consent approval. We are also expecting resource consent for our Lower Hutt village having received a positive interim decision from the Environment Court in March.

The shutdown of our construction sites in April has impacted our build rate and we now anticipate it will be between 300-350 retirement units this year, depending on the situation over the coming months. This is down from our estimate pre-COVID-19 of approximately 400 units.

We are slowing some projects in response to the uncertain outlook. Our large and diversified land bank, together with a predominance of single level villa construction, means we can increase our build rate quickly as market conditions become clearer.

### Australia

The COVID-19 outbreak in Melbourne is very serious and we are watching this closely but it does not significantly impact us at this stage given the early stage of our development activities there. If the outbreak does persist there is potential for some delays to our plans. We have lodged the development approval application for our first Australian retirement village, in Cranbourne North, Melbourne. We hope to receive approval this year and start preliminary earthworks before the year is out. Master planning and engagement with council over our Torquay site is also progressing positively.

### Villages and care

COVID-19 prevention has of course been the standout feature of our operations and care business over the last six months and this will continue going forward. Outside of this, performance in our care business continued to track well, with occupancy for the first six months of the year at 96.1% in our developed villages, versus 90% for the aged care sector overall. This is consistent with occupancy for the 2019 year.

### Our people

In the health and safety space, outside of COVID-19, we continue to focus on training and prevention of manual handling injuries for our care staff and will shortly introduce random drug and alcohol testing to all construction sites following trials. We have also changed the construction technique for flooring systems in multi-storey buildings to reduce falls risks.

### Summerset's place in the community

In April, we received accreditation as a dementia friendly organisation from Alzheimers New Zealand, reflecting 18 months of work to make our villages more accessible for those living with dementia.

### Sustainability

Summerset has achieved carbonzero status through a combination of carbon emission reduction targets across the business since 2018, and the purchase of carbon credits to offset our emissions for the last two years.

In January we renewed our carbonzero certification with Toitū Envirocare, recording a 7% reduction in carbon emissions intensity for 2019, based on a three-year rolling average. This was a positive result given we are only in our third year of the programme.

### Looking ahead

Like all New Zealanders, we were disappointed to hear of new COVID-19 cases in the community last week. At the time of writing we have put level three precautions in place across all of our Auckland villages and closed all of our care centres across the country to visitors. We are well prepared to ensure our residents are protected going forward.

After considering recent COVID-19 developments, the Board has declared an interim dividend of 6.0 cents per share. This reflects a 30% pay-out of underlying profit.

We would like to sincerely thank our residents, their families, and our staff for their understanding, resilience, and hard work over the last six months, most particularly during the COVID-19 lockdown.

**Rob Campbell**
Chair

**Julian Cook**
Chief Executive Officer


Latest dementia design principles have been used in developing Summerset's new Casebrook memory care centre

# Half Year Financial Highlights

### Results Highlights - Financial

| | 1H2020 | 1H2019 | % Change | FY2019 |
|---|---|---|---|---|
| Net profit before tax (NZ IFRS) ($000) | (2,707) | 92,082 | -102.9% | 173,561 |
| Net profit after tax (NZ IFRS) ($000) | 988 | 92,601 | -98.9% | 175,262 |
| Underlying profit ($000)[1] | 45,078 | 47,785 | -5.7% | 106,182 |
| Total assets ($000) | 3,432,776 | 3,027,891 | 13.4% | 3,337,882 |
| Net tangible assets (cents per share) | 491.29 | 470.47 | 4.4% | 502.01 |
| Net operating cash flow ($000) | 92,777 | 93,331 | -0.6% | 237,896 |

*1 Underlying profit differs from NZ IFRS profit for the period*

### Results Highlights - Operational

| | 1H2020 | 1H2019 | % Change | FY2019 |
|---|---|---|---|---|
| New sales of occupation rights | 128 | 136 | -5.9% | 329 |
| Resales of occupation rights | 136 | 142 | -4.2% | 323 |
| New retirement units delivered | 139 | 139 | 0.0% | 354 |
| Realised development margin ($000) | 17,429 | 27,108 | -35.7% | 60,973 |
| Realised gains on resales ($000) | 15,699 | 14,305 | 9.7% | 36,901 |

### Non-GAAP Underlying Profit

| $000 | 1H2020 | 1H2019 | % Change | FY2019 |
|---|---|---|---|---|
| Profit for the period[1] | 988 | 92,601 | -98.9% | 175,262 |
| Less: fair value movement of investment property[1] | 14,657 | (85,710) | -117.1% | (165,252) |
| Add: realised gain on resales | 15,699 | 14,305 | 9.7% | 36,901 |
| Add: realised development margin | 17,429 | 27,108 | -35.7% | 60,973 |
| Add: deferred tax expense[1] | (3,695) | (519) | 611.7% | (1,701) |
| **Underlying profit** | **45,078** | **47,785** | **-5.7%** | **106,182** |

*1 Figure has been extracted from the financial statements*

*Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Refer to note 2 of the financial statements for definitions of the components of underlying profit.*

# Financial Statements

## Income Statement

For the six months ended 30 June 2020

| | NOTES | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|---|
| Care fees and village services | | 53,287 | 48,778 | 101,259 |
| Deferred management fees | | 28,730 | 25,078 | 52,470 |
| Interest received | | 22 | 156 | 217 |
| **Total revenue** | | **82,039** | **74,012** | **153,946** |
| | | | | |
| Fair value movement of investment property | 6 | (14,657) | 85,710 | 165,252 |
| **Total income** | | **67,382** | **159,722** | **319,198** |
| | | | | |
| Operating expenses | 3 | (57,844) | (56,899) | (122,399) |
| Depreciation and amortisation expense | | (3,927) | (3,915) | (7,833) |
| **Total expenses** | | **(61,771)** | **(60,814)** | **(130,232)** |
| | | | | |
| **Operating profit before financing costs** | | **5,611** | **98,908** | **188,966** |
| | | | | |
| Net finance costs | | (8,318) | (6,826) | (15,405) |
| **(Loss)/profit before income tax** | | **(2,707)** | **92,082** | **173,561** |
| | | | | |
| Income tax credit | 4 | 3,695 | 519 | 1,701 |
| **Profit for the period** | | **988** | **92,601** | **175,262** |
| | | | | |
| Basic earnings per share (cents) | 11 | 0.44 | 41.66 | 78.59 |
| Diluted earnings per share (cents) | 11 | 0.43 | 41.04 | 77.52 |

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

# Statement of Comprehensive Income

For the six months ended 30 June 2020

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| **Profit for the period** | **988** | **92,601** | **175,262** |
| Fair value movement of interest rate swaps | (12,310) | (9,329) | (7,015) |
| Tax on items of other comprehensive income | 3,447 | 2,612 | 1,964 |
| (Loss)/gain on translation of foreign currency operations | (454) | 56 | 266 |
| **Other comprehensive income that will be reclassified subsequently to profit or loss for the period net of tax** | **(9,317)** | **(6,661)** | **(4,785)** |
| **Total comprehensive (loss)/income for the period** | **(8,329)** | **85,940** | **170,477** |

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

# Statement of Changes in Equity

For the six months ended 30 June 2020

| | SHARE CAPITAL $000 | HEDGING RESERVE $000 | REVALUATION RESERVE $000 | RETAINED EARNINGS $000 | FOREIGN CURRENCY TRANSLATION RESERVE $000 | TOTAL EQUITY $000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2019** | **269,467** | **(10,122)** | **24,941** | **694,508** | **5** | **978,799** |
| Adoption of NZ IFRS 16 | - | - | - | (1,413) | - | (1,413) |
| **Adjusted balance at 1 January 2019** | **269,467** | **(10,122)** | **24,941** | **693,095** | **5** | **977,386** |
| Profit for the period | - | - | - | 92,601 | - | 92,601 |
| Other comprehensive loss for the period | - | (6,717) | - | - | 56 | (6,661) |
| **Total comprehensive income/(loss) for the period** | **-** | **(6,717)** | **-** | **92,601** | **56** | **85,940** |
| Dividends paid | - | - | - | (16,091) | - | (16,091) |
| Shares issued | 6,053 | - | - | - | - | 6,053 |
| Employee share plan option cost | 553 | - | - | - | - | 553 |
| **As at 30 June 2019 (unaudited)** | **276,073** | **(16,839)** | **24,941** | **769,605** | **61** | **1,053,841** |
| | | | | | | |
| Profit for the period | - | - | - | 82,661 | - | 82,661 |
| Other comprehensive income for the period | - | 1,666 | - | - | 210 | 1,876 |
| **Total comprehensive income/(loss) for the period** | **-** | **1,666** | **-** | **82,661** | **210** | **84,537** |
| Dividends paid | - | - | - | (14,495) | - | (14,495) |
| Shares issued | 7,298 | - | - | - | - | 7,298 |
| Employee share plan option cost | 703 | - | - | - | - | 703 |
| **As at 31 December 2019 (audited)** | **284,074** | **(15,173)** | **24,941** | **837,771** | **271** | **1,131,884** |
| | | | | | | |
| Profit for the period | - | - | - | 988 | - | 988 |
| Other comprehensive loss for the period | - | (8,863) | - | - | (454) | (9,317) |
| **Total comprehensive income/(loss) for the period** | **-** | **(8,863)** | **-** | **988** | **(454)** | **(8,329)** |
| Dividends paid | - | - | - | (17,342) | - | (17,342) |
| Shares issued | 6,375 | - | - | - | - | 6,375 |
| Employee share plan option cost | 770 | - | - | - | - | 770 |
| **As at 30 June 2020 (unaudited)** | **291,219** | **(24,036)** | **24,941** | **821,417** | **(183)** | **1,113,358** |

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

# Statement of Financial Position

As at 30 June 2020

| | NOTES | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | | 12,976 | 9,107 | 21,462 |
| Trade and other receivables | | 24,675 | 30,171 | 36,662 |
| Interest rate swaps | | 22,091 | 13,542 | 12,617 |
| Property, plant and equipment | 5 | 161,542 | 144,995 | 154,004 |
| Intangible assets | | 5,774 | 6,211 | 6,123 |
| Investment property | 6 | 3,205,718 | 2,823,864 | 3,107,014 |
| **Total assets** | | **3,432,776** | **3,027,891** | **3,337,882** |
| | | | | |
| **Liabilities** | | | | |
| Trade and other payables | | 138,583 | 132,366 | 134,680 |
| Employee benefits | | 11,455 | 8,485 | 11,434 |
| Revenue received in advance | | 99,584 | 80,321 | 91,142 |
| Interest rate swaps | | 33,385 | 23,387 | 21,075 |
| Residents' loans | 7 | 1,365,251 | 1,206,388 | 1,327,607 |
| Interest-bearing loans and borrowings | 9 | 654,846 | 499,794 | 597,081 |
| Lease liability | 8 | 10,937 | 10,256 | 10,460 |
| Deferred tax liability | 4 | 5,377 | 13,053 | 12,519 |
| **Total liabilities** | | **2,319,418** | **1,974,050** | **2,205,998** |
| | | | | |
| **Net assets** | | **1,113,358** | **1,053,841** | **1,131,884** |
| | | | | |
| **Equity** | | | | |
| Share capital | | 291,219 | 276,073 | 284,074 |
| Reserves | | 722 | 8,163 | 10,039 |
| Retained earnings | | 821,417 | 769,605 | 837,771 |
| **Total equity attributable to shareholders** | | **1,113,358** | **1,053,841** | **1,131,884** |

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

Authorised for issue on 14 August 2020 on behalf of the Board

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

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

# Statement of Cash Flows

For the six months ended 30 June 2020

| | NOTE | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Receipts from residents for care fees and village services | | 52,904 | 48,654 | 101,116 |
| Interest received | | 22 | 156 | 217 |
| Payments to suppliers and employees | | (55,847) | (57,486) | (116,811) |
| Receipts for residents' loans - new occupation right agreements | | 76,306 | 89,178 | 209,364 |
| Net receipts for residents' loans - resales of occupation right agreements | | 19,392 | 12,829 | 44,010 |
| **Net cash flow from operating activities** | | **92,777** | **93,331** | **237,896** |
| | | | | |
| **Cash flows to investing activities** | | | | |
| (Payments for)/proceeds from investment property: | | | | |
| - land | | (10,873) | 1,429 | (57,344) |
| - construction of villages | | (95,239) | (97,489) | (232,768) |
| - refurbishment of villages | | (3,329) | (3,767) | (7,201) |
| Payments for property, plant and equipment: | | | | |
| - construction of care centres | | (5,688) | (5,010) | (15,413) |
| - refurbishment of care centres | | (585) | (322) | (146) |
| - other | | (2,478) | (1,758) | (3,172) |
| Payments for intangible assets | | (184) | (162) | (567) |
| Capitalised interest paid | | (5,085) | (5,438) | (10,800) |
| **Net cash flow to investing activities** | | **(123,461)** | **(112,517)** | **(327,410)** |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Net proceeds from borrowings | | 41,592 | 37,832 | 135,636 |
| Proceeds from issue of shares | | 165 | 324 | 2,215 |
| Interest paid on borrowings | | (7,682) | (6,370) | (13,549) |
| Payments in relation to lease liabilities | | (733) | (607) | (1,264) |
| Dividends paid | 12 | (11,144) | (10,368) | (19,544) |
| **Net cash flow from financing activities** | | **22,198** | **20,811** | **103,494** |
| | | | | |
| Net (decrease)/increase in cash and cash equivalents | | (8,486) | 1,625 | 13,980 |
| Cash and cash equivalents at beginning of period | | 21,462 | 7,482 | 7,482 |
| **Cash and cash equivalents at end of period** | | **12,976** | **9,107** | **21,462** |

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

# Reconciliation of Operating Results and Operating Cash Flows

For the six months ended 30 June 2020

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| **Profit for the period** | **988** | **92,601** | **175,262** |
| **Adjustments for:** | | | |
| Depreciation and amortisation expense | 3,927 | 3,915 | 7,833 |
| Fair value movement of investment property | 14,657 | (85,710) | (165,252) |
| Net finance costs paid | 8,318 | 6,826 | 15,405 |
| Income tax credit | (3,695) | (519) | (1,701) |
| Deferred management fee amortisation | (28,730) | (25,078) | (52,470) |
| Employee share plan option cost | 781 | 559 | 271 |
| Other non-cash items | (497) | 62 | 1,256 |
| | **(5,239)** | **(99,945)** | **(194,658)** |
| **Movements in working capital** | | | |
| Decrease/(increase) in trade and other receivables | 640 | (4,388) | (10,724) |
| Increase/(decrease) in employee benefits | 179 | (968) | 1,980 |
| Increase in trade and other payables | 4,827 | 1,991 | 624 |
| Increase in residents' loans net of non-cash amortisation | 91,382 | 104,040 | 265,412 |
| | **97,028** | **100,675** | **257,292** |
| **Net cash flows from operating activities** | **92,777** | **93,331** | **237,896** |

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

# Notes to the Financial Statements

For the six months ended 30 June 2020

## 1. Summary of accounting policies

The consolidated interim financial statements presented for the six months ended 30 June 2020 are for Summerset Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"). The Group develops, owns and operates integrated retirement villages in New Zealand, including independent living, care centres with rest home and hospital-level care and memory care centres. The Group also owns land for development of retirement villages in Australia.

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

The consolidated interim financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP), except for Note 2: Non-GAAP underlying profit, which is presented in addition to NZ GAAP compliant information. NZ GAAP in this instance being New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities. These consolidated interim financial statements also comply with NZ IAS 34 – *Interim Financial Reporting* and IAS 34 – *Interim Financial Reporting*.

These consolidated interim financial statements have been prepared using the same accounting policies as, and should be read in conjunction with, the Group's financial statements for the year ended 31 December 2019. The impact of COVID-19 has brought about no significant changes to the Group's accounting policies, other than additional disclosure around assumptions and judgements used by management and third parties, and confirmation of the accounting policy adopted in relation to government grants.

The consolidated interim financial statements for the six months ended 30 June 2020 are unaudited. They are presented in New Zealand dollars, which is the Company's and its New Zealand subsidiaries' functional currency. The functional currency of the Company's Australian subsidiaries is Australian dollars. All financial information has been rounded to the nearest thousand, unless otherwise stated.

### Segment reporting

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

The Group continues to investigate expansion into Australia with two Australian sites purchased in 2019. It is intended that these sites will be developed into retirement villages. To date the expenditure incurred and assets acquired in Australia have been immaterial to the Group and as such are not reported as a separate operating segment as at 30 June 2020.

The Ministry of Health is a significant customer of the Group, as the Group derives care fee revenue in respect of eligible government subsidised aged care residents. Fees earned from the Ministry of Health for the period ended 30 June 2020 amounted to $17.1 million (Jun 2019: $15.7 million, Dec 2019: $32.2 million). No other customers individually contribute a significant proportion of the Group revenue. All revenue is earned in New Zealand.

### Comparative information

No comparatives have been restated in the current period.

# Notes to the Financial Statements (continued)

## 2. Non-GAAP underlying profit

| | Ref | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|---|
| Profit for the period | | 988 | 92,601 | 175,262 |
| Add/(less) fair value movement of investment property | a) | 14,657 | (85,710) | (165,252) |
| Add impairment of assets | b) | - | - | - |
| Add realised gain on resales | c) | 15,699 | 14,305 | 36,901 |
| Add realised development margin | d) | 17,429 | 27,108 | 60,973 |
| Less deferred tax credit | e) | (3,695) | (519) | (1,701) |
| **Underlying profit** | | **45,078** | **47,785** | **106,182** |

Underlying profit is a non-GAAP measure and differs from NZ IFRS profit for the period. Underlying profit does not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. The Directors have provided an underlying profit measure in addition to IFRS profit to assist readers in determining the realised and unrealised components of fair value movement of investment property and tax expense in the Group's income statement. The measure is used internally in conjunction with other measures to monitor performance and make investment decisions. Underlying profit is a measure which the Group uses consistently across reporting periods. Underlying profit is used to determine the dividend pay-out to shareholders.

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

### Basis of preparation: underlying profit

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

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

b) Add/(less) impairment/(reversal of impairment) of assets: remove the impact of non-cash care centre valuation changes recorded in NZ IFRS profit for the period. Care centres are valued at least every three years (last valued as at 31 December 2017), with fair value gains flowing through to the revaluation reserve unless the gain offsets a previous impairment to fair value that was recorded in NZ IFRS profit for the period. Where there is any impairment of a care centre, or reversal of a previous impairment that impacts NZ IFRS profit for the period, this is eliminated for the purposes of determining underlying profit.

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

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

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

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

   All costs above include non-recoverable GST.

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

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

e) Less deferred tax credit: reversal of the impact of deferred taxation.

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

## 3. Operating expenses

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| Employee expenses | 33,660 | 33,977 | 72,921 |
| Property-related expenses | 7,513 | 6,095 | 13,589 |
| Repairs and maintenance expenses | 2,409 | 2,418 | 5,185 |
| Other operating expenses | 14,262 | 14,409 | 30,703 |
| **Total operating expenses** | **57,844** | **56,899** | **122,399** |

During the period the Group received a $8.7 million one-off government wage subsidy in relation to COVID-19. The subsidy related to a 12-week period between March and June 2020. A portion of the subsidy was capitalised, and the remaining balance was recorded as a deduction to employee expenses. The Group also received an additional $0.7 million of funding as part of the Government's package to support residential aged care providers to keep COVID-19 at bay. This funding has been recorded as a deduction to other operating expenses.

Included in the above operating expenses is $4.0 million of additional costs for measures to protect our residents and staff from COVID-19.

# Notes to the Financial Statements (continued)

## 4. Income tax

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

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| **Tax expense comprises:** | | | |
| Deferred tax relating to the origination and reversal of temporary differences | (3,695) | (519) | (1,701) |
| **Total tax credit reported in income statement** | **(3,695)** | **(519)** | **(1,701)** |

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

| | 6 MONTHS JUN 2020 UNAUDITED | | 6 MONTHS JUN 2019 UNAUDITED | | 12 MONTHS DEC 2019 AUDITED | |
|---|---|---|---|---|---|---|
| | $000 | % | $000 | % | $000 | % |
| **(Loss)/profit before income tax** | **(2,707)** | | **92,082** | | **173,561** | |
| Income tax using the corporate tax rate | (758) | 28.0% | 25,783 | 28.0% | 48,597 | 28.0% |
| Capitalised interest | (1,503) | 55.5% | (1,470) | (1.6%) | (2,935) | (1.7%) |
| Non-deductible expenses | 234 | (8.6%) | 174 | 0.2% | 399 | 0.2% |
| Non-assessable investment property revaluations | 4,104 | (151.6%) | (23,999) | (26.1%) | (46,271) | (26.7%) |
| Reinstatement of tax depreciation on non-residential buildings | (6,008) | 221.9% | - | 0.0% | - | 0.0% |
| Other | 236 | (8.7%) | (1,007) | (1.1%) | (1,681) | (1.0%) |
| Prior period adjustments | - | 0.0% | - | 0.0% | 190 | 0.1% |
| **Total income tax credit** | **(3,695)** | **136.5%** | **(519)** | **(0.6%)** | **(1,701)** | **(1.0%)** |

Total Group tax losses available amount to $208.3 million at 30 June 2020 (Jun 2019: $145.1 million, Dec 2019: $184.0 million). There are no unrecognised tax losses for the Group at 30 June 2020 (Jun 2019 and Dec 2019: nil).

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

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| **Tax expense comprises:** | | | |
| Fair value movement of interest rate swaps | (3,447) | (2,612) | (1,964) |
| **Total tax credit reported in statement of comprehensive income** | **(3,447)** | **(2,612)** | **(1,964)** |

### (c) Imputation credit account

There were no imputation credits received or paid during the half year and the balance at 30 June 2020 is nil (Jun 2019 and Dec 2019: nil).

### (d) Deferred tax

Movement in the deferred tax balance comprises:

| | BALANCE 1 JAN 2020 | RECOGNISED IN INCOME | RECOGNISED IN OCI* | BALANCE 30 JUN 2020 UNAUDITED |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Property, plant and equipment | 17,607 | (5,775) | - | 11,832 |
| Investment property | 29,188 | 3,210 | - | 32,398 |
| Revenue in advance | 23,479 | 5,740 | - | 29,219 |
| Interest rate swaps | (5,901) | - | (3,447) | (9,348) |
| Income tax losses not yet utilised | (51,631) | (6,827) | - | (58,458) |
| Other items | (223) | (43) | - | (266) |
| **Net deferred tax liability** | **12,519** | **(3,695)** | **(3,447)** | **5,377** |

| | BALANCE 1 JAN 2019 | RECOGNISED IN INCOME | RECOGNISED IN OCI* | BALANCE 30 JUN 2019 UNAUDITED |
|---|---|---|---|---|
| | $000 | $000 | $000 | $000 |
| Property, plant and equipment | 17,062 | 81 | - | 17,143 |
| Investment property | 24,111 | 2,428 | - | 26,539 |
| Revenue in advance | 11,650 | 5,988 | - | 17,638 |
| Interest rate swaps | (3,937) | - | (2,612) | (6,549) |
| Income tax losses not yet utilised | (31,802) | (8,920) | - | (40,722) |
| Other items | (900) | (96) | - | (996) |
| **Net deferred tax liability** | **16,184** | **(519)** | **(2,612)** | **13,053** |

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

** Other comprehensive income*

# Notes to the Financial Statements (continued)

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

During the period ended 30 June 2020, the Income Tax Act 2007 in New Zealand was amended to restore tax depreciation deductions for non-residential buildings. This amendment resulted in a $6.0 million credit to tax expense during the period and a corresponding reduction in the deferred tax liability on property, plant and equipment .

## 5. Property, plant and equipment

### Impairment

The carrying amounts of the Group's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Summerset's care centres are disclosed as property, plant and equipment and are currently valued by CBRE every three years with the next valuation not due until 31 December 2020. Management has considered the fair value of these assets as at 30 June 2020 and determined there to be no indication of impairment on Summerset's care centres as a direct result of COVID-19 or any other event. The care centres are at a similar capacity to when the last valuation was performed in December 2017 and there has been no significant change in the revenue received. While expenses have increased, they have not increased by such a significant amount that would cause a need for impairment or a revaluation to be undertaken as at 30 June 2020.

## 6. Investment property

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| Balance at beginning of period | 3,107,014 | 2,585,049 | 2,585,049 |
| Additions | 113,361 | 153,105 | 356,713 |
| Fair value movement | (14,657) | 85,710 | 165,252 |
| **Total investment property** | **3,205,718** | **2,823,864** | **3,107,014** |

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| Development land measured at fair value[1] | 301,170 | 248,869 | 305,148 |
| Retirement villages measured at fair value | 2,629,485 | 2,360,299 | 2,580,855 |
| Retirement villages under development measured at cost | 275,063 | 214,695 | 221,011 |
| **Total investment property** | **3,205,718** | **2,823,864** | **3,107,014** |

1 *Included in development land is land excluded from the CBRE valuation of investment property. These pieces of land have been accounted for at cost, which has been determined to be fair value due to the proximity of the transaction to reporting date. At 30 June 2020 the land at cost was $7.3 million (Jun 2019: $77.3 million, Dec 2019: $74.9 million).*

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| Manager's net interest | 1,740,883 | 1,537,155 | 1,688,265 |
| Plus: revenue received in advance | 99,584 | 80,321 | 91,142 |
| Plus: liability for residents' loans | 1,365,251 | 1,206,388 | 1,327,607 |
| **Total investment property** | **3,205,718** | **2,823,864** | **3,107,014** |

The Group is unable to reliably determine the fair value of the non-land portion retirement villages under development at 30 June 2020 and therefore these are carried at cost. This equates to $275.1 million of investment property (Jun 2019: $214.7 million, Dec 2019: $221.0 million).

The fair value of investment property as at 30 June 2020 was determined by independent registered valuers CBRE Limited ("CBRE NZ") for villages including land in New Zealand and CBRE Valuations Pty Limited ("CBRE AU") for land in Australia. The fair value of the Group's investment property is determined on a semi-annual basis, based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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

To assess the fair value of the Group's interest in each New Zealand village, CBRE NZ has undertaken a cash flow analysis to derive a net present value. The Group's development land has been valued by CBRE NZ using the direct comparison approach. A desktop valuation was completed as at 30 June 2020.

The impact of COVID-19 has brought about changes to the way CBRE NZ and CBRE AU assess the fair value of the Group's investment property. The uncertainty around COVID-19 is having a direct impact on the retirement village sector, however the full scale of this impact is currently unknown and will largely depend on both the scale and longevity of the pandemic worldwide. Comparable transactions and market evidence since the pandemic are very limited and the valuation received is based on the information available at the date of valuation. Specifically, there have been changes to the assumptions and judgements used by CBRE NZ in their assessment. There is increased uncertainty around the underlying assumptions given the constantly changing nature of the situation and the time between the reporting date and the date of this half year report.

Significant assumptions used by the valuer in relation to the New Zealand investment property include a discount rate of between 13.5% and 16.5% (Jun 2019 and Dec 2019: between 13.5% and 16.5%) and a long-term nominal house price inflation rate (growth rate) of between -2.0% and 3.5% (Jun 2019 and Dec 2019 between 0% to 3.5%). Other assumptions used by the valuer include the average entry age of residents of between 72 years and 90 years (Jun 2019: 72 years and 89 years; Dec 2019: 72 years and 91 years) and the stabilised departing occupancy periods of retirement units of between 3.7 years and 8.9 years (Jun 2019: 3.7 years and 9.0 years; Dec 2019: 3.6 years and 8.8 years).

Other assumptions and judgements made by CBRE NZ that were a direct result of the COVID-19 pandemic include an adjustment to recycle frequencies in the early years of the discounted cash flows for the majority of independent living units. These have been adjusted to reflect CBRE NZ's view that there will be a temporary extension of resale periods and increased vacancy. Unit pricing remained unadjusted, as did terminal yields, which reflects CBRE NZ's view that the sector will remain unchanged in the long term.

A valuation was obtained for the first time at 30 June 2020 for the two sites in Australia. Both sites are under development and have been valued separately by CBRE AU. The Cranbourne North land was valued under the same methodology as development land in New Zealand. The Torquay land was valued under a modified direct comparison approach which takes into account the gross realisation of the proposed units 'as if complete'.

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

# Notes to the Financial Statements (continued)

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

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

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

| | Adopted value[1] | Discount rate +50 bp | Discount rate -50 bp | Growth rates +50bp | Growth rates -50bp |
|---|---|---|---|---|---|
| **30 June 2020** | | | | | |
| Valuation ($000) | 945,650 | | | | |
| Difference ($000) | | (34,080) | 36,330 | 59,576 | (52,956) |
| Difference (%) | | (3.6%) | 3.8% | 6.3% | (5.6%) |
| **30 June 2019** | | | | | |
| Valuation ($000) | 886,950 | | | | |
| Difference ($000) | | (31,710) | 33,750 | 50,556 | (39,026) |
| Difference (%) | | (3.6%) | 3.8% | 5.7% | (4.4%) |
| **31 December 2019** | | | | | |
| Valuation ($000) | 963,530 | | | | |
| Difference ($000) | | (34,320) | 36,610 | 57,812 | (52,994) |
| Difference (%) | | (3.6%) | 3.8% | 6.0% | (5.5%) |

*1 Completed retirement units excluding unsold stock.*

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

### Security

At 30 June 2020, all investment property relating to registered retirement villages under the Retirement Villages Act 2003 are subject to a registered first mortgage in favour of the Statutory Supervisor to secure the Group’s obligations to the occupation right agreement holders.

## 7. Residents' loans

| | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|
| Balance at beginning of period | 1,599,854 | 1,355,535 | 1,355,535 |
| Net receipts for residents' loans - resales of occupation right agreements | 5,290 | 5,812 | 26,294 |
| Receipts for residents' loans - new occupation right agreements | 78,029 | 89,178 | 218,025 |
| **Total gross residents' loans** | **1,683,173** | **1,450,525** | **1,599,854** |
| Deferred management fees and other receivables | (317,922) | (244,137) | (272,247) |
| **Total residents' loans** | **1,365,251** | **1,206,388** | **1,327,607** |

The fair value of residents' loans at 30 June 2020 is $995.6 million (Jun 2019: $846.6 million; Dec 2019: $932.9 million). The method of determining fair value is disclosed in Note 15 of the Group's financial statements for the year ended 31 December 2019. As the fair value of residents' loans is determined using inputs that are unobservable, the Group has categorised residents' loans as Level 3 under the fair value hierarchy in accordance with NZ IFRS 13 – *Fair Value Measurement*.

## 8. Leases

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

## 9. Interest-bearing loans and borrowings

| | | 6 MONTHS JUN 2020 UNAUDITED $000 | 6 MONTHS JUN 2019 UNAUDITED $000 | 12 MONTHS DEC 2019 AUDITED $000 |
|---|---|---|---|---|
| **Repayable after 12 months** | | | | |
| Secured bank loans | Floating | 409,912 | 264,335 | 362,139 |
| Retail bond - SUM010 | 4.78% | 100,000 | 100,000 | 100,000 |
| Retail bond - SUM020 | 4.20% | 125,000 | 125,000 | 125,000 |
| **Total loans and borrowings at face value** | | **634,912** | **489,335** | **587,139** |
| **Issue costs for retail bonds capitalised** | | | | |
| Opening balance | | (2,688) | (3,290) | (3,290) |
| Amortised during the period | | 301 | 301 | 602 |
| **Total loans and borrowings at amortised cost** | | **632,525** | **486,346** | **584,452** |
| Fair value adjustment on hedged borrowings | | 22,321 | 13,448 | 12,629 |
| **Carrying value of interest-bearing loans and borrowings** | | **654,846** | **499,794** | **597,081** |

The weighted average interest rate for the six months to 30 June 2020 was 3.3% (Jun 2019: six-month average 3.7%; Dec 2019: 12-month average 3.9%). This includes the impact of interest rate swaps. 50.7% of the floating rate debt principal outstanding is hedged with interest rate swaps at 30 June 2020 (Jun 2019: 59.0%; Dec 2019: 48.9%).

# Notes to the Financial Statements (continued)

The secured bank loan facility at 30 June 2020 has a limit of approximately NZ$750.0 million (Jun 2019: $500.0 million; Dec 2019: $500.0 million). Lending of NZ$315.0 million expires in March 2022, AU$120.0 million expires in November 2023 and NZ$310.0 million expires in November 2024.

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

### Security

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

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

## 10. Financial Instruments

Exposure to credit, market and liquidity risk arises in the normal course of the Group's business. The Board reviews and agrees on policies for managing each of these risks and there has been no change to the policies presented in the Group's financial statements for the year ended 31 December 2019. The Group has seen no material change in its exposure to credit, market and liquidity risk as a result of the COVID-19 pandemic, but it will continue to monitor the situation. Further to this, given the Group's status as an 'essential service' during the COVID-19 pandemic, operations have been allowed to continue largely uninterrupted.

In January 2020 the Group completed a syndicated loan facility refinance, which brought the total bank debt facilities of the Group to approximately $750.0 million. This is an increase from the $500.0 million syndicated loan facility previously in place.

# 11. Earnings per share and net tangible assets

## Basic earnings per share

| | 6 MONTHS JUN 2020 UNAUDITED | 6 MONTHS JUN 2019 UNAUDITED | 12 MONTHS DEC 2019 AUDITED |
|---|---|---|---|
| Earnings ($000) | 988 | 92,601 | 175,262 |
| Weighted average number of ordinary shares for the purpose of earnings per share (in thousands) | 224,907 | 222,258 | 223,006 |
| **Basic earnings per share (cents per share)** | **0.44** | **41.66** | **78.59** |

## Diluted earnings per share

| | 6 MONTHS JUN 2020 UNAUDITED | 6 MONTHS JUN 2019 UNAUDITED | 12 MONTHS DEC 2019 AUDITED |
|---|---|---|---|
| Earnings ($000) | 988 | 92,601 | 175,262 |
| Weighted average number of ordinary shares for the purpose of earnings per share (in thousands) | 227,462 | 225,649 | 226,087 |
| **Diluted earnings per share (cents per share)** | **0.43** | **41.04** | **77.52** |

## Number of shares (in thousands)

| | 6 MONTHS JUN 2020 UNAUDITED | 6 MONTHS JUN 2019 UNAUDITED | 12 MONTHS DEC 2019 AUDITED |
|---|---|---|---|
| Weighted average number of ordinary shares for the purpose of earnings per share (basic) | 224,907 | 222,258 | 223,006 |
| Weighted average number of ordinary shares issued under employee share plans | 2,555 | 3,391 | 3,081 |
| **Weighted average number of ordinary shares for the purpose of earnings per share (diluted)** | **227,462** | **225,649** | **226,087** |

At 30 June 2020, there were a total of 2,540,811 shares issued under employee share plans held by Summerset LTI Trustee Limited (Jun 2019: 3,072,488 shares; Dec 2019: 2,577,328 shares).

## Net tangible assets per share

| | 6 MONTHS JUN 2020 UNAUDITED | 6 MONTHS JUN 2019 UNAUDITED | 12 MONTHS DEC 2019 AUDITED |
|---|---|---|---|
| Net tangible assets ($000) | 1,107,584 | 1,047,630 | 1,125,761 |
| Shares on issue at end of period (basic and in thousands) | 225,442 | 222,679 | 224,250 |
| **Net tangible assets per share (cents per share)** | **491.29** | **470.47** | **502.01** |

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

# Notes to the Financial Statements (continued)

## 12. Dividends

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

A dividend reinvestment plan applied to the dividend paid on 23 March 2020 and 1,155,370 ordinary shares were issued in relation to the plan (2019: 866,704 ordinary shares were issued in relation to the plan for the 21 March 2019 dividend and 928,017 ordinary shares were issued in relation to the plan for the 9 September 2019 dividend).

## 13. Commitments and contingencies

### Guarantees

At 30 June 2020, NZX Limited held a guarantee in respect of the Group, as required by the NZX Listing Rules, for $75,000 (Jun 2019 and Dec 2019: $75,000).

Summerset Retention Trustee Limited holds guarantees in relation to retentions on construction contracts on behalf of the Group. At 30 June 2020 $8.0 million was held for the benefit of the retentions beneficiaries (Jun 2019: $7.5 million; Dec 2019: $8.0 million).

### Capital commitments

At 30 June 2020, the Group had $145.9 million of capital commitments in relation to construction contracts (Jun 2019: $75.6 million; Dec 2019: $133.1 million).

### Contingent liabilities

There were no known material contingent liabilities at 30 June 2020 (Jun 2019 and Dec 2019: nil).

## 14. Subsequent events

On 11 August 2020 the New Zealand Government announced that from midday 12 August 2020 Auckland would return to COVID-19 Alert Level 3 and the rest of New Zealand to Alert Level 2 for three days. On 14 August 2020 it was announced that these settings would continue until 11.59pm 26 August 2020. No adjustments have been made to the financial statements.

On 14 August 2020, the Directors approved an interim dividend of $13.7 million, being 6.0 cents per share. The dividend record date is 31 August 2020 with payment on 11 September 2020.

On 17 August 2020, 137,174 shares will be issued to participating employees under Summerset's all staff employee share scheme. The shares are held by Summerset LTI Trustee Limited and vest to participating employees after a three-year period, subject to meeting the criteria of the plan.

There have been no other events subsequent to 30 June 2020 that materially impact on the results reported .

Chartered Accountants

# Review report to the Shareholders of Summerset Group Holdings Limited ("the company") and its subsidiaries (together "the group")

We have reviewed the interim financial statements on pages 11 to 28, which comprise the statement of financial position of the group as at 30 June 2020 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the six month period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our review work, for this report, or for our findings.

## Directors' responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

## Reviewer's responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*. As the auditor of the group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

## Basis of statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the group.

## Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 11 to 28, do not present fairly, in all material respects, the financial position of the group as at 30 June 2020 and its financial performance and cash flows for the six month period ended on that date in accordance with New Zealand Equivalent to International Accounting Standard 34: *Interim Financial Reporting*

Our review was completed on 14 August 2020 and our findings are expressed as at that date.

Ernst + Young

**Ernst & Young**
Wellington
14 August 2020

# Directory

## New Zealand

### Northland

**Summerset Whangarei**
Wanaka Street, Tikipunga,
Whangarei 0112
Phone (09) 470 0282

### Auckland

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

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

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

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

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

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

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

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

### Waikato – Taupo

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

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

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

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

### Bay of Plenty

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

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

1 *Proposed villages*

## Hawke's Bay

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

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

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

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

## Taranaki

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

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

## Manawatu – Wanganui

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

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

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

## Wellington

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

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

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

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

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

**Summerset Lower Hutt** [1]
Boulcott's Farm, Military Road,
Lower Hutt 5010
Phone (04) 568 1442

## Nelson – Tasman

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

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

## Marlborough

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

1 *Proposed villages*

## Canterbury

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

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

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

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

**Summerset Prebbleton** [1]
578 Springs Road,
Prebbleton 7676
Phone (03) 353 6312

## Otago

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

# Australia

## Victoria

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

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

1 *Proposed villages*

# Company Information

## Registered offices

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

PO Box 5187,
Wellington 6140

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

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

**Auditor**
Ernst & Young

**Solicitor**
Russell McVeagh

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

**Statutory Supervisor**
Public Trust

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

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

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

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

**Company Secretary**
Robyn Heyman

# Our villages

- Completed villages
- In development
- Proposed villages

Summerset

summerset.co.nz
summerset.com.au