

ING Real Estate Community Living Group

2010 Annual Report - CEO Letter

30 September 2010

Dear Unitholder,

The past 12 months has been a challenging period for the Fund as we battled a weak international economy. Whilst the Australian economy has weathered the GFC storm relatively well, the United States, where the Fund has a majority of its operations, was buffeted by the headwinds of a weak housing market, high unemployment and generally poor levels of consumer sentiment.

In spite of these difficult conditions, it is pleasing to report the Fund finished the financial year in far better condition than it entered. There remains considerable work to be done but we are confident ILF is in a stronger position for the future.

During the past six months, asset values across both Australia and the United States have stabilised and in several instances have shown some initial signs of improvement. Underlying demand for seniors accommodation continues to grow and nearly all villages are at a higher occupancy level today than 12 months ago. The Fund has been able to deliver on many of its initiatives which provides a more stable platform for the future including:

- Australian debt refinanced for three years at market competitive rates;
- Exited the Canadian Regency portfolio and divested part of the US Seniors portfolio (Meridian portfolio) unlocking equity of A\$33 million which was used to retire debt and fund various Australian growth initiatives;
- Progressed the exit from the US Students business which has been a significant financial drain on the Fund;
- Increased the Garden Villages (Australian Rental) occupancy rate to 73% which represents an all time high since the decision was made to internalise management in 2008; and
- Commenced construction of the final stage of 22 units at Ridgewood Rise (Australian DMF) in Perth with significant reservations in place at record prices. Settlements are due from December 2010 underpinning earnings and cashflow for the next financial year.

The Fund has developed pro-active strategies to restore unitholder value and replace earnings and operating cashflows from recently divested assets.

These include:

- Driving operational performance across the existing portfolios with a particular focus on occupancy rates and operating margins;
- Convert three existing rental villages in Queensland to the DMF model;
- Expand our US Assisted Living and Memory Care product offering through the conversion of existing, vacant Independent Living units;
- Divest a select number of underperforming Garden Villages; and
- Finalise commercial assessments to expand existing high occupancy villages including Meadow Springs and Lakeside in Western Australia.

The Fund has an improved capital position with sufficient cash on hand and undrawn funding capacity under the Australian facility to meet a range of growth initiatives. Capital will be prioritised into high return, cash generating projects within the Fund's risk parameters.

The Fund will not pay a distribution during the forthcoming financial year due to Australian banking covenants presently in place and short term capital demands on the business. Unitholders can be assured that the Fund will recommence paying distributions at the earliest possible time when it is financially responsible to do so.

Management plans to continue through the rebuilding phase and remains focused on creating long term unitholder value. To support our strategic initiatives, we have made key changes in the Fund's management team over the past year whilst retaining core existing capabilities.

Further information about the Fund can be found in ILF's Annual Report which is available to download from www.ingrealestate.com.au

On behalf of the Directors and the Fund's Management team, I would like to thank unitholders for your continued support during very challenging times and I look forward to meeting with you at the upcoming Annual General Meeting to be held later this year.

Yours sincerely,



Simon Owen
Chief Executive Officer
ING Real Estate Community Living Group