HALF YEAR REPORT 2017

Summerset

Cover image: Karaka resident with his dog *Contents image: Summerset at Bishopscourt*

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SUMMERSET SNAPSHOT

MORE THAN
4,400
RESIDENTS

6*
GREENFIELD SITES

22
VILLAGES COMPLETED OR UNDER DEVELOPMENT

450
RETIREMENT UNITS: BUILD RATE FOR 2017

LAND BANK OF
2,670*
RETIREMENT UNITS

LAND BANK OF
412*
CARE BEDS

2,999
RETIREMENT UNITS IN PORTFOLIO

These figures include the purchase of land in Avonhead, Christchurch.

HALF YEAR BUSINESS HIGHLIGHTS

SALES OF
323
OCCUPATION RIGHTS

171
NEW RETIREMENT UNITS DELIVERED

28%
DEVELOPMENT MARGIN

KARAKA MAIN BUILDING COMPLETED

$100M
RETAIL BOND SUCCESSFULLY ISSUED

VILLAGES UNDERWAY IN CASEBROOK AND ROTOTUNA

Nelson's village centre

HALF YEAR FINANCIAL HIGHLIGHTS

$90.3m
NET PROFIT AFTER TAX 1H2017

78%
INCREASE ON 1H2016

$35.7m
UNDERLYING PROFIT 1H2017

45%
INCREASE ON 1H2016

$1.9b
TOTAL ASSETS 1H2017

27%
INCREASE ON 1H2016

3.9cents per share
INTERIM DIVIDEND

50%
INCREASE ON 1H2016

HALF YEAR FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2017

NON GAAP UNDERLYING PROFIT

$000	1H2017	1H2016	% CHANGE	FY2016
Reported profit after tax *	$90,253	$50,587	78.4%	$145,480
Less fair value movement of investment property*	($87,091)	($50,175)	73.6%	($143,459)
Add realised gain on resales	$10,785	$8,252	30.7%	$15,423
Add realised development margin	$21,294	$15,576	36.7%	$38,954
Add/(less) deferred tax expense/(credit)	$412	$425	-3.1%	$158
Underlying profit	**$35,653**	**$24,665**	**44.6%**	**$56,556**

**Figure has been extracted from financial statements*

Underlying profit differs from NZ IFRS reported profit after tax. The directors have provided an underlying profit measure to assist readers in determining the realised and non-realised 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 and has been reviewed by Ernst & Young. Underlying profit is an industry wide measure which the Group uses consistently across reporting periods.

Refer to note 2 of the financial statements for definitions of the components of underlying profit.

RESULTS HIGHLIGHTS – FINANCIAL

$000	1H2017	1H2016	% CHANGE	FY2016
Net operating cash flow	$86,423	$84,370	2.4%	$192,610
Net profit before tax (NZ IFRS)	$90,665	$51,012	77.7%	$145,638
Net profit after tax (NZ IFRS)	$90,253	$50,587	78.4%	$145,480
Underlying profit	$35,653	$24,665	44.6%	$56,556
Total assets	$1,932,122	$1,521,373	27.0%	$1,706,773
Net tangible assets (cents per share)	285.72	206.06	38.7%	249.90

Underlying profit differs from NZ IFRS net profit after tax. See reconciliation on the previous page.

RESULTS HIGHLIGHTS – OPERATIONAL

	1H2017	1H2016	% CHANGE	FY2016
New sales of occupation rights	179	183	-2.2%	414
Resale of occupation rights	144	123	17.1%	244
New retirement units delivered	171	190	-10.0%	409
Realised development margin ($000)	$21,294	$15,576	36.7%	$38,954
Gross proceeds (new sales) ($000)	$75,930	$76,590	-0.9%	$175,641
Realised gains on resales ($000)	$10,785	$8,252	30.7%	$15,423

JOINT CHAIR AND CEO'S REPORT

For the six months ended 30 June 2017

Summerset performed well in the first six months of 2017, with 171 retirement units built and overall sales up six percent on the same period last year. Despite a challenging Auckland construction market, we are on track to deliver a large number of retirement units in the second half of the year to meet our build rate of 450 retirement units for the full 2017 year.

In the first half of 2017, we recorded $90.3 million net profit after tax, up 78% on the same period last year, and $35.7 million underlying profit, up 45% on the first six months of 2016. We now have more than 4,400 residents who call Summerset home and these residents are supported by more than 1,100 staff.

Growth and development of the business

We have continued to experience robust occupation right sales across all our villages, boosted by strong demand, good pre-sales and settlement times.

We also continue to expand our offering around the country. Construction has begun on our second Christchurch village in Casebrook, Summerset on Cavendish. Earthworks have also started on our Rototuna site in Hamilton. Both villages will open next year and will have memory care centres (providing secure dementia care). Pre-sales in Casebrook will commence later this year.

In addition to these two villages we have development sites at St Johns and Parnell in Auckland, Boulcott in Lower Hutt, Richmond in Nelson and Avonhead in Christchurch. We have lodged resource consent with Auckland Council for our St Johns village and intend to apply for resource consent for our Boulcott village later this year.

Investment in our existing villages continues with the refurbishment of the recreation centre at our Paraparaumu village, extension of the main building and a new café at Levin, and the construction of a new village centre at Trentham, which is due for completion in December.

Our new customer management system is planned to go live in the second half of this year and will be rolled out progressively across all our villages. This is part of an overhaul of our internal systems, which also includes new payroll and asset management systems.

Total current land bank for the group is approximately 2,670 retirement homes and 412 care beds, inclusive of recently purchased land in Avonhead, Christchurch. This equates to around six years' supply at Summerset's current build rate.

Financial results

Our net profit after tax was $90.3 million, up 78% from 1H2016.

Our underlying profit for the first half of 2017 was $35.7 million, representing a 45% increase on our 1H2016 result.

New sales and resales have both been consistently strong across all villages together are 6% higher than for the same period in 2016.

Manukau main centre

The company's development margin for 1H2017 was a record 28%, with 23% of new sales in Auckland and 77% across the rest of New Zealand. This is particularly pleasing given we are seeing cost pressure in the Auckland construction market. Strong demand for our homes and our in-house construction model has meant margins remain strong.

In March we completed a syndicated loan facility refinancing, which allows us to continue funding growth initiatives across both existing and future retirement villages. We also issued a $100 million, six year fixed interest rate retail bond in early July, the first for Summerset and the first for the New Zealand retirement village and aged care sector. The bond provides diversification of funding sources and increases the tenor of funding for Summerset.

Total debt facilities are now $600 million (inclusive of the retail bond), an increase on the $450 million in place at the beginning of the period.

The Board has declared an interim dividend of 3.9 cents per share, to be paid on 11 September, amounting to a total of $8.7 million.

Our people

We welcomed the Government's April pay equity announcement for caregivers, which will see a substantial increase in caregiver wages over the next three years. The wage increase will be funded by the Government and private payers under the means testing regime.

We hope this settlement, in addition to recognising the important work our carers do, also attracts more people into this sector to help lift the standard of care which we provide to our residents. We recognise the efforts of the Government, unions and the New Zealand Aged Care Association in reaching this historic settlement.

We have been working on other non-wage related initiatives to recognise and reward staff for the vital role they play in the ongoing success of the company. Once again Summerset staff were offered the opportunity to participate in the financial performance of the company with the second annual issue under an all-staff share scheme. Our staff embraced this opportunity with 83% of our employees signing up to the scheme, an increase on 81% in 2016.

Our Summerset finance team were honoured to win the Finance Team of the Year award at the 2017 CFO Awards in March. For a fast growing company like ours, being acknowledged for continually focusing on improving our systems, reporting and capability to deliver a better service is something we're very proud of.

Care and operations

We opened our first purpose built memory care centre in our Levin village last year. This centre is specifically designed for those needing secure dementia care.

There are 10 care rooms and 10 one bedroom apartments each with their own kitchenette, lounge and bathroom.

The larger apartments mean residents are able to bring more belongings and spend time with visitors in their own lounge. They have more freedom and independence, something people living with dementia often no longer have. The apartments also provide a quiet space for residents when they need time away from common areas.

We are delighted to be the first aged care provider in New Zealand to offer apartment style living for people with dementia in a licence to occupy model. The one bedroom memory care apartments on offer at Levin have proven so successful that we will be basing our future memory care centre designs on this model, starting with Casebrook.

High-end Christchurch food company White Tie Health Services will provide meals and café services at our two newest Auckland villages in Ellerslie and Hobsonville. White Tie Health Services already cooks and serves nearly 200 meals a day as well as all the café food at our Wigram village. We are really excited about White Tie Health Services partnering with us in Auckland enhancing the quality food offering to our residents.

Development

We recently celebrated the opening of our main building at our newest Auckland village - Summerset at Heritage Park in Ellerslie and we were joined by the Prime Minister, the Right Honourable Bill English. The village is really coming to life as new residents move in and construction of additional homes continues.

Despite the pressures in the Auckland construction market, we are on track to deliver our forecast 2017 build rate of 450 retirement units. In 2017, retirement unit delivery is weighted towards the second half of the year and we expect the development margin from new sales of occupation rights to be weighted in a similar way.

Summerset by the Ranges, Levin memory care centre

Artist's impression of Ellerslie's apartments

As outlined at our Annual Meeting in April, we have seen some delays on Auckland projects, including our Ellerslie village by a few months. Our construction model, whereby we act as the main contractor on sites, largely protects us from the cost pressures and delays being seen in Auckland but we are not immune. Such delays are becoming commonplace across the wider Auckland construction market. We expect the market pressures we are seeing to be likely to continue for some time, with industry commentators indicating peak activity not being reached until 2019.

From an earnings perspective we still expect good development margin performance in the second half of the year as we are currently able to manage these pressures. However, we are mindful that we will need to continue to plan carefully to be successful in such a market.

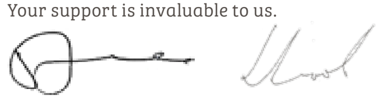
Looking ahead

As we head towards our 20th anniversary in November and sixth year since listing, Summerset is well placed to continue to deliver quality retirement living and the corresponding financial results from which our residents, staff and investors all benefit.

Summerset has a clear runway of projects in New Zealand. It is our intention to add further sites in the main centres and select regional locations where we see strong ongoing demand.

As indicated at the Annual Meeting, we are contemplating how our core model might expand over time, including the possibility of expansion into Australia. This will take us time to research and consider and we will update our shareholders as appropriate.

It is a pleasure to present this half year report. Thank you to our investors, residents and staff. Your support is invaluable to us.



Rob Campbell
Chair

Julian Cook
Chief Executive Officer

FINANCIAL STATEMENTS

INCOME STATEMENT

For the six months ended 30 June 2017

	NOTES	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Care fees and village services		34,126	26,853	57,769
Deferred management fees		16,539	13,012	28,036
Interest received		46	135	249
Other income		–	16	–
Total revenue		**50,711**	**40,016**	**86,054**
Fair value movement of investment property	4	87,091	50,175	143,459
Total income		**137,802**	**90,191**	**229,513**
Operating expenses	3	(39,603)	(33,030)	(71,087)
Depreciation and amortisation expense		(2,060)	(1,753)	(3,736)
Total expenses		**(41,663)**	**(34,783)**	**(74,823)**
Operating profit before financing costs		**96,139**	**55,408**	**154,690**
Net finance costs		(5,474)	(4,396)	(9,052)
Profit before income tax		**90,665**	**51,012**	**145,638**
Income tax expense		(412)	(425)	(158)
Profit for the period		**90,253**	**50,587**	**145,480**
Basic earnings per share (cents)	7	41.37	23.30	66.93
Diluted earnings per share (cents)	7	40.67	22.97	66.03
Net tangible assets per share (cents)	7	285.72	206.06	249.90

The accompanying notes form part of these interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Profit for the period	90,253	50,587	145,480
Fair value movement of interest rate swaps	(1,442)	(9,515)	(1,769)
Tax on items of other comprehensive income	405	2,665	496
Other comprehensive income which will be reclassified subsequently to profit or loss for the period net of tax	(1,037)	(6,850)	(1,273)
Total comprehensive income for the period	**89,216**	**43,737**	**144,207**

The accompanying notes form part of these interim financial statements.

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	SHARE CAPITAL $000	HEDGING RESERVE $000	REVALUATION RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
As at 1 January 2016	**244,309**	**(2,247)**	**11,043**	**156,681**	**409,786**
Profit for the period	-	-	-	50,587	50,587
Other comprehensive loss for the period	-	(6,850)	-	-	(6,850)
Total comprehensive income/(loss) for the period	**-**	**(6,850)**	**-**	**50,587**	**43,737**
Dividends paid	-	-	-	(7,397)	(7,397)
Shares issued	2,368	-	-	-	2,368
Employee share plan option cost	245	-	-	-	245
As at 30 June 2016 (unaudited)	**246,922**	**(9,097)**	**11,043**	**199,871**	**448,739**
Profit for the period	-	-	-	94,893	94,893
Other comprehensive income for the period	-	5,577	-	-	5,577
Total comprehensive income for the period	**-**	**5,577**	**-**	**94,893**	**100,470**
Dividends paid	-	-	-	(5,702)	(5,702)
Shares issued	1,824	-	-	-	1,824
Employee share plan option cost	284	-	-	-	284
As at 31 December 2016 (audited)	**249,030**	**(3,520)**	**11,043**	**289,062**	**545,615**
Profit for the period	-	-	-	90,253	90,253
Other comprehensive loss for the period	-	(1,037)	-	-	(1,037)
Total comprehensive income/(loss) for the period	**-**	**(1,037)**	**-**	**90,253**	**89,216**
Dividends paid	-	-	-	(11,159)	(11,159)
Shares issued	3,545	-	-	-	3,545
Employee share plan option cost	369	-	-	-	369
As at 30 June 2017 (unaudited)	**252,944**	**(4,557)**	**11,043**	**368,156**	**627,586**

The accompanying notes form part of these interim financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	NOTES	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Assets				
Cash and cash equivalents		13,060	9,395	8,654
Trade and other receivables		19,750	16,255	15,369
Limited recourse loans		-	1,520	-
Property, plant and equipment		89,458	77,189	89,825
Intangible assets		3,578	826	1,562
Investment property	4	1,806,276	1,416,188	1,591,363
Total assets		**1,932,122**	**1,521,373**	**1,706,773**
Liabilities				
Trade and other payables		59,651	47,954	34,687
Employee benefits		4,883	4,139	5,002
Revenue received in advance		39,372	23,897	29,519
Interest rate swaps		6,331	12,637	4,890
Residents' loans	5	867,226	711,417	801,327
Interest-bearing loans and borrowings	6	315,309	262,737	273,976
Deferred tax liability		11,764	9,853	11,757
Total liabilities		**1,304,536**	**1,072,634**	**1,161,158**
Net assets		**627,586**	**448,739**	**545,615**
Equity				
Share capital		252,944	246,922	249,030
Reserves		6,486	1,946	7,523
Retained earnings		368,156	199,871	289,062
Total equity attributable to shareholders		**627,586**	**448,739**	**545,615**

The accompanying notes form part of these interim financial statements.

On behalf of the Board

Rob Campbell
Director and Chairman of the Board

James Ogden
Director and Chairman of the Audit Committee

Authorised for issue on 14 August 2017

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	NOTE	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Cash flows from operating activities				
Receipts from residents for care fees and village services		34,896	26,397	57,208
Interest received		46	135	249
Payments to suppliers and employees		(37,759)	(31,514)	(68,563)
Receipts for residents' loans - new occupation right agreements		73,698	74,794	176,938
Net receipts for residents' loans - resales of occupation right agreements		15,542	14,559	26,778
Net cash flow from operating activities		**86,423**	**84,370**	**192,610**
Cash flows from investing activities				
Purchase and construction of investment property				
Construction of new investment property		(89,885)	(70,503)	(153,042)
Purchase of land		(7,578)	(2,722)	(18,461)
Refurbishment of existing investment property		(1,404)	(2,266)	(2,872)
Purchase and construction of property, plant and equipment				
Construction of new care facilities		(4,678)	(7,837)	(15,036)
Refurbishment of existing care facilities		(230)	(222)	(467)
Other		(1,034)	(1,114)	(3,938)
Purchase of intangible assets		(2,357)	(10)	(1,013)
Capitalised interest paid		(2,497)	(1,991)	(5,028)
Net cash flow from investing activities		**(109,663)**	**(86,665)**	**(199,857)**
Cash flows from financing activities				
Net proceeds from borrowings		41,333	14,526	25,764
Repayment of limited recourse loans		-	-	1,520
Proceeds from issue of shares		3,545	2,368	4,192
Interest paid on borrowings		(6,073)	(4,489)	(9,158)
Dividends paid	8	(11,159)	(7,397)	(13,099)
Net cash flow from financing activities		**27,646**	**5,008**	**9,219**
Net increase in cash and cash equivalents		4,406	2,713	1,972
Cash and cash equivalents at beginning of period		8,654	6,682	6,682
Cash and cash equivalents at end of period		**13,060**	**9,395**	**8,654**

The accompanying notes form part of these interim financial statements.

Comparatives have been updated to reflect revised classifications in cash flow activities.

RECONCILIATION OF OPERATING RESULTS AND OPERATING CASHFLOWS

For the six months ended 30 June 2017

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Net profit for the period	90,253	50,587	145,480
Adjustments for:			
Depreciation and amortisation expense	2,060	1,753	3,736
(Gain)/Loss on sale of plant and equipment	51	(16)	(37)
Fair value movement of investment property	(87,091)	(50,175)	(143,459)
Net finance costs paid	5,474	4,396	9,052
Deferred tax	412	425	158
Deferred management fee amortisation	(16,539)	(13,012)	(28,036)
Employee share plan option cost	369	245	529
	(95,264)	**(56,384)**	**(158,057)**
Movements in working capital			
(Increase)/Decrease in trade and other receivables	(3,984)	(1,341)	906
(Decrease)/Increase in employee benefits	(119)	(175)	688
Increase in trade and other payables	3,299	603	1,456
Increase in residents' loans net of non-cash amortisation	92,238	91,080	202,137
	91,434	**90,167**	**205,187**
Net cash flows from operating activities	**86,423**	**84,370**	**192,610**

The accompanying notes form part of these interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. SUMMARY OF ACCOUNTING POLICIES

The interim financial statements presented for the six months ended 30 June 2017 are for Summerset Group Holdings Limited (the "Company") and its subsidiaries (collectively, "the Group"). The Group develops, owns and operates integrated retirement villages, rest homes, memory care centres and hospitals for older New Zealanders.

Summerset Group Holdings Limited is registered in New Zealand under the Companies Act 1993 and is a 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 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. NZ GAAP in this instance being New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and are in compliance with NZ IAS 34 – Interim Financial Reporting and IAS 34 – Interim Financial Reporting.

These 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 2016. The interim financial statements for the six months ended 30 June 2017 are unaudited. They are presented in New Zealand dollars, which is the Group's functional currency. All financial information has been rounded to the nearest thousand, unless otherwise stated.

2. NON-GAAP UNDERLYING PROFIT

	REF	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Reported profit after tax		90,253	50,587	145,480
Less fair value movement of investment property	a)	(87,091)	(50,175)	(143,459)
Add/(Less) impairment/(reversal of impairment) of land and buildings	b)	-	-	-
Add realised gain on resales	c)	10,785	8,252	15,423
Add realised development margin	d)	21,294	15,576	38,954
Add/(Less) deferred tax expense/(credit)	e)	412	425	158
Underlying profit		**35,653**	**24,665**	**56,556**

Underlying profit differs from NZ IFRS reported profit after tax. The directors have provided an underlying profit measure to assist readers in determining the realised and non-realised 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 an industry wide measure which the Group uses consistently across reporting periods.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

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 reported profit after tax determined under NZ IFRS, adjusted for the impact of the following:

a) Less fair value movement of investment property: reversal of investment property valuation changes recorded in NZ IFRS reported profit after tax, 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 land and buildings: remove the impact of non-cash care centre valuation changes recorded in NZ IFRS reported profit after tax. Care centres are valued every three years (due to be 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 reported profit after tax. Where there is any impairment of a care centre, or reversal of a previous impairment that impacts NZ IFRS reported profit after tax, this is eliminated for the purposes of determining underlying profit.

c) Add realised resale gains: 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. Realised resale gains exclude DMF and refurbishments.

d) Add realised development margin: add realised development margin across all new sales of occupation rights during the period, the recognition point is 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 incurred 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 of the main building within the retirement village (including a share of the proportionate costs listed above). This is because they 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. These costs are both excluded in line with industry standard.

e) Add/(less) deferred tax expense/(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 reported profit after tax.

3. OPERATING EXPENSES

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Employee expenses	22,802	19,416	40,455
Property-related expenses	6,118	4,931	11,607
Other operating expenses	10,683	8,683	19,025
Total operating expenses	**39,603**	**33,030**	**71,087**

4. INVESTMENT PROPERTY

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Balance at beginning of period	1,591,363	1,261,170	1,261,170
Additions	127,857	104,845	186,747
Disposals	(35)	(2)	(13)
Fair value movement:			
Realised	32,079	23,828	54,377
Unrealised	55,012	26,347	89,082
Fair value movement	87,091	50,175	143,459
Total investment property	**1,806,276**	**1,416,188**	**1,591,363**

NOTES TO THE FINANCIAL STATEMENTS
(continued)

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Development land measured at fair value	149,300	122,450	140,900
Retirement villages measured at fair value	1,475,454	1,175,727	1,328,126
Retirement villages under development measured at cost	181,522	118,011	122,337
Total investment property	**1,806,276**	**1,416,188**	**1,591,363**

The Group has deemed it is unable to reliably determine the fair value of retirement villages under development at 30 June 2017 and therefore is carried at cost. This equates to $181.5 million of investment property (Jun 2016: $118.0 million, Dec 2016: $122.3 million).

The fair value of investment property as at 30 June 2017 was determined by CBRE Limited, an independent registered valuer. 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. To assess the fair value of the Group's interest in the village, CBRE has undertaken a cashflow analysis to derive a net present value. There has been no change in valuation technique since the previous valuation which was completed as at 31 December 2016.

Significant assumptions used by the valuer include a discount rate of between 13.75% and 16% (Jun 2016: between 14% and 16%. Dec 2016: between 13.75% and 16%) and a long-term nominal house price inflation rate of between 0% and 3.5% (Jun 2016 and Dec 2016: between 0% and 3.5%). Other assumptions used by the valuer include the average entry age of residents and occupancy periods of units.

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

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

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

Security

As at 30 June 2017, all investment property relating to Summerset's village companies (being the 21 retirement village companies registered under the Retirement Villages Act 2003) is subject to a first ranking registered mortgage in favour of the Statutory Supervisor (Public Trust). That mortgage secures the rights that Summerset's residents have under their occupation right agreements.

5. RESIDENTS' LOANS

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Balance at beginning of period	924,848	732,578	732,578
Net receipts for residents' loans - resales of occupation right agreements	12,522	11,140	15,332
Receipts for residents' loans - new occupation right agreements	73,698	74,794	176,938
Total gross residents' loans	**1,011,068**	**818,512**	**924,848**
Deferred management fees receivable	**(143,842)**	**(107,095)**	**(123,521)**
Total residents' loans	**867,226**	**711,417**	**801,327**

The fair value of residents' loans at 30 June 2017 is $558.3 million (Jun 2016: $445.7 million; Dec 2016: $511.0 million). The method of determining fair value is disclosed in Note 16 of the Group's financial statements for the year ended 31 December 2016. 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.

6. INTEREST-BEARING LOANS AND BORROWINGS

	6 MONTHS JUN 2017 UNAUDITED $000	6 MONTHS JUN 2016 UNAUDITED $000	12 MONTHS DEC 2016 AUDITED $000
Repayable after 12 months			
Secured bank loans	315,309	262,737	273,976
Total loans and borrowings	**315,309**	**262,737**	**273,976**

The weighted average interest rate for the six months to 30 June 2017 was 3.49% (Jun 2016: six month average 3.68%; Dec 2016: twelve month average 3.58%). This includes the impact of interest rate swaps. 69% of the secured bank loans are hedged with interest rate swaps at 30 June 2017 (Jun 2016: 53%; Dec 2016: 65%).

Summerset's bank loan facility as at 30 June 2017 has a maximum limit of $600.0 million (Jun 2016: limit was $450.0 million; Dec 2016: limit was $450.0 million). Lending of $225.0 million expires in August 2020 and $375.0 million of lending expires in March 2022. The bank loans are secured by a general security deed in favour of Summerset's syndicate of lenders. That Deed secures all the assets of the Summerset Group but Summerset's Statutory Supervisor (Public Trust) has first rights to the proceeds of security enforcement against all village assets within the Group.

Subsequent to balance date, the Group issued $100.0 million of guaranteed, secured, unsubordinated fixed rate bonds. Proceeds from the bond issue were used to repay $100.0 million of bank loans and the maximum limit of the bank loan facility was decreased by the same amount.

NOTES TO THE FINANCIAL STATEMENTS
(continued)

7. EARNINGS PER SHARE AND NET TANGIBLE ASSETS

Basic earnings per share

	6 MONTHS JUN 2017 UNAUDITED	6 MONTHS JUN 2016 UNAUDITED	12 MONTHS DEC 2016 AUDITED
Earnings ($000)	90,253	50,587	145,480
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	218,141	217,121	217,352
Basic earnings per share (cents per shares)	**41.37**	**23.30**	**66.93**

Diluted earnings per share

	6 MONTHS JUN 2017 UNAUDITED	6 MONTHS JUN 2016 UNAUDITED	12 MONTHS DEC 2016 AUDITED
Earnings ($000)	90,253	50,587	145,480
Weighted average number of ordering shares for the purpose of earnings per share (in thousands)	221,910	220,220	220,322
Diluted earnings per share (cents per share)	**40.67**	**22.97**	**66.03**

Number of shares (in thousands)

	6 MONTHS JUN 2017 UNAUDITED	6 MONTHS JUN 2016 UNAUDITED	12 MONTHS DEC 2016 AUDITED
Weighted average number of ordinary shares for the purpose of earnings per share (basic)	218,141	217,121	217,352
Weighted average number of ordinary shares issued under employee share plans	3,769	3,099	2,970
Weighted average number of ordinary shares for the purpose of earnings per share (diluted)	**221,910**	**220,220**	**220,322**

At 30 June 2017, there were 3,929,248 shares issued under employee share plans (Jun 2016: 2,656,363; Dec 2016: 3,629,248 shares).

Net tangible assets per share

	6 MONTHS JUN 2017 UNAUDITED	6 MONTHS JUN 2016 UNAUDITED	12 MONTHS DEC 2016 AUDITED
Net tangible assets ($000)	624,008	447,913	544,053
Shares on issue at end of period (basic and in thousands)	218,396	217,375	217,709
Net tangible assets per share (cents per share)	**285.72**	**206.06**	**249.90**

8. DIVIDENDS

On 22 March 2017 a dividend of 5.1 cents per ordinary share was paid to shareholders (2016: on 24 March 2016 a dividend of 3.4 cents per ordinary share was paid to shareholders and on 9 September 2016 a dividend of 2.6 cents per ordinary share was paid to shareholders).

A dividend reinvestment plan applied to the dividend paid on 22 March 2017 and 687,184 ordinary shares were issued in relation to the plan (2016: 557,924 ordinary shares were issued in relation to the plan for the 24 March 2016 dividend and 333,618 ordinary shares were issued in relation to the plan for the 9 September 2016 dividend).

9. CAPITAL COMMITMENTS

At 30 June 2017, the Group had capital commitments in relation to construction contracts of $61.9 million (Jun 2016: $76.4 million; Dec 2016: $73.8 million).

10. SUBSEQUENT EVENTS

On 11 July 2017, the Group issued $100.0 million of guaranteed, secured, unsubordinated fixed rate bonds. These bonds are for a six year period, maturing on 11 July 2023, and have an annual interest rate of 4.78%. Subsequent to balance date, the proceeds from the bond issue were used to repay $100.0 million of bank loans and the maximum limit of the bank loan facility was decreased by the same amount. This enables the Group to diversify its funding streams which are currently from banks only, and increase the tenor of debt.

On 24 July 2017, 117,236 shares were issued under the Group's all staff employee share plan at $4.9183 per share. 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.

On 14 August 2017, the Directors approved an interim dividend of $8.7 million, being 3.9 cents per share. The dividend record date is 29 August 2017 with payment on 11 September 2017.

There have been no other events subsequent to 30 June 2017 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 15 to 27, which comprise the statement of financial position of the group as at 30 June 2017, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows of the group for the 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.

Ernst & Young provided market analysis advisory services to the Group and assurance services in relation to the audit of underlying profit disclosures. We have no other 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 15 to 27, do not present fairly, in all material respects, the financial position of the group as at 30 June 2017 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 2017 and our findings are expressed as at that date.

Ernst + Young

Ernst & Young
Wellington

DIRECTORY

AUCKLAND

SUMMERSET FALLS

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

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 2016
Phone (09) 272 3950

SUMMERSET AT KARAKA

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

WAIKATO

SUMMERSET DOWN THE LANE

206 Dixon Road, Hamilton 3206
Phone (07) 843 0157

SUMMERSET BY THE LAKE

2 Wharewaka Road, Wharewaka, Taupo 3330
Phone (07) 376 9470

BAY OF PLENTY

SUMMERSET BY THE SEA

181 Park Road, Katikati 3129
Phone (07) 985 6890

HAWKES 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 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

MANUWATU – 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

102 Liverpool Street, Levin 5510
Phone (06) 367 0337

WELLINGTON

SUMMERSET ON THE COAST

104 Realm Drive, Paraparaumu 5032
Phone (04) 298 3540

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

NELSON

SUMMERSET IN THE SUN

16 Sargeson Street, Stoke, Nelson 7011
Phone (03) 538 0000

CANTERBURY

SUMMERSET ON CAVENDISH

147 Cavendish Road, Casebrook,
Christchurch 8057
Phone (03) 741 3340

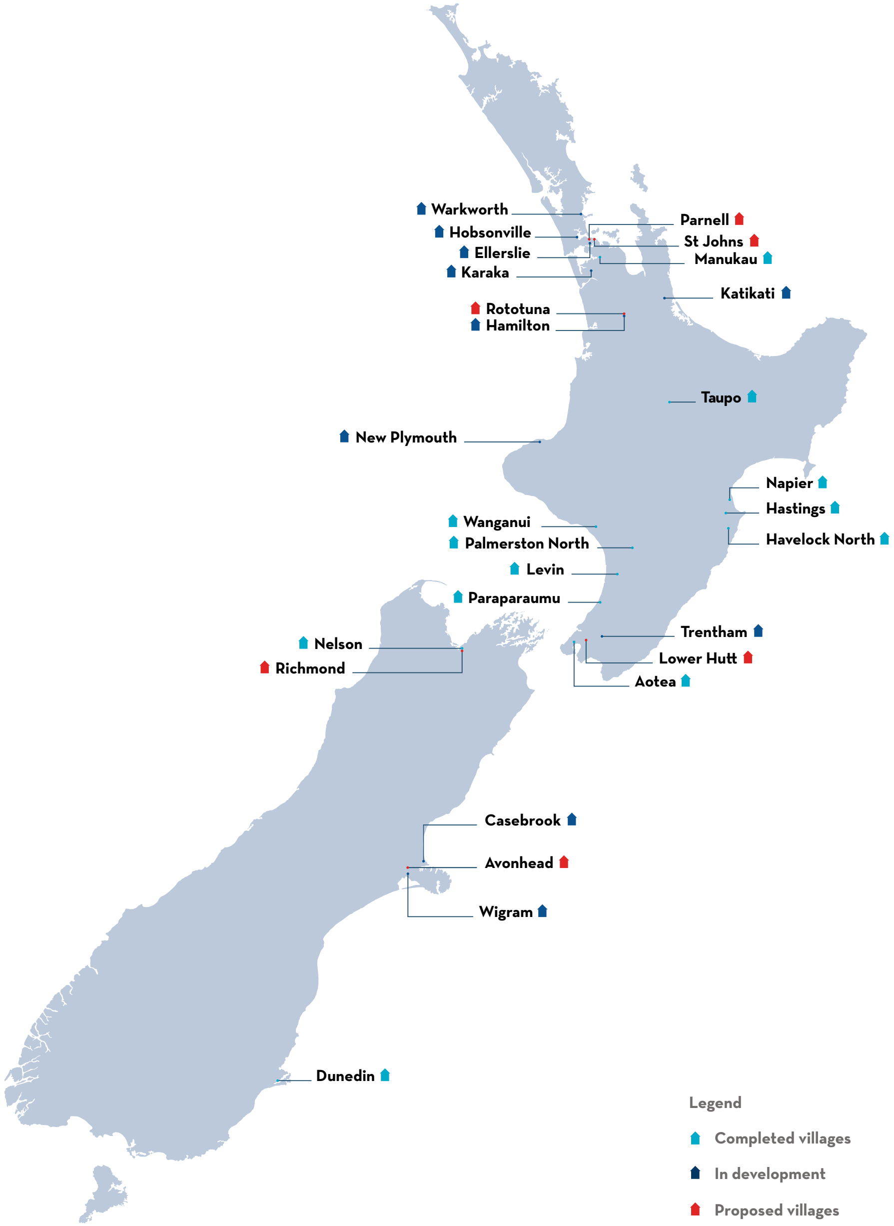
SUMMERSET AT WIGRAM

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

OTAGO

SUMMERSET AT BISHOPSCOURT

36 Shetland Street, Wakari, Dunedin 9010
Phone (03) 950 3110



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,
Australia 2000

Auditor

Ernst & Young

Bankers

ANZ Bank New Zealand Limited
ASB Bank Limited
Bank of 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
Gráinne Troute
Dr Marie Bismark
James Ogden
Anne Urlwin
Dr Andrew Wong

Company Secretary

Leanne Walker

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