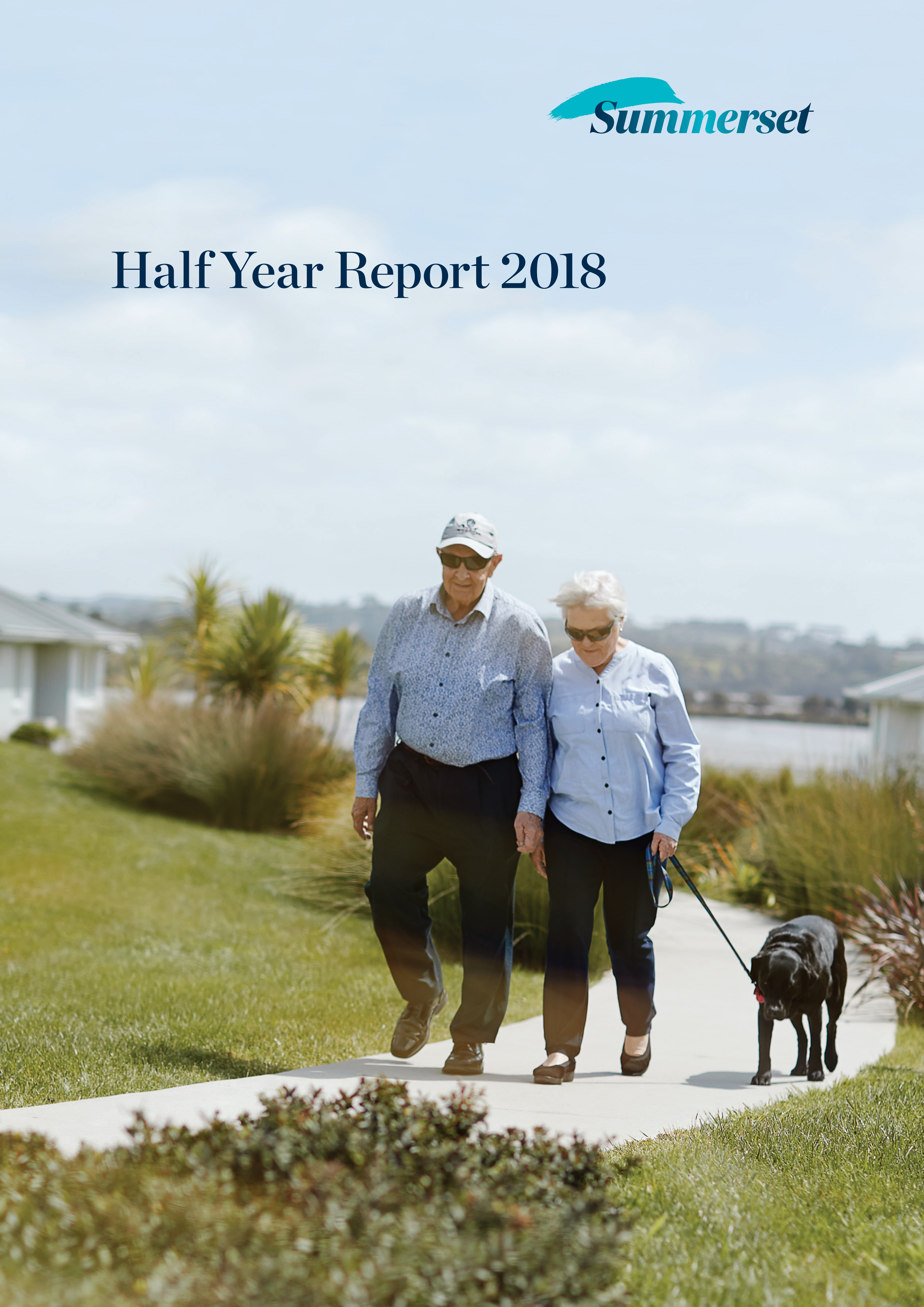
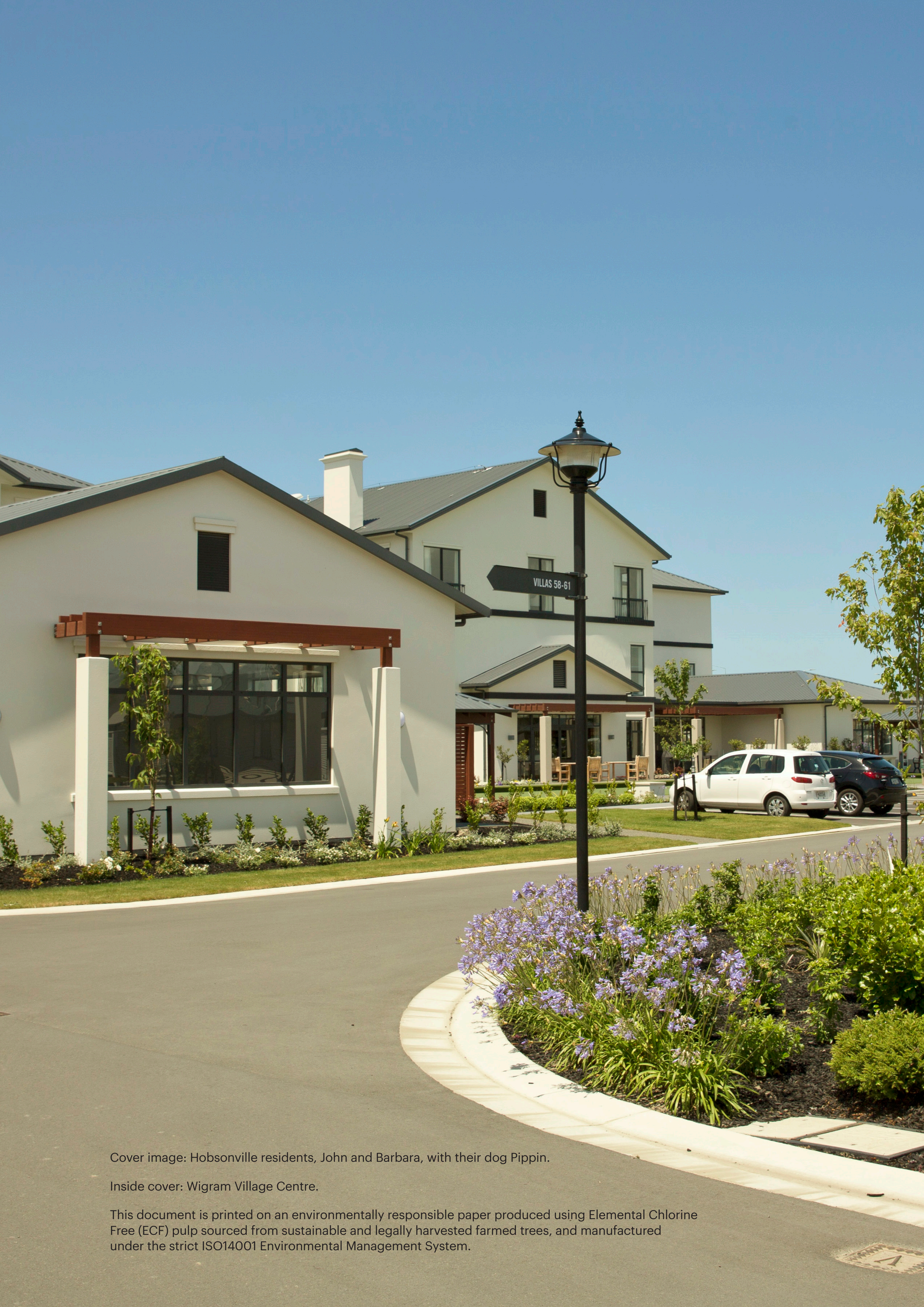
Summerset

Half Year Report 2018





Cover image: Hobsonville residents, John and Barbara, with their dog Pippin.

Inside cover: Wigram Village Centre.

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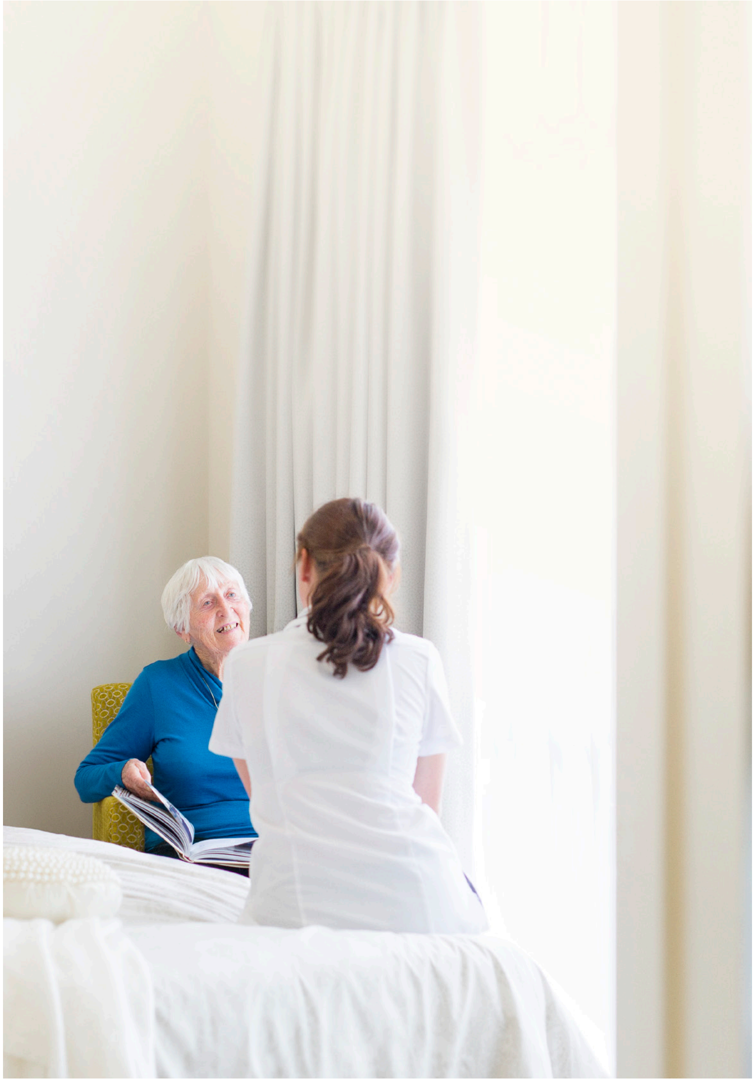
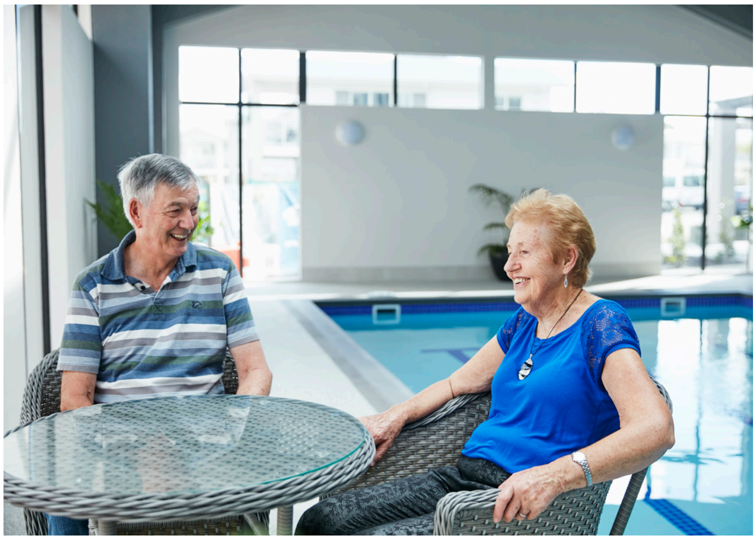
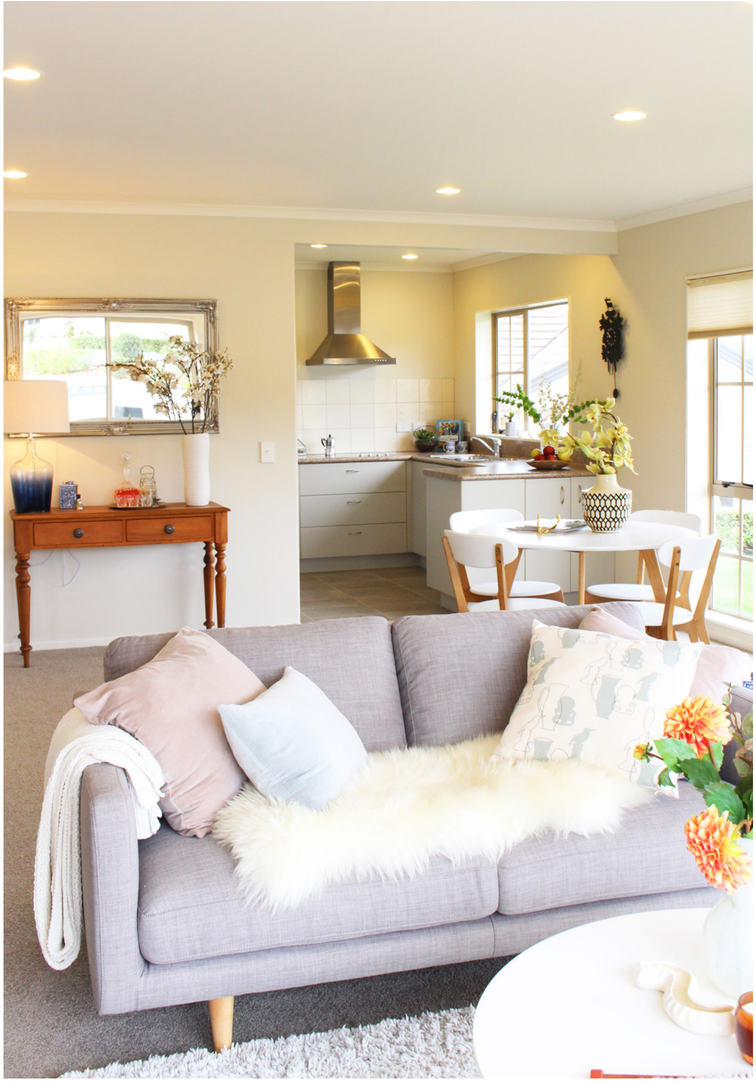
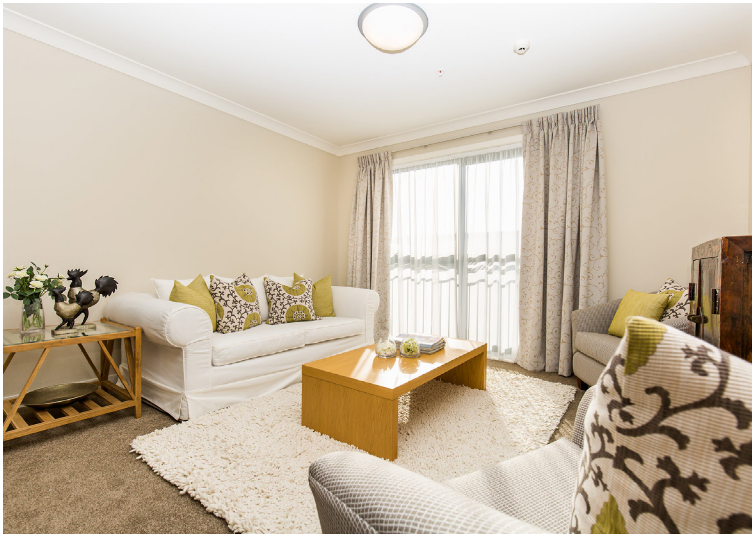





Summerset Snapshot

More than
5,000
residents

More than
1,300
staff members

23
Villages completed or under development

8
Greenfield sites

Land bank of
3,041
retirement units*

Land bank of
368
care beds*

3,443
Retirement units in portfolio

858
Care beds in portfolio

* *These figures exclude the purchase of land at our new site in New Plymouth*

Half Year Business Highlights

Sales of
299
occupation rights

165
New retirement units delivered

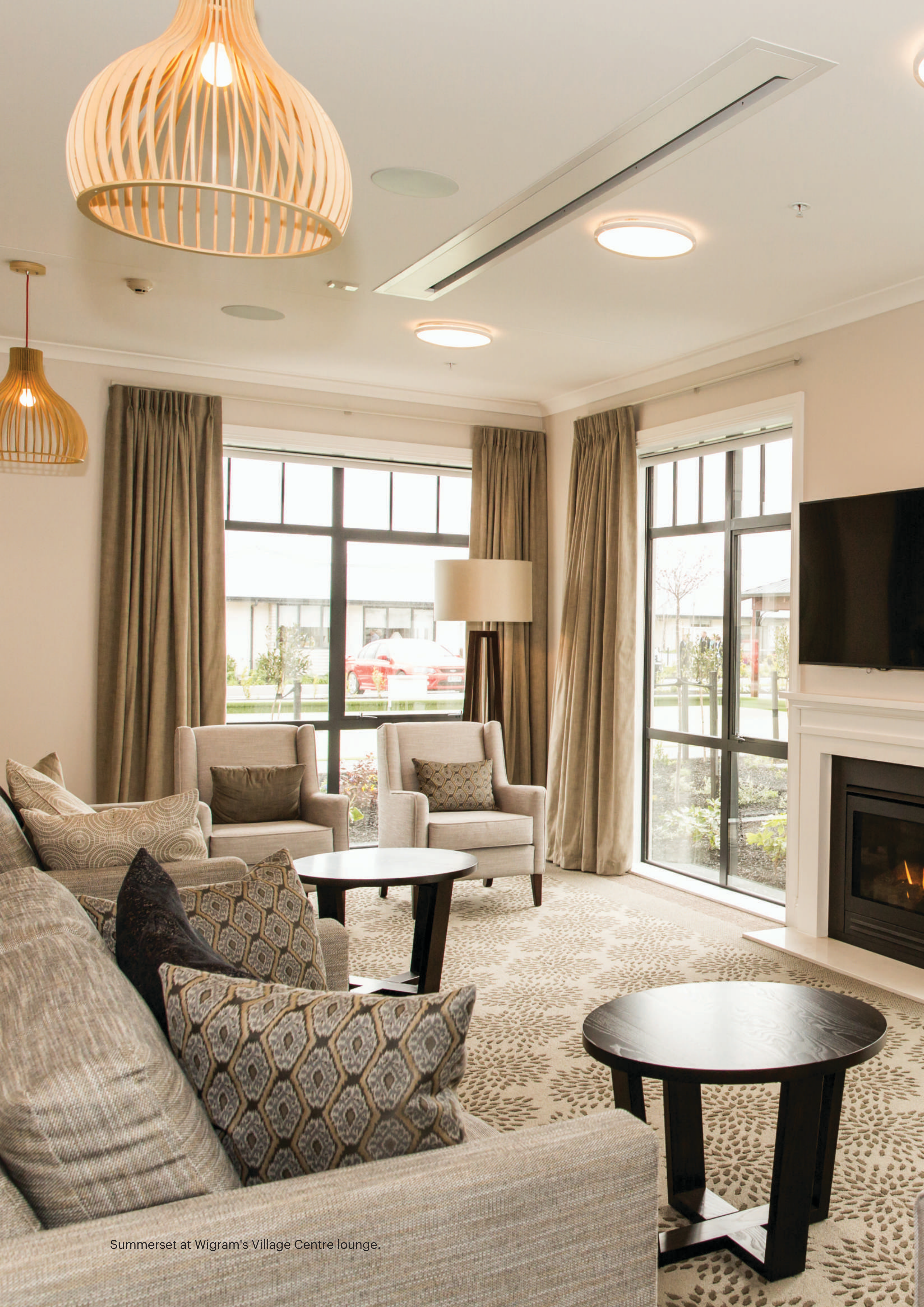
33%
Development margin

52
New care beds delivered

Opened our Casebrook and Rototuna villages

Granted resource consent for our Avonhead village

Purchase of land in Napier and New Plymouth



Summerset at Wigram's Village Centre lounge.

Half Year Financial Highlights

$82.0m Net profit after tax 1H2018	9% Decrease on 1H2017
$45.2m Underlying profit 1H2018	27% Increase on 1H2017
$2.4b Total assets 1H2018	25% Increase on 1H2017
6.0 Cents per share interim dividend	54% Increase on 1H2017

Half Year Financial Highlights

For the six months ended 30 June 2018

Results Highlights - Financial

	1H2018	1H2017	% Change	FY2017
Net profit after tax (NZ IFRS) ($000)	81,972	90,253	-9.2%	223,436
Underlying profit ($000)[1]	45,216	35,653	26.8%	81,663
Total assets ($000)	2,419,635	1,932,122	25.2%	2,216,328
Net tangible assets (cents per share)	377.85	285.72	32.2%	347.56
Net operating cash flow ($000)	92,809	86,423	7.4%	207,716

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

Results Highlights - Operational

	1H2018	1H2017	% Change	FY2017
New sales of occupation rights	145	179	-19.0%	382
Resales of occupation rights	154	144	6.9%	300
New retirement units delivered	165	171	-3.5%	450
Realised development margin ($000)	25,822	21,294	21.3%	50,970
Gross proceeds (new sales) ($000)	78,345	75,930	3.2%	186,428
Realised gains on resales ($000)	14,915	10,785	38.3%	24,936

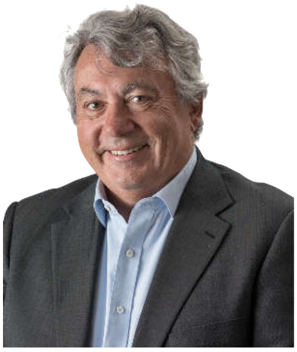
Non-GAAP underlying profit

$000	1H2018	1H2017	% Change	FY2017
Profit for the period[1]	81,972	90,253	-9.2%	223,436
Less: fair value movement of investment property[1]	(78,332)	(87,091)	-10.1%	(217,954)
Less: reversal of impairment on land[1]	-	-	N/A	(15)
Add: realised gain on resales	14,915	10,785	38.3%	24,936
Add: realised development margin	25,822	21,294	21.3%	50,970
Add: deferred tax expense[1]	839	412	103.7%	290
Underlying profit	**45,216**	**35,653**	**26.8%**	**81,663**

1 *Figure has been extracted from the financial statements*

Underlying profit differs from NZ IFRS reported profit after tax. Refer to note 2 of the financial statements for definitions of the components of underlying profit.

Joint Chair and CEO's Report



Welcome to Summerset's half year report for the six months ended 30 June 2018. We are pleased to report that we have performed well, with good financial results for shareholders alongside delivery of initiatives that will continue to enhance the experience of our residents and staff.

In the first half of 2018, we recorded $82.0 million net profit after tax, down 9% on the same period last year, and $45.2 million underlying profit, up 27% on the first six months of 2017. We now have more than 5,000 residents who call Summerset home. These residents are supported by more than 1,300 staff.

A total of 165 new retirement units were built in the period. There were 145 new sales and 154 resales in the six months to 30 June. A total of 37% of sales were in Auckland, while 63% were across the rest of New Zealand. The company's development margin for 1H2018 was 33%, up from 28% for the same period in 2017.

While new sales have been lower in the first half of 2018 than the corresponding period for 2017, we are seeing good levels of contracts on homes – both on resales and homes to be completed before the end of 2018 – and strong development margins on the homes that have settled over the first half of 2018. Resales volumes continue to track well across all areas of the country, including the Auckland market, despite the flattening residential property market.

Growth and development

We continue to expand our offering at a number of sites around the country. Residents have moved into the first homes at our Casebrook (Christchurch) and Rototuna (Hamilton) villages in the first half. We have also recently received resource consent for our proposed Avonhead (Christchurch) village, which will offer more than 260 homes and will include our award-winning memory care concept for people living with dementia.

We continue to progress our Boulcott village in Lower Hutt and have applied to Hutt City Council for resource consent. This village will provide much-needed accommodation and care to older people in the area as there are limited options currently. The village will also play a vital role in freeing up housing for the wider community. We have a long wait list of people already interested in the village. In addition, we have applied for resource consent for our Kenepuru village in northern Wellington. We hope to progress our consent applications for these villages as quickly as possible.

The pressure we have seen in the Auckland construction market is not reducing, although we remain on track to deliver 450 retirement units across New Zealand this year. Our construction focus in Auckland is to complete our Hobsonville village, the main apartment buildings at the Ellerslie village, and new villa builds at our Karaka and Warkworth villages.

We continue to progress with the planning and design of our two greenfield Auckland sites in Parnell and St Johns. Resource consent for our proposed village in St Johns has recently been declined. We are currently working through this decision but remain confident we will be able to progress a successful village on this site. As with our Boulcott village, there is strong demand already for homes in the village, which, if approved, will consist of 344 homes.

Our Parnell site is strategically located beside the Parnell train station, with close links to the Auckland Domain, Parnell village and Auckland CBD. Given the higher building density expected on this site, its strategic location and the unique nature of the project, we have appointed Warren and Mahoney as our lead architects for the village. Concept planning has progressed well and we are starting to prepare the appropriate resource consent applications.

In April, we purchased our fourth Hawke's Bay site on Eriksen Road, Te Awa. The 9 hectare property is close to the popular 18-hole Maraenui Golf Club, the coastline along Marine Parade, and is about 4km south of Napier's CBD. We have also purchased land to build our second New Plymouth village. The proposed 8.1 hectare site is close to the coast, and is about 7km east of New Plymouth's CBD. It has sea views and outlook to Mount Taranaki.

Our investigation into possible Australian expansion continues and we are making good progress. We will continue to work through the appropriate diligence required, and will make further announcements regarding the nature and timing of this expansion as appropriate.

Our people

In May, we introduced additional staff benefits to further strengthen our employee offering. Our range of staff benefits includes free health insurance, funeral cover, travel voucher prizes, discounts at a range of Summerset suppliers, a free staff share scheme, sick leave from the first day of employment, a day of leave on a staff member's birthday, contributions to staff charity fundraising efforts and various types of special leave, including domestic abuse leave.

Pleasingly, we have seen the staff attrition rate at our villages drop by 8% in the last 12 months. The company-wide attrition rate has reduced almost 7% over the same period. We believe this is a result of both the continued investment we are making in our staff and the Government's equal pay settlement.

We are starting to see shortages in care workers in some areas, and believe the immigration changes introduced by the previous Government are causing this. We believe it is important that the current Government recognises the importance of immigration alongside local training and development. This will ensure we have trained, competent and caring staff available to look after our older people. We have watched closely the pay settlement for public sector nurses and will be making the appropriate adjustments for our own nurses.

Our health and safety vision is that every staff member goes home safely without harm each day. We continue to implement measures to achieve this. Most recently, following a trial of compulsory gloves for all construction workers on site in Casebrook, Christchurch, we are now introducing this practice in all our new construction sites.

The second half of the year will see the rollout of new uniforms to our village staff. There will be more detail to come on the uniforms themselves, but we look forward to presenting our staff with a uniform that is designed to be fit for purpose and that they will be proud to wear.

We have also made a significant investment in our Human Resources Information System. This will see the complete implementation of a new payroll system later this year. This is being rolled out in two stages; the first stage affected head office and construction staff in May. The second stage is currently underway in our villages. This will eliminate a large number of manual and cumbersome processes and is one of a number of systems-related investments we have been making in the business.

Recent media around the Australian Prudential Regulation Authority's investigation into the Commonwealth Bank of Australia showed significant shortcomings in governance, culture and accountability. This report came out in the midst of a number of revelations seen in the Australian inquiry into practices in the banking sector. We have considered the relevance of these for our business. A particular focus for us is ensuring the voice of our customer is heard. Summerset's CEO and General Manager Operations and Customer Experience visit all our villages each year to talk to residents face to face. Board members also visit villages on a regular basis to engage directly with residents and staff. These are critical points of interaction with our customers. In addition, we have subject matter experts on key board committees, an annual resident satisfaction survey, structured quarterly meetings with friends and families of care residents, and our own clinical quality audit team reviewing care centre performance. We have also recently appointed a Customer Advocate, who assists in ensuring management are hearing from, and listening to, our residents. However, we note that complacence is an ever-present risk and we will continue to test and challenge our approach in this area.

Summerset CEO, Julian Cook, alongside Bowls New Zealand CEO, Mark Cameron.

Our residents

In September 2017, we began the rollout of our new resident management system, VCare, which is a New Zealand-made software system specifically designed for retirement villages and care centres. VCare has now been introduced in all our villages, replacing our previous internally developed system. We are currently implementing the clinical care functionality of VCare and will train more than 800 care staff in VCare this year.

The move from a paper-based system to an electronic one allows all vital care-related information to be recorded in one place, from charts and measurements, to progress notes from our staff and visiting GPs or physiotherapists. Our caregivers will be using iPads to access and update resident information. To date, the rollout of the care functionality has gone well. We will provide an update on this in the full year report.

Earlier this year, we introduced a new food service to our villages. Three regionally based caterers, White Tie Health Services, Kerr and Ladbrook and Cater Plus, together with an in-house team at our Levin and Paraparaumu villages, offer locally sourced, wholesome food prepared onsite for our Divine cafés, Divine at Home service and our care centres. Food is a very important part of a resident's experience and we focused on getting the right providers for our villages.

We have partnered with both Bowls New Zealand and New Zealand Indoor Bowls, which we think is a perfect alignment with our purpose of bringing the best of life to residents. Through these partnerships we are helping bring players together to enjoy two popular sports, including the many Summerset residents who play for a local bowls club. We hope many more will discover the joy of the game.

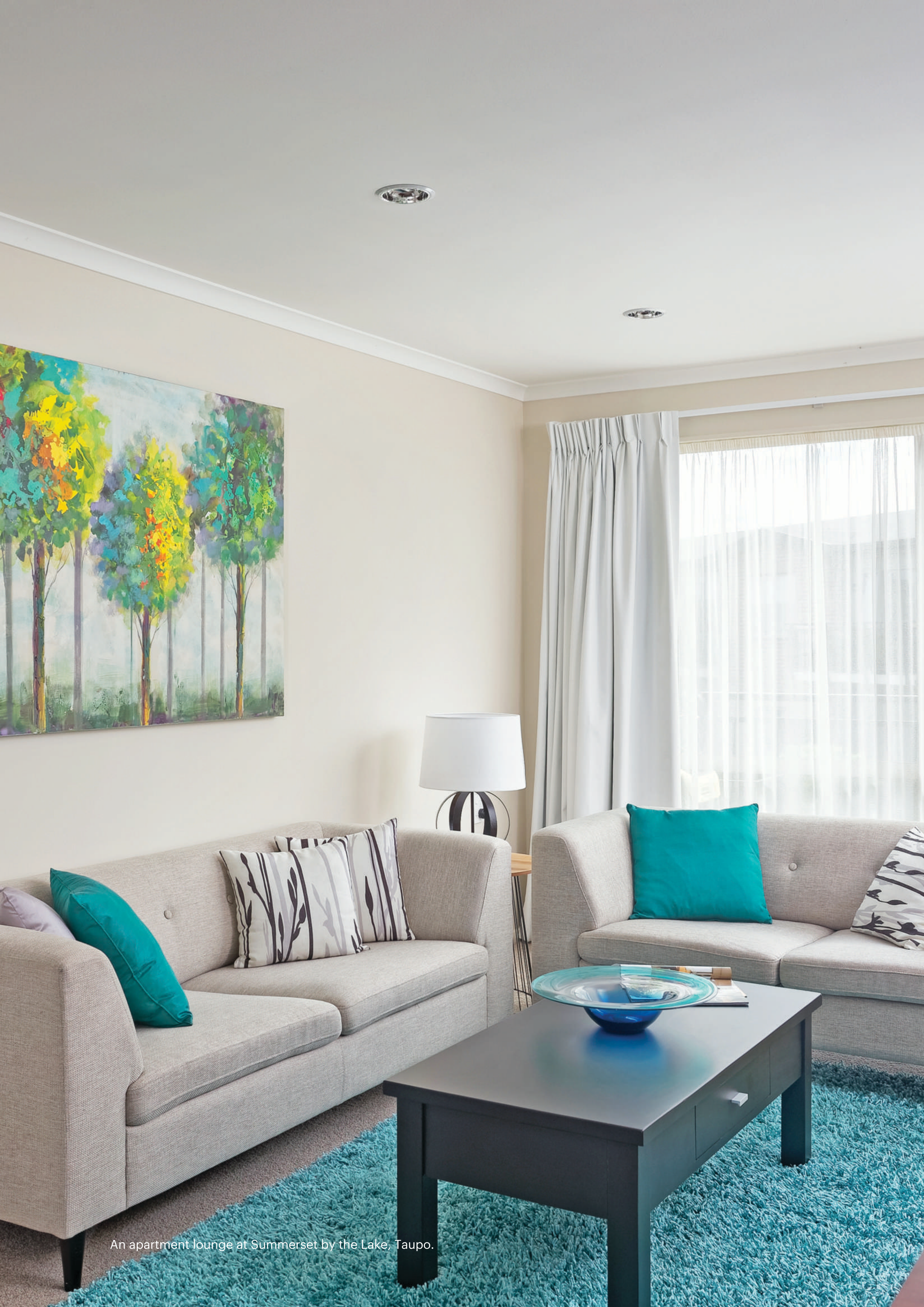
Looking ahead

As Summerset continues to grow, we want to ensure we are responsible about the environmental impact of our villages, so are pleased we will be working towards Certified Emissions Measurement and Reduction Scheme certification. The scheme allows us to measure our greenhouse gas emissions accurately and put in place strategies to manage and reduce our impact on the environment. We are currently collecting data to help measure the carbon footprint at our offices and villages, with the intention of completing a verification audit by the end of the year before setting short, medium and long term reduction targets.

It is a pleasure to present this report to our investors. Summerset will continue to work hard to deliver high-quality retirement living for our residents and subsequent financial results that benefit our investors, residents and staff.

Rob Campbell
Chair

Julian Cook
Chief Executive Officer



An apartment lounge at Summerset by the Lake, Taupo.

Financial Statements

Income Statement

For the six months ended 30 June 2018

	NOTE	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Care fees and village services		43,268	34,126	74,505
Deferred management fees		22,341	16,539	35,804
Interest received		59	46	184
Total revenue		**65,668**	**50,711**	**110,493**
Reversal of impairment on land		-	-	15
Fair value movement of investment property	4	78,332	87,091	217,954
Total income		**144,000**	**137,802**	**328,462**
Operating expenses	3	(52,920)	(39,603)	(88,587)
Depreciation and amortisation expense		(2,892)	(2,060)	(4,628)
Total expenses		**(55,812)**	**(41,663)**	**(93,215)**
Operating profit before financing costs		**88,188**	**96,139**	**235,247**
Net finance costs		(5,377)	(5,474)	(11,521)
Profit before income tax		**82,811**	**90,665**	**223,726**
Income tax expense		(839)	(412)	(290)
Profit for the period		**81,972**	**90,253**	**223,436**
Basic earnings per share (cents)	7	37.22	41.37	102.23
Diluted earnings per share (cents)	7	36.53	40.67	100.46
Net tangible assets per share (cents)	7	377.85	285.72	347.56

The accompanying notes form part of these interim financial statements.

Statement of Comprehensive Income

For the six months ended 30 June 2018

	NOTE	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Profit for the period		**81,972**	**90,253**	**223,436**
Fair value movement of interest rate swaps		(1,851)	(1,442)	(3,043)
Tax on items of other comprehensive income		519	405	851
Loss on translation of foreign currency operations		(2)	-	-
Other comprehensive income that will be reclassified subsequently to profit or loss for the period net of tax		**(1,334)**	**(1,037)**	**(2,192)**
Fair value movement of care centre land and buildings		-	-	18,934
Tax on items of other comprehensive income		-	-	(5,036)
Other comprehensive income that will not be reclassified subsequently to profit or loss for the period net of tax		**-**	**-**	**13,898**
Total comprehensive income for the period		**80,638**	**89,216**	**235,142**

The accompanying notes form part of these interim financial statements.

Statement of Changes in Equity

For the six months ended 30 June 2018

	SHARE CAPITAL $000	FOREIGN CURRENCY TRANSLATION RESERVE $000	HEDGING RESERVE $000	REVALUATION RESERVE $000	RETAINED EARNINGS $000	TOTAL EQUITY $000
As at 1 January 2017	**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**
Profit for the period	-	-	-	-	133,183	133,183
Other comprehensive income/(loss) for the period	-	-	(1,155)	13,898	-	12,743
Total comprehensive income/(loss) for the period	**-**	**-**	**(1,155)**	**13,898**	**133,183**	**145,926**
Dividends paid	-	-	-	-	(8,698)	(8,698)
Shares issued	4,019	-	-	-	-	4,019
Employee share plan option cost	451	-	-	-	-	451
As at 31 December 2017 (audited)	**257,414**	**-**	**(5,712)**	**24,941**	**492,641**	**769,284**
Profit for the period	-	-	-	-	81,972	81,972
Other comprehensive loss for the period	-	(2)	(1,332)	-	-	(1,334)
Total comprehensive income/(loss) for the period	**-**	**(2)**	**(1,332)**	**-**	**81,972**	**80,638**
Dividends paid	-	-	-	-	(15,711)	(15,711)
Shares issued	5,785	-	-	-	-	5,785
Employee share plan option cost	504	-	-	-	-	504
As at 30 June 2018 (unaudited)	**263,703**	**(2)**	**(7,044)**	**24,941**	**558,902**	**840,500**

The accompanying notes form part of these interim financial statements.

Statement of Financial Position

As at 30 June 2018

	NOTE	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Assets				
Cash and cash equivalents		14,732	13,060	7,566
Trade and other receivables		27,237	19,750	25,416
Interest rate swaps		2,082	-	1,193
Property, plant and equipment		128,089	89,458	118,506
Intangible assets		6,680	3,578	5,562
Investment property	4	2,240,815	1,806,276	2,058,085
Total assets		**2,419,635**	**1,932,122**	**2,216,328**
Liabilities				
Trade and other payables		69,158	59,651	51,858
Employee benefits		6,979	4,883	6,733
Revenue received in advance		59,623	39,372	50,493
Interest rate swaps		9,784	6,331	7,934
Residents' loans	5	1,037,353	867,226	966,627
Interest-bearing loans and borrowings	6	379,689	315,309	347,170
Deferred tax liability		16,549	11,764	16,229
Total liabilities		**1,579,135**	**1,304,536**	**1,447,044**
Net assets		**840,500**	**627,586**	**769,284**
Equity				
Share capital		263,703	252,944	257,414
Reserves		17,895	6,486	19,229
Retained earnings		558,902	368,156	492,641
Total equity attributable to shareholders		**840,500**	**627,586**	**769,284**

The accompanying notes form part of these interim financial statements.

On behalf of the Board

Rob Campbell
Director and Chair of the Board

James Ogden
Director and Chair of the Audit Committee

Authorised for issue on 13 August 2018

Statement of Cash Flows

For the six months ended 30 June 2018

	NOTE	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Cash flows from operating activities				
Receipts from residents for care fees and village services		43,203	34,896	72,424
Interest received		59	46	184
Payments to suppliers and employees		(50,510)	(37,759)	(80,565)
Receipts for residents' loans - new occupation right agreements		75,676	73,698	181,574
Net receipts for residents' loans - resales of occupation right agreements		24,381	15,542	34,099
Net cash flow from operating activities		**92,809**	**86,423**	**207,716**
Cash flows to investing activities				
Purchase and construction of investment property:				
Construction of new investment property		(79,818)	(89,885)	(202,744)
Purchase of land		(2,022)	(7,578)	(27,840)
Refurbishment of existing investment property		(2,313)	(1,404)	(3,937)
Purchase and construction of property, plant and equipment:				
Construction of new care facilities		(9,236)	(4,678)	(10,319)
Refurbishment of existing care facilities		(280)	(230)	(752)
Other		(2,445)	(1,034)	(1,643)
Purchase of intangible assets		(1,702)	(2,357)	(4,457)
Capitalised interest paid		(3,983)	(2,497)	(5,802)
Net cash flow to investing activities		**(101,799)**	**(109,663)**	**(257,494)**
Cash flows from financing activities				
Net proceeds/(repayments) from bank borrowings		31,443	41,333	(26,136)
Proceeds from issue of retail bonds		-	-	100,000
Proceeds from issue of shares		5,785	3,545	7,564
Interest paid on borrowings		(5,361)	(6,073)	(12,881)
Dividends paid	8	(15,711)	(11,159)	(19,857)
Net cash flow from financing activities		**16,156**	**27,646**	**48,690**
Net increase/(decrease) in cash and cash equivalents		7,166	4,406	(1,088)
Cash and cash equivalents at beginning of period		7,566	8,654	8,654
Cash and cash equivalents at end of period		**14,732**	**13,060**	**7,566**

The accompanying notes form part of these interim financial statements.

Reconciliation of operating results and operating cash flows

For the six months ended 30 June 2018

	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Net profit for the period	**81,972**	**90,253**	**223,436**
Adjustments for:			
Depreciation and amortisation expense	2,892	2,060	4,628
Reversal of impairment on land	-	-	(15)
Loss on sale of plant and equipment	76	51	82
Fair value movement of investment property	(78,332)	(87,091)	(217,954)
Net finance costs paid	5,377	5,474	11,521
Deferred tax	839	412	290
Deferred management fee amortisation	(22,341)	(16,539)	(35,804)
Employee share plan option cost	521	369	820
	(90,968)	**(95,264)**	**(236,432)**
Movements in working capital			
Increase in trade and other receivables	(3,324)	(3,984)	(9,824)
Increase/(decrease) in employee benefits	246	(119)	1,731
Increase in trade and other payables	3,041	3,299	877
Increase in residents' loans net of non-cash amortisation	101,842	92,238	227,928
	101,805	**91,434**	**220,712**
Net cash flows from operating activities	**92,809**	**86,423**	**207,716**

The accompanying notes form part of these interim financial statements.

Notes to the Financial Statements

For the six months ended 30 June 2018

1. Summary of accounting policies

The interim financial statements presented for the six months ended 30 June 2018 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 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 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 is 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 2017. During the period, NZ IFRS 15 – *Revenue from contracts with customers* has been adopted with no impact on the accounting policies or disclosures of the Group. The interim financial statements for the six months ended 30 June 2018 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.

Segment reporting

The Group operates in one industry, being the provision of integrated retirement villages in New Zealand. 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 is considering expansion into Australia. To date, the expenditure incurred has been immaterial to the Group and relates primarily to consultancy and employment costs associated with considering the expansion.

2. Non-GAAP underlying profit

	REF	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Profit for the period		81,972	90,253	223,436
Less fair value movement of investment property	a)	(78,332)	(87,091)	(217,954)
Less reversal of impairment on land	b)	-	-	(15)
Add realised gain on resales	c)	14,915	10,785	24,936
Add realised development margin	d)	25,822	21,294	50,970
Add deferred tax expense	e)	839	412	290
Underlying profit		**45,216**	**35,653**	**81,663**

Underlying profit differs from NZ IFRS profit for the period. The Directors have provided an underlying profit measure in addition to IFRS profit measures 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 that the Group uses consistently across reporting periods. Underlying profit determines the dividend payout to shareholders.

This statement 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) 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) Less reversal of impairment on land: remove the impact of non-cash care centre valuation changes recorded in NZ IFRS profit for the period. Care centres are valued 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 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 deferred management fees and refurbishments.

d) Add realised development margin: add realised development margin across all new sales of occupation rights during the period, 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 incurred during the build period; and
   - 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 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. These costs are both excluded in line with industry standard.

e) Add deferred tax expense: 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.

Notes to the Financial Statements (continued)

3. Operating expenses

	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Employee expenses	30,581	22,802	50,487
Property-related expenses	7,634	6,118	13,864
Other operating expenses	14,705	10,683	24,236
Total operating expenses	**52,920**	**39,603**	**88,587**

4. Investment property

	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Balance at beginning of period	2,058,085	1,591,363	1,591,363
Additions	104,410	127,857	248,856
Disposals	(12)	(35)	(88)
Fair value movement:			
Realised	40,737	32,079	75,906
Unrealised	37,595	55,012	142,048
Total investment property	**2,240,815**	**1,806,276**	**2,058,085**

	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Development land measured at fair value	155,500	149,300	152,750
Retirement villages measured at fair value	1,871,613	1,475,454	1,733,828
Retirement villages under development measured at cost	213,702	181,522	171,507
Total investment property	**2,240,815**	**1,806,276**	**2,058,085**

The Group has deemed it is unable to reliably determine the fair value of the non-land aspects of retirement villages under development at 30 June 2018 and therefore these are carried at cost. This equates to $213.7 million of investment property (Jun 2017: $181.5 million; Dec 2017: $171.5 million).

The fair value of investment property as at 30 June 2018 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. A desktop valuation was completed as at 30 June 2018. There has been no change in valuation technique since the previous full valuation which was completed as at 31 December 2017 (next full valuation due as at 31 December 2018).

Significant assumptions used by the valuer include a discount rate of between 13.5% and 16.5% (Jun 2017: between 13.75% and 16%; Dec 2017: between 13.5% and 16%) and a long-term nominal house price inflation rate of between 0% and 3.5% (Jun 2017 and Dec 2017: 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 2018, all investment property relating to Summerset's village companies (being the 23 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 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Balance at beginning of period	1,134,069	924,848	924,848
Net receipts for residents' loans - resales of occupation right agreements	18,824	12,522	27,647
Receipts for residents' loans - new occupation right agreements	75,676	73,698	181,574
Total gross residents' loans	**1,228,569**	**1,011,068**	**1,134,069**
Deferred management fees receivable	(191,216)	(143,842)	(167,442)
Total residents' loans	**1,037,353**	**867,226**	**966,627**

The fair value of residents' loans at 30 June 2018 is $706.2 million (Jun 2017: $558.3 million; Dec 2017: $648.2 million). The method of determining fair value is disclosed in Note 15 of the Group's financial statements for the year ended 31 December 2017. 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.

Notes to the Financial Statements (continued)

6. Interest-bearing loans and borrowings

	Coupon	6 MONTHS JUN 2018 UNAUDITED $000	6 MONTHS JUN 2017 UNAUDITED $000	12 MONTHS DEC 2017 AUDITED $000
Repayable after 12 months				
Secured bank loans	Floating	279,282	315,309	247,839
Retail bonds	4.78%	100,000	-	100,000
Total loans and borrowings at face value		**379,282**	**315,309**	**347,839**
Issue costs for retail bonds capitalised opening balance		(1,840)	-	-
Issue costs for retail bonds capitalised during the period		-	-	(2,007)
Issue costs for retail bonds amortised during the period		167	-	167
Total loans and borrowings at amortised cost		**377,609**	**315,309**	**345,999**
Fair value adjustment on hedged borrowings		2,080	-	1,171
Total loans and borrowings		**379,689**	**315,309**	**347,170**

The weighted average interest rate for the six months to 30 June 2018 was 3.56% (Jun 2017: six-month average 3.49%; Dec 2017: 12-month average 3.57%). This includes the impact of interest rate swaps. 74% of the secured bank loans are hedged with interest rate swaps at 30 June 2018 (Jun 2017: 69%; Dec 2017: 89%).

The secured bank loan facility as at 30 June 2018 has a maximum limit of $500.0 million (Jun 2017: $600.0 million; Dec 2017: $500.0 million). Lending of $285.0 million expires in August 2020 and $215.0 million of lending expires in March 2022.

The retail bonds were issued for $100.0 million and have a maturity date of 11 July 2023. The retail bonds are listed on the NZX Debt Market (NZDX) with the ID SUM010.

Security

The bank loans 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 guaranteeing Group members that are not registered retirement villages;
- a second-ranking registered mortgage over the land and permanent buildings owned (or leased under a registered lease) by each registered retirement village that is a guaranteeing Group member (behind a first-ranking registered mortgage in favour of the Statutory Supervisor); and
- the General Security Deed, which secures all assets of the 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.

7. Earnings per share and net tangible assets

Basic earnings per share

	6 MONTHS JUN 2018 UNAUDITED	6 MONTHS JUN 2017 UNAUDITED	12 MONTHS DEC 2017 AUDITED
Earnings ($000)	81,972	90,253	223,436
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	220,267	218,141	218,555
Basic earnings per share (cents per share)	**37.22**	**41.37**	**102.23**

Diluted earnings per share

	6 MONTHS JUN 2018 UNAUDITED	6 MONTHS JUN 2017 UNAUDITED	12 MONTHS DEC 2017 AUDITED
Earnings ($000)	81,972	90,253	223,436
Weighted average number of ordinary shares for the purpose of earnings per share (in thousands)	224,420	221,910	222,407
Diluted earnings per share (cents per share)	**36.53**	**40.67**	**100.46**

Number of shares (in thousands)

	6 MONTHS JUN 2018 UNAUDITED	6 MONTHS JUN 2017 UNAUDITED	12 MONTHS DEC 2017 AUDITED
Weighted average number of ordinary shares for the purpose of earnings per share (basic)	220,267	218,141	218,555
Weighted average number of ordinary shares issued under employee share plans	4,153	3,769	3,852
Weighted average number of ordinary shares for the purpose of earnings per share (diluted)	**224,420**	**221,910**	**222,407**

At 30 June 2018, there were 4,094,072 shares issued under employee share plans (Jun 2017: 3,929,248; Dec 2017: 4,227,907 shares).

Net tangible assets per share

	6 MONTHS JUN 2018 UNAUDITED	6 MONTHS JUN 2017 UNAUDITED	12 MONTHS DEC 2017 AUDITED
Net tangible assets ($000)	833,820	624,008	763,722
Shares on issue at end of period (basic and in thousands)	220,676	218,396	219,740
Net tangible assets per share (cents per share)	**377.85**	**285.72**	**347.56**

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

8. Dividends

On 22 March 2018, a dividend of 7.1 cents per ordinary share was paid to shareholders (2017: on 22 March 2017 a dividend of 5.1 cents per ordinary share was paid to shareholders and on 11 September 2017 a dividend of 3.9 cents per ordinary share was paid to shareholders).

A dividend reinvestment plan applied to the dividend paid on 22 March 2018 and 810,284 ordinary shares were issued in relation to the plan (2017: 687,184 ordinary shares were issued in relation to the plan for the 22 March 2017 dividend and 593,876 ordinary shares were issued in relation to the plan for the 11 September 2017 dividend).

9. Capital commitments and contingencies

Capital commitments
At 30 June 2018, the Group had capital commitments in relation to construction contracts of $67.3 million (Jun 2017: $61.9 million; Dec 2017: $63.9 million).

Contingent liabilities
There were no known material contingent liabilities at 30 June 2018 (Jun 2017: none; Dec 2017: none).

10. Subsequent events

On 23 July 2018, 95,996 shares were issued under the Group's all-staff employee share plan at $7.7435 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 13 August 2018, the Directors approved an interim dividend of $13.5 million, being 6.0 cents per share. The dividend record date is 28 August 2018, with payment on 10 September 2018.

In July 2018, a piece of land was purchased at Pohutukawa Place for our second site in New Plymouth.

There have been no other events subsequent to 30 June 2018 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 14 to 26, which comprise the statement of financial position of the group as at 30 June 2018 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 14 to 26, do not present fairly, in all material respects, the financial position of the group as at 30 June 2018 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*[1].

Our review was completed on 13 August 2018 and our findings are expressed as at that date.

Ernst & Young

Ernst & Young
Wellington

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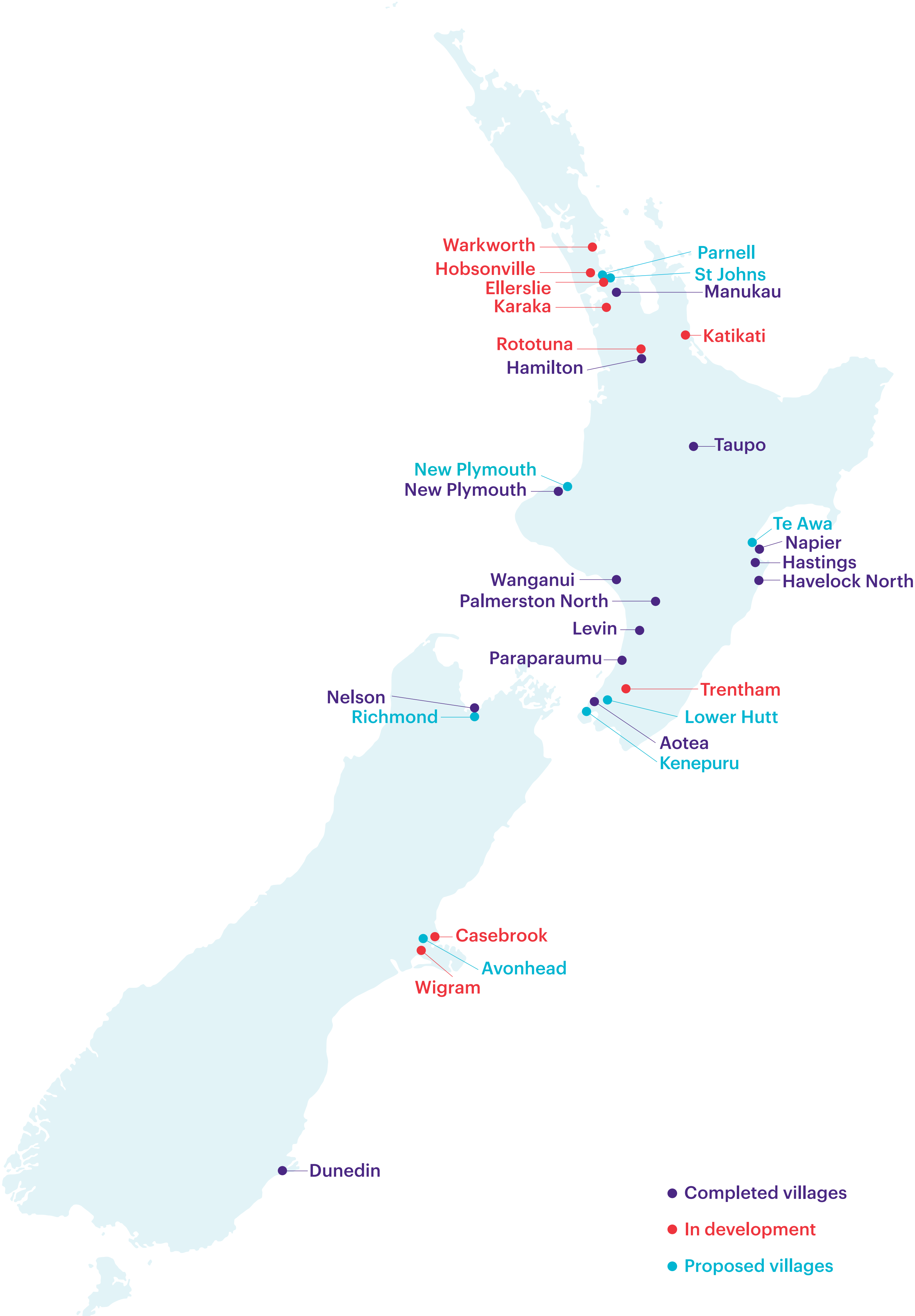
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Summerset