

2011

Annual Report



Anything's possible

CONTENTS

CHAIRMAN'S REPORT	1
MANAGING DIRECTOR'S REPORT	3
DIRECTORS' REPORT	7
AUDITORS INDEPENDENCE DECLARATION	19
CORPORATE GOVERNANCE STATEMENT	20
FINANCIAL STATEMENTS	28
DIRECTORS DECLARATION	60
INDEPENDENT AUDITORS REPORT	61
ASX ADDITIONAL INFORMATION	63
CORPORATE INFORMATION	65

Chairman's Report

For 2010/11 Financial Year

Dear Shareholder,

Lifestyle Communities Limited ('Lifestyle Communities' or 'the Company') has delivered another successful year, both financially and operationally, building on the foundations laid during the last four years. The business plan has once again produced a solid result, despite the ongoing turbulence in the global economy and a flat property market.

Demand for homes in the Company's communities has remained strong, allowing us to maintain our position as the leading provider in Victoria of affordable seniors housing.

The Net Profit Before Tax for the year to 30 June 2011 was \$10.4 million compared with \$8.5 million last year – an increase of 23%. Lifestyle Communities is proud of this result and of its committed team who have continually sought better and more effective ways of achieving improved outcomes for all stakeholders. As at the 30 June 2011, our Net Tangible Assets were valued at \$36.1 million, an increase of 24% over last year.

The Board is pleased to announce the declaration of a dividend of 0.5 cents per share on a fully franked basis. This dividend is the outcome of a strong earnings performance, positive operating cash flows on mature sites, solid sales performance, a substantial pipeline of pre-committed sales and our confidence in the future outlook.

Lifestyle Communities achieved another important milestone in May this year by executing an agreement with a major institutional investor for a \$50 million long-term debt facility. The post global financial crisis business lending environment has been complex and uncertain, however this long term funding agreement now provides the Company with the ability to move forward knowing that new site funding is in place.

This funding agreement has allowed the Company to replace short term debt with long term debt, and to recycle the capital from mature projects to secure new projects. We are now able to seek and select sites for medium and long term development, to grow the number of units under management and to increase operational income at a faster rate than otherwise possible. The Company's asset portfolio and pipeline at the end of June stood at 1,421 units completed or under development, and with the assurance of secure funding we are moving towards our target of over 2,500 homes in development or under management by 2020.

A fundamental belief of the Company is that everyone has the right to a comfortable and secure home regardless of wealth, and this underpins our core values and approach. We also believe that if we build attractive communities in which our residents enjoy living, our homes will always be sought after. This year a comprehensive survey of residents was conducted and found that a majority rated life as happy and fulfilling, and would recommend a Lifestyle Communities' Village to family and friends.

With the number of Australians over 65 years of age expected to double by 2021, and expected to double again by 2051, Lifestyle Communities is confident that its target market will continue to expand well into the future.

The Board looks to the future with growing confidence as Lifestyle Communities develops a strong market position and builds on our foundation with a stable funding base, a highly experienced team of employees, and a growing group of happy residents, many of whom have become our ambassadors.

I thank all of our staff and my fellow directors for their commitment and for their ability to balance our enthusiasm for growth with a necessary level of business caution; this allows the Company to move forward with assurance while at the same time remaining fiscally secure.

Yours sincerely,

A handwritten signature in black ink that reads "David Paranthoene". The signature is written in a cursive, flowing style.

David Paranthoene
Chairman
18 August 2011

Managing Director's Report

For 2010/11 Financial Year

Dear Shareholder,

I am delighted to report on another successful year of excellent results at Lifestyle Communities. We have delivered further growth through increased sales at our existing sites, and have commenced planning and construction at a further three new sites. The Company's results this year once again reflect the demand for homes in our communities and demonstrate the outcomes achievable by a committed group of people working together.

Lifestyle Communities recorded a Net Profit Before Tax of \$10.4 million. Sales of new homes for the period were \$22.7 million and we settled an increased number of homes - 107 compared with 103 last year. Annuity income in the form of rental revenue rose to more than \$3 million, an increase of 55%. Overall, it has been a year of significant activity, delivering results that have been resilient in the face of uncertain economic times and a patchy property market.

I am pleased that Lifestyle Communities' development growth path and stable cash flows from management operations have enabled the Company to announce a dividend this year. We will continue to grow our business while carefully managing costs with the goal of continuing dividends in future periods.

Key results:

Revenue	\$28.0m	Up by 17%
Net Profit Before Tax	\$10.4m	Up by 23%
Net Profit After Tax	\$6.8m	Up by 16%
Net Profit After Current Tax (excluding deferred tax expense)	\$10.4m	Up by 23%
EBITDA Earnings before Interest, Tax, Depreciation & Amortisation	\$11.5m	Up by 28%
Net Assets at 30 June 2011	\$36.1m	Up by 24%

Achievements this year include:

- Completed construction at Brookfield Village in Melton and sold out of new homes.
- Construction at Lifestyle Seasons in Tarneit is more than 95% complete and 99% sold.
- Continued construction at Lifestyle Warragul which is more than 70% complete and 63% sold.
- Commenced construction at Lifestyle Cranbourne and moved our first 10 residents into the village.

New developments are in construction preparation phase including Stage 1 at Shepparton and Chelsea Heights, with both expected to commence construction this calendar year. Lifestyle Communities continues to provide ongoing management services for all residents at Lifestyle Brookfield in Melton, Lifestyle Seasons in Tarneit and Lifestyle Warragul, which generate monthly rental income for the Company.

Strong property valuations from our first three communities have enabled us to recycle equity and secure a long term debt funding arrangement, and this will allow us to develop an increased number of new communities over the next few years. Utilising new funding, Lifestyle Communities recently announced its intention to construct another community of up to 144 homes at a well located site in Hastings on the Mornington Peninsula, and has executed a 180 day unconditional contract to purchase the property. Since 30 June 2011, the Company has also announced a new Joint Venture to acquire land in Drouin, Victoria with the intention of developing a new Lifestyle Communities' Village commencing in 2013.

This brings our total number of homes under management, under development or in the pipeline to 1,421 and our target of commencing a new community every twelve to eighteen months is on track. Lifestyle Communities is actively seeking new opportunities for development sites that will meet the needs of our target customer group.

The following table summarises the status of our portfolio:

ASSETS						
Communities	Sites	Sites sold and occupied	Sites sold and being developed	Sites sold, occupied and being developed		Sites unsold
Existing communities				#	%	
Brookfield (Melton) 	228	219	9	228	100	–
Seasons (Tarneit) 	136	107	27	134	99	2
Warragul 	182	92	22	114	63	68
Cranbourne* 	217	19	72	91	42	126
Shepparton 	217	–	10	10	5	207
	980	437	140	577	59	403
Communities yet to commence						
Chelsea Heights* 	106	–	–	–	–	106
Hastings 	144	–	–	–	–	144
Drouin*	191	–	–	–	–	191
	441	–	–	–	–	441
Total sites	1421	437	140	577	41	844

* Represents 100% of the development of which LIC will share 50%

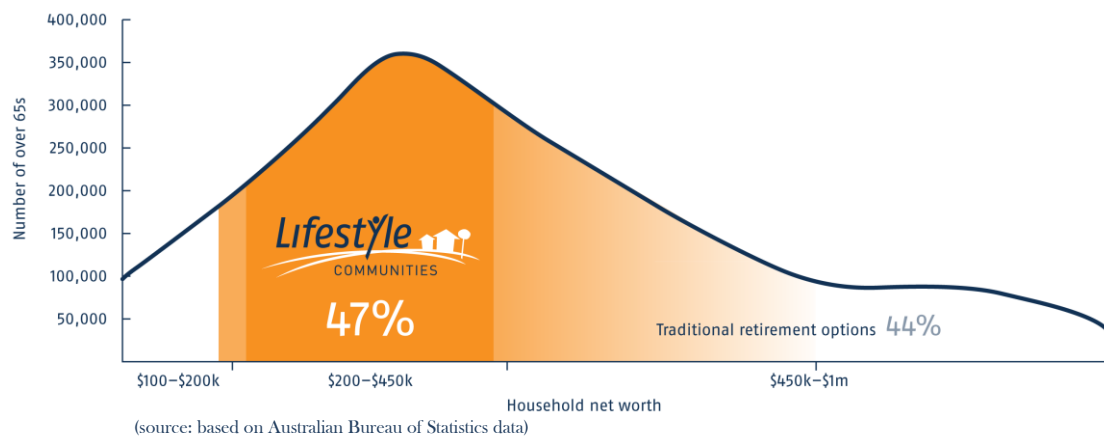
Data correct as at 17 August 2011

This year Lifestyle Communities contracted an independent marketing firm to undertake a comprehensive resident survey. The Company was delighted with the high response rate achieved and the survey findings confirmed our strategic direction. The elements that were important to our residents and on which they rated us highly, were community facilities, the social interaction in our communities and the security provided. They told us that affordability was a factor in their decision making when comparing to other communities, and the majority are finding life happy and fulfilling.

Outlook

We are living in an ageing world. It is not a short term trend or a cycle, it is a permanent change and for Lifestyle Communities, it presents a stable and long lasting opportunity to build comfortable and secure homes for senior Australians. Not everybody is wealthy and the majority of people currently older than 55 years of age are not in a position to afford traditional retirement accommodation. Many wish to continue living independently and Lifestyle Communities is meeting their demand by building affordable and beautiful communities.

The following chart identifies our position within the market – Lifestyle is targeting the largest segment which is currently underserved.



There are more than 700,000 people aged over 65 with assets of \$200k - \$450k, and this represents an excellent market opportunity. Lifestyle Communities' existing villages represent less than one per cent of this market and the potential for growth is therefore significant.

By providing an affordable housing solution, Lifestyle Communities' residents are able to sell their existing homes and utilise any excess capital for living costs, holidays and so on. Our relationship with our customer does not finish when the home is handed over. We manage all of our villages, and this revenue along with deferred management fees, provides a stable ongoing income stream for Lifestyle Communities.

Lifestyle Communities is operating within a market that will grow in the foreseeable future. We are confident in our strategic direction, and with the security of our long term financing, the organisation is well positioned to take advantage of the best possible development opportunities. As always, the Company will monitor the broader market trends within Australia and globally and adjust our strategy if required, however the strength of our position in this market niche, the ageing population and the demand for affordable housing will ensure a continued strong sales performance.

The Company's executives and employees are united in their efforts to achieve these goals, and we look forward to another year of strong performance while maintaining focus on Lifestyle Communities' winning formula of forging new and attractive communities that people love to live in.

Yours sincerely

A handwritten signature in black ink that reads "James Kelly".

James Kelly
Managing Director
18 August 2011

Directors' Report

The directors present their report together with the financial report of the consolidated entity consisting of Lifestyle Communities Limited and the entities it controlled, for the financial year ended 30 June 2011 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

The principal activities of the business have not changed during the financial year ended 30 June 2011 and the Company remains focused on creating and managing master planned residential villages for active, independent people.

Results

The consolidated profit after income tax attributable to members of Lifestyle Communities Limited was \$6,824,458 (2010: \$5,882,778).

Directors

The names of the Company's directors in office during the year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

David Paranthoene, Chairman

David became a non-executive director of Lifestyle Communities Limited in 2007 and chairman in February 2008. He was formerly the managing director of Namberry Limited, and was a founding principal of the listed telecommunications company Pracom Limited. David spent more than 21 years in senior leadership roles including that of managing director, and he brings to our Company valuable operational experience within services enterprises. David has not held any directorships in any other listed entities during the past 5 years.

James Kelly, Managing Director (BBldg)

James was appointed to the position of Managing Director in 2007. With over 29 years' experience in property development and construction, James brings a wealth of knowledge to our organisation. Prior to establishing Lifestyle Communities Limited, James held several senior management roles in property and related sectors. James has not held any directorships in any other listed entities during the past 5 years.

Bruce Carter, Executive Director Finance (BComm)

A founding member of Lifestyle Communities Limited, Bruce has more than 24 years' experience in financial and business management. He was the co-founder of the listed telecommunications company Pracom Limited, serving as joint managing director from 1988 to 2002. Bruce brings to Lifestyle Communities Limited extensive knowledge and experience of building and operating complex listed companies. Dael has not held any directorships in any other listed entities during the past 5 years.

Dael Perlov, Executive Director Operations (BBus, BMktg)

A founding member of Lifestyle Communities Limited, Dael was appointed as Executive Director, Operations in 2007. With more than 22 years sales and marketing experience, Dael has a strong background in business innovation. His experience in service delivery to both consumer and corporate markets is invaluable in establishing the robust systems and procedures needed to operate Lifestyle Communities Limited. Dael has not held any directorships in any other listed entities during the past 5 years.

Tim Poole, Non-Executive Director (BComm, CA)

Tim was appointed to the board of Lifestyle Communities Limited, as a non-executive director in November 2007. He holds a Bachelor of Commerce from University of Melbourne and is a Chartered Accountant. Tim is a non-executive director of Newcrest Mining Limited, Victoria Racing Club Limited, and AustralianSuper Pty Ltd. He is also non-executive Chairman of Westbourne Credit Management Limited, Continuity Capital Partners Pty Limited, the LEK Consulting Advisory Board and the AustralianSuper investment committee. Tim is the former non-executive chairman of Asciano Limited and a former Managing Director of Hastings Fund Management Limited.

Ray South, Company Secretary

Ray is a Chartered Accountant, Fellow of the Institute of Chartered Accountants, Fellow of the Chartered Institute of Secretaries and Fellow of the Australian Society of Certified Practising Accountants. Ray has not held any directorships in any other listed entities during the past 5 years. Ray is a contractor of the Company in his role as Company Secretary and was appointed in September 2004.

Interests in the Shares and Options of the Company and Related Bodies Corporate

At the date of this report, the interests of the directors and executives in the shares and options of Lifestyle Communities Limited were:

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares
Bruce Carter	106,559,042	3,500,000
Dael Perlov	89,366,652	2,000,000
James Kelly	101,716,417	2,000,000
David Paranthoiene	6,370,646	2,750,000
Tim Poole	6,845,334	5,250,000
Executives		
Geoff Hollis	-	1,250,000

Dividends

The Directors have resolved to pay a final fully franked dividend of 0.5 cents per ordinary share in respect of the full year result.

It is the intention of the Company to implement a Dividend Reinvestment Plan prior to any further distributions.

Operating & Financial Review

Significant Operating Results

- Revenues: \$28.0m (2010: \$23.9m)
- Earnings before interest, tax, depreciation and amortisation \$11.5m (2010: \$9.0m)
- Net profit after tax of \$6.8m (2010: \$5.9m)
- Net assets at the end of the period: \$36.1m (2010: \$29.1m)

Full details are provided in the notes to financial statements section of this report.

Outlook – Future Activities

The results for this financial year represent another successful year. They demonstrate the continued strong sales demand for new homes in our communities and steady settlement rates.

Your directors continue to monitor the ongoing uncertainty in the global financial markets as well as a relatively flat property market. Regardless of this, our focus will be on delivering affordable housing within secure communities for active independent seniors. We anticipate that this market will continue to grow as we are living in an ageing world. Greater numbers of over 55's are seeking an affordable, independent and secure lifestyle, and the Company is meeting this demand by building affordable and beautiful communities.

We will continue to identify sites and build new communities that offer:

- Affordable good quality homes
- Thriving and supportive communities that enable people to engage easily with friends, neighbours and family
- On-site facilities and activities that engender a full and active lifestyle
- Architectural designs that are appropriate to the needs of our residents as they get older
- A safe and secure environment
- Access to public transport, doctors, and shops

The success of our first three communities is attributable to these features and we are confident that our satisfied residents will continue to be our ambassadors, recommending our communities to their friends and family. This, combined with a continuation of our well-targeted marketing strategies will enable us to take advantage of the growing demand for affordable homes.

We believe that the business will continue to grow steadily in the near term. During the next 12 months we will focus on launching our new sites at Shepparton, Chelsea Heights and Hastings; finalising sales at our Tarneit site and achieving consistent sales levels at Warragul and Cranbourne. At the same time, we will devote attention to identifying potential new sites.

The board continues to hold an optimistic view of the future demand for affordable homes and the lifestyle that is delivered within our communities.

Please refer to the Managing Directors' report for further information regarding our results and the outlook for the Company.

Significant Changes in the State of Affairs

On 6 May 2011 the Company executed an agreement with a major institutional investor for a \$50 million long-term debt facility. As at balance date \$38.5 million of this facility had been utilised.

There have not been any other significant changes to the Company.

Significant Events after the Balance Date

On 20 July 2011 a conditional contract was executed to purchase 50% of a 7.8ha community site in Drouin, Victoria. The community will be developed as a joint venture with the existing land owner.

There are no other matters or affairs that have arisen since balance date which significantly affect or may significantly affect the operations of the consolidated entity.

Likely Developments and Expected Results

Please refer to the Outlook section and to the Managing Director's report for information on our future plans.

Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

Indemnification and Insurance of Directors and Officers

During the financial year, the Company paid premiums in respect of a contract of insurance for Directors' and Officers' Liability.

The nature of the liabilities insured and premium payable under this contract of insurance has not been disclosed in accordance with confidentiality provisions within the policy.

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each Director was as follows:

Directors' Meetings

	No. of Meetings in year ending 30th June 2011	
	Held	Attended
D. Paranthoiene	12	11
B. Carter	12	12
D. Perlov	12	11
J. Kelly	12	12
T. Poole	12	12

Audit Committee Meetings

	No. of Meetings in year ending 30th June 2011	
	Held	Attended
D. Paranthoiene	3	3
T. Poole	3	3

Remuneration Committee Meetings

	No. of Meetings in year ending 30th June 2011	
	Held	Attended
D. Paranthoiene	2	2
T. Poole	2	2

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Lifestyle Communities Limited support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained later in this report.

Auditor Independence and Non-Audit Services

The directors received an Independence Declaration from the auditor of Lifestyle Communities Limited which is provided in this report.

Non-Audit Services

The Company's auditor, Pitcher Partners, provided tax compliance and general tax advice services at a cost of \$62,230 (2010: \$59,870). The directors are satisfied that the provision of these non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of these non-audit services means that auditor independence was not compromised.

Remuneration Report (Audited)

The remuneration report has been subject to audit. It outlines the remuneration arrangements in place for directors and executives of the Company.

Compensation of Key Management Personnel

The Company has established a remuneration committee and utilises the remuneration philosophy and policies listed below.

Remuneration Policy

The remuneration policy is designed to determine the remuneration arrangements in place for directors and executives of the Company.

Remuneration Philosophy

The board of Lifestyle Communities Limited is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Such officers are given the opportunity to receive their base emoluments in a variety of forms. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and senior management remuneration is separate and distinct.

(i) Non-Executive Director remuneration

Objective

The board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Company's constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a General Meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held in November 2007 when shareholders approved an aggregate remuneration of \$1,000,000 per year, however, non-executive directors fees have been less than this amount during 2010/11. Each director receives a fee for being a director of the Company. The remuneration of non-executive directors for the period ending 30 June 2011 is detailed in the remuneration table in this report.

(ii) Senior Management and Executive Director remuneration

Objective

The Company aims to reward executives with remuneration commensurate with their position and responsibilities within the Company to:

- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure

Employment contracts are entered into with senior executives that aim to achieve all the above objectives.

Compensation of Key Management Personnel

(i) Employment contracts

Over the last three years, all executive directors have been employed under an Executive Services Agreement. The latest agreements commenced on 1 July 2010. Under the terms of the agreements, executive directors may resign from their positions and terminate their contracts by giving three months written notice to the Company.

The Company may terminate any of these employment agreements by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of their remuneration plus entitlements).

The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs, the executive is only entitled to that portion of remuneration that is fixed plus entitlements, and only up to the date of termination.

(ii) Senior Executives and Directors Share Option Plan

During 2010/11 eligible senior management, executive directors and non-executive directors were issued options as part of the Senior Executive and Directors Share Option Plan ('the plan') detailed at the Company's most recent AGM. The main objectives of the plan were to encourage senior management, executive directors and non-executive directors to improve the long-term performance of the Company, enable them to share in the long-term growth of the company as well as to provide motivation and to ultimately retain their services.

(iii) Cash bonus

Executive directors received a cash bonus during the year ended 30 June 2011. This is a performance related cash bonus in relation to some key business deliverables achieved during the year. It is not anticipated that cash bonuses will be provided as part of remuneration to executive directors in respect of 2011/2012. B. Carter, J. Kelly and D. Perlov participated in a total cash bonus pool of \$210,000. Of the total available, \$183,600 will be remunerated based on the outcomes achieved. During 2010/11, \$151,200 has been remunerated with a further \$32,400 to form part of the executive directors' 2011/12 remuneration.

(iv) Compensation of Directors and Key Management Personnel (Consolidated) for the year-ended 30 June 2011

30 June 2011	Short Term				Post Employment		Long Term	Share Based Payment	Total Performance Related %		Total
	Salary & Fees \$	Cash Bonus \$	Non Monetary \$	Other \$	Super \$	Retirement Benefits \$	Incentive Plans \$	Options \$	Cash Bonus %	Shares %	\$
Directors											
D Paranthoiene	66,108	-	-	-	1,392	-	-	16,424	-	19.6	83,924
T Poole	45,000	-	-	-	4,050	-	-	16,424	-	25.1	65,474
B Carter	183,485	50,400	-	-	16,514	-	-	26,279	18.2	9.5	276,678
J Kelly	229,355	50,400	-	-	20,642	-	-	26,279	15.4	8.0	326,676
D Perlov	229,355	50,400	-	-	20,642	-	-	26,279	15.4	8.0	326,676
	753,303	151,200	-	-	63,240	-	-	111,685			1,079,428
Key Management Personnel											
Geoff Hollis*	124,617	-	-	-	11,216	-	-	16,424	-	10.8	152,257
Total	877,920	151,200	-	-	74,456	-	-	128,109			1,231,685

*Geoff Hollis commenced employment with the Company on 15th February 2010 but was only considered Key Management Personnel in respect of the 2010/11 year

(v) Compensation of Directors and Key Management Personnel (Consolidated) for the year-ended 30 June 2010

30 June 2010	Short Term				Post Employment		Long Term	Share Based Payment	Total Performance Related %	Total
	Salary & Fees \$	Cash Bonus \$	Non Monetary \$	Other \$	Super \$	Retirement Benefits \$	Incentive Plans \$	Options \$	%	\$
Directors										
D Paranthoiene	60,000	-	-	-	-	-	-	-	-	60,000
T Poole	50,000	-	-	-	4,500	-	-	48,623	47.2	103,123
B Carter	154,128	-	-	-	13,872	-	-	-	-	168,000
J Kelly	220,183	-	-	-	19,817	-	-	-	-	240,000
D Perlov	220,183	-	-	-	19,817	-	-	-	-	240,000
Total	704,494	-	-	-	58,006	-	-	48,623		811,123

The directors consider that there are no other key management personnel within the group.

Shares Under Option

As at the date of this report, there were 23,000,000 unissued ordinary shares under option.

During the year the following options were granted to key management personnel:

	Granted number	Grant date	Value per option at grant date
Directors			
Bruce Carter	2,000,000	24-Nov-10	87,000
Dael Perlov	2,000,000	24-Nov-10	87,000
James Kelly	2,000,000	24-Nov-10	87,000
David Paranthoiene	1,250,000	24-Nov-10	54,375
Tim Poole	1,250,000	24-Nov-10	54,375
Executives			
Geoff Hollis	1,250,000	24-Nov-10	54,375
	<u>9,750,000</u>		<u>424,125</u>

No option holder has any right under the options to participate in any other share issue of the Company.

For details on the valuation of the options, including models and assumptions used, please refer to note 24.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

There were no forfeitures during the period.

Signed in accordance with a resolution of the Directors.

On behalf of the Board



David Paranthoiene
Chairman
18 August 2011



James Kelly
Managing Director
18 August 2011

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Lifestyle Communities Limited

In relation to the independent audit for the year ended 30 June 2011, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*.
- (ii) No contraventions of any applicable code of professional conduct.



S D WHITCHURCH

Partner

18 August 2011



PITCHER PARTNERS

Melbourne

Corporate Governance Statement

The board of directors of Lifestyle Communities Limited is responsible for the corporate governance of the Company. The board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected, and to whom they are accountable.

The Company's corporate governance principles and policies are structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

The board continued to operate under the following policies during the year (these can be viewed on our website).

- Board Charter
- Board Code of Conduct
- Audit Committee Charter
- Remuneration & Nomination Committee Charter
- Dealing in Securities; Directors & Officers Policy
- Dealing in Securities; Staff Policy
- Disclosure Policy

1. Lay Solid Foundations for Management and Oversight

The board's responsibilities include development of strategy, oversight of management, risk management and compliance systems and monitoring performance. The board has established certain policies and protocols in relation to the Company's operations, some of which are summarised below.

The board's activities are governed by the Board Code of Conduct. All board members are entitled to obtain independent professional advice after advising the other directors of the intention to do so. The responsibilities of the board are set out in the Board Code of Conduct which can be viewed on our website.

Mr D Paranthoiene and Mr T Poole are non-executive directors. Messrs Perlov, Kelly & Carter are all significant shareholders, they are executive directors and involved in the day-to-day operations of the Company.

It is the responsibility of management to administer the Company in accordance with the directions and policies of the board and within the powers delegated by the board. The Company has established the functions delegated to senior executives as part of their employment contracts and as such, the Company considers them confidential.

Appointment and induction of senior executives is carried out in a manner appropriate to the size of the Company. Performance is monitored and appraised on a continuous basis. The evaluation process is informal, as this is considered appropriate due to the size of the Company. The performance evaluation of the senior executives is in accordance with these principles.

2. Structure the Board to Add Value

The board comprises a non-executive chairman and three executive directors and a non-executive director whose qualifications and experience are set out in the Directors' Report.

Corporate Governance Council Recommendation 2.1 requires a majority of the board to be independent directors. Both non-executive directors, Mr T Poole and Mr D Paranthoiene are considered to be independent as defined in the ASX Guidelines. Mr J Kelly is managing director of the Company.

Whilst not all recommendations are complied with because of the Company's size and cost considerations, the board has an appropriate level of industry experience and business skills.

The Company has no formal performance evaluation procedure for the board. The informal, ongoing self-evaluation by the board is appropriate due to its size.

The functions of a nomination committee are carried out by the remuneration and nomination committee, the charter for which is available on our website.

Mr D Paranthoiene and Mr T Poole form this committee and both have attended the two meetings. The Company has no formal procedure or policy for the selection and appointment of new directors as this is considered appropriate to the requirements of a small public company. Re-election of directors is carried out in accordance with the Listing Rules and the Company's Constitution.

Whenever necessary, individual members of the board may seek independent professional advice at the expense of the Company in relation to fulfilling their duties as directors.

Directors acknowledge the need to act in good faith in the interests of all shareholders.

3. Promote Ethical and Responsible Decision-making

Directors, management and staff are expected to act ethically and responsibly at all times. The Company's Code of Conduct may be viewed on our website. All board members are qualified professionals within their respective industries and accordingly conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as directors.

Under the Company's Securities Trading Policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price sensitive information in relation to those securities.

Directors and officers of Lifestyle Communities Limited should not deal in securities of Lifestyle Communities Limited or communicate information concerning Lifestyle Communities Limited to a person who may deal in securities unless:

- They have satisfied themselves that they are not in possession of any price sensitive information that is not generally available to the public
- They have advised the chairman of their intention to do so
- The chairman has made appropriate enquiries of other directors and officers
- The chairman has indicated that there is no impediment to them doing so

The chairman will generally allow directors and officers to deal in securities of Lifestyle Communities Limited as a matter of course (unless there is in existence price sensitive information that has not been disclosed because of an ASX Listing Rule exception) in the following periods:

- Within the period of one month after the release of annual and half yearly results
- Within the period of one month after the issue of a prospectus

They should also wait at least two business days after the relevant release so that the market has had time to absorb the information.

The Company's Trading Policy is in accordance with the ASX Corporate Governance Principles.

The board recognises the legitimate interests of shareholders, employees and other stakeholders. Lifestyle Communities Limited will work closely with relevant community groups and people to identify significant cultural and heritage sites and any impact the Company's activities may have on them.

Lifestyle Communities Limited is committed to protecting the environment and safeguarding public and employee health in all aspects of its operations. Environmental protection and safe conduct are the responsibility of Lifestyle Communities Limited, its employees, its alliance partners and suppliers of goods and services.

Specifically, Lifestyle Communities Limited will:

- comply with the intent and provision of all applicable laws, regulations and standards
- minimise environmental impact
- ensure that employees, partners, suppliers and the public are made fully aware of Lifestyle Communities Limited's responsibility for the effect of its operations on the environment

The Company is committed to gender diversity across our workforce. Given the Company's minimal employee numbers there are no guidelines in place regarding the monitoring of gender diversity. The Company will endeavour to select the appropriate candidates for any positions, regardless of gender. As at 30 June 2011 Lifestyle Communities Limited had 56% female employees. There are currently no females in senior management roles.

4. Safeguard Integrity in Financial Reporting

In accordance with modern governance practice, the Company has formed an audit committee.

Due to the size of the board, there are currently only two members of the audit committee: Mr D Paranthoienne and Mr T Poole whose details are set out in the Directors' Report. The committee has met on three occasions during the year with the following attendances:

Mr D Paranthoienne	3 out of 3
Mr T Poole	3 out of 3

The Audit Committee Charter which is available on our website, directs the role of the committee, and the committee oversees the risk management and audit processes of the Company. The committee also regularly reviews the work of the external auditors to determine whether a change in auditors would be in the best interests of the Company. In doing so, it assesses the firm's policy of partner rotation, its independence, and ensures that no extra assignments are allotted to the auditors that would infringe on their independence. Auditors are officially invited by the audit committee to attend the annual general meeting.

5. Make Timely and Balanced Disclosure

The board aims to ensure that the shareholders are fully informed of all material developments on a timely basis and that shareholders are in a position to assess the board's performance and Company results. Information is communicated in a clear and balanced way to shareholders through:

- Continuous disclosure to the ASX: Lifestyle Communities is committed to maintaining full and proper disclosure to its shareholders and the market in general. This is addressed in the Disclosure Policy adopted by the board which is available in the Company's Governance Manual on the website, and through the appointment of a disclosure officer who has accountability for ensuring that timely and appropriate disclosure is continuously addressed.
- Meetings: The Company holds a general meeting each year and copies of the Managing Director's address are placed on the ASX and Lifestyle Communities websites. The external auditor attends the meeting each year and is available to answer questions from the shareholders regarding the conduct of the audit and the audit report.
- Reporting: In addition to any ongoing disclosure updates, Lifestyle Communities formally reports to the shareholders and the market twice each year. These reports contain both financial results and an update on key strategic and operational issues.
- www.lifestylecommunities.com.au: The Lifestyle Communities website provides comprehensive information regarding the Company's operations. It also includes an investor section with current reports. Historical reports are available upon request.

6. Respect the Rights of Shareholders

The board aims to ensure in accordance with the Recommendation 6.1 that all shareholders are informed of major developments affecting the affairs of the Company. Information is communicated to the shareholders through the annual and half-year reports, disclosures made to the ASX, notices of meetings and occasional letters to shareholders where appropriate.

The Company maintains a website on which is placed Company announcements, the Annual Report and Company policies. The Corporate Governance Principles and Policies on our website contain the Company's communications policy.

The auditor is invited to the annual general meeting for the purpose of answering shareholders' questions in relation to the conduct of the audit and the audit report.

7. Recognise and Manage Risk

The board has responsibility for managing risk and internal control and acknowledges that risk management is a core principle of sound Corporate Governance. The financial viability, reputation and future of the Company are materially dependent on the manner in which risk is managed.

The board's strategy covers the areas of financial risk, operational risk, insurance and internal control. The Company has not appointed a risk management committee due to the importance the board places on risk mitigation. In addition, the small size of the board makes it appropriate for the full board to manage this area.

Financial Risk

The board receives regular financial reports that measure performance and trends against budget. The reports are discussed at board meetings and the Chief Financial Officer answers questions posed by the other directors. Any variations from budget are highlighted, explained and evaluated. This scrutiny is appropriate to a company of the size of Lifestyle Communities Limited. In addition to monthly financial reporting, the Company has in place policies to manage credit and other business risks. Non-executive directors meet at appropriate times with the external auditor in order to fulfil the Audit Committee Charter. This Charter may be viewed on our website.

Operational Reporting

Projects are approved only after extensive review and detailed submissions to the board through the chairman. Outside consultants are engaged as required to enhance the chances of success. Environmental considerations are factors in the consideration of every new project and are fully evaluated and reported before approval by the board.

Insurance

The board recognises the value of insurance as a risk mitigation strategy and works with a leading insurance broker to ensure that appropriate insurance cover is in place at all times. Contracts with contractors are drawn up or reviewed by solicitors prior to the Company entering into any commitment.

Internal Control and Audit

In a small company, an extensive internal control system is not possible, however, there is a natural control as a consequence of being small. The board works very closely with the staff and, because the transactional volume is small, the directors have a detailed knowledge of the working of the Company. It is considered that an internal audit function is therefore not appropriate at this time. The directors believe the system of internal control is appropriate to the size of the Company and to its level of potential risk.

Declaration by the Managing Director and Chief Financial Officer

In accordance with the Australian Securities Exchange (ASX) Corporate Governance Recommendation 7.1, both the Managing Director and Chief Financial Officer sign the following declaration in the presence of the board prior to the board accepting the financial results each year:

In accordance with the Corporations Act 2001 section 295A, I declare that to the best of my knowledge and belief:

- the financial records of the disclosing entity for the financial year have been properly maintained in accordance with section 286
- the financial statements, and the notes for the financial year comply with the accounting standards
- the financial statements and notes for the financial year give a true and fair view
- any other matters that are prescribed by the regulations for the purposes of this declaration in relation to the financial statements and the notes for the financial year are also satisfied

Also in accordance with the ASX Corporate Governance Council Best Practice Recommendations 4.1 and 7.2, to the best of my knowledge and belief, and in my opinion:

- (i) the financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- (ii) the statement in (i) above concerning the integrity of financial statements is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the board; and the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The board has procedures in place to recognise and manage risk. The three executive directors report to the board on matters pertaining to risk.

8. Remunerate Fairly and Responsibly

The Company has established a remuneration and nomination committee.

The board is responsible for determining and reviewing the remuneration of the directors, executive officers and other employees of the Company. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining employees with the skills to manage the Company's operations. The board reviews the remuneration of officers and employees of the Company. In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the board may seek the advice of external advisers in connection with the structure of remuneration packages.

The board also reviews the levels and form of remuneration for non-executive directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to non-executive directors shall not exceed the sum fixed by members of the Company in general meeting. Details of the structure of directors' and senior executives' remuneration are set out in the Directors' Report. Details of the remuneration committee are set out in point 2 of these notes.

The board reviews the composition of the board on a regular basis to ensure that the board has the appropriate mix of expertise and experience.

It is the Company's objective to provide maximum shareholder benefit from the retention of high quality board members and executives. Directors and executives are remunerated with reference to market rates for comparable positions. Details of the remuneration of specified directors and executives are contained in the Directors' Report.

Termination payments are not agreed in advance. In the event of a termination, the Company complies with all appropriate legal requirements and Company policy precludes any payment in the event of removal for misconduct.

No formal evaluation of the performance of the board is conducted. The board, being a small active board is in a position to assess its performance on a constant basis. Similarly, key executives are well known to the board and constant contact with them forms a continual performance review.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Sale of units		22,697,293	20,754,694
Rental revenue		3,015,852	1,945,147
Deferred management fee		1,405,445	1,194,786
Development fees		136,072	-
Sub-division revenue		622,727	-
Interest revenue		114,477	44,984
Revenue		27,991,866	23,939,611
Cost of sales		(17,556,103)	(16,771,489)
Gross profit		10,435,763	7,168,122
Other income	4	7,940,139	8,058,821
Impairment expenses	5	(227,130)	(1,152,327)
Sub-division expenses		(378,787)	-
Development expenses		(1,833,472)	(1,720,070)
Village management expenses		(1,423,154)	(1,014,329)
Corporate overheads		(3,049,288)	(2,532,844)
Finance costs	5	(1,042,363)	(329,888)
Profit before income tax		10,421,708	8,477,485
Income tax expense	6	(3,597,250)	(2,594,707)
Net profit from continuing operations		6,824,458	5,882,778
Other comprehensive income:			
Share based payments	24	167,527	51,173
Total comprehensive income for the year		6,991,985	5,933,951
Profit is attributable to:			
Members of the parent		6,991,985	5,933,951
Total comprehensive income is attributable to:			
Members of the parent		6,991,985	5,933,951
Earnings per share for profit attributable to the ordinary equity holders of the parent			
Earnings per share		cents	cents
Basic earnings per share	22	1.477	1.273
Dilutive earnings per share	22	1.470	1.273

Consolidated Statement of Financial Position
As at 30 June 2011

	Note	2011 \$	2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	9,877,428	1,485,187
Trade and other receivables	9	2,530,512	388,055
Inventories	10	18,294,800	17,377,954
Land held for sale	13	532,006	614,202
Other current assets	11	135,482	104,110
Total current assets		31,370,228	19,969,508
Non-current assets			
Trade and other receivables	9	3,251,542	2,181,917
Property, plant and equipment	12	701,052	727,810
Other financial assets	14	2,516,834	-
Investment properties	15	54,981,748	39,801,828
Total non-current assets		61,451,176	42,711,555
TOTAL ASSETS		92,821,404	62,681,063
LIABILITIES			
Current liabilities			
Trade and other payables	16	9,971,160	7,073,392
Interest-bearing loans and borrowings	18	2,363,723	22,861,402
Provisions	17	244,749	241,946
Total current liabilities		12,579,632	30,176,740
Non-current liabilities			
Interest-bearing loans and borrowings	18	37,169,781	54,081
Provisions	17	144,983	112,467
Deferred tax liabilities	6	6,806,299	3,209,051
Total non-current liabilities		44,121,063	3,375,599
TOTAL LIABILITIES		56,700,695	33,552,339
NET ASSETS		36,120,709	29,128,724
EQUITY			
Contributed equity	19	24,214,692	24,214,692
Reserves	20	522,051	354,524
Retained earnings	20	11,383,966	4,559,508
TOTAL EQUITY		36,120,709	29,128,724

Consolidated Statement of Changes in Equity
For the year ended 30 June 2011

	Contributed equity	Reserves	Retained earnings	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2009	24,214,692	303,351	(1,323,270)	23,194,773
Profit for the year	-	-	5,882,778	5,882,778
Employee share options	-	51,173	-	51,173
Total comprehensive income for the year	-	51,173	5,882,778	5,933,951
Balance as at 30 June 2010	24,214,692	354,524	4,559,508	29,128,724
Profit for the year	-	-	6,824,458	6,824,458
Employee share options	-	167,527	-	167,527
Total comprehensive income for the year	-	167,527	6,824,458	6,991,985
Balance as at 30 June 2011	24,214,692	522,051	11,383,966	36,120,709

Consolidated Cash Flow Statement
For the year ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
Receipts from customers		29,301,076	25,255,563
Payments to suppliers and employees		(27,479,572)	(22,813,223)
Interest received		97,643	44,984
Interest paid		(756,266)	(209,522)
Net cash flows from operating activities	21	<u>1,162,881</u>	<u>2,277,802</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(105,911)	(26,538)
Payment for long-term deposit		(2,500,000)	-
Purchase of investment properties and capitalised costs		(4,789,411)	(1,106,515)
Net cash flows used in investing activities		<u>(7,395,322)</u>	<u>(1,133,053)</u>
Cash flows from financing activities			
Proceeds from external borrowings		60,532,558	19,058,791
Repayment of external borrowings		(43,222,918)	(20,754,694)
Payments (net) to related joint venture entities		(1,317,446)	-
Payments for capitalised costs of finance		(1,341,096)	-
Repayments of hire purchase		(26,416)	(39,621)
Net cash flows from / (used in) financing activities		<u>14,624,682</u>	<u>(1,735,524)</u>
Net increase / (decrease) in cash held		8,392,241	(590,775)
Cash at the beginning of the financial year		<u>1,485,187</u>	<u>2,075,962</u>
Cash at the end of the financial year	8	<u><u>9,877,428</u></u>	<u><u>1,485,187</u></u>

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers Lifestyle Communities Limited and controlled entities as a consolidated entity. Lifestyle Communities Limited is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue in accordance with a resolution of the directors on 18 August 2011.

Compliance with IFRS

The consolidated financial statements of Lifestyle Communities Limited also comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical Cost Convention

The financial report has been prepared under the historical cost convention, as modified by revaluation to fair value for certain classes of assets as described in the accounting policies.

Critical accounting estimates

The preparation of the financial report required the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

(b) New accounting standards and interpretations

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which the parent has the power to control the financial and operating policies so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is established. They are de-consolidated from the date that control ceases.

(d) Cash and cash equivalents

Cash and cash equivalents include cash at bank and on hand and short-term deposits with an original maturity of three months or less held at call with financial institutions.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories include housing units built but not sold as well as capitalised wages and holding costs. With effect from 1st January 2009 sales contract terms were changed and inventories include civil and infrastructure costs.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of units

Revenue from the sale of units is recognised when there is persuasive evidence, usually in the form of an executed sales agreement at the time of settlement, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed. The consolidated entity considers all risks and rewards as transferred to the customer upon receipt of final settlement.

(ii) Interest revenue

Interest revenue is recognised when it becomes receivable on a proportional basis taking into account the interest rates applicable to the financial assets.

(iii) Rental revenue

Rental revenue from investment properties is derived from unit holders and is accounted for on a straight-line basis over the lease term.

(iv) Deferred management fee

The deferred management fee is payable upon a resident selling their property.

For all contracts entered into prior to 1 January 2009, the fee payable is 15% on the resale value of the unit and after a period of occupation of a year and one day.

For all contracts entered into post 1 January 2009, the fee payable is up to 20% (the fee payable accumulates by 4% per year over 5 years up to 20%) upon the resale value of the unit.

The deferred management fee is calculated based on assumptions such as probability of expected stay (using Australian Bureau of Statistics Life Tables). In determining this, the calculation takes account of the age and gender of the occupants. In addition the calculation uses the current house prices and discount rate.

(v) Sub-division revenue

Sub-division revenue is recognised upon execution of an unconditional contract of sale of land.

All revenue is stated net of the amount of goods and services tax (GST).

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

Property under development is not depreciated. The depreciable amounts of all other fixed assets are depreciated over their estimated useful lives commencing from the time the asset is held ready for use.

Depreciation is calculated on either a straight-line or diminishing value basis over the estimated useful life of the assets as follows:

Buildings	40 years
Plant and equipment	2 to 13 years
Computer equipment	2 to 9 years
Motor vehicles	4-7 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investment properties

Investment properties are measured initially at cost, including transaction costs. Investment properties include undeveloped land and land subject to residential site lease agreements. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are re-measured at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are recognised in profit or loss in the year in which they arise.

Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of retirement or disposal.

(i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases

Leases of fixed assets, where substantially all the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Operating leases

Lease payments for operating leases are recognised as expenses on a straight-line basis over the term of the lease.

(j) Impairment

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(k) Interests in joint ventures

The consolidated entity reports its interests in jointly controlled entities using proportionate consolidation. The consolidated entity's share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the results on a line-by-line basis.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(m) Borrowing costs

Borrowing costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale, and acceptance fees which are amortised over the life of the facility.

(n) Employee benefits

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Defined contribution superannuation plan

The consolidated entity makes contributions to defined contribution superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the employee services are received.

Share based payments

The consolidated entity operates an equity settled employee option scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The number of options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial instruments

Classification

The consolidated entity classifies its financial instruments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Non-derivative financial instruments

Non-derivative financial instruments consist of trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transactions costs (if any). After initial recognition, non-derivative financial instruments are measured as described below.

Loans and receivables

Loans and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(q) Comparatives

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

NOTE 2: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances.

The judgements, estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in future periods, are discussed below.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgments

Income tax

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(ii) Significant accounting estimates and assumptions

Valuation of investment properties

The Group values investment properties at fair value. Fair value is determined by a combination of the discounted annuity streams associated with the completed home units and the fair value of the land. Inputs for the discounted annuity streams associated with the completed home units are derived from independent valuations. The fair value of the land is based on Directors' valuations.

Calculation of deferred management fee (DMF)

The deferred management fee is payable upon a resident selling their property.

For all contracts entered into prior to 1 January 2009, the fee payable is 15% on the resale value of the unit and after a period of occupation of a year and one day.

For all contracts entered into post 1 January 2009, the fee payable is up to 20% (the fee accumulates by 4% per year over 5 years up to 20%) on the resale value of the unit.

The deferred management fee is calculated based on assumptions such as probability of expected stay (using Australian Bureau of Statistics Life Tables). In determining this, the calculation takes account of the age and gender of the occupants. In addition the calculation uses the current house prices and is discounted using an imputed rate of interest that is aligned to the Group's weighted cost of bank finance.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model, with the assumptions detailed in note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Notes to the Financial Statements
For the year ended 30 June 2011

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The Group's principal financial instruments comprise loan notes, bank loans and overdrafts, finance leases, cash and short-term deposits, trade receivables, and trade payables.

The Group manages its exposure to key financial risk, including interest rate risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, market risk, and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include market forecasts for interest rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts. These procedures are sufficient to identify when mitigating action might be required.

The Board reviews and agrees policies for managing each of these risks as summarised as follows:

Risk exposure and responses

Deferred management fees are exposed to interest rate risk and market risk, these risks have been assessed individually below assuming no other changes to variables.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to the Group's long-term debt obligations and deferred management fee receivable. The level of debt is disclosed in note 18.

During the year the Group executed an agreement for a \$50 long-term debt facility (refer note 18 for details). This facility is fixed interest therefore reducing the Group's exposure to increases in variable interest rates. The facility has also reduced re-finance risk that generally relates to bank debt.

Long-term debt obligations

As at balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk (being the bank bill business rate):

	<u>2011</u>	<u>2010</u>
	\$	\$
Financial assets		
Cash and cash equivalents	9,877,428	1,485,187
Financial liabilities		
Secured loans	2,333,955	22,830,159
Net exposure	<u>7,543,473</u>	<u>(21,344,972)</u>

Financial liabilities classified as non-current are fixed interest liabilities and therefore not exposed to interest rate fluctuations.

As at balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$	\$
Consolidated				
+1% (100 basis points)	52,804	(149,422)	-	-
-1% (100 basis points)	(52,804)	149,422	-	-

When determining the parameters for a reasonable possible change in interest rate risk, management has taken into consideration the current economic environment at balance sheet date and historical movements.

A proportion of the impact on post tax profit is deferred due to the capitalisation of interest to inventory which is recognised when units are sold.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Risk exposure and responses (continued)

Interest rate risk (continued)

Deferred management fee receivable

At balance date, the Group was exposed to Australian variable interest rate risk in relation to the discount rate applied to the deferred management fee receivable.

	2011	2010
	\$	\$
Deferred management fee		
Current	207,979	167,135
Non current	3,251,542	2,181,917
	3,459,521	2,349,052

As at balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2011	2010	2011	2010
	\$	\$	\$	\$
+1% (100 basis points)	(24,217)	(16,443)	-	-
-1% (100 basis points)	24,217	16,443	-	-

Market risk

At balance date, the Group was exposed to market risk in relation to the deferred management fee receivable (fluctuation in property prices) and investment properties (fluctuation in capitalisation rates).

Deferred management fee receivable

As at balance date if property prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2011	2010	2011	2010
	\$	\$	\$	\$
+10%	242,166	164,434	-	-
-10%	(242,166)	(164,434)	-	-

When determining the parameters for a reasonable possible change in market risk (property price), management has taken into consideration the current economic environment at balance sheet date and historical movements.

Investment properties

As at balance date if rental capitalisation rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2011	2010	2011	2010
	\$	\$	\$	\$
+0.25%	(502,930)	(340,394)	(502,930)	(340,394)
-0.25%	532,327	360,219	532,327	360,219

When determining the parameters for a reasonable possible change in market risk (capitalisation rates), management has taken into consideration the current economic environment at balance sheet date and historical movements.

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

Risk exposure and responses (continued)

Credit risk

There are no significant concentrations of credit risk within the Group.

Credit risk arises from the financial assets for the Group, which comprise cash and cash equivalents, and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that no customers trade on credit terms.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and non-bank loans and finance leases.

The Group's debt as at balance date is outlined at note 18.

The table below represents the undiscounted contractual settlement terms for financial instruments and management expectation for settlement of undiscounted maturities.

The remaining contractual maturities of the Group's financial liabilities are:

	2011	2010
	\$	\$
On demand ⁽¹⁾	2,333,955	22,830,159
6 months or less	11,532	14,447
6-12 months	11,532	11,893
1-3 years	31,251	49,099
9-10 years ⁽²⁾	38,461,138	-
	40,849,408	22,905,598

⁽¹⁾ This amount represents the company's share of the facility held by Cameron Street Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 7 October 2010 and amended on 21 April 2011 and is repayable on demand. The facility is for the continued development of Lifestyle Cranbourne and expires on 11 November 2013.

The Group has met all required covenants since the arrangement commenced and therefore expects the arrangement to continue until 11 November 2013.

The facility that existed at 30 June 2010 was fully repaid and terminated in May 2011.

⁽²⁾ On 6 May 2011 the company entered into an agreement with Morstem Pty Ltd for a \$50 million loan note facility. As at 30 June 2011 \$38.5 million of this facility was drawn with an undrawn facility of \$11.5 million. The facility expires on 19 May 2021, both parties have the option for early redemption at 5 years. The long-term nature of the facility reduces the Group's re-finance risk.

In addition to the contractual obligations pertaining to the debt above, the Group has a contracted commitment to settle land of \$5,962,500 (refer note 16).

Fair value

The fair value of financial assets and liabilities approximates their carrying amounts as disclosed in the consolidated statement of financial position and Notes to the consolidated financial statements.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 4: OTHER INCOME		
Net gain from fair value adjustments - investment properties (a) (note	7,940,139	8,058,821
(a) Fair value adjustment results from restating Brookfield, Seasons, Warragul and Cranbourne Villages to their fair value at balance date. This income represents incremental adjustments to the fair value of investment properties upon settlement of units and reflects the discounted value of future rental and deferred management fee revenues net of expenses as well as the fair value of undeveloped land.		
NOTE 5: PROFIT FROM CONTINUING OPERATIONS		
Profit from continuing operations before income tax has been determined after the following specific expenses:		
(a) Finance costs		
Loan notes, bank loans and overdrafts	1,015,359	209,522
Amortisation of loan facility fees	27,004	120,366
	<u>1,042,363</u>	<u>329,888</u>
(i) Capitalised interest		
Profit from operations excludes interest capitalised as part of inventory and investment properties:	1,389,406	1,184,274
Interest has been capitalised at the prevailing variable bank bill rate.		
(b) Depreciation and amortisation		
Depreciation (note 12)	132,669	208,837
(c) Employee benefits expense		
Wages and salaries	2,102,791	1,794,595
Commissions	244,832	208,890
Defined contribution superannuation expense	199,850	164,331
Share option expense	167,527	51,173
Other employee benefits	35,319	48,279
	<u>2,750,319</u>	<u>2,267,268</u>
(d) Impairment losses		
Investment properties (note 15)	227,130	1,152,327

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 6: INCOME TAX		
(a) Components of tax expense / (revenue)		
Current tax	-	-
Deferred income tax	3,597,250	2,594,707
	<u>3,597,250</u>	<u>2,594,707</u>
(b) Deferred income tax expense / (revenue) included in income tax expense comprises		
Decrease / (increase) in deferred tax assets	360,377	443,561
(Decrease) / increase in deferred tax liabilities	3,236,873	2,151,146
	<u>3,597,250</u>	<u>2,594,707</u>
(c) Reconciliation between tax expense recognised in the income statement and tax expense calculated per the statutory income tax expense		
Accounting profit before tax	10,421,708	8,477,485
At the statutory income tax rate of 30% (2010:30%)	3,126,512	2,543,246
Add / (less):		
Share based payments	50,258	15,352
Adjustments to prior year losses	381,039	-
Joint Venture accounting and tax losses	35,840	-
Other	3,601	36,109
Income tax expense	<u>3,597,250</u>	<u>2,594,707</u>
(d) Current tax		
Current tax relates to the following:		
Opening balance	-	-
Income tax	-	-
Tax payments	-	-
Current tax liabilities / (assets)	<u>-</u>	<u>-</u>

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 6: INCOME TAX (continued)		
(e) Deferred tax		
Deferred tax relates to the following:		
<i>Deferred tax assets</i>		
The balance comprises:		
Borrowing costs	3,725	7,449
Other	55,095	118,397
Capital losses	519,439	519,439
Tax losses	1,132,914	1,466,308
Provision for employee entitlements	116,920	106,324
Payables	549,895	520,449
Deferred tax assets	<u>2,377,988</u>	<u>2,738,366</u>
<i>Deferred tax liabilities</i>		
The balance comprises:		
Deferred management fee	1,037,856	704,716
Other receivables	28,967	-
Finance arranger costs	4,519	-
Interest	709,838	-
Temporary differences on investment property	7,317,845	4,960,637
Temporary differences on inventory	85,262	282,064
Deferred tax liabilities	<u>9,184,287</u>	<u>5,947,417</u>
Net deferred tax liability	<u>(6,806,299)</u>	<u>(3,209,051)</u>
NOTE 7: DIVIDENDS		
(a) Dividends		
Declared and paid during the year	<u>-</u>	<u>-</u>
(b) Dividends declared after balance date and not recognised		
Since balance date the directors have recommended a dividend at \$0.005 (half cent) per share fully franked at 30%	2,310,365	-
Balance of franking account on a tax paid basis at balance date adjusted for franking credits arising from tax payments and franking debits arising from the payment of proposed dividends:	<u>4,055,202</u>	<u>5,045,358</u>

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 8: CASH & CASH EQUIVALENTS		
Cash at bank and on hand	2,865,447	429,315
Short-term deposits	7,011,981	1,055,872
	<u>9,877,428</u>	<u>1,485,187</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

Short-term deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the group. The deposits earn interest at the respective short term deposit rates.

NOTE 9: TRADE AND OTHER RECEIVABLES

CURRENT

Trade receivables	3,850	93,820
Other related parties	59,599	59,599
Joint ventures	2,022,454	-
Deferred management fee	207,979	167,135
Other receivables	236,630	67,501
	<u>2,530,512</u>	<u>388,055</u>

NON-CURRENT

Deferred management fee	<u>3,251,542</u>	<u>2,181,917</u>
-------------------------	------------------	------------------

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

No impairment loss has been recognised

As at balance date, the ageing analysis of trade receivables is as follows:

	Total	0-30 days	31-60 days	61-90 days	> 90 days
	\$	\$	\$	\$	\$
Year ended 30 June 2011	3,850	1,925	1,925	-	-
Year ended 30 June 2010	93,820	90,606	-	3,214	-

(b) Related party receivables

For terms and conditions of related party receivables, refer to note 23.

(c) Other receivables

Other receivables are non-interest bearing. Other receivables are generally on 30 to 180 day terms.

(d) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 10: INVENTORIES		
Completed units	9,823,568	8,185,038
Civils & infrastructure	8,471,232	9,192,916
	<u>18,294,800</u>	<u>17,377,954</u>

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2011 totalled \$17,556,103 for the Group (2010: \$16,771,489). The expense has been included in the cost of sales line item as a cost of sales.

NOTE 11: OTHER CURRENT ASSETS

Security deposits	19,071	19,071
Other assets	60,314	-
Prepayments	56,097	85,039
	<u>135,482</u>	<u>104,110</u>

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amounts at the beginning and end of the period

Year end 30 June 2011	Buildings	Plant and equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$
At 1 July 2010 net of accumulated depreciation	149,312	366,275	108,474	103,749	727,810
Additions	-	60,040	9,761	36,110	105,911
Depreciation charge for the year	(3,694)	(75,403)	(32,857)	(20,715)	(132,669)
At 30 June 2011 net of accumulated depreciation	<u>145,618</u>	<u>350,912</u>	<u>85,378</u>	<u>119,144</u>	<u>701,052</u>
At 30 June 2011					
Cost	161,121	684,565	241,315	199,849	1,286,850
Accumulated depreciation	(15,503)	(333,653)	(155,937)	(80,705)	(585,798)
Net carrying amount	<u>145,618</u>	<u>350,912</u>	<u>85,378</u>	<u>119,144</u>	<u>701,052</u>

Notes to the Financial Statements
For the year ended 30 June 2011

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period (continued)

Year end 30 June 2010	<i>Buildings</i>	<i>Plant and equipment</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	\$	\$	\$	\$	\$
At 1 July 2009 net of accumulated depreciation	153,169	480,933	171,301	115,777	921,180
Additions	-	4,261	9,865	12,412	26,538
Write-off	-	-	(11,071)	-	(11,071)
Depreciation charge for the year	(3,857)	(118,919)	(61,621)	(24,440)	(208,837)
At 30 June 2010 net of accumulated depreciation	149,312	366,275	108,474	103,749	727,810
At 30 June 2010					
Cost	161,121	624,838	231,554	163,739	1,181,252
Accumulated depreciation	(11,809)	(258,563)	(123,080)	(59,990)	(453,442)
Net carrying amount	149,312	366,275	108,474	103,749	727,810

(b) Property plant and equipment pledged as security for liabilities

Leased motor vehicles are pledged as security for the related finance lease liabilities.

	2011	2010
	\$	\$
NOTE 13: LAND HELD FOR SALE		
CURRENT		
Land held for sale at cost	532,006	614,202

Land held for sale relates to the planned sub-division of 3.1ha of land at the site in Warragul. The sub-division and subsequent sale of the land is expected to be completed within the next 12 months.

NOTE 14: OTHER FINANCIAL ASSETS

NON-CURRENT		
Term deposits	2,516,834	-

Term deposit is held as part security for loan facility (refer note 18).

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 15: INVESTMENT PROPERTIES		
Investment properties at fair value	54,981,748	39,801,828
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Opening balance as at 1 July	39,801,828	28,532,292
Additions	7,466,911	4,363,042
Impairment losses (i)	(227,130)	(1,152,327)
Net gain from fair value adjustments	7,940,139	8,058,821
Closing balance as at 30 June	54,981,748	39,801,828

Investment properties are carried at fair value, which has been determined by a combination of inputs from independent valuations and Directors' valuations. Fair value is determined by a combination of the discounted annuity streams associated with the completed home units and the fair value of the land. Inputs for the discounted annuity streams associated with the completed home units are derived from independent valuations. The fair value of the land is based on Directors' valuations. Inputs from independent valuations are provided by property valuers who are industry specialists in valuing these types of investment properties.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arms length transaction at the date of the valuation, in accordance with Australian Accounting Standards. In determining fair value, the expected net cash flows applicable to each property have been discounted to their present value using a market determined, risk-adjusted, discount rate applicable to the respective asset.

All rental income disclosed on the face of the income statement was generated from investment properties. All property management expense relates to investment properties that generated rental income.

Investment properties are subject to a first charge, forming, in part, the security of the Group's loans as disclosed in note 18.

The investment properties are at various stages of development and are subject to further development until fully completed.

(i) As at 30 June 2011 and 30 June 2010 the combined value of the land, capitalised development costs and holding costs of the Shepparton property under development was impaired based on the independent valuation obtained in respect of the year ended 30 June 2010. The valuation represents a fair value of the vacant land prior to development commencing. The impairment has arisen as a result of capitalising holding costs prior to development commencing.

NOTE 16: TRADE AND OTHER PAYABLES

Trade payables (b)	501,913	923,500
Deferred revenue	-	69,831
Accrued future project expense	1,942,673	1,663,648
Other payables and accruals (c)	1,564,074	1,131,413
Contracted land (e)	5,962,500	3,285,000
	<u>9,971,160</u>	<u>7,073,392</u>

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Trade payables

Trade payables are non-interest bearing and are normally settled on 7 to 60-day terms.

(c) Other payables

Other payables are non-traded payables, are non-interest bearing and have an average term of 30 days.

(d) Interest rate and liquidity risk

Information regarding the interest rate risk and liquidity risk exposure is set out in note 3.

(e) Contracted land

Represents amount payable by Lifestyle Investments 2 Pty Ltd upon settlement of land contract. This is expected to settle on 3 December 2011.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 17: PROVISIONS		
CURRENT		
Provision for annual leave	244,749	241,946
NON-CURRENT		
Provision for long service leave	144,983	112,467
(a) Total employees at balance date	32	26

(b) Movements in provision

	Annual Leave	Long service leave	Total
	A\$	A\$	A\$
At 1 July 2010	241,946	112,467	354,413
Arising during the period	232,205	32,516	264,721
Utilised	(229,402)	-	(229,402)
At 30 June 2011	244,749	144,983	389,732
At 1 July 2009	235,020	89,908	324,928
Arising during the period	180,616	22,559	203,175
Utilised	(173,690)	-	(173,690)
At 30 June 2010	241,946	112,467	354,413

NOTE 18: INTEREST-BEARING LOANS AND BORROWINGS

CURRENT	Maturity		
Hire purchase (note 25)		19,640	21,358
Loans from related parties (note 23)	On demand	10,128	9,885
Secured loans	Nov 2013	2,333,955	22,830,159
		2,363,723	22,861,402
NON-CURRENT	Maturity		
Hire purchase (note 25)		34,675	54,081
Secured loans	May 2021	38,461,138	-
Capitalised costs of finance		(1,326,032)	-
		37,169,781	54,081

For terms and conditions attached to each type of borrowing, refer to section (b)

(a) Fair values

Unless disclosed below, the carrying amount of the Group's current and non-current borrowings approximate their fair value.

(b) Terms and conditions

(i) Current secured loans

The facility with Westpac Banking Corporation that existed at 30 June 2010 was fully repaid and terminated in May 2011. The Group has met all required covenants in relation to the facility throughout the year.

The current facility represents the company's share of the facility held by Cameron Street Development Joint Venture with Westpac Banking Corporation. This facility was entered into on 7 October 2010 and amended on 21 April 2011 and is repayable on demand. The facility is for the continued development of Lifestyle Cranbourne and expires on 11 November 2013.

The Group has exceeded or met all required covenants since the arrangement commenced and therefore expects the arrangement to continue until 11 November 2013.

(ii) Non-current secured loans

The \$38.5 million is part of a \$50 million loan note facility with Morstem Pty Ltd, a subscription agreements was entered into on 6 May 2011 and completed on 19 May 2011. The facility term is 10 years and expires on 19 May 2021, both parties have the option for early redemption at 5 years. The Group has met all requirements as per the subscription agreement.

(iii) Loans from related parties

For terms and conditions on loans from related parties refer to note 23.

NOTE 18: INTEREST-BEARING LOANS AND BORROWINGS (continued)

(c) Assets pledged as security

The facility with Westpac Banking Corporation is secured by the following:

Fixed and floating charge over all existing and future assets and undertakings of Cameron Street Developments Pty Ltd, Lifestyle Communities Investments Cranbourne Pty Ltd, Lifestyle Developments 2 Pty Ltd and Lifestyle Management 2 Pty Ltd.

Limited guarantee and indemnity provided by Lifestyle Developments 2 Pty Ltd, Lifestyle Management 2 Pty Ltd and Lifestyle Communities Ltd for \$6,900,000.

Mortgage by Lifestyle Communities Investments Cranbourne Pty Ltd over Cranbourne property.

The facility with Morstem Pty Ltd is secured by the following:

Fixed and floating charge over all existing and future assets and undertakings of Lifestyle Investments 1 Pty Ltd, Lifestyle Developments 1 Pty Ltd and Lifestyle Management 1 Pty Ltd.

Mortgage by Lifestyle Investments 1 Pty Ltd over Melton, Warragul and Tarneit properties.

Security deposit represented by term deposit (refer note 14).

(d) Defaults and breaches

During the current or prior year there have been no defaults or breaches of any banking covenants as set out in the 21 April 2011 Business Finance Agreement with Westpac (and earlier applicable versions of this varied agreement); also there have been no breaches of any arrangements as prescribed within the Subscription Agreement between the Group and Morstem executed on 6 May 2011.

	2011	2010
	\$	\$
NOTE 19: CONTRIBUTED EQUITY		
462,073,090 Ordinary shares	24,214,692	24,214,692
	Number	\$
2010		
<i>Movement in ordinary shares on issue</i>	-	-
Balance as at 30 June 2010	462,073,090	24,214,692
2011		
<i>Movement in ordinary shares on issue</i>	-	-
Balance as at 30 June 2011	462,073,090	24,214,692

(a) Ordinary shares

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity by assessing the cost of equity (share issue), cost of debt (borrowings) or a combination of both.

Management are constantly reviewing the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is not subject to externally imposed capital requirements.

NOTE 20: RETAINED EARNINGS AND RESERVES

(a) Nature and purpose of reserves

(i) Option reserve

The reserve is used to recognise the value of options issued as share based payments.

(b) Movements in retained earnings were as follows:

	2011	2010
	\$	\$
Balance 1 July	4,559,508	(1,323,270)
Net profit	6,824,458	5,882,778
	11,383,966	4,559,508

(c) Reserves

	Option reserve	Total
	\$	\$
2010		
At 1 July 2009	303,351	303,351
Option expense	51,173	51,173
At 30 June 2010	354,524	354,524
2011		
At 1 July 2010	354,524	354,524
Option expense	167,527	167,527
At 30 June 2011	522,051	522,051

The option reserve is used to record the fair value of options issued to employees and directors as part of their remuneration.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 21: CASH FLOW STATEMENT RECONCILIATION		
a) Reconciliation of net cash flows from operating activities to operating profit		
Operating profit after income tax	6,824,458	5,882,778
<u>Adjustment for non-cash items:</u>		
Depreciation	132,669	208,837
Write-off of plant and equipment	-	11,071
Amortisation	-	120,366
Impairment of investment properties	227,130	1,152,327
Share option expense	167,527	51,173
Fair value adjustment	(7,940,139)	(8,058,821)
<u>Add back/(subtract) changes in operating assets and liabilities:</u>		
Increase in trade and other receivables	(1,270,471)	(862,989)
(Increase)/decrease in other current assets	85,717	(174,879)
Increase in inventories	(916,846)	(259,910)
Increase in trade and other payables	220,267	1,583,557
Increase in provisions	35,319	29,585
Increase in deferred tax balances	3,597,250	2,594,707
Net cash flow from operating activities	1,162,881	2,277,802

(b) Disclosure of financing facilities

Refer to interest bearing loan and borrowings note 18.

NOTE 22: EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share computations:

(a) Earnings used in calculating earnings per share

For basic and diluted earnings per share:

Net profit	6,824,458	5,882,778
------------	-----------	-----------

(b) Weighted average number of shares

Weighted average number of ordinary shares for basic earnings per share	462,073,090	462,073,090
---	-------------	-------------

Effect of dilution:

Share options	2,215,297	100,000
---------------	-----------	---------

Weighted average number of ordinary shares adjusted for dilution	464,288,387	462,173,090
--	--------------------	--------------------

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2011

NOTE 23: RELATED PARTY DISCLOSURES

(a) Subsidiaries

The consolidated financial statements include the financial statements of Lifestyle Communities Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	% Equity interest		Carrying value of parent entity's interest	
		2011	2010	2011	2010
				\$	\$
Namberry (SA) Pty Ltd (i)	Australia	-	100%	-	-
Lifestyle Investments 1 Pty Ltd (formerly Lifestyle Communities Investments Pty Ltd) (ii)	Australia	100%	100%	155,300	155,300
Lifestyle Developments 1 Pty Ltd (formerly Lifestyle Communities Development Pty Ltd) (ii)	Australia	100%	100%	3,968,804	3,968,804
Lifestyle Management 1 Pty Ltd (formerly Lifestyle Communities Management Pty Ltd) (ii)	Australia	100%	100%	4,627,447	4,627,447
Lifestyle Seasons Pty Ltd	Australia	100%	100%	-	-
Lifestyle Lynbrook Pty Ltd	Australia	100%	100%	-	-
Brookfield Management Trust (Trustee: Brookfield Village Management Pty Ltd)	Australia	100%	100%	-	-
Brookfield Development Trust (Trustee: Brookfield Village Development Pty Ltd)	Australia	100%	100%	-	-
Lifestyle Communities Investments Cranbourne Pty Ltd	Australia	100%	100%	-	-
Cameron Street Developments Trust (Trustee: Cameron Street Developments Pty Ltd)	Australia	50%	50%	-	-
Lifestyle Investments 2 Pty Ltd (iii)	Australia	100%	-	-	-
Lifestyle Developments 2 Pty Ltd (iii)	Australia	100%	-	-	-
Lifestyle Management 2 Pty Ltd (iii)	Australia	100%	-	-	-
Lifestyle Bayside Pty Ltd (iv)	Australia	100%	-	-	-
Lifestyle Warragul Pty Ltd (v)	Australia	100%	-	-	-
Lifestyle Shepparton Pty Ltd (v)	Australia	100%	-	-	-
Lifestyle Whirakee Pty Ltd (v)	Australia	100%	-	-	-
				8,751,551	8,751,551

(i) Namberry (SA) Pty Ltd was de-registered on 4 April 2011.

(ii) These entities changed their name on 12 April 2011.

(iii) These entities were incorporated on 9 November 2010.

(iv) This entity was incorporated on 19 November 2010.

(v) These entities were transferred into the group on 4 November 2010.

(b) Ultimate parent

Lifestyle Communities Limited is the ultimate Australian parent entity.

(c) Loans from related parties

	<u>Maturity</u>	<u>2011</u>	<u>2010</u>
		\$	\$
CURRENT			
Interest bearing loans and borrowings			
Lifestyle Brookfield Land Trust ⁽¹⁾	On demand	8,835	8,835
Masonkelly Pty Ltd ⁽²⁾	On demand	431	350
B.S. Carter Investments Pty Ltd ⁽³⁾	On demand	431	350
Daken Investments Pty Ltd ⁽⁴⁾	On demand	431	350
		10,128	9,885
Trade and other receivables			
Lifestyle Brookfield Land Trust ⁽¹⁾	On demand	59,577	59,577
Lifestyle Communities Management Pty Ltd		11	11
Lifestyle Investments Pty Ltd		11	11
		59,599	59,599

⁽¹⁾ James Kelly, Bruce Carter and Dael Perlov are the directors of the Trustee company for Lifestyle Brookfield Land Trust

⁽²⁾ James Kelly is the sole director of Mason Kelly Pty Ltd

⁽³⁾ Bruce Carter is the sole director of B.S. Carter Investments Pty Ltd

⁽⁴⁾ Dael Perlov is the sole director of Daken Investments Pty Ltd

NOTE 23: RELATED PARTY DISCLOSURES (continued)

(d) Repayment terms

The current loans from related parties are repayable on demand and have no interest payable. Other receivables are on demand and have no interest payable.

(e) Transactions with related parties

On 23 August 2010 interests related to James Kelly, Bruce Carter, Tim Poole and David Paranthoienne entered into an agreement to provide a \$2.5 million finance facility (in equal proportions) to the Group for funding requirements at that time. The facility was fully drawn as at 4 March 2011. The facility was fully repaid on 20 May 2011, principal and interest totalling \$2,723,973 was paid. There were no other transactions that were entered into with related parties for the current or prior year.

NOTE 24: SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	2011	2010
	\$	\$
Expense arising from equity-settled share-based payment transactions	167,527	51,173

The share-based payment plans are described below. On 24 November 2010 options were issued to directors, executives and other staff under a new ESOP which was approved at the company's AGM on 24 November 2010.

(b) Types of share-based payment plans

Employee Share Option Plan, 'ESOP'

The ESOP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares. When a participant ceases employment prior to the vesting of their share options, the share options are forfeited.

(c) Summaries of options granted under ESOP

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options issued during the year:

	2011 No.	2011 WAEP A\$	2010 No.	2010 WAEP A\$
Outstanding at the beginning of the year	10,250,000	0.151	10,250,000	0.151
Granted during the year	12,750,000	0.065	-	-
Outstanding at the end of the year	23,000,000	0.103	10,250,000	0.151
Exercisable at the end of the year	10,250,000	0.151	10,250,000	0.151

The outstanding balance as at 30 June 2011 is represented by:

- 6,000,000 options over ordinary shares with an exercise price of \$0.16, Vested from 1 July 2006 with an expiry date of 1 July 2011. The options were issued to directors and have no other conditions attached.
- 100,000 options over ordinary shares with an exercise price of \$0 each, exercisable upon completion of continuous service. Vesting date is the 1 October 2008 and expiry date is 1 October 2012.
- 4,000,000 options over ordinary shares with an exercise price of \$0.14 each, Issued on the 14 November 2007, vesting on the 14 November 2009 providing the holder has completed continuous service with the company from the dates of issue. The expiry date is 14 November 2012.
- 150,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable upon completion of a continuous two years of service. Vesting date 7 January 2010, the expiry date is 7 January 2013.
- 12,750,000 options over ordinary shares with an exercise price of \$0.065 each, exercisable upon completion of a continuous two years of service. Vesting date 24 November 2012, the expiry date is 24 November 2015.

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 2.7 years (2010: 1.57).

(e) Range of exercise price

The range of exercise prices for options outstanding at the end of the year was \$0.00 to \$0.20 (2010: \$0.00 to \$0.20).

NOTE 24: SHARE-BASED PAYMENT PLANS (continued)

(f) Weighted average fair value of options granted during the year

There were 12,750,000 options granted during the year with a fair value of \$554,625.

(g) Option pricing model: ESOP

The fair value of the equity-settled share options granted under the ESOP is estimated as at the date of grant using a Black-Scholes Model taking into account the terms and conditions upon which the options were granted. All options issued prior to this year were estimated using a Binomial Model.

	ESOP 2011
Dividend yield (%)	0%
Expected volatility (%) (4 year historical monthly)	67%
Risk-free interest rate (%)	5.28%
Expected life of option (years)	2
Option exercise price (\$)	\$0.065
Weighted average share price at measurement date (\$)	\$0.070
Model used	Black-Scholes

	ESOP 2010
Dividend yield (%)	0%
Expected volatility (%)	70%
Risk-free interest rate (%)	6.35% to 6.67%
Expected life of option (years)	1.57
Option exercise price (\$)	\$0.151
Weighted average share price at measurement date (\$)	\$0.170
Model used	Binomial

The expected volatility was determined by reference to historical volatility of other listed entities within the same industry sector, and the Group's individual historical volatility.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$

NOTE 25: COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Leasing commitments receivable

Operating lease commitments receivable – Group as lessor

The Group has entered into commercial property leases with its residents in relation to its investment property portfolio, consisting of the Group's land. The residential site leases provide for future lease commitments receivable as disclosed below.

These non-cancellable leases have remaining terms of between 89 and 90 years and are transferable. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at balance date were as follows:

Within one year	3,163,628	2,363,884
After one year but not more than five years	12,654,511	9,455,538
After more than five years	265,046,223	199,390,162
Total minimum lease payments	<u>280,864,362</u>	<u>211,209,583</u>

Minimum lease payments were determined by measuring the current years rentals and measuring this over the standard 90 year lease agreement.

Hire purchase commitments – Group as lessee

The Group has entered into a hire purchase on two motor vehicles with a carrying value of \$59,143. One contract expire within the next 12 months and the other contract expires within 3 years.

Future minimum lease payments under hire purchase contracts are as follows:

Within one year	23,064	26,340
After one year but not more than five years	36,520	59,660
Total minimum lease payments	59,584	86,000
Less amounts representing finance charges	(5,269)	(10,561)
Present value of minimum lease payments	<u>54,315</u>	<u>75,439</u>

(b) Contingencies

Bank guarantees	<u>394,264</u>	-
-----------------	----------------	---

All bank guarantees are funded by the joint venture entity and are secured by appropriate term deposits.

NOTE 26: SEGMENT INFORMATION

The group has applied revised AASB 8 Operating Segments as of 1 July 2009. Operating segments are now reported based on internal reporting provided to the Managing Director who is the Group's chief operating decision maker.

Segment reporting on the basis required under AASB 8 is consistent with the Group's previous reporting of primary segments.

The consolidated entity operates within one operating segment, being the property development and management industry. As a result disclosures in the consolidated financial statements and notes are representative of this segment.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 27: KEY MANAGEMENT PERSONNEL		
(a) Compensation of Key Management Personnel		
Short-term employee benefits	1,029,120	704,494
Post-employment benefits	74,456	58,006
Share-based payments	128,109	48,623
	<u>1,231,685</u>	<u>811,123</u>

(b) Options granted to Key Management Personnel

Compensation Options: Granted during the year

	Granted number	Grant date	Value per option at grant date
Directors			
Bruce Carter	2,000,000	24-Nov-10	87,000
Dael Perlov	2,000,000	24-Nov-10	87,000
James Kelly	2,000,000	24-Nov-10	87,000
David Paranthoiene	1,250,000	24-Nov-10	54,375
Tim Poole	1,250,000	24-Nov-10	54,375
Executives			
Geoff Hollis	1,250,000	24-Nov-10	54,375
	<u>9,750,000</u>		<u>424,125</u>

A further 3,000,000 options were granted to non directors and executive bringing the total granted for the year to 12,750,000.

Terms and conditions for each grant (apply to all issues):

Exercise price- \$0.065, Expiry date- 24 November 2015, First exercise date- 24 November 2012, Last exercise date- 24 November 2015

(c) Shareholdings of Key Management Personnel

Shareholding of Key Management Personnel for the year ended 30 June 2011:

Ordinary shares held in Lifestyle Communities Limited	Balance at 1 July 2010	Granted as remuneration	Exercise of option	Net change other	Balance at 30 June 2011
Directors					
Bruce Carter	106,559,042	-	-	-	106,559,042
Dael Perlov	89,366,652	-	-	-	89,366,652
James Kelly	101,716,417	-	-	-	101,716,417
David Paranthoiene	6,370,646	-	-	-	6,370,646
Tim Poole	6,845,334	-	-	-	6,845,334

Shareholding of Key Management Personnel for the year ended 30 June 2010:

Ordinary shares held in Lifestyle Communities Limited	Balance at 1 July 2009	Granted as remuneration	Exercise of option	Net change other	Balance at 30 June 2010
Directors					
Bruce Carter	106,559,042	-	-	-	106,559,042
Dael Perlov	89,366,652	-	-	-	89,366,652
James Kelly	101,716,417	-	-	-	101,716,417
David Paranthoiene	6,370,646	-	-	-	6,370,646
Tim Poole	6,845,334	-	-	-	6,845,334

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Loans to Key Management Personnel

Refer to note 23(c) for details regarding loans to Key Management Personnel.

(e) Other transactions and balances with Key Management Personnel and their related parties

There are no other transactions or balances with Key Management Personnel.

NOTE 28: JOINT VENTURES

(a) Interests in joint venture entities

The Group has a 50% interest (2010: 0%) in the joint venture entity, Cameron Street Developments Trust, whose principle activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest.

The joint venture commenced its operations in November 2010.

The Group uses the line by line proportionate consolidation method to recognise its interest in the joint venture.

	2011	2010
	\$	\$
(i) Share of joint venture entity's results and financial position:		
Current assets	4,932,185	-
Non-current assets	52,277	-
Total assets	4,984,462	-
Current liabilities	5,103,666	-
Non-current liabilities	0	-
Total liabilities	5,103,666	-
Net assets	(119,204)	-
Revenues	930,044	-
Expenses	(1,049,248)	-
Net loss from continuing operations	(119,204)	-
(ii) Share of joint venture entity's capital commitments:		
Contracted development costs	1,911,719	-
(iii) Share of joint venture entity's contingent liabilities:		
Bank guarantees	394,264	-

All bank guarantees are funded by the joint venture entity and are secured by appropriate term deposits.

Notes to the Financial Statements
For the year ended 30 June 2011

	2011	2010
	\$	\$
NOTE 29: AUDITORS REMUNERATION		
The auditor of Lifestyle Communities Limited is Pitcher Partners.		
<i>Amounts received or due and receivable for current auditors:</i>		
An audit review of the financial report of the entity and any other entity in the consolidated group.	129,600	125,249
Other services in relation to the entity and any other entity in the consolidated group - tax compliance, general tax advice, structuring advice.	62,230	59,870
	<u>191,830</u>	<u>185,119</u>
NOTE 30: PARENT ENTITY DISCLOSURES		
Required disclosures relating to Lifestyle Communities Limited as a parent entity:		
Current assets	44,418,024	41,646,723
Total assets	<u>56,361,604</u>	<u>51,800,322</u>
Current liabilities	40,289,488	10,848,616
Total liabilities	<u>40,589,771</u>	<u>33,807,773</u>
Net assets	<u>15,771,833</u>	<u>17,992,549</u>
Equity:		
Contributed equity	129,872,951	129,872,951
Reserves:		
Option and share premium reserve	30,178,521	30,010,994
Capital profits reserve	14,899,859	14,899,859
	45,078,380	44,910,853
Retained earnings / (accumulated losses)	<u>(159,179,498)</u>	<u>(156,791,255)</u>
Total equity	<u>15,771,833</u>	<u>17,992,549</u>
Net loss	<u>(2,539,375)</u>	<u>(1,987,836)</u>
Other comprehensive income:		
Share based payments	167,527	51,173
Total comprehensive income	<u>(2,371,848)</u>	<u>(1,936,663)</u>

NOTE 31: CORRECTION OF ERROR

Correction of error in investment properties in prior financial years

Due to an incorrect calculation of the fair value of investment properties since inception, profit and net assets have been historically understated. The error has been corrected by restating the appropriate financial statements line items as described below:

Consolidated Statement of Financial Position	Prior period 30 June 2009 \$	Impact of error \$	Restated 30 June 2009 \$	Prior period 30 June 2010 \$	Impact of error \$	Restated 30 June 2010 \$
Investment properties	27,019,412	1,512,880	28,532,292	37,452,776	2,349,052	39,801,828
Total assets	49,476,020	1,512,880	50,988,900	60,332,011	2,349,052	62,681,063
Deferred tax liabilities	160,479	453,864	614,343	2,504,335	704,716	3,209,051
Total liabilities	27,340,263	453,864	27,794,127	32,847,623	704,716	33,552,339
Net assets	22,135,757	1,059,016	23,194,773	27,484,388	1,644,336	29,128,724
Retained earnings / (accumulated losses)	(2,382,286)	1,059,016	(1,323,270)	2,915,172	1,644,336	4,559,508

Consolidated Statement of Comprehensive Income	Prior period 30 June 2010 \$	Impact of error \$	Restated 30 June 2010 \$
Other income (fair value adjustments)	7,222,649	836,172	8,058,821
Income tax expense	(2,343,855)	(250,852)	(2,594,707)
Net profit from continuing operations	5,297,458	585,320	5,882,778

Earnings per share for the prior period has been restated by 0.127 cents to 1.273 cents as a result of the correction.

NOTE 32: SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

On 20th July 2011 a conditional contract was executed to purchase 50% of a 7.8ha community site in Drouin, Victoria. The community will be developed as a joint venture with the existing land owner.

There are no other matters or affairs that have arisen since balance date which significantly affect or may significantly affect the operations of the consolidated entity.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 28 to 59 are in accordance with the *Corporations Act 2001* :

- (a) Comply with Accounting Standards in Australia and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
- (b) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2011 and its performance for the year ended on that date; and
- (c) As stated in Note 1, the consolidated financial statements also comply with *International Financial Reporting Standards*.

In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the chief executive officer and the executive director finance to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2011.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read "David Paranthoiene".

David Paranthoiene
Chairman

A handwritten signature in black ink, appearing to read "James Kelly".

James Kelly
Managing Director

Melbourne, 18 August 2011

LIFESTYLE COMMUNITIES LIMITED
ABN 11 078 675 153
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LIFESTYLE COMMUNITIES LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Lifestyle Communities Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

LIFESTYLE COMMUNITIES LIMITED
ABN 11 078 675 153
AND CONTROLLED ENTITIES

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
LIFESTYLE COMMUNITIES LIMITED

Opinion

In our opinion:

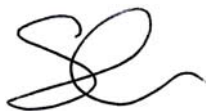
- (a) the financial report of Lifestyle Communities Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 17 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Lifestyle Communities Limited and controlled entities for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.



S D WHITCHURCH

Partner

18 August 2011



PITCHER PARTNERS

Melbourne

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 16 August 2011.

(a) Distribution of equity securities

(i) Ordinary share capital

462,073,090 fully paid ordinary shares are held by 2,644 individual shareholders

(ii) Options

23,000,000 options are held by 10 individual option holders.
Options do not carry a right to vote

The number of shareholders, by size of holding, in each class is:

	Fully paid ordinary shares	Options
1 – 1,000	513,534	-
1,001 – 5,000	1,372,841	-
5,001 – 10,000	1,075,577	-
10,001 – 100,000	14,559,381	-
100,001 and over	444,551,757	23,000,000
	462,073,090	23,000,000
Holding less than a marketable parcel		1,894

(b) Substantial Shareholders

Fully Paid		
Ordinary Shareholders	Number	Percentage
Daken Investments Pty Ltd	83,602,235	18.09%
B.S Carter Investments Pty Ltd	81,716,417	17.68%
MasonKelly Pty Ltd	80,952,000	17.52%
Sandhurst Trustees Ltd	32,456,963	7.02%
	278,727,615	60.31%

(c) Twenty largest holders of quoted equity securities

LIFESTYLE COMMUNITIES LIMITED

Top 20 Holders

Rank	Name	Units	% of Units
1.	DAKEN INVESTMENTS PTY LTD	83,602,235	18.09
2.	B S CARTER INVESTMENTS PTY LTD <THE BS CARTER FAMILY A/C>	81,716,417	17.68
3.	MASONKELLY PTY LTD	80,952,000	17.52
4.	SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA>	32,456,963	7.02
5.	BS CARTER SUPERANNUATION PTY LTD <CARTER SUPER FUND A/C>	21,833,625	4.73
6.	KELLY SUPERANNUATION FUND PTY LTD	20,100,000	4.35
7.	MAXIMA ETHAN PTY LTD <MAXI FOGELGARN SUPERFUND A/C>	12,600,000	2.73
8.	BERWICK VIEW ESTATE PTY LTD <BERWICK VIEW SUPER FUND A/C>	10,077,550	2.18
9.	UBS NOMINEES PTY LTD	8,016,955	1.73
10.	CARPAR INVESTMENTS PTY LTD	6,018,000	1.30
11.	MS JANE CAROLINE POOLE	5,595,334	1.21
12.	DALEFORD WAY PTY LTD	5,555,557	1.20
13.	PERLOV SUPERANNUATION PTY LTD	5,100,000	1.10
14.	MR TERRENCE JOHN JASPER + MRS JESSICA ANNE JASPER <JASPER SUPER FUND A/C>	4,647,973	1.01
15.	THIRTY-FIFTH CELEBRATIONS P/L <J C MCBAIN SUPER FUND A/C>	4,107,834	0.89
16.	PARANTHOIENE SUPERANNUATION PTY LTD <PARANTHOIENE SUPER FUND A/C>	3,361,646	0.73
17.	WALKER CUSTODIANS PTY LTD <A & J WALKER SUPER FUND A/C>	3,319,516	0.72
18.	EQUITY TRUSTEES LIMITED <SGH MICRO CAP FUND A/C>	3,125,000	0.68
19.	GIOVANNI NOMINEES PTY LTD	3,125,000	0.68
20.	MOSTIA DION NOMINEES PTY LTD	3,125,000	0.68
Totals: Top 20 holders of ISSUED CAPITAL		398,436,605	86.23

Additional information required by the Australian Stock Exchange Ltd. not shown elsewhere in this report is as follows. The information is as at 31 July 2011 (as the most practicable date close to the date of this report).

LIFESTYLE COMMUNITIES LIMITED

ISSUED CAPITAL As of 31 Jul 2011

Range of Units Snapshot

Composition : ORD

Range	Total holders	Units	% of Issued Capital
1 - 1,000	1,363	513,522	0.11
1,001 - 5,000	571	1,371,716	0.30
5,001 - 10,000	136	1,057,577	0.23
10,001 - 100,000	446	14,779,168	3.20
100,001 - 9,999,999,999	131	444,351,107	96.16
Rounding			0.00
Total	2,647	462,073,090	100.00

Unmarketable Parcels

Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.1150 per unit	4348	1865
		1551763

Voting Rights

All ordinary shares carry one vote per share without restriction.

Corporate Information

Lifestyle Communities Limited	ABN 11 078 675 153
Registered Office	Level 2, 35 Market Street South Melbourne Vic 3205 Australia
Directors	D. Paranthoiene – Non-executive Chairman J. Kelly – Managing Director B. Carter – Director of Finance D. Perlov – Director of Operations T. Poole – Non-executive Director
Company Secretary	R. South
Principal Place of Business	Level 2, 35 Market Street South Melbourne Vic 3205 Australia
Share Registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street, Abbotsford Victoria 3067 Telephone 61 3 9415 5000 Fax 61 3 9473 2500. Investor queries (within Australia) 1300 850 505
Solicitors	Madgwicks Lawyers Level 33, 140 William Street Melbourne VIC 3000 Australia
Bankers	Westpac Banking Corporation Limited 360 Collins Street Melbourne Vic 3000 Australia
Auditors	Pitcher Partners Accountants Auditors & Advisors Level 19, 15 William Street Melbourne VIC 3000 Australia