

Lifestyle

COMMUNITIES

DOWNSIZE TO A BIGGER LIFE

2013 ANNUAL REPORT





Community Snapshot



Snapshot as at 30 June 2013

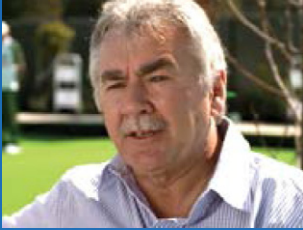
Total home sites in the pipeline	1,460 [^]
Total number of homes settled	695
Total number of homes sold and not settled	171
Total number of homeowners	1,027



[^] Correct as at 20 August 2013

What Lifestyle means to me

There are so many reasons why people choose to move to a bigger life at Lifestyle Communities. Here are just a few of them.



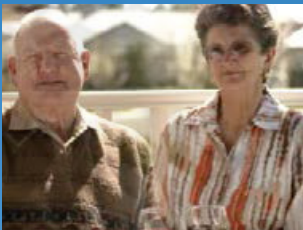
"Instead of spending my time mowing lawns, I'm playing lawn bowls and tennis and having the time of my life."

- Fred Bolton



"Instead of rattling around in a big old house that needs lots of maintenance, we own a brand new home and the only thing we have to maintain is our busy social calendar."

- Sandra and Graeme Christie



"We always wanted to travel. Moving to Lifestyle Communities has freed up enough money for us to travel whenever we wish!"

- Coralie and Graeme Fricke



"It's great being able to head off on holiday knowing your home is safe and secure. And while it's exciting to go away, we find it just as exciting coming home to the wonderful lifestyle and friends we have here."

- Ray and Kathleen Smith



Moving to Lifestyle Communities has changed my life. I should've done it sooner!

- Janice Willerton

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Chairman's Report

For the 2013 Financial Year

Dear Shareholder,

Lifestyle Communities manages a portfolio of eight affordable communities throughout Victoria. The portfolio now comprises 1,460 home sites that are either developed and occupied, under development or waiting for planning approval. We also have more than 1,000 people living in our communities which is a terrific achievement for a business that started around ten years ago.

The Company has an attractive financial model. On completion of a new community the Company has been successful to date at recovering, through the sale of new homes, the costs of the development including the cost of land and the common facilities such as the clubhouse. The Company retains ownership of the land and enters into 90 year lease agreements with homeowners and receives weekly rental fees that are indexed annually. The majority of our homeowners are pensioners and therefore receive some Commonwealth Government rental assistance.

Equally as important as the Company's attractive financial model is that the Company is providing an affordable housing solution that is needed in the over 55's market. A new home, a secure environment, companionship and activities with like minded people, and access to well maintained common facilities all for an affordable price is an attractive offer. We have been very pleased with the market response to our offer during the past ten years and we remain confident our affordable housing product will continue to be in demand in the future.

From time to time we have examined opportunities to expand the business from its current niche. Each time we have been deterred by lower returns or increased risk. Accordingly the Company remains focused on dominating the attractive niche in which we operate and not deviating from a model that has taken ten years to develop and refine. Subject to being able to identify and appropriately acquire new sites, the Company aims to commence the development of a new community every 12 to 18 months. The Company is capitalised and resourced for that objective.

During the year the Company completed an entitlement offer and placement and raised \$35.3 million (net of costs). The main objectives of the equity raising were to reduce the gearing of the Company and therefore reduce financial risk, and to have capital available to acquire attractive new site opportunities. We were very pleased with the support for the equity raising received from existing and new shareholders. The equity raising also precipitated several changes to the way the Company is governed, particularly in relation to the composition of the Board. During December 2012 we welcomed Jim Craig as a new non-executive Director. Jim has already made a material and positive contribution to the work of the Board. Also during December 2012 we had David Paranthoienne retire as non-executive Chairman. David chaired the Company for almost five years and provided outstanding leadership and service, particularly during some of the darker moments of the global financial crisis. The Company remains committed to moving to a Board constituted by a majority of independent non-executive Directors and is aiming to achieve this objective during the first quarter of the 2014 financial year.

As forecast at the time of the equity raising the Company will not be paying a final dividend in respect of the 2013 financial year. As part of the equity raising the Company committed to paying future dividends from "community cash flows" (cash flow received from weekly site rental plus deferred management fees less an agreed set of costs and taxes). This should ensure dividends are sustainable and increase as the Company increases the number of homes developed, occupied and under management. The Company currently expects to recommence paying dividends in respect of the 2014 or 2015 financial year.

Lifestyle Communities has made very good progress during the 2013 financial year. On behalf of the Board I would like to thank all of our employees for their contribution and commitment.

Yours sincerely

A handwritten signature in black ink, appearing to read "Tim Poole".

Tim Poole
Chairman
21 August 2013

Managing Director's Report

For the 2013 Financial Year

Dear Shareholder

We are pleased to present to you the Lifestyle Communities Limited Annual Report for the year ended 30 June 2013.

Lifestyle Communities is pleased to report another strong year in creating and managing affordable communities to service the over 55's housing market. Given the aging population and the emerging baby boomer who are seeking a different solution to their housing needs, we are offering homeowners the ability to own their own home and maintain a secure, long term lease on the land on which the home sits and live life on their own terms. This has been confirmed through feedback from our homeowners.

The Lifestyle Communities brand has continued to evolve and is now clearly differentiated in the consumers mind offering a more active and affordable solution to traditional retirement villages. This has been matched with communities that have a high level of presentation and a completely different feel to traditional over 55's market offerings.

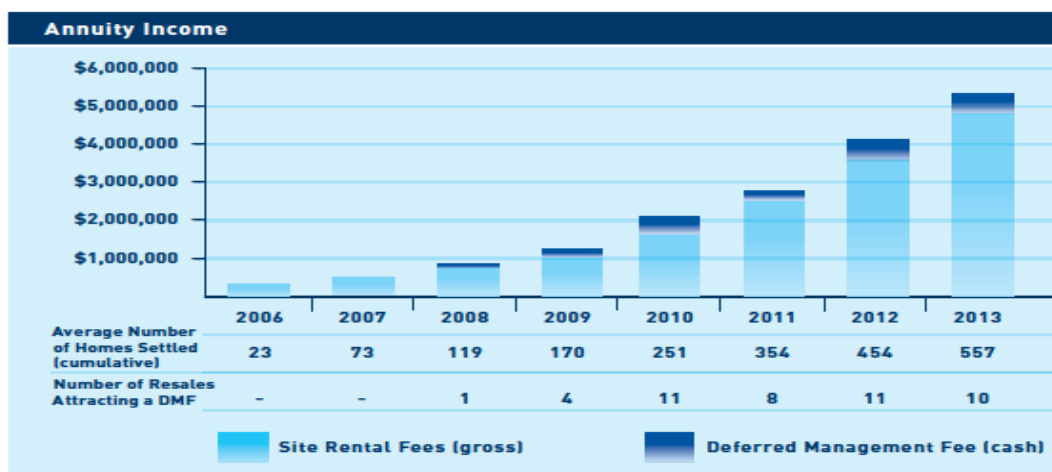
Feedback from our homeowners confirms that one of the key drivers for homeowners to buy into a lifestyle community is that the community had a different look and feel to traditional retirement villages and meets the buyers need to own their home and have access to additional community facilities that would have simply been out of reach in their existing homes.

The Newspoll survey conducted in March 2013 by Lifestyle Communities found that in aided awareness, 45% of those polled in the 50 to 65 age group recalled the Lifestyle Communities brand. This increased awareness will continue to grow as the portfolio of new lifestyle communities are rolled out which is supported by the marketing strategies we employ.

This has resulted in another strong financial year:

- The number of homes settled increased to 149 in the 2013 financial year from 134 in 2012, taking the total number of home sites under management to 695.
- Home settlement revenue increased by \$4.9 million to \$36.6 million.
- Home site annuity rentals increased by \$1.4 million to \$5.6 million.
- Net profit before tax increased by \$1.6 million to \$11.8 million.
- Net profit attributable to shareholders increased by \$0.2 million to \$6.2 million.

The number of home sites under management increased to 695 this year. The Company now has eight years of increasing annuities flowing from site rentals and deferred management fees. The rental fees increase by the greater of CPI or 3.5% creating a strong annuity flow for future dividends.



Other highlights for the year include:

- ✓ Completing a \$35.3 million (net of costs) entitlement offer and placement enabling the Company to acquire additional sites as well as reduce gearing to under 20%.
- ✓ Acquiring additional land to expand our community at Chelsea Heights.
- ✓ Acquiring a new site for a community in Wollert which is located in Melbourne's northern growth corridor.
- ✓ Achieving 190 sales for the 2013 financial year compared to 115 in 2012.
- ✓ Celebrating the 1,000th resident moving into a lifestyle community.
- ✓ Building the portfolio to 1,460 home sites either under planning, development or management.

Lifestyle Communities now has an improved balance sheet in addition to robust systems and processes as well as sufficient resources to continue to grow the number of communities under management by one community every 12 to 18 months subject to identification of appropriate sites.

Yours sincerely

James Kelly

James Kelly
Managing Director
21 August 2013

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 2013. The independent auditor's report is also attached. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

The principal activities of the Company during the financial year ended 30 June 2013 were developing and managing affordable communities which offer homeowners an improved lifestyle. There were no changes in those activities during the year.

Results

The consolidated profit after income tax attributable to shareholders of Lifestyle Communities Limited for the year ended 30 June 2013 was \$6,239,963 (2012: \$6,047,726).

Directors

The Directors of the Company during the financial year and until the date of this report are set out below. All Directors held their position throughout the entire year except as stated below.

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

Tim was appointed a Director of Lifestyle Communities Limited on 22 November 2007 and was appointed Chairman on 31 December 2012. Tim is also Chairman of the Audit Committee and a member of the HR & Remuneration Committee. He holds a Bachelor of Commerce from the 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 Funds Management Limited.

James Kelly, Managing Director (BBldg)

James was appointed to the position of Managing Director in 2007. James has more than 30 years of experience in property development and construction. Prior to establishing Lifestyle Communities Limited, James held several senior management roles in property and related sectors, including Chief Executive of Dennis Family Corporation and at Lend Lease Corporation. James has not held any directorships in any other listed entities during the past five years.

Bruce Carter, Executive Director (BComm)

A founding member of Lifestyle Communities Limited, Bruce has more than 25 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 has not held any directorships in any other listed entities during the past five years.

Dael Perlov, Executive Director (BBus, BMktg)

A founding member of Lifestyle Communities Limited, Dael was appointed as an Executive Director in 2007. With more than 24 years of 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 systems and procedures needed to operate Lifestyle Communities Limited. Dael has not held any directorships in any other listed entities during the past five years.

Jim Craig, Non-Executive Director (BEc, LLB (Hons) Adel, LLM Melb)
(Appointed 31 December 2012)

Jim was appointed a Director of Lifestyle Communities Limited on 31 December 2012. Jim is also a member of the Audit Committee and Chairman of the HR & Remuneration Committee. After working as a lawyer in Australia and Japan, Jim joined Macquarie Group Limited. He has held a number of senior roles within Macquarie in the resources, infrastructure and fund management areas, including leading Macquarie's businesses in Europe from 2003 to 2008. He remains the Chairman of Macquarie Capital (Melbourne). Jim is a Director of a number of other organisations including the Murdoch Children's Research Institute, Cell Care Australia Pty Ltd, Trinity College (University of Melbourne), River Capital Pty Ltd and Australian United Investment Company Ltd. Jim was previously a Director of TFS Corporation Ltd and has not held any other directorships in any other listed entities during the past five years.

David Paranthoiene, Non-Executive Director (Retired 31 December 2012)

David became a Director of Lifestyle Communities Limited in 2007 and Chairman in February 2008 before retiring on 31 December 2012. He was formerly Managing Director of Namberry Limited, and was a founding principal of the listed telecommunications company Pracom Limited. David has not held any directorships in any other listed entities during the past five years.

Geoff Hollis, Company Secretary (BComm, CA)

Geoff was appointed as Company Secretary on 24 November 2011. Geoff joined Lifestyle Communities Limited in February 2010 and prior to that he spent 10 years as a Chartered Accountant in professional practice. Geoff was appointed as a member of the Institute of Chartered Accountants in June 2004 and has recently completed a Graduate Diploma of Applied Corporate Governance.

Directors' Interests

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

Director	Fully Paid Ordinary Shares	Options over Ordinary Shares
Bruce Carter	12,618,532	200,000
Dael Perlov	7,806,637	200,000
James Kelly	14,845,566	200,000
Tim Poole	1,405,460	125,000
Jim Craig	3,209,486	1,250,000

The balances above reflect the one for ten share consolidation that was approved at an Extraordinary General Meeting of the Company on 27 March 2013 and completed during April 2013.

Dividends

The Directors have resolved not to pay a final dividend for the year ended 30 June 2013.

On 26 October 2012 a final fully franked dividend was paid in respect of the year ended 30 June 2012 at a rate of 0.5 cents (or 5 cents post share consolidation) per ordinary share (\$2,310,866).

Significant Changes in the State of Affairs

Refer to the Operating and Financial Review for the significant changes in the state of the affairs of the Company.

Significant Events after the Balance Date

On 19 August 2013 the Company entered into an unconditional contract to purchase a future development site in Wollert which is north of Melbourne. The acquisition price is \$6.7 million and a 10% deposit has been paid with settlement in June 2014. The Lifestyle Community at Wollert will be the Company's eighth community and will add approximately 150 homes to the Company's portfolio.

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.

Future Developments

Refer to the Operating and Financial Review for information on likely developments and the future prospects of the Company.

Environmental Regulation

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

Indemnification and Insurance of Directors and Officers

During the financial year the Company paid premiums in respect of a Directors' and Officers' insurance policy. 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 financial year and the number of meetings attended by each of the Directors are:

Director	Directors' Meetings		Meetings of Committees of Directors'			
	Held	Attended	Audit		HR & Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Tim Poole	13	13	3	3	2	2
Bruce Carter	13	13	-	-	-	-
Dael Perlov ⁽¹⁾	8	8	-	-	-	-
James Kelly	13	12	-	-	-	-
Jim Craig ⁽²⁾	6	6	2	2	2	2
David Paranthoiene ⁽³⁾	7	4	1	1	-	-

(1) Dael Perlov was on a leave of absence from 28 February 2013 until the end of the financial year and meetings held reflect those he was able to attend.

(2) Jim Craig was appointed to the Board on 31 December 2012 and meetings held reflect those he was eligible to attend.

(3) David Paranthoiene retired from the Board on 31 December 2012 and meetings held reflect those he was eligible to attend.

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 IT services, employee advice, tax compliance and general tax advice services at a cost of \$59,160 (2012: \$32,220). 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.

Operating and Financial Review

Overview

The Company continued to develop and manage its portfolio of affordable lifestyle communities during the 2013 financial year. Sales of new homes of 190 (2012: 115), settlements of new homes of 149 (2012: 134) and net profit attributable to shareholders of \$6.2 million (2012: \$6.0 million) were all higher than the previous year.

The Company completed an entitlement offer and placement in December 2012, raising \$35.3 million (net of costs). The proceeds of the equity raising have been used to repay debt, provide capital for the acquisition of new community sites and provide a minimum liquidity buffer. The Company's gearing has reduced from 56.0% at 30 June 2012 to 17.9% at 30 June 2013.

All of the Company's communities are being developed or managed either in accordance with or exceeding expectations. With the likely continuation of good sales and settlements at Warragul, Cranbourne, Shepparton and Chelsea Heights and the commencement of settlements at Hastings, the Company expects settlements and net profit attributable to shareholders to be higher in the 2014 financial year compared with the 2013 year.

Financial and Operating Highlights

	Measure	FY2013	FY2012	Change	Change %
Key financial data					
Revenue	A\$ millions	45.9	38.8	7.1	18
Earnings before interest and tax	A\$ millions	13.0	12.6	0.4	3
Net profit before tax	A\$ millions	11.8	10.2	1.6	16
Net profit after tax	A\$ millions	8.7	7.3	1.4	19
Net profit attributable to shareholders	A\$ millions	6.2	6.0	0.2	3
Operating cash flow	A\$ millions	-	(7.8)	7.8	100
Community cash flow ⁽¹⁾	A\$ millions	2.9	2.5	0.4	16
Gearing ⁽²⁾	%	17.9	56.0	(38.1)	(68)
Return on average capital employed ⁽³⁾	%	11.5	13.6	(2.1)	(15)
NTA ⁽⁴⁾	A\$ cents/share	81.6	86.5	(4.9)	(6)
Key operational data					
Homes settled (gross)	No. of homes	149	134	15	11
Homes settled (after NCI) ⁽⁵⁾	No. of homes	106	98	8	8
Homes sold (gross)	No. of homes	190	115	75	65
Homes sold (after NCI) ⁽⁵⁾	No. of homes	136	87	49	56
Average realised sales price	A\$'000	245	236	9	4
Total number of homes (gross)	No. of homes	695	546	149	27
Total number of homes (after NCI) ⁽⁵⁾	No. of homes	612	506	106	21
Total number of homeowners	No. of people	1,027	809	218	27
Average age of homeowners	Years	73	73	-	-
Number of resales settled	No. of homes	10	11	(1)	(9)

(1) Community cash flow comprises cash flows received from homeowner rentals and deferred management fees less community operating costs and the net surplus/deficit provided from utilities

(2) Calculated as a ratio of net debt to net debt plus equity

(3) Calculated as a ratio of EBIT divided by total assets less current liabilities

(4) NTA is a calculation of net tangible assets divided by ordinary shares on issue

(5) Gross number of homes adjusted for share of communities owned by non-controlling interests

Included in the key data above are several non IFRS measures including earnings before interest and tax, community cash flow, gearing, return on average capital employed, NTA and key operational data. These figures have not been subject to audit but have been provided to give a better understanding of the performance of the Company for the 2013 year.

The Company recorded settlements and net profit attributable to shareholders for the year ended 30 June 2013 that was greater than for the 2012 financial year and in line with market guidance. Net profit attributable to shareholders was \$6.2 million up from \$6.0 million in the prior year. The current and prior period results now reflect the full consolidation of the Company's interest in joint ventures (the Cranbourne and Chelsea Heights developments). This change has occurred due to a change in the Company's accounting policies flowing from a change in the accounting standards; refer to Notes 1(q) and 29 in the Company's 2013 financial statements for further details.

The Company's net profit before tax increased by \$1.6 million or 16%. EBIT and net profit attributable to shareholders increased by 3%. The increase in profitability was assisted by a \$0.8 million reduction in finance costs as a result of the partial repayment of the Company's loan note debt facility. The repayment of \$16.8 million was repaid using proceeds of the Company's equity raising that settled in December 2012. As a result, the Company's gearing fell from 56.0% at 30 June 2012 to 17.9% at 30 June 2013.

The entitlement offer and placement raised \$35.3 million (net of costs) and provides the Company with a solid platform for growth. In addition to repaying some debt, the Company added \$15.9 million to its equity pool for the development of new communities and to provide a minimum liquidity buffer.

Company revenues increased by \$7.1 million or 18% mainly due to increased home settlements (149 in 2013 compared to 134 in 2012) and an increase in homeowner rental payments (up \$1.4 million).

The Company continued to develop its communities at Warragul, Cranbourne, Shepparton and Chelsea Heights during the year whilst also commencing construction on its seventh community at Hastings. Although operating cash flows were in deficit for the year ended 30 June 2013 by \$0.04 million (2012: \$7.8 million), included in operating cash flows was project capital expenditure of \$11.3 million (2012: \$13.9 million). Project capital expenditure represents the gross costs of infrastructure construction (civil works, clubhouse and other facilities) and is allocated to operating cash flows due to the Company's legal structure. Under some differing legal structures, project capital expenditure would be an investing cash flow rather than an operating cash flow.

Both return on average capital deployed and NTA declined during the year (by 15% and 6% respectively) due to the dilutive impact of the equity raising and also reflects that a large proportion of the capital raised is yet to be deployed.

The Company made good progress operationally with improvements in several key metrics. Total number of homes settled increased to 695 homes up by 149 settlements during the year. The Company sold 190 new homes during the 2013 financial year compared to 115 in 2012.

The Company has 1,027 people living in its communities as at the end of the 2013 financial year with an average age of 73 years.

Resales (sales of previously settled and occupied homes) during the year were 10 down from 11 in 2012. As at the end of the year there are approximately 25 resale homes available for sale across the communities.

Update on communities

Community	Settled FY13	Settled FY12	Net sales FY13	Net sales FY12	Total homes settled	Total homes in portfolio
Brookfield	2	9	1	-	228	228
Tarneit	6	28	-	-	132	136
Warragul	27	20	26	19	136	182
Cranbourne	55	72	48	33	135	217
Shepparton	27	5	28	27	32	221
Chelsea Heights	32	-	60	23	32	105
Hastings	-	-	23	13	-	141
Chelsea Heights (Expansion)	-	-	4	-	-	80
Wollert	-	-	-	-	-	150
Total	149	134	190	115	695	1,460

An update on each of the communities as at 30 June 2013 is as follows:

- Lifestyle Brookfield in Melton is now fully sold and settled.
- Lifestyle Seasons in Tarneit has four homes to settle which is expected to occur during the 2014 financial year.
- Lifestyle Warragul is now 75% settled. Of the remaining 46 homes left to settle, 19 are sold leaving a further 27 to sell. Warragul achieved an improved sales rate during the 2013 year. The Company currently expects the remaining homes will almost all settle during the next two years.
- Lifestyle Cranbourne is now 61% settled. Of the remaining 82 homes left to settle, 28 are sold leaving a further 56 to sell. Cranbourne achieved strong sales during the 2013 year. Although sales rates can decline as a community approaches the end of the development the Company currently expects the remaining homes will be sold and settled during the next three years.
- Lifestyle Shepparton has achieved sales and settlements during the 2013 year in line with the Company's expectations. The sales and settlement rates achieved are similar to those of Lifestyle Warragul, the Company's other rural development.
- Lifestyle Chelsea Heights has exceeded the Company's expectations with 60 sales during the 2013 year such that the community is 80% sold. The Community commenced settlements in December 2012. The community is 30% settled at year end and has a large pipeline of 52 homes awaiting settlement.
- Lifestyle Hastings commenced construction in January 2013 and expects to welcome its first homeowner in September 2013. The community is well placed with over 25% sold prior to the first homeowner moving in.
- The Lifestyle Chelsea Heights expansion was announced in April 2013 and pre-selling has commenced. The expansion is still subject to planning approval and final contracts. The Company expects settlements to commence at this community during the 2015 financial year.
- The land for the Lifestyle Community at Wollert was acquired after the end of the 2013 financial year. The community at Wollert is still subject to planning approval. The Company expects construction to commence and first settlements during the 2015 financial year.

Analysis of Income Statement

Net profit before tax increased by \$1.6 million to \$11.8 million for the year whilst net profit attributable to shareholders was \$6.2 million, an increase of \$0.2 million. The current and prior period results now reflect the full consolidation of the Company's interest in joint ventures, being its Cranbourne and Chelsea Heights developments. This change has occurred due to a change in the Company's accounting policies flowing from a change in the accounting standards; refer to Notes 1(q) and 29 of the Company's 2013 financial statements for further details. The table below shows the changes to net profit attributable to shareholders from 30 June 2012 to 30 June 2013.

	A\$ millions	A\$ millions
Net profit after tax attributable to shareholders for the year ended 30 June 2012		6.0
Changes in revenues		
Home settlement revenue	4.9	
Rental and utilities revenue	1.4	
Deferred management fee	1.0	
Sub-division revenue	(0.7)	
Finance revenue	0.5	7.1
Changes in cost of sales		(3.7)
Changes in gain from fair value adjustments		(0.8)
Changes in expenses		
Sub-division expenses	0.4	
Development expenses	(1.1)	
Community management expenses	(1.2)	
Corporate overheads	(0.2)	
Land expenses	0.4	
Finance costs	0.8	(0.9)
Income tax expense		(0.3)
Increase in profit after tax attributable to non-controlling interests		(1.2)
Net profit after tax attributable to shareholders for the year ended 30 June 2013		6.2

The key drivers of increased profitability were:

Home settlement revenue and margin

- Revenue from home settlements was up \$4.9 million to \$36.6 million due to an increase in settlements to 149 compared to 134 in 2012. The main reason for the increase in settlements is having a larger number of communities under development. Also contributing was an increase in the average realised sales price of 4% to \$245,000.
- Gross margin increased by 1% to 23% due to a change in the product mix and the increase in the average realised sales price.

Annuity income and expenses

- Revenue from homeowner rentals was up \$1.4 million to \$4.9 million due to an increase in homes under management and a rental increase of 3.5%. 149 homes were settled during the year bringing the Company's total homes under management to 695.
- Community management expenses were up \$1.2 million to \$3.5 million. The increase in community management expenses is due to a full year of operations for the Company's Shepparton community as well as more than seven months of operations for the Chelsea Heights community (rental income did not commence until July 2013).
- Deferred management fees received (cash) were down \$0.08 million to \$0.38 million. There were 10 resale settlements during the year compared to 11 in the prior year. As at year end there are approximately 25 resale homes available across the Company's Brookfield, Tarneit and Warragul communities.
- Deferred management revenues increased by \$1.0 million to \$2.8 million. The difference between this and the cash deferred management fees received is the movement in the deferred management fee receivable for each individual homeowner. A deferred management fee receivable is recognised for each homeowner to reflect a discounted present value calculation of their anticipated resale at balance date.

Expenses

- Development expenses were up \$1.1 million to \$3.4 million. The main driver of this change was a \$0.65 million additional investment in marketing during the year. The Company invested in rebranding in order to position the Lifestyle Communities brand with a wider proportion of the emerging baby boomer market. The Company has, to date, been pleased with the results of this investment.
- Finance costs were down \$0.8 million to \$2.1 million. Utilising some of the proceeds of the equity raising the Company reduced its loan note facility by \$16.8 million down to \$25 million. This occurred in late December 2012 and led to a reduction in interest for the remainder of the financial year. The Company capitalises a proportion of finance costs to investment properties and inventories where appropriate and the balance of finance costs are expensed. Capitalised finance costs are expensed in subsequent years through cost of sales.

Analysis of Cash Flow

A\$ millions	FY2013	FY2012	Change	Change %
Cash flows related to operations	-	(7.8)	7.8	100
add Project capital expenditure ⁽¹⁾	11.3	13.9	(2.6)	(19)
Adjusted cash flows related to operations	11.3	6.1	5.2	85
Cash flows related to investing activities	(0.5)	(10.1)	9.6	95
Cash flows relating to financing activities	13.3	10.6	2.7	25
Net movement in cash	12.8	(7.4)		
Cash at the beginning of the period	3.3	10.7		
Cash at the end of the period	16.1	3.3		

(1) Due to the Company's legal structure, cash flows related to operations includes all gross costs of project capital infrastructure expenditure (i.e. civil works, clubhouse and other facilities). Under some differing legal structures, project capital expenditure would be an investing cash flow rather than an operating cash flow.

Adjusted cash flows related to operations improved by \$5.2 million to \$11.3 million. This reflects increased home settlements and annuities from rental streams as well as interest savings. The increase was partially offset by additional expenditure noted in the prior section. Homes completed and paid for in 2013 were 125 down from 163 in 2012. This was due to the development programme and a focus on inventory management across all communities.

Cash flows related to investing activities included the purchase of land at Hastings in 2012.

Cash flows related to financing activities included the proceeds from the entitlement offer and placement of \$35.3 million as well as a reduction in debt of \$21.2 million (including the \$16.8 million repayment of the loan note facility).

Analysis of Balance Sheet

Net assets and total equity

A\$ millions	FY2013	FY2012	Change	Change %
Assets				
Cash and cash equivalents	16.1	3.3	12.8	388
Trade and other receivables	9.5	6.3	3.2	51
Inventories	35.6	31.9	3.7	12
Land held for sale	0.1	0.1	-	-
Property, plant and equipment	1.0	0.8	0.2	25
Investment properties	73.2	65.8	7.4	11
Other financial assets	2.0	2.5	(0.5)	(20)
Other assets	0.2	0.3	(0.1)	(33)
Total Assets	137.7	111.0	26.1	24
Liabilities				
Trade and other payables	(9.5)	(6.1)	(3.4)	56
Interest-bearing loans and borrowings	(33.9)	(54.9)	21.0	(38)
Provisions	(0.5)	(0.4)	(0.1)	25
Deferred tax liabilities	(12.4)	(9.6)	(2.8)	29
Total Liabilities	(56.3)	(71.0)	14.7	(21)
Net Assets	81.4	40.0	41.4	104
Equity				
Equity – Lifestyle Communities interest	81.4	40.2	41.2	102
Non-controlling interests	-	(0.2)	0.2	100
Total Equity	81.4	40.0	41.4	104

During the year the Company's net assets and total equity increased by 104% to \$81.4 million. This is mainly due to the completion of the entitlement offer and placement that raised \$35.3 million (net of costs). The entitlement offer and placement involved the issue of 521,280,283 (on a pre-consolidation basis) ordinary shares at \$0.07 per share (on a pre-consolidation basis). The proceeds from the entitlement offer and placement have been distributed as follows:

- Repaid \$16.8 million from the loan note facility reducing the balance to \$25 million;
- Repaid \$2.6 million bank facility in relation to the Hastings land acquisition;
- The balance of \$15.9 million has been added to the equity pool for the development of new communities and to provide a minimum liquidity buffer; and
- Part of the \$15.9 million has been allocated to the development of the Shepparton and Hastings communities rather than using bank facilities. This is to more efficiently manage the Company's return on cash until the capital is deployed on the development of new communities. The Company has current banking facilities for the development of Shepparton and Hastings and is able to draw on them to recoup monies incurred as and when required.

Included in trade and other receivables is the deferred management fee asset which has increased by \$2.4 million to \$7.2 million. A deferred management fee asset is recognised for each homeowner to reflect a discounted present value calculation of their anticipated cash resale at balance date.

On 27 March 2013 shareholders approved a one for ten share consolidation of the Company's ordinary shares that occurred during April 2013. Prior to the share consolidation the Company had 999,703,416 ordinary shares on issue. Post the share consolidation and at year end the Company has 99,970,131 ordinary shares on issue.

Debt, gearing and liquidity

As at 30 June 2013 the Company had net debt (total borrowings less cash) of \$17.7 million. This is \$33.9 million lower than the 30 June 2012 position of \$51.6 million. As outlined in the table below the primary driver for this improvement is the use of proceeds from the equity raising in December 2012.

A\$ millions	
Net debt at 30 June 2012	51.6
Repayment of loan note facility	(16.8)
Net reduction in bank borrowings	(4.3)
Increase in cash balances	(12.8)
Net movement in 2013	(33.9)
Net debt at 30 June 2013	17.7

The gearing ratio (net debt to net debt plus equity) of the Company as at 30 June 2013 was 17.9% (30 June 2012: 56.0%).

The Company's long-term loan note facility is fully drawn and capped at \$25 million. The five year anniversary occurs in May 2016 and the Company has the right to exercise an early redemption option and seek to re-finance the facility at this time (the lender also has a right to request early redemption during May 2016).

The Company continues to receive good support from its banker, Westpac Banking Corporation. As at 30 June 2013 the Company has committed debt facilities with Westpac of \$21 million. As at year end \$9.9 million was drawn. These debt facilities relate to developments at Shepparton, Chelsea Heights and Hastings.

Outlook and Risks

Outlook

The Company has been pleased with the rate of construction, sales and settlements across the communities currently under development during the 2013 financial year. The increase in net sales from 115 in 2012 to 190 in 2013 is a solid result and can be partly attributed to the investment in marketing during the year.

During the 2013 financial year development commenced at Lifestyle Chelsea Heights and Lifestyle Hastings adding to the commencement of Lifestyle Shepparton in 2012 and Lifestyle Cranbourne in 2011. The settlements pipeline is now being filled from sales at each of these communities as well as Lifestyle Warragul. As Lifestyle Warragul and Lifestyle Cranbourne reach the end of their development during the next few years they will be replaced by the development of the Lifestyle Chelsea Heights expansion and the Lifestyle Community at Wollert.

Based on the current level of activity the Company currently expects that settlements and net profit attributable to shareholders will be higher in the 2014 financial year compared with 2013.

The Company has a focused strategy to dominate the niche of affordable housing to the over 55's market and is currently funded and resourced to roll out a new community every 12 to 18 months subject to identification of appropriate sites. The Company is presently focused on Melbourne's growth corridors as well as key Victorian regional centres and is currently considering a range of opportunities but will remain highly disciplined in its assessment of these opportunities.

Key risks

The Company's key risk categories are:

Site selection – if the Company makes a poor site acquisition it may not generate adequate financial returns on the investment and the objective of recovering 100% of the development costs may not be met. The Company attempts to mitigate this risk by maintaining a detailed land acquisition strategy and by carrying out detailed due diligence on potential new sites. The Company also uses the significant experience it has gained from acquiring eight sites and developing many of these during the past ten years.

Sales and settlements – the Company is exposed to the rate of sales of new homes and existing homes, the price of sales of new homes (and to a lesser extent the price of sales of existing homes) and to the timing of settlements of new homes (revenue is only recorded when a sale of a home is settled). The Company's experience to date is that sales rates and realisations are closely related to the difference between the median house price in the area and the home price in the Lifestyle Community. This issue attracts a great deal of attention during the site selection process and also during the development of the community.

Community roll out – the risk is the management of the construction programme to ensure cash flow is managed efficiently and returns maximised. The Company mitigates this risk by taking a stage by stage approach to construction based on a required level of presales.

Financing risk – there is a risk the Company will not achieve its growth strategy due to insufficient capital or the inability to obtain new debt facilities. The Company may also risk insolvency if all debt facilities were cancelled in a short period of time. The Company mitigates these risks by: maintaining a balance sheet with a reasonably low level of gearing; having more than one source of debt finance, ensuring it complies with all debt covenants and reporting obligations; ensuring project debt facilities only have recourse to the particular development being financed; ensuring long term debt facilities have limited acceleration rights if the lender seeks repayment from May 2016; and tightly managing the commencement and rate of development of new communities.

Community management – it is important communities are well managed and homeowners have a high level of satisfaction. A well managed community will: generate new sales from referrals; add to the Lifestyle Communities brand; assist in facilitating resales of existing homes; and improve the profitability of the community management business. The Company mitigates community management risk by maintaining a very transparent sales and contract process, undertaking careful selection of community management teams, maintaining community facilities to a high standard, ensuring regular community activities and events, and maintaining the grounds and gardens to a high standard.

Regulatory risk – the Company's operations and business and financial model are impacted by various legislation and regulation and any changes could have an adverse impact on the operating and financial performance of the Company. The legislation is the Residential Tenancies Act and the Social Securities Act. The risks associated with changes to the Residential Tenancies Act have largely been mitigated when a new version of the Act was proclaimed in 2010 with a ten year timeframe.

Remuneration Report

1. Introduction

1.1 About this report

The Remuneration Report forms part of the Directors' Report. It outlines the overall remuneration strategy, framework and practices adopted by Lifestyle Communities Limited (the Company) and has been prepared in accordance with Section 300A of the *Corporations Act 2001* and its regulations. This entire Remuneration Report is designated as audited.

1.2 Overview of contents

Section	Contents
1.	Introduction
2.	HR & Remuneration Committee
3.	Non-Executive Directors' Remuneration
4.	Executive Directors and Senior Management Remuneration
5.	Relationship Between Remuneration and Performance
6.	Executive Service Agreements
7.	Remuneration Details
8.	Options and CRES held by Key Management Personnel
9.	Remuneration Report Voting at Annual General Meetings

2. HR & Remuneration Committee

2.1 Role of the HR & Remuneration Committee

The Board is in the process of updating the HR & Remuneration Committee's charter. As a minimum the HR & Remuneration Committee's role is make recommendations to the Board on:

- the Company's remuneration framework;
- formulation and operation of employee incentive plans;
- remuneration levels of Executive Directors and other key management personnel; and
- the level of non-executive Director fees.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

3. Non-Executive Directors' Remuneration

3.1 Fixed Fees

All non-executive Directors are paid fixed fees for their services to the Company. The level of fees are based upon providing the Company with the ability to attract and retain Directors of high calibre, whilst incurring a cost that is reasonable having regard to the size and complexity of the Company.

The aggregate amount of fees paid is within the overall amount approved by shareholders in a general meeting. The last determination was made at the Annual General Meeting held in November 2007 at which shareholders approved an aggregate amount of \$1,000,000 per annum.

Fixed fees paid to Directors during the 2013 financial year are set out in section 7.

3.2 Review of Non-Executive Directors' Fees

The HR & Remuneration Committee has determined that Non-Executive Directors' fees will be reviewed in April 2014. This process will involve engaging an independent specialist remuneration consultant to benchmark the fees paid by similar sized ASX listed companies.

Current non-executive Director remuneration comprises fees payable to the Chairman of \$67,500 per annum and to each non-executive Director of \$49,050 per annum (inclusive of superannuation).

4. Executive Directors and Senior Management Remuneration

4.1 Framework

The Company's executive remuneration framework consists of the following elements:

- fixed remuneration; and
- equity based long-term incentives.

In determining executive remuneration the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent;
- aligned to the Company's strategic and business objectives and the creation of shareholder value; and
- transparent and acceptable to shareholders.

4.2 Determining Fixed Remuneration

Executive Directors

Fixed remuneration for Executive Directors was last reviewed during January 2012 whereby a 3% increase was granted.

The HR & Remuneration Committee has determined to benchmark the fixed remuneration of Executive Directors during the first quarter of the 2014 financial year with an effective date for any changes of 1 October 2013. The benchmarking will be undertaken by an independent specialist remuneration consultant. Under the *Corporations Act 2001*, remuneration consultants must be engaged by the non-executive Directors and reporting of any remuneration recommendations must be made directly to the HR & Remuneration Committee.

In July 2013, the non-executive Directors engaged Yellow Folder Research to undertake the benchmarking of the Executive Directors fixed remuneration. During the 2013 financial year no remuneration consultants performed any services for the Company.

The HR & Remuneration Committee has determined that the fixed remuneration of Executive Directors will be reviewed annually on 1 October each year.

Senior Management

Fixed remuneration for Senior Management is reviewed annually or on promotion. Fixed remuneration is benchmarked against market data or comparable roles in the market.

4.3 Short Term Incentives

The Company currently has no short-term incentive plans in operation. Employees are rewarded by fixed remuneration and key employees are offered access to long-term incentive plans. A cash bonus was paid to the Company's Chief Financial Officer and Company Secretary of \$10,000 (inclusive of super) during the 2013 financial year for outstanding services provided to the Company. This was considered a one-off bonus and is not intended to be repeated.

Short term cash bonus payments (prior year)

Each Executive Director received a cash bonus of \$14,000 during the year ended 30 June 2012. This was a performance related cash bonus in relation to some key business deliverables achieved in respect of the 2011 financial year but paid during the 2012 year. No cash bonuses have been provided as part of remuneration to Executive Directors in respect of the 2013 year as the bonus scheme that was in operation during the 2011 year (and partly paid in 2012) was cancelled on 12 September 2011.

4.4 Long Term Incentives

The Company has two long-term incentive plans in place and uses them to retain key talent and align interests of executives to shareholders.

Employee Share Loan Plan (ESLP)

The purpose of the ESLP is to provide eligible employees with an opportunity to acquire convertible repurchase-able employee shares (CRES) in the Company and, by virtue of the fact that CRES are convertible into ordinary shares in the Company, thereby enable them to participate in any growth in the value of the Company, encouraging them to improve the longer term performance of the Company and its returns to shareholders, and to motivate and retain them.

Unlike the Company's existing ESOP, all employees are eligible to participate in the ESLP and the Company or a subsidiary of the Company may provide financial assistance, in the form of interest-free limited recourse loans, to participants to enable them to acquire shares.

Participation in the ESLP is at the discretion of the Board. No employee has a contractual right to participate in the ESLP.

All Directors of the Company are not entitled to participate in the ESLP unless the Board seeks shareholder approval for their participation and approval is given. The Board does not currently intend to seek shareholder approval for their participation.

Pursuant to the ESLP, the maximum number of CRES that may be issued under the plan and converted into ordinary shares must not exceed 5% of the total number of issued ordinary shares at the time of issue, after taking into account the number of the number of CRES issued under the plan and the number of ordinary shares or options issued under any other employee incentive scheme of the Company in the previous five years.

The performance conditions under the ESLP are for participants to provide continuous service to the Company. The CRES have been issued in three tranches; tranche one requires two years continuous service prior to the ability to convert to ordinary shares; tranche two requires three years continuous service; and tranche three requires four years continuous service. The CRES are treated as options for accounting purposes.

Senior Executives and Directors Share Option Plan (ESOP)

During the 2011 financial year eligible senior management, Executive Directors and non-executive Directors were issued options as part of the ESOP detailed at the Company's 2010 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. No options were issued pursuant to this plan during the 2013 financial year.

The performance conditions under the ESOP were for participants to provide two years continuous service which all participants have now completed. Therefore all options issued under the ESOP have now vested.

There are currently no plans to issue any further options under the ESOP.

Refer to section 8 for details of options and CRES held by Key Management Personnel.

5. Relationship Between Remuneration and Performance

The Company's current remuneration framework, outlined in section 4 above, is primarily based on providing fixed remuneration. This is because the Executive Directors each have large shareholdings in the Company and have a strong incentive to increase the value of the Company. A modest long-term incentive plan has been introduced to retain and motivate key employees (other than the Executive Directors). The long-term incentive plan is only of value if the share price of the Company increases which is expected to encourage strong operational and financial performance and is directly aligned to the long term interests of all shareholders.

The following table shows key performance indicators for the Company over the last five years:

<i>Performance measure</i>	2013	2012	2011	2010	2009
Net profit after tax attributable to members (\$million)	\$ 6.24	\$ 6.05	\$ 6.82	\$ 5.88	\$ 0.71
Net profit (change from prior year) (%)	3.1%	(11.4%)	16.0%	728.2%	143.8%
Dividends paid (fully franked) (cents)	5.0	5.0	-	-	-
Diluted earnings per share (cents)	8.42	13.02	14.70	12.73	1.80
Total Shareholder return	(2.50%)	(5.56%)	50.00%	50.00%	(60.00%)
STI paid to KMP	\$ 10,000	\$ 42,000	\$ 151,200	\$-	\$-

For comparative purposes the figures in the table directly above have been adjusted to reflect the Company's one for ten share consolidation that occurred during the 2013 financial year.

6. Executive Service Agreements

The HR & Remuneration Committee, in conjunction with the benchmarking of Executive Directors' fixed remuneration, have refreshed all Executive Service Agreements. It is expected that these will be in place for all Executive Directors by 1 October 2013.

Senior Management will also be transitioned to expanded employment agreements primarily to protect the Company from losing key personnel without a sufficient notice period.

Executive Directors are currently employed under agreements which commenced on 1 July 2010.

Fixed remuneration paid to Executive Directors in respect of the 2013 financial year can be found in section 7.

Conditions

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 statutory entitlements).

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

7. Remuneration Details

7.1 Compensation of Directors and Key Management Personnel for the year ended 30 June 2013

30 June 2013	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											
Tim Poole	52,062	-	-	-	4,812	-	-	10,763	-	15.9	67,637
David Paranthoiene	33,750	-	-	-	-	-	-	10,763	-	24.2	44,513
Jim Craig ⁽¹⁾	24,525	-	-	-	-	-	-	-	-	-	24,525
Bruce Carter	187,926	-	-	-	17,009	-	-	17,221	-	7.7	222,156
James Kelly	235,763	-	-	-	21,219	-	-	17,221	-	6.3	274,203
Dael Perlov	235,869	-	-	-	21,261	-	-	17,221	-	6.3	274,351
	769,895	-	-	-	64,301	-	-	73,189			907,385
Key Management Personnel											
Geoff Hollis	146,085	9,174	-	-	13,973	-	-	13,288	5.0	7.3	182,520
Total	915,980	9,174	-	-	78,274	-	-	86,477			1,089,905

(1) Fees paid to Bellwether Holdings Pty Ltd, an entity controlled by J Craig

7.2 Compensation of Directors and Key Management Personnel for the year ended 30 June 2012

30 June 2012	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											
David Paranthoiene	67,500	-	-	-	-	-	-	27,188	-	28.7	94,688
Tim Poole	45,000	-	-	-	4,050	-	-	27,188	-	35.7	76,238
Bruce Carter	186,239	14,000	-	-	16,761	-	-	43,500	5.4	16.7	260,500
James Kelly	232,798	14,000	-	-	20,952	-	-	43,500	4.5	14.0	311,250
Dael Perlov	232,798	14,000	-	-	20,952	-	-	43,500	4.5	14.0	311,250
	764,335	42,000	-	-	62,715	-	-	184,876			1,053,926
Key Management Personnel											
Geoff Hollis	136,468	-	-	-	12,282	-	-	27,188	-	15.5	175,937
Total	900,803	42,000	-	-	74,997	-	-	212,064			1,229,863

8. Options and CRES held by Key Management Personnel

8.1 Options and CRES on issue (issued as remuneration)

The terms and conditions of each grant of options or CRES affecting remuneration in the current or future reporting period are as follows:

Plan	Number	Grant date	Vesting date	Expiry date	Exercise price	Value per option at grant date	Performance hurdles achieved	% Vested
ESOP	1,275,000	24 Nov 2010	24 Nov 2012	24 Nov 2015	\$0.650	\$0.435	Yes	100%
ESLP	266,667	22 May 2013	22 May 2015	22 May 2018	\$0.876	\$0.207	Not yet	N/A
ESLP	266,667	22 May 2013	22 May 2016	22 May 2018	\$0.876	\$0.216	Not yet	N/A
ESLP	266,667	22 May 2013	22 May 2017	22 May 2018	\$0.876	\$0.220	Not yet	N/A

As at the date of this report, there were 4,575,000 unissued ordinary shares under option or CRES. Of these, 2,075,000 were issued as remuneration.

No option holder has any right under the options to participate in any other share issue of the Company. There were no alterations to the terms and conditions of options granted as remuneration since their grant date. No options were exercised during the period. 415,000 options lapsed during the 2013 financial year.

For details on the valuation of the options, including models and assumptions used, please refer to Note 25 of the Company's 2013 financial statements.

8.2 Options and CRES issued to Key Management Personnel as remuneration

Name	Year of grant	Vesting year	Plan	Number	Value at grant date	Number vested during the year	Vested %	Number expired during the year
B Carter	2010	2012	ESOP	200,000	\$87,000	200,000	100%	-
D Perlov	2010	2012	ESOP	200,000	\$87,000	200,000	100%	-
J Kelly	2010	2012	ESOP	200,000	\$87,000	200,000	100%	-
T Poole	2008	2009	N/A	400,000	\$264,960	-	100%	100%
	2010	2012	ESOP	125,000	\$54,375	125,000	100%	-
G Hollis	2010	2012	ESOP	125,000	\$54,375	125,000	100%	-
	2013	2015	ESLP	100,000	\$20,700	-	-	-
	2013	2016	ESLP	100,000	\$21,600	-	-	-
	2013	2017	ESLP	100,000	\$22,000	-	-	-

9. Remuneration Report Voting at Annual General Meetings

Lifestyle Communities Limited received more than 99% of 'yes' votes in respect of its Remuneration Report for the 2012 financial year. The Company did not receive any specific feedback at the AGM or throughout the 2013 financial year on its remuneration practices.

Signed in accordance with a resolution of the Directors.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Tim Poole".

Tim Poole
Chairman
21 August 2013

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

James Kelly
Managing Director
21 August 2013

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Lifestyle Communities Limited

In relation to the independent audit for the year ended 30 June 2013, to the best of my knowledge and belief there have been:

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



S D WHITCHURCH

Partner

21 August 2013



PITCHER PARTNERS

Melbourne

Corporate Governance Statement

The Company's adherence to the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations (2nd edition)* are described in this section.

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 the Company's website.

Tim Poole and Jim Craig are non-executive Directors. Dael Perlov, James Kelly and Bruce Carter are all significant shareholders, 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.

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.

The Board Charter can be viewed on the Company's website.

2. Structure the Board to Add Value

The Board comprises three Executive Directors and two non-executive Directors whose qualifications and experience are set out in pages 5 and 6 of the Directors' Report.

It is recommended that the Board contain a majority of independent directors. Both non-executive Directors, Tim Poole (Chairman) and Jim Craig are considered to be independent as defined in the ASX Guidelines. James Kelly is Managing Director of the Company. The Company is planning to appoint a third independent non-executive Director and intends to complete the appointment during the first quarter of the 2014 financial year.

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 HR & Remuneration Committee, the charter for which is currently being revised.

Jim Craig and Tim Poole form this committee and both have attended the two meetings held during the 2013 financial year. 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 ASX Listing Rules and the Company's Constitution.

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.

The Company has a Securities Trading Policy in accordance with the ASX Corporate Governance Principles.

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. The Chairman will generally allow directors and officers to deal in securities of Lifestyle Communities Limited in the following 'window' periods:

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

Trading outside of the 'window' period can only occur with approval from the Chairman.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation. Accordingly the Company is in the process of developing a diversity policy which will be available on the Company's website when it is completed during the 2014 financial year. The policy will outline the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It will include requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

The Company has established the following objectives in relation to gender diversity. Gender diversity is of particular importance as the Company has over 42% of homes occupied by single females and of the Company's 1,027 total homeowners, 629 (or 61%) are female.

Directors

It is the Company's objective to have female representation on the Board and an appointment is expected during the first quarter of the 2014 financial year. It is considered beneficial to have a female non-executive Director given more than 61% of the Company's homeowners are female.

Employees

It is the Company's objective to have 50% or more female employees across its workforce. This ensures adequate female representation is present across all business practices with particular emphasis on our sales and community management functions. As at 30 June 2013 the Company is achieving this objective by employing 20 women or 53% of the Company's total workforce of 38.

Responsibility for diversity will be included in the HR & Remuneration committee charter.

4. Safeguard Integrity in Financial Reporting

Audit committee

The audit committee currently comprises two independent directors, Tim Poole and Jim Craig whose details are set out in pages 5 and 6 of the Directors' Report. The Company is currently seeking to appoint a third independent director who will also be a member of the Audit Committee.

Details of meeting attendances can be located on page 7 of the Director's Report.

The Audit Committee Charter which is available on the Company's website, sets out role of the committee.

5. Make Timely and Balanced Disclosure

The Board recognises the importance of keeping the market fully informed of the Company's activities and of stakeholder communication in a timely, balanced and transparent manner. Board policy is to achieve effective communication with its shareholders through compliance with ASX Listing Rules and Corporations Act reporting requirements. All ASX announcements are placed on the Company's website.

The Company holds a general meeting each year and copies of the Managing Director's address are placed on the ASX and Lifestyle Communities website. The external auditor attends the meeting each year and is available to answer questions from the shareholders regarding the conduct of the audit, the preparation and content of the auditor's report, the accounting policies adopted by the Company in the preparation of its financial statements and the independence of the auditor in relation to the conduct of the audit. Shareholders also have the opportunity to meet informally with Directors after the meeting.

6. Respect the Rights of Shareholders

The Board maintains an up to date investor section on its website and ensures all relevant announcements are placed on the website after release to the ASX.

7. Recognise and Manage Risk

The Board has responsibility for managing risk and internal controls 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 Company's key risks are disclosed within the Operating and Financial Review on page 17 of the Director's Report. 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.

The Company has the following key controls in place to safeguard the Company's interests and ensure the integrity of its financial reporting:

- A robust planning and budgeting process providing a long-term financial model that enables the Board to review timely financial forecasts as well as analyse future opportunities and sensitivities. In addition to this the Board receives regular forecasts in relation to the liquidity of the business.
- A comprehensive site selection process that requires Board approval of any business case prior to any land acquisition. The Board is notified and approves any changes (positive or negative) to the business case prior to the commencement of construction.
- A system of delegated authorities that cascades authority levels for expenditure and commitments from the Board, the delegation to the Managing Director and further cascading of authorities from the Managing Director to the rest of the organisation.
- All managers (sales, marketing, construction, operation and development and acquisition) in addition to the CFO report to the Board on financial and non-financial matters monthly and are available to meet with the Board on a needs basis.

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 workings of the Company. It is considered that a structured internal audit function is therefore not appropriate at this time, although ad hoc internal control procedures are undertaken at the direction of the CFO. The Directors believe the system of internal control is appropriate to the size of the Company and to its level of potential risk.

The Managing Director and Chief Financial Officer provide assurance to the Board in accordance with section 295A of the *Corporations Act 2001*.

8. Remunerate Fairly and Responsibly

Refer to the Remuneration Report located within pages 18 to 24 in the Director's Report for detail of the Company's compliance with this recommendation.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Revenue			
Home settlement revenue		36,551,998	31,659,546
Rental and utilities revenue		5,573,715	4,221,669
Deferred management fee		2,826,043	1,804,908
Sub-division revenue		-	663,805
Finance revenue		952,048	472,267
Total revenue		45,903,804	38,822,195
Cost of sales		(28,298,187)	(24,623,869)
Gross profit		17,605,617	14,198,326
Other income	4	6,779,813	7,622,970
<i>less Expenses</i>			
Sub-division expenses		-	(428,558)
Development expenses		(3,449,832)	(2,350,987)
Community management expenses		(3,529,205)	(2,287,856)
Corporate overheads		(3,500,248)	(3,273,494)
Land expenses		-	(387,300)
Finance costs	5	(2,077,335)	(2,921,809)
Profit before income tax		11,828,810	10,171,292
Income tax expense	6	(3,117,660)	(2,829,718)
Net profit from continuing operations		8,711,150	7,341,574
Profit is attributable to:			
Members of the parent		6,239,963	6,047,726
Non-controlling interests		2,471,187	1,293,848
		8,711,150	7,341,574
Total comprehensive income is attributable to:			
Members of the parent		6,239,963	6,047,726
Non-controlling interests		2,471,187	1,293,848
		8,711,150	7,341,574
Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
		cents	cents
Basic earnings per share	23	8.448	13.085
Dilutive earnings per share	23	8.423	13.018

The above statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
As at 30 June 2013

	Note	2013 \$	2012 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	16,143,921	3,329,742
Trade and other receivables	9	1,184,861	842,881
Inventories	10	21,279,703	16,366,922
Land held for sale	13	126,619	-
Other current assets	11	242,707	325,694
Total current assets		38,977,811	20,865,239
Non-current assets			
Trade and other receivables	9	8,343,628	5,417,306
Inventories	10	14,253,221	15,578,977
Property, plant and equipment	12	975,507	755,857
Land held for sale	13	-	126,619
Other financial assets	14	2,000,000	2,500,000
Investment properties	15	73,166,432	65,780,516
Total non-current assets		98,738,788	90,159,275
TOTAL ASSETS		137,716,599	111,024,514
LIABILITIES			
Current liabilities			
Trade and other payables	16	9,565,279	6,083,914
Interest-bearing loans and borrowings	18	5,691,695	31,377
Provisions	17	295,219	225,700
Total current liabilities		15,552,193	6,340,991
Non-current liabilities			
Interest-bearing loans and borrowings	18	28,181,602	54,899,994
Provisions	17	216,636	182,578
Deferred tax liabilities	6	12,396,662	9,636,017
Total non-current liabilities		40,794,900	64,718,589
TOTAL LIABILITIES		56,347,093	71,059,580
NET ASSETS		81,369,506	39,964,934
EQUITY			
Contributed equity	19	60,993,959	24,214,692
Reserves	20	1,325,123	799,363
Retained earnings	20	19,050,424	15,121,327
Members' interest in equity		81,369,506	40,135,382
Non-controlling interest	21	-	(170,448)
TOTAL EQUITY		81,369,506	39,964,934

The above statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2013

	Contributed equity	Reserves	Retained earnings	Non- controlling interest	Total Equity
	\$	\$	\$		\$
Balance at 1 July 2011	24,214,692	522,051	11,383,966	-	36,120,709
Adjustment on change of accounting policy	-	-	-	(119,203)	(119,203)
Restated opening balance	24,214,692	522,051	11,383,966	(119,203)	36,001,506
Profit for the year	-	-	6,047,726	1,293,848	7,341,574
Total comprehensive income for the year	-	-	6,047,726	1,293,848	7,341,574
Transactions with owners in their capacity as owners:					
Net distributions to non-controlling interests	-	-	-	(1,345,093)	(1,345,093)
Dividends paid	-	-	(2,310,365)	-	(2,310,365)
Employee share schemes	-	277,312	-	-	277,312
	-	277,312	(2,310,365)	(1,345,093)	(3,378,146)
Balance as at 30 June 2012	24,214,692	799,363	15,121,327	(170,448)	39,964,934
Profit for the year	-	-	6,239,963	2,471,187	8,711,150
Total comprehensive income for the year	-	-	6,239,963	2,471,187	8,711,150
Transactions with owners in their capacity as owners:					
Net distributions to non-controlling interests	-	-	-	(2,300,739)	(2,300,739)
Dividends paid	-	-	(2,310,866)	-	(2,310,866)
Employee share schemes	-	119,304	-	-	119,304
Dividend reinvestment plan	1,529,138	-	-	-	1,529,138
Issue of shares - placement	3,000,001	-	-	-	3,000,001
Issue of shares - entitlement offer	33,489,619	-	-	-	33,489,619
Costs of issue - cash	(1,190,050)	-	-	-	(1,190,050)
Costs of issue - tax effect	357,015	-	-	-	357,015
Costs of issue - share options	(406,456)	406,456	-	-	-
	36,779,267	525,760	(2,310,866)	(2,300,739)	32,693,422
Balance as at 30 June 2013	60,993,959	1,325,123	19,050,424	-	81,369,506

The above statement should be read in conjunction with the accompanying notes.

Consolidated Cash Flow Statement
For the year ended 30 June 2013

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Receipts from customers		46,462,775	40,411,330
Payments to suppliers and employees		(43,169,118)	(43,921,759)
Interest received		419,502	363,514
Interest paid		(3,754,969)	(4,702,019)
Net cash flows used in operating activities	22	(41,810)	(7,848,934)
Cash flows from investing activities			
Purchase of property, plant and equipment	12(a)	(370,528)	(131,352)
Proceeds from long-term deposit		500,000	-
Purchase of investment properties and capitalised costs		(76,292)	(9,471,278)
Interest paid		(531,161)	(546,674)
Net cash flows from (used in) investing activities		(477,981)	(10,149,304)
Cash flows from financing activities			
Proceeds from external borrowings		21,219,900	31,690,474
Repayment of external borrowings		(42,380,708)	(18,741,453)
Dividend paid		(781,728)	(2,310,365)
Proceeds from entitlement offer and placement (net of costs)		35,299,570	-
Repayments of hire purchase		(23,064)	(23,410)
Net cash flows from financing activities		13,333,970	10,615,246
Net increase / (decrease) in cash held		12,814,179	(7,382,992)
Cash at the beginning of the financial year		3,329,742	10,712,734
Cash at the end of the financial year	8	16,143,921	3,329,742

The above statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the year ended 30 June 2013

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. Lifestyle Communities Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue in accordance with a resolution of the directors on 21 August 2013.

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 requires 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) 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.

Non-controlling interests in the results of subsidiaries are shown separately in the consolidated statement of comprehensive income and consolidated statement of financial position respectively.

(c) 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.

(d) 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. Inventories are classified as either current or non-current assets pursuant to the timing of their anticipated sale.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) 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 settlement of the unit, 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 ownership 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 is discounted using an imputed rate of interest that is aligned to the Group's weighted cost of finance. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death.

(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).

(f) 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:

	2013	2012
Buildings	40 years	40 years
Plant and equipment	2 to 13 years	2 to 13 years
Computer equipment	2 to 9 years	2 to 9 years
Motor vehicles	4-7 years	4-7 years

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

Notes to the Financial Statements

For the year ended 30 June 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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.

(h) 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.

Hire purchase agreements

Assets acquired on hire purchase arrangements are capitalised in the financial statements and the corresponding obligations treated as a liability. The total interest, being the difference between the total instalments payable and the capitalised amount, is charged to the income statement over the period of such hire purchase arrangements in equal monthly instalments to produce a constant rate of charge on the balance of capital repayments outstanding. Assets acquired on hire purchase arrangements are depreciated in accordance with the policy set out in Note 1(f).

Operating leases

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

(i) 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.

(j) 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

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.

(l) 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 (ESOP) and an employee share loan scheme (ESLP). Under the ESLP, convertible repurchase-able employee shares (CRES) are issued to employees. For accounting purposes CRES are treated like options until the time of vesting. At the time of vesting an interest-free limited recourse loan is made to the participant with the value reflected as equity. The CRES are then convertible to ordinary shares at the discretion of the participant prior to their expiry with the loan being repaid at the time of conversion. 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 and employee share loans 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.

(m) 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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.

(o) Comparatives

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

(p) New accounting standards and interpretations not adopted

The following standards and interpretations have been issued at the reporting date but are not yet effective. The directors' assessment of the impact of these standards and interpretations is set out below.

(i) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 introduces a fair value framework for all fair value measurements in the full suite of accounting standards. This standard explains how to measure fair value and aims to enhance fair value disclosures. The consolidated entity has determined that the adoption of AASB 13 will not give rise to any adjustments to the measurement of assets and liabilities. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. Disclosure pertaining to financial assets and liabilities measured and recognised at fair value will be determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

Disclosure relating to the deferred management fee receivable and investment properties financial assets will be impacted.

Deferred management fee receivable

The deferred management fee is calculated based on assumptions such as probability of expected stay, using Australian Bureau of Statistics Life Tables. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death. 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 finance. Due to these assumptions measurement is considered to be level 3 per the measurement hierarchy above.

Notes to the Financial Statements

For the year ended 30 June 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) New accounting standards and interpretations not adopted (continued)

Investment properties

Investment properties are carried at the fair value of completed homes and undeveloped land. Inputs for the discounted annuity streams associated with the completed homes are derived from independent valuations. The inputs are adjusted to reflect appropriate conditions pertaining to the weekly rental and expenses at each community. The fair value of the land is based on Directors' valuations.

The valuation of completed homes will be a level 2 measurement per the measurement hierarchy whereas the valuation of undeveloped land will be considered a level 3 measurement.

The consolidated entity does not expect to adopt the new standard before the operative date. The standard would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(ii) Other standards

Other standards and interpretations have been issued at the reporting date but are not yet effective. When adopted, these standards and interpretations are unlikely to materially impact on the financial information presented, however the assessment of the impact has not yet been completed.

(q) Change of accounting policy due to new accounting standards and interpretations

The following standards and interpretations have been issued at the reporting date but are not yet mandatory. The directors' have decided to early adopt the standards and interpretations below as they have made the assessment that the early adoption of the standards and interpretations provides users with more relevant financial information.

(i) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interest in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*. The standard fundamentally changes the way control is defined for the purpose of identifying those entities to be included in the consolidated financial statements. It focuses on the need to have power over the investee, rights or exposure to variable returns and ability to use the power to affect the amount of its returns. Returns must vary and can be positive, negative or both. There is also new guidance on substantive rights versus protective rights and on agent versus principal relationships. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the accounting for consolidation.

AASB 11 does not focus on the legal structure of joint arrangements, but rather on how and what rights and obligations are shared between parties. If the parties share the right to the net assets of the joint arrangement, these parties are parties to a joint venture. A joint venturer can account for an investment in the arrangement using the equity method, and the choice to proportionately consolidate will no longer be permitted.

AASB 12 sets new minimum disclosure requirements for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of this standard will affect the type of information disclosed in relation to the consolidated entity's investments as the new standard requires extensive new disclosures regarding the nature of risk associated with the entity's interest in other entities and the effect of those interests on its financial position, financial performance and cash flows.

Impact

In prior years the Company proportionately consolidated its interests in then joint venture entities being Cameron Street Developments Pty Ltd and Lifestyle Chelsea Heights Pty Ltd. The revised AASB 11 removes the option for proportional consolidation. Under the new AASB 10 standard, and the amendments to the definition of control, the Company is now able to consolidate its interests in Cameron Street Developments Pty Ltd (as trustee for Cameron Street Developments Unit Trust) and Lifestyle Chelsea Heights Pty Ltd (as trustee for Lifestyle Chelsea Heights Unit Trust).

For details relating to the change of accounting policy and amendments made to prior year comparative information refer to Note 29.

For details of subsidiaries of the consolidated entity refer to Note 24.

For detail relating to Cameron Street Developments Pty Ltd and Lifestyle Chelsea Heights Pty Ltd non-controlling interests refer to Note 21.

Notes to the Financial Statements

For the year ended 30 June 2013

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.

Consolidation of subsidiaries

In prior years the Company proportionately consolidated its interests in then joint venture entities being Cameron Street Developments Pty Ltd and Lifestyle Chelsea Heights Pty Ltd. Under the new AASB 10 standard that has been adopted, and the amendments to the definition of control, the Company is now able to consolidate its interests in Cameron Street Developments Pty Ltd (as trustee for Cameron Street Developments Unit Trust) and Lifestyle Chelsea Heights Pty Ltd (as trustee for Lifestyle Chelsea Heights Unit Trust). The predominant driver for being able to control the aforementioned companies is that the Company is exposed to variable returns and is able to influence these returns via the power over the investee due to the structure of the arrangements.

(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 undeveloped 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 finance. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death.

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 25. 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 2013

NOTE 3: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The Group's principal financial instruments comprise loan notes, bank loans, 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 repaid \$16,849,816 from its long-term loan note debt facility. This facility has a limit of \$25 million and is fully drawn (refer Note 18 for details). The facility is fixed interest therefore reducing the Group's exposure to increases in variable interest rates. The facility also has reduced re-finance risk that generally relates to bank debt due to its long-term nature.

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):

	2013 \$	2012 \$
Financial assets		
Cash and cash equivalents	16,143,921	3,329,136
Other financial assets - term deposits	2,000,000	2,500,000
	<u>18,143,921</u>	<u>5,829,136</u>
Financial liabilities		
Secured loans - bank finance	9,917,662	14,228,653
	<u>9,917,662</u>	<u>14,228,653</u>
Net exposure	<u><u>8,226,259</u></u>	<u><u>(8,399,517)</u></u>

Financial liabilities relating to the loan note are classified as non-current and are fixed interest liabilities not exposed to interest rate fluctuations.

If interest rates had moved and been effective for the period, 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)	
	2013 \$	2012 \$	2013 \$	2012 \$
Consolidated				
+1% (100 basis points)	57,584	(58,797)	-	-
-1% (100 basis points)	(57,584)	58,797	-	-

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.

Notes to the Financial Statements
For the year ended 30 June 2013

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.

	2013	2012
	\$	\$
Deferred management fee		
Current	210,678	692,400
Non current	7,033,040	4,106,718
	7,243,718	4,799,118

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)	
	2013	2012	2013	2012
	\$	\$	\$	\$
+1% (100 basis points)	(50,706)	(33,594)	-	-
-1% (100 basis points)	50,706	33,594	-	-

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)	
	2013	2012	2013	2012
	\$	\$	\$	\$
+10%	507,060	335,938	-	-
-10%	(507,060)	(335,938)	-	-

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.

There is no impact on equity as any change to the deferred management fee receivable is offset against investment properties.

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)	
	2013	2012	2013	2012
	\$	\$	\$	\$
+0.25%	(856,096)	(698,183)	(856,096)	(698,183)
-0.25%	907,799	740,476	907,799	740,476

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.

Other receivables relate to development fees due from joint ventures. The Company manages credit risk relating to these fees as they have been appointed development manager for each joint venture project. The Company is confident that the joint ventures will be able to fully repay the development fees that are owing.

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:

	2013	2012
	\$	\$
6 months or less ⁽¹⁾	7,186,264	2,677,567
6-12 months ⁽²⁾	5,680,537	10,834
1-2 years ⁽³⁾	4,239,047	15,586,757
2-3 years ⁽⁴⁾	25,000,000	41,849,816
	42,105,848	60,124,974

⁽¹⁾ This amount is represented by the following financial liabilities:

- \$11,158 relates to current hire purchase arrangement.
- \$3,645,831 relates to trust distributions payable to non-controlling interests, as the Company has no legal right to defer payment they are classified as current, although it is likely they will be repaid within one to two years.
- \$3,529,275 relates to trade and other payables, refer to Note 16 for further detail.

⁽²⁾ \$1,922 relates to current hire purchase arrangements. \$5,678,615 represents the facility held by the company in relation to the Chelsea Heights development. The facility has an expiry date of greater than one year, expiring on 30 September 2014. The liability has been classified as current as the company expects to fully repay this debt within the next 12 months.

⁽³⁾ \$4,239,047 representing the facility held by the company in relation to the Shepparton development. The facility was entered into on 30 November 2011. The facility expires on 30 September 2014.

The Group has been using surplus cash to fund the development of its Shepparton and Hastings developments. This practice will continue until the surplus cash is deployed for other purposes. The Group is able to draw all cash funded development costs from its Shepparton and Hastings facilities when required.

The Group has met all required covenants since the arrangements commenced and therefore expects that all current arrangements will continue until the sooner of repayment or expiry.

⁽⁴⁾ During the year the Company repaid \$16,849,816 from its loan note facility and reduced the facility limit from \$50 million down to \$25 million. The facility expires on 19 May 2021, both parties have the option for early redemption at five years (being 19 May 2016). The long-term nature of the facility reduces the Group's re-finance risk.

Notes to the Financial Statements

For the year ended 30 June 2013

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

Risk exposure and responses (continued)

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.

Financial assets and liabilities measured and recognised at fair value have been determined by the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that are not based on observable market data

Deferred management fee receivable

The deferred management fee is calculated based on assumptions such as probability of expected stay, using Australian Bureau of Statistics Life Tables. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a large proportion of residents depart the communities for reasons other than death. 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 finance. Due to these assumptions measurement is considered to be level 3 per the measurement hierarchy above.

Reconciliation of level 3 fair value movements (deferred management fee receivable)

	2013	2012
	\$	\$
Opening balance	4,799,118	3,459,521
Impact of changes to house prices	480,942	333,639
Deferred management fees received	(381,443)	(465,311)
Aged growth in existing receivables and new settlements	2,345,101	1,471,269
Closing balance	7,243,718	4,799,118

Sensitivity analysis

The deferred management fee calculation is sensitive to changes in interest rates, house prices, and the expected occupancy of residents. The impact of a change to one of these inputs is assessed below:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2013	2012	2013	2012
	\$	\$	\$	\$
<i>Interest rate</i>				
+1% (100 basis points)	(50,706)	(33,594)	-	-
-1% (100 basis points)	50,706	33,594	-	-
<i>Property prices</i>				
+10%	507,060	335,938	-	-
-10%	(507,060)	(335,938)	-	-
<i>Expected occupancy</i>				
+ 1 year	(708,656)	(837,536)	-	-
- 1 year	773,470	119,949	-	-

NOTE 4: OTHER INCOME

Net gain from fair value adjustments - investment properties (a) (Note 15)	6,779,813	7,622,970
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(a) Fair value adjustment results from restating Brookfield, Seasons, Warragul, Cranbourne, Shepparton and Chelsea Heights communities 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.

Notes to the Financial Statements

For the year ended 30 June 2013

	2013	2012
	\$	\$
NOTE 5: PROFIT FROM CONTINUING OPERATIONS		
Profit from continuing operations before income tax has been determined after the following specific expenses:		
(a) Finance costs expensed		
Loan notes and bank loans	1,860,587	2,723,297
Amortisation of capitalised costs of loan note finance	134,110	134,477
Amortisation of loan facility fees	82,638	64,035
	<u>2,077,335</u>	<u>2,921,809</u>
<i>(i) Capitalised interest</i>		
Profit from operations excludes interest capitalised as part of inventory and investment properties:	3,454,716	3,505,203
Interest has been capitalised at the prevailing facility interest rate.		
(b) Depreciation		
Depreciation (Note 12)	150,878	128,824
(c) Employee benefits expense		
Wages and salaries	2,896,816	2,453,311
Defined contribution superannuation expense	233,139	219,002
Share option expense	119,304	277,312
Other employee benefits	103,577	18,545
	<u>3,352,836</u>	<u>2,968,170</u>
NOTE 6: INCOME TAX		
(a) Components of tax expense		
Current tax	-	-
Deferred income tax	3,117,660	2,829,718
	<u>3,117,660</u>	<u>2,829,718</u>
(b) Deferred income tax expense / (revenue) included in income tax expense comprises		
Decrease / (increase) in deferred tax assets	(15,496)	(194,108)
(Decrease) / increase in deferred tax liabilities	3,133,156	3,023,826
	<u>3,117,660</u>	<u>2,829,718</u>
(c) Deferred income tax included directly in equity comprises		
Decrease / (increase) in deferred tax assets	(357,015)	-
(d) Reconciliation between tax expense recognised in the income statement and tax expense calculated per the statutory income tax expense		
Accounting profit before tax	11,828,810	10,171,292
At the statutory income tax rate of 30% (2012:30%)	3,548,643	3,051,388
Add / (less):		
Share based payments	35,791	83,194
Non-controlling interests accounting and tax adjustments	(716,660)	(303,627)
Other	249,886	(1,236)
Income tax expense	<u>3,117,660</u>	<u>2,829,719</u>

Notes to the Financial Statements
For the year ended 30 June 2013

	2013	2012
	\$	\$
NOTE 6: INCOME TAX (continued)		
(e) Current tax		
Current tax relates to the following:		
Opening balance	-	-
Income tax	-	-
Tax payments	-	-
Current tax liabilities	<u>-</u>	<u>-</u>
(f) Deferred tax		
Deferred tax relates to the following:		
<i>Deferred tax assets</i>		
The balance comprises:		
Borrowing costs	17,197	16,311
Capital raising costs	321,314	-
Capital losses	519,439	519,439
Tax losses	1,417,797	1,509,697
Provision for employee entitlements	153,557	122,483
Payables	515,303	404,166
	<u>2,944,607</u>	<u>2,572,096</u>
<i>Deferred tax liabilities</i>		
The balance comprises:		
Deferred management fee	2,173,116	1,439,735
Other receivables	56,828	131,927
Finance arranger costs	85,095	44,862
Interest	1,507,093	1,092,511
Temporary differences on investment property	11,519,137	9,479,884
Temporary differences on inventory	-	19,194
	<u>15,341,269</u>	<u>12,208,113</u>
Net deferred tax liability	<u>(12,396,662)</u>	<u>(9,636,017)</u>
NOTE 7: DIVIDENDS		
(a) Dividends		
Declared and paid during the year	<u>2,310,866</u>	<u>2,310,365</u>
(b) Dividends declared after balance date and not recognised		
In the prior year, since balance date the directors have recommended a dividend of \$0.05 per share (adjusted for impact of share consolidation) fully franked at 30%	-	2,310,866
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>3,064,831</u>	<u>3,064,831</u>

Notes to the Financial Statements

For the year ended 30 June 2013

	2013	2012
	\$	\$
NOTE 8: CASH & CASH EQUIVALENTS		
Cash at bank and on hand	5,182,562	3,054,136
Short-term deposits	10,961,359	275,606
	<u>16,143,921</u>	<u>3,329,742</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 30 days 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

Other related parties	-	59,599
Deferred management fee	210,678	692,400
Other receivables	974,183	90,882
	<u>1,184,861</u>	<u>842,881</u>

NON-CURRENT

Other receivables	1,310,588	1,310,588
Deferred management fee	7,033,040	4,106,718
	<u>8,343,628</u>	<u>5,417,306</u>

No trade and other receivables are past due.

(a) Related party receivables

For terms and conditions of related party receivables, refer to Note 24.

(b) Other receivables

Other receivables are non-interest bearing. The non-current receivable relates to Cameron Street Developments and will be repaid within one to two years.

(c) 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 2013

	2013	2012
	\$	\$
NOTE 10: INVENTORIES		
CURRENT		
Completed units	10,253,417	9,206,227
Civils & infrastructure	11,026,286	7,160,695
	<u>21,279,703</u>	<u>16,366,922</u>
NON-CURRENT		
Completed units	1,906,045	3,681,783
Civils & infrastructure	12,347,176	11,897,194
	<u>14,253,221</u>	<u>15,578,977</u>
TOTAL INVENTORIES	<u>35,532,924</u>	<u>31,945,899</u>

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2013 totalled \$28,298,187 for the Group (2012: \$24,623,869). The expense has been included in the cost of sales line item as a cost of sales.

NOTE 11: OTHER CURRENT ASSETS

Security deposits	48,610	46,785
Other assets	72,339	176,106
Prepayments	121,758	102,803
	<u>242,707</u>	<u>325,694</u>

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

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

Year end 30 June 2013	Buildings	Plant and equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$
At 1 July 2012 net of accumulated depreciation	142,294	403,913	85,481	124,169	755,857
Additions	969	234,490	17,544	117,525	370,528
Depreciation charge for the year	(3,550)	(81,252)	(28,933)	(37,143)	(150,878)
At 30 June 2013 net of accumulated depreciation	<u>139,713</u>	<u>557,151</u>	<u>74,092</u>	<u>204,551</u>	<u>975,507</u>
At 30 June 2013					
Cost	162,090	1,045,899	284,317	350,022	1,842,328
Accumulated depreciation	(22,377)	(488,748)	(210,225)	(145,471)	(866,821)
Net carrying amount	<u>139,713</u>	<u>557,151</u>	<u>74,092</u>	<u>204,551</u>	<u>975,507</u>

Notes to the Financial Statements
For the year ended 30 June 2013

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 2012	Buildings	Plant and equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$
At 1 July 2011 net of accumulated depreciation	145,618	376,053	87,415	144,243	753,329
Additions	-	101,559	23,377	6,416	131,352
Depreciation charge for the year	(3,324)	(73,699)	(25,311)	(26,490)	(128,824)
At 30 June 2012 net of accumulated depreciation	142,294	403,913	85,481	124,169	755,857
At 30 June 2012					
Cost	161,121	811,411	266,773	232,497	1,471,802
Accumulated depreciation	(18,827)	(407,498)	(181,292)	(108,328)	(715,945)
Net carrying amount	142,294	403,913	85,481	124,169	755,857

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

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

	2013	2012
	\$	\$
NOTE 13: LAND HELD FOR SALE		
CURRENT		
Land held for sale at cost	126,619	-
NON-CURRENT		
Land held for sale at cost	-	126,619

Land held for sale relates to the sub-division of 3.1ha of land at the site in Warragul, to date 6 out of the 7 available lots have been sold and settled. The final lot is under a conditional contract and is expected to settle prior to 30 June 2014.

NOTE 14: OTHER FINANCIAL ASSETS

NON-CURRENT		
Term deposit	2,000,000	2,500,000

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

Notes to the Financial Statements
For the year ended 30 June 2013

	2013	2012
	\$	\$
NOTE 15: INVESTMENT PROPERTIES		
Investment properties at fair value	73,166,432	65,780,516
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Opening balance as at 1 July	65,780,516	54,981,748
Additions	606,103	3,805,238
Transfers to inventory (i)	-	(502,540)
Disposals (ii)	-	(126,900)
Net gain from fair value adjustments	6,779,813	7,622,970
Closing balance as at 30 June	<u>73,166,432</u>	<u>65,780,516</u>

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 undeveloped land. Inputs for the discounted annuity streams associated with the completed home units are derived from independent valuations. The inputs are adjusted conservatively to reflect appropriate conditions pertaining to the weekly rental and expenses at each community. 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) The transfer to inventory related to Shepparton development costs transferred upon commencement of the development.
- (ii) Water rights associates with the Shepparton land were disposed of during the prior year.

(b) Carrying amount of investment properties if the cost method had been applied	<u>30,971,819</u>	<u>30,365,714</u>
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NOTE 16: TRADE AND OTHER PAYABLES

CURRENT

Trade payables (b)	1,051,316	1,066,820
Accrued future project expense	2,390,169	2,071,738
Other payables and accruals (c)	2,477,963	1,600,263
Trust distributions payable (d)	<u>3,645,831</u>	<u>1,345,093</u>
	<u>9,565,279</u>	<u>6,083,914</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) Trust distributions payable

These are payable to non-controlling interests and are expected to be paid within one to two years but the Company has no legal right to defer payment so they are classified as current.

(e) Interest rate and liquidity risk

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

Notes to the Financial Statements

For the year ended 30 June 2013

		2013 \$	2012 \$
NOTE 17: PROVISIONS			
CURRENT			
Provision for annual leave		295,219	225,700
NON-CURRENT			
Provision for long service leave		216,636	182,578
(a) Total employees at balance date		37	34
NOTE 18: INTEREST-BEARING LOANS AND BORROWINGS			
CURRENT			
	Maturity		
Hire purchase (Note 26)		13,080	21,249
Loans from related parties (Note 24)	On demand	-	10,128
Secured loans - bank finance	Sep 2014	5,678,615	-
		5,691,695	31,377
NON-CURRENT			
	Maturity		
Hire purchase (Note 26)		-	13,080
Secured loans - bank finance	Sep 2014	4,239,047	14,228,653
Secured loans - loan notes	May 2021	25,000,000	41,849,816
Capitalised costs of finance		(1,057,445)	(1,191,555)
		28,181,602	54,899,994

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

This represents the facility held by the company with Westpac Banking Corporation in relation to the Chelsea Heights development. The facility has an expiry date of greater than one year, expiring on 30 September 2014. The liability has been classified as current as the company expects to fully repay this debt within the next 12 months based upon the expected cash flows.

(ii) Non-current secured loans - bank finance

This represents the facility held by the company with Westpac Banking Corporation in relation to the Shepparton development. The facility has an expiry date of greater than one year, expiring on 30 September 2014. The facility has a total capacity of \$6.5 million and is grouped with the facility to develop the Hastings development. The Hastings development facility has a capacity of \$7.5 million.

The prior year balance related to facilities held by the company with Westpac Banking Corporation in relation to the Shepparton, Cranbourne, Chelsea Heights and Hastings developments.

The Group has been using surplus cash to fund the development of its Shepparton and Hastings developments. This practice will continue until the surplus cash is deployed for other purposes. The Group is able to draw all cash funded development costs from its Shepparton and Hastings facilities when required.

The Group has met all required covenants since the arrangements commenced and therefore expects that all current arrangements will continue until the sooner of repayment or expiry.

(iii) Non-current secured loans - loan notes

During the year the Company repaid \$16,849,816 from its loan note facility and reduced the facility limit from \$50 million down to \$25 million. The facility expires on 19 May 2021, both parties have the option for early redemption at five years (being 19 May 2016). The Group has met all requirements as per the subscription agreement.

(iv) Loans from related parties

For terms and conditions on loans from related parties refer to Note 24.

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

(c) Assets pledged as security

The facilities with Westpac Banking Corporation are 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, Lifestyle Chelsea Heights Pty Ltd, Lifestyle Investments 2 Pty Ltd and Lifestyle Management 2 Pty Ltd.

Limited guarantee and indemnity provided by Lifestyle Investments 2 Pty Ltd, Lifestyle Developments 2 Pty Ltd, Lifestyle Management 2 Pty Ltd and Lifestyle Communities Ltd for \$3,500,000.

Mortgage by Lifestyle Communities Investments Cranbourne Pty Ltd over Cranbourne property and Lifestyle Investment 2 Pty Ltd over Chelsea Heights, Shepparton and Hastings properties.

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 various Business Finance Agreements with Westpac; 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.

NOTE 19: CONTRIBUTED EQUITY

99,970,131 Ordinary shares (2012: 462,173,090 Ordinary shares)
800,000 Convertible repurchase-able employee shares (CRES)

	2013	2012
	\$	\$
	60,993,959	24,214,692
	-	-
	60,993,959	24,214,692

(i) reconciliation of Ordinary shares

2012

	Number	\$
Opening balance	462,073,090	24,214,692
Issue of options	100,000	-
Balance as at 30 June 2012	462,173,090	24,214,692

2013

Dividend reinvestment plan	16,250,043	1,529,138
Issue of shares - placement	42,857,157	3,000,001
Issue of shares - entitlement offer	478,423,126	33,489,619
Costs of issue - cash		(1,190,050)
Costs of issue - tax effect		357,015
Costs of issue - share options		(406,456)
Share consolidation (a)	(899,733,285)	
Balance as at 30 June 2013	99,970,131	60,993,959

(ii) reconciliation of CRES

2013

	Number	\$
Issue of CRES	800,000	-
Balance as at 30 June 2013	800,000	-

(a) Share consolidation

The share consolidation was a one for ten consolidation approved at an Extraordinary General Meeting of the company on 27 March 2013 and completed during April 2013.

(b) Ordinary shares

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

Notes to the Financial Statements

For the year ended 30 June 2013

NOTE 19: CONTRIBUTED EQUITY (continued)

(c) CRES

The issue of 800,000 convertible repurchase-able employee shares were issued pursuant to the employee share loan plan approved at the 2012 AGM. For further information relating to the value prescribed to the CRES refer to Note 25.

CRES shares are treated as an option for accounting purposes as the employee has the option not to convert them to ordinary shares by not completing the required years of service. Therefore the CRES shares will only have a value attributed to them when the employee has the right to convert them to ordinary shares. The first date that this occurs is 22 May 2015.

CRES shares carry no right to dividends and holders can only vote on the following matters (one vote per share):

- on a proposal to reduce the share capital of the company that effects rights attached to CRES, and
- during the winding up of the company.

(d) 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.

During the year the company completed a successful entitlement offer and placement raising \$35.3 million (net of costs). \$16.8 million of the proceeds have been used to reduce debt and the balance has increased the capital available for new communities.

Dividends

As a general principle, the Directors of Lifestyle Communities intend to declare dividends out of post tax, operating cash flow generated from community management. In FY2013 community management didn't deliver a surplus after allowing for the considerations detailed below.

Considerations in determining the level of free cash flow from which to pay dividends include:

- Operating cash flow generated from community management
- The projected tax liability of Lifestyle Communities Limited
- The level of corporate overheads attributable to community roll out
- The level of interest to be funded from free cash flow
- Additional capital needs of the development pool

The Group is not subject to externally imposed capital requirements.

Notes to the Financial Statements
For the year ended 30 June 2013

NOTE 20: RETAINED EARNINGS AND RESERVES

(a) Movements in retained earnings were as follows:

	2013	2012
	\$	\$
Balance 1 July	15,121,327	11,383,966
Net profit	6,239,963	6,047,726
Dividend paid	(2,310,866)	(2,310,365)
	<u>19,050,424</u>	<u>15,121,327</u>

(b) Reserves

	Option reserve
	\$
2012	
At 1 July 2011	522,051
Option expense	<u>277,312</u>
At 30 June 2012	<u>799,363</u>
2013	
At 1 July 2012	799,363
Options issued for services	406,456
Option expense	<u>119,304</u>
At 30 June 2013	<u>1,325,123</u>

The option reserve is used to record the fair value of options issued to employees and directors as part of their remuneration (refer Note 25 for further details) as well as the fair value of options issued for services (refer Note 25 for further details).

NOTE 21: NON-CONTROLLING INTERESTS

Interest in:

Retained earnings	<u>-</u>	<u>(170,448)</u>
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Details of subsidiaries with non-controlling interests

(a) The Group has a 50% interest (2012: 50%) in the subsidiary entity, Cameron Street Developments Unit Trust, whose principle activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest.

Cameron Street Developments Unit Trust commenced its operations in November 2010.

	2013	2012
	\$	\$
(i) Share of subsidiaries non-controlling interest in financial information:		
Current assets	3,512,755	4,898,290
Non-current assets	<u>1,717,945</u>	<u>2,279,923</u>
Total assets	<u>5,230,700</u>	<u>7,178,213</u>
Current liabilities	2,246,854	2,682,549
Non-current liabilities	<u>2,983,846</u>	<u>4,495,664</u>
Total liabilities	<u>5,230,700</u>	<u>7,178,213</u>
Net assets	<u>-</u>	<u>-</u>

Notes to the Financial Statements
For the year ended 30 June 2013

NOTE 21: NON-CONTROLLING INTERESTS (continued)

(a) Details of subsidiaries with non-controlling interests (continued)

	2013	2012
	\$	\$
(i) Share of subsidiaries non-controlling interest in financial information:		
Revenues	7,487,226	8,845,851
Expenses	(5,848,473)	(7,381,555)
Net profit / (loss) from continuing operations	1,638,753	1,464,296
(iii) Share of subsidiaries non-controlling interest in cash flows:		
Cash flows from operating activities	3,876,206	(832,361)
Cash flows from investing activities	(296)	(34,466)
Cash flows from financing activities	(3,890,313)	69,278
Net cash flows	(14,403)	(797,549)
(iii) Share of subsidiaries non-controlling interest in trust distributions:		
Trust distributions	1,638,753	1,345,093
(iv) Share of subsidiaries non-controlling interest in capital commitments:		
Contracted development costs	346,436	-
(v) Share of subsidiaries non-controlling interest in contingent liabilities:		
Bank guarantees	73,700	341,014

Bank guarantees are funded by the subsidiaries and are secured by term deposits or financier funded.

(b) The Group has a 50% interest (2012: 50%) in the subsidiary entity, Lifestyle Chelsea Heights Unit Trust, whose principle activity is the development of a master planned residential village. The Group's voting power is equal to its ownership interest.

Lifestyle Chelsea Heights Unit Trust commenced its operations in 22 December 2011.

(i) Share of Lifestyle Chelsea Heights Unit Trust non-controlling interest in financial information:

Current assets	3,878,779	602,580
Non-current assets	444,204	-
Total assets	4,322,982	602,580
Current liabilities	3,660,997	212,069
Non-current liabilities	661,985	560,959
Total liabilities	4,322,982	773,028
Net assets	-	(170,448)
Revenues	4,503,137	-
Expenses	(3,670,703)	(170,448)
Net profit / (loss) from continuing operations	832,434	(170,448)
(iii) Share of subsidiaries non-controlling interest in cash flows:		
Cash flows from operating activities	(1,349,645)	(569,150)
Cash flows from investing activities	(105,051)	-
Cash flows from financing activities	2,220,343	676,514
Net cash flows	765,647	107,364
(iii) Share of subsidiaries non-controlling interest in trust distributions:		
Trust distributions	661,985	-
(iii) Share of subsidiaries non-controlling interest in capital commitments:		
Contracted development costs	-	1,911,719
(iv) Share of subsidiaries non-controlling interest in contingent liabilities:		
Bank guarantees	53,250	53,250

Bank guarantees are funded by the subsidiaries and are secured by term deposits or financier funded.

Notes to the Financial Statements

For the year ended 30 June 2013

	2013 \$	2012 \$
NOTE 22: CASH FLOW STATEMENT RECONCILIATION		
a) Reconciliation of net cash flows from operating activities to operating profit		
Operating profit after income tax	8,711,150	7,341,574
<u>Adjustment for non-cash items:</u>		
Depreciation	150,878	128,824
Amortisation	216,748	198,512
Share option expense	119,304	277,312
Land expenses	-	387,300
Deferred management fee	(2,444,600)	(1,339,597)
Fair value adjustment	(6,779,813)	(7,622,970)
<u>Add back/(subtract) changes in operating assets and liabilities:</u>		
(Increase)/decrease in trade and other receivables	(866,669)	54,788
Increase in inventories	(3,587,025)	(10,828,061)
Increase/(decrease) in trade and other payables	1,216,980	705,120
Increase in provisions	103,577	18,546
Increase in deferred tax balances	3,117,660	2,829,718
Net cash flow from operating activities	(41,810)	(7,848,934)

(b) Disclosure of financing facilities

Refer to interest bearing loan and borrowings Note 18.

NOTE 23: 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	6,239,963	6,047,726
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(b) Weighted average number of shares

Weighted average number of ordinary shares for basic earnings per share	73,867,485	46,217,309
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Effect of dilution:

Share options	212,500	239,717
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Weighted average number of ordinary shares adjusted for dilution	74,079,985	46,457,026
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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 2013

NOTE 24: 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	
		2013	2012	2013	2012
				\$	\$
Lifestyle Investments 1 Pty Ltd	Australia	100%	100%	8,751,551	8,751,551
Lifestyle Developments 1 Pty Ltd	Australia	100%	100%	-	-
Lifestyle Management 1 Pty Ltd	Australia	100%	100%	-	-
Lifestyle Seasons Pty Ltd	Australia	100%	100%	3	3
Lifestyle Lynbrook Pty Ltd	Australia	100%	100%	3	3
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 Pty Ltd	Australia	50%	50%	-	-
Cameron Street Developments Unit Trust (Trustee: Cameron Street Developments Pty Ltd)	Australia	50%	50%	-	-
Lifestyle Investments 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Developments 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Management 2 Pty Ltd	Australia	100%	100%	2	2
Lifestyle Chelsea Heights Pty Ltd	Australia	50%	50%	-	-
Lifestyle Chelsea Heights Unit Trust (Trustee: Lifestyle Chelsea Heights Trust Pty Ltd)	Australia	50%	50%	-	-
Lifestyle Warragul Pty Ltd	Australia	100%	100%	120	120
Lifestyle Shepparton Pty Ltd	Australia	100%	100%	120	120
Lifestyle Whirakee Pty Ltd	Australia	100%	100%	3	3
Lifestyle Parks Australia Pty Ltd	Australia	100%	100%	3	3
				8,751,809	8,751,809

(b) Ultimate parent

Lifestyle Communities Limited is the ultimate Australian parent entity.

(c) Loans from related parties

	Maturity	2013	2012
		\$	\$
CURRENT			
Interest bearing loans and borrowings			
Lifestyle Brookfield Land Trust ⁽¹⁾	On demand	-	8,835
Masonkelly Pty Ltd ⁽²⁾	On demand	-	431
B.S. Carter Investments Pty Ltd ⁽³⁾	On demand	-	431
Daken Investments Pty Ltd ⁽⁴⁾	On demand	-	431
		-	10,128
Trade and other receivables			
Lifestyle Brookfield Land Trust ⁽¹⁾	On demand	-	59,577
Lifestyle Communities Management Pty Ltd		-	11
Lifestyle Investments Pty Ltd		-	11
		-	59,599

⁽¹⁾ James Kelly, Bruce Carter and Dael Perlov are the directors of the Trustee company for Lifestyle Brookfield Land Trust. The loan receivable was settled during the year and the loan payable was written-off during the year.

⁽²⁾ James Kelly is the sole director of Mason Kelly Pty Ltd. The loan payable was written-off during the year.

⁽³⁾ Bruce Carter is the sole director of B.S. Carter Investments Pty Ltd. The loan payable was written-off during the year.

⁽⁴⁾ Dael Perlov is the sole director of Daken Investments Pty Ltd. The loan payable was written-off during the year.

NOTE 24: 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

During the year net loans receivable of \$50,742 from Lifestyle Brookfield Land Trust (jointly owned by related entities of Bruce Carter, James Kelly and Dael Perlov) were settled. Loans payable of \$431 each payable to entities associated with Bruce Carter, James Kelly and Dael Perlov were written-off.

During the year 125,000 options (or 12,500,000 pre share consolidation) were issued to Bellwether Investments Pty Ltd, an entity controlled by Jim Craig. The grant of options was agreed by the Company prior to Mr Craig being appointed as a director. The options were granted for consideration of the corporate and structuring advice, arranging and bookrunning and sub-underwriting undertaken by Mr Craig with respect to the company's entitlement offer and placement. The issue of options was approved at the Company's EGM on 27 March 2013 and were issued on 15 April 2013. For further information relating to the terms of the options refer to Note 25.

In relation to corporate and structuring advice received in relation to the entitlement offer and placement a fee of \$200,000 was paid to Investor Capital Advisory Pty Ltd, an entity in which Jim Craig has a 50% beneficial ownership.

NOTE 25: SHARE-BASED PAYMENTS

	2013	2012
	\$	\$
(a) Recognised share-based payment expenses		
The expense recognised for employee services received during the year is shown in the table below:		
Expense arising from equity-settled share-based payment transactions	119,304	277,312
(b) Recognised share-based payment recognised in directly in equity		
Equity-settled share-based payment transactions recognised directly in equity	406,456	-

(c) 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. The ESOP was approved at the company's 2010 AGM and 1,275,000 options (12,750,000 pre share consolidation) have been issued under this plan to date. The ESOP is available for directors and selected employees.

When a participant ceases employment prior to the vesting of their share options, the share options are forfeited.

The contractual life of each option granted is five years. The vesting conditions require that the owner of the option has completed continuous services with the Company since date of issue. There are no cash settlement alternatives.

Employee Share Loan Plan, 'ESLP'

The purpose of the ESLP is to provide eligible employees with an opportunity to acquire convertible repurchase-able employee shares ("CRES") in the Company and, by virtue of the fact that CRES are convertible into ordinary shares in the Company, thereby enable them to participate in any growth in the value of the Company, encouraging them to improve the longer term performance of the Company and its returns to shareholders, and to motivate and retain them. The issue of a CRES involves the granting of a financial assistance loan to each participant for each CRES issued. The loan is due and payable on or before expiry of the CRES.

The ESLP was approved at the Company's 2012 AGM and 800,000 CRES shares have been issued under this plan to date. The ESLP is available for selected employees but excludes directors.

When a participant ceases employment prior to the vesting of their CRES shares, the CRES are forfeited and the employee loan is written off against CRES capital. The contractual life of each CRES share granted is five years. The vesting conditions require that the owner of the CRES share has completed continuous services with the Company since date of issue. There are no cash settlement alternatives.

Notes to the Financial Statements
For the year ended 30 June 2013

(d) Summaries of options and CRES granted

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

Note: all figures have been adjusted to reflect the share consolidation that occurred during the year.

	2013 No.	2013 WAEP A\$	2012 No.	2012 WAEP A\$
Outstanding at the beginning of the year	1,690,000	0.840	2,300,000	1.030
Granted during the year	3,300,000	0.818	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Exercised during the year	-	0.000	(10,000)	(0.000)
Lapsed during the year	(415,000)	(1.422)	(600,000)	(1.600)
Outstanding at the end of the year	4,575,000	0.771	1,690,000	0.840
Exercisable at the end of the year	1,275,000	0.650	415,000	1.420

The outstanding balance as at 30 June 2013 is represented by:

- 1,275,000 options over ordinary shares with an exercise price of \$0.65 each, exercisable upon completion of a continuous two years of service. Vested on 24 November 2012, the expiry date is 24 November 2015.

- 800,000 CRES shares with a conversion price of \$0.876 each, exercisable in three tranches upon completion of a continuous two years, three years and four years of service. Vesting dates 22 May 2015, 22 May 2016 and 22 May 2017; the expiry date is 22 May 2018.

- 2,500,000 options over ordinary shares with an exercise price of \$0.80 each, exercisable at anytime. These options vested on issue date of 15 April 2013, the expiry date is 15 April 2018.

(e) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options and CRES outstanding as at 30 June 2013 is 4.1 years (2012: 2.7).

(f) Range of exercise price

The range of exercise prices for options and CRES outstanding at the end of the year was \$0.65 to \$0.876 (2012: \$0.065 to \$0.200).

(g) Weighted average fair value of options and CRES granted during the year

The weighted average value of options and CRES granted during the year was \$0.818. There were no options granted in 2012.

(h) Option and CRES pricing models:

The fair value of the equity-settled share options granted under the 2011 ESOP, the 2013 ESLP (CRES) and the 2013 issue of options to Bellwether Investments Pty Ltd for services is estimated as at the date of grant using a Black-Scholes Model taking into account the terms and conditions upon which the options/CRES were granted.

	ESOP FY2011	ESLP (CRES) FY2013	Options for services FY13
Dividend yield (%)	0%	3%	5%
Expected volatility (%) (4 year historical monthly)	67%	41%	43%
Risk-free interest rate (%)	5.28%	2.81%	2.73%
Vesting period (years)	2	2, 3, 4	-
Time to expiry (years)	5	5	5
Option/CRES exercise price (\$)	\$0.650	\$0.876	\$0.800
Weighted average share price at measurement date (\$)	\$0.700	\$0.070	\$0.070

Model used

Black-Scholes Black-Scholes Black-Scholes

The expected volatility was determined by reference to the Group's individual historical volatility and is based on a four year monthly calculation.

Notes to the Financial Statements

For the year ended 30 June 2013

	2013	2012
	\$	\$

NOTE 26: 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 86 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	5,825,199	4,326,630
After one year but not more than five years	23,300,794	17,306,521
After more than five years	483,002,342	360,501,483
Total minimum lease payments	512,128,335	382,134,635

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 \$39,533. The contract expires within the next year.

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

Within one year	13,458	23,064
After one year but not more than five years	-	13,454
Total minimum lease payments	13,458	36,518
Less amounts representing finance charges	(378)	(2,189)
Present value of minimum lease payments	13,080	34,329

Contracted construction commitments

Payable not later than one year	692,871	1,377,993
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Contracted land sale

In the prior year a conditional contract was executed on 28th June 2012 to dispose of 50% of the land located at Hastings. This contract was terminated with the company retaining 100% of the land at Hastings and developing the site wholly.

(b) Contingencies

Bank guarantees	253,900	478,632
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Bank guarantees are funded by the joint venture entities and are secured by a combination of appropriate term deposits or financier funded.

NOTE 27: 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 2013

	2013	2012
	\$	\$
NOTE 28: KEY MANAGEMENT PERSONNEL		
(a) Compensation of Key Management Personnel		
Short-term employee benefits	925,154	942,803
Post-employment benefits	78,274	74,997
Share-based payments	86,477	212,063
	1,089,905	1,229,862

(b) Number of options held by Key Management Personnel

Note: all figures have been adjusted to reflect the share consolidation that occurred during the year.

	Balance at 1 July 2012	Granted as remuner- ation	Net change other	Share consolidation	Balance at 30 June 2013	Total vested 30 June 2013	Total exer- cisable 30 June 2013	Total unexercisa- ble 30 June 2013
Directors								
Bruce Carter	2,000,000	-	-	(1,800,000)	200,000	200,000	200,000	-
Dael Perlov	2,000,000	-	-	(1,800,000)	200,000	200,000	200,000	-
James Kelly	2,000,000	-	-	(1,800,000)	200,000	200,000	200,000	-
Tim Poole	5,250,000	-	(4,000,000)	(1,125,000)	125,000	125,000	125,000	-
Jim Craig (a)	-	-	1,250,000	-	1,250,000	1,250,000	1,250,000	-
David Paranthoienne (b)	1,250,000	-	-	(1,125,000)	125,000	125,000	125,000	-
Key Management Personnel								
Geoff Hollis	1,250,000	300,000	-	(1,125,000)	425,000	125,000	125,000	300,000
	Balance at 1 July 2011	Granted as remuner- ation	Net change other	Share consolidation	Balance at 30 June 2012	Total vested 30 June 2012	Total exer- cisable 30 June 2012	Total unexercisa- ble 30 June 2012
Directors								
Bruce Carter	3,500,000	-	(1,500,000)	-	2,000,000	-	-	-
Dael Perlov	2,000,000	-	-	-	2,000,000	-	-	-
James Kelly	2,000,000	-	-	-	2,000,000	-	-	-
David Paranthoienne	2,750,000	-	(1,500,000)	-	1,250,000	-	-	-
Tim Poole	5,250,000	-	-	-	5,250,000	400,000	400,000	-
Key Management Personnel								
Geoff Hollis	1,250,000	-	-	-	1,250,000	-	-	-

(a) Jim Craig was appointed to the Board on 31 December 2012, the opening balance represents the balance at his appointment date.

(b) David Paranthoienne retired on 31 December 2012, the closing balance represents the balance at his retirement date.

Refer to Note 25 for details of options/CRES granted and net change other.

Notes to the Financial Statements

For the year ended 30 June 2013

NOTE 28: KEY MANAGEMENT PERSONNEL (continued)

(c) Shareholdings of Key Management Personnel

Shareholding of Key Management Personnel for the year ended 30 June 2013:

Ordinary shares held in Lifestyle Communities Ltd	Balance at 1 July 2012	Entitlement offer and placement	Off-market transfer	On-market transactions	DRP	Share consolidation	Balance at 30 June 2013
Directors							
Bruce Carter	103,059,042	17,810,133	-	-	5,316,154	(113,566,797)	12,618,532
Dael Perlov	89,366,652	-	-	(15,251,740)	3,951,468	(70,259,743)	7,806,637
James Kelly	101,716,417	41,334,551	-	-	5,404,696	(133,610,098)	14,845,566
Tim Poole	6,845,334	7,142,857	-	-	66,418	(12,649,149)	1,405,460
Jim Craig (a)	-	27,500,000	-	4,594,867	-	(28,885,381)	3,209,486
David Paranthoiene (b)	8,870,646	1,115,734	-	-	471,341	(9,411,949)	1,045,772
Key Management Personnel							
Geoff Hollis	-	-	-	-	-	-	-

(a) Jim Craig was appointed to the Board on 31 December 2012, the opening balance represents the balance at his appointment date.

(b) David Paranthoiene retired on 31 December 2012, the closing balance represents the balance at his retirement date.

Shareholding of Key Management Personnel for the year ended 30 June 2012:

Ordinary shares held in Lifestyle Communities Ltd	Balance at 1 July 2011	Entitlement offer and placement	Off-market transfer	On-market transactions	DRP	Share consolidation	Balance at 30 June 2012
Directors							
Bruce Carter	106,559,042	-	(3,500,000)	-	-	-	103,059,042
Dael Perlov	89,366,652	-	-	-	-	-	89,366,652
James Kelly	101,716,417	-	-	-	-	-	101,716,417
David Paranthoiene	6,370,646	-	2,500,000	-	-	-	8,870,646
Tim Poole	6,845,334	-	-	-	-	-	6,845,334
Key Management Personnel							
Geoff Hollis	-	-	-	-	-	-	-

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 24(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 not already disclosed at Note 24(e).

Notes to the Financial Statements
For the year ended 30 June 2013

NOTE 29: CHANGE OF ACCOUNTING POLICY

The company has decided to early adopt AASB 10 *Consolidated Financial Statements* as it believes it will provide users with more relevant financial information. Refer to Note 1(q) for further details regarding the reasons for and the impact of the change. Below is the financial impact of the change on the company's Consolidated Statement of Financial Position and Consolidated Statements of Comprehensive Income.

Consolidated Statement of Financial Position	Prior period 30 June 2011 \$	Increase / (Decrease) \$	Restated 30 June 2011 \$	Prior period 30 June 2012 \$	Increase / (Decrease) \$	Restated 30 June 2012 \$
Cash and cash equivalents	9,877,428	835,306	10,712,734	3,184,621	145,121	3,329,742
Trade and other receivables	2,530,512	(2,018,604)	511,908	3,077,271	(2,234,390)	842,881
Inventories	8,709,520	1,475,240	10,184,760	12,753,880	3,613,042	16,366,922
Land held for sale	405,387	-	405,387	-	-	-
Other current assets	135,482	30,000	165,482	295,932	29,762	325,694
Total current assets	21,658,329	321,942	21,980,271	19,311,704	1,553,535	20,865,239
Trade and other receivables	3,251,542	1,310,588	4,562,130	4,106,718	1,310,588	5,417,306
Inventories	9,585,280	1,347,798	10,933,078	12,899,842	2,679,135	15,578,977
Property, plant and equipment	701,052	52,277	753,329	682,116	73,741	755,857
Land held for sale	126,619	-	126,619	126,619	-	126,619
Other financial assets	2,516,834	-	2,516,834	2,500,000	-	2,500,000
Investment properties	54,981,748	-	54,981,748	65,780,516	-	65,780,516
Total non-current assets	71,163,075	2,710,663	73,873,738	86,095,811	4,063,464	90,159,275
Total assets	92,821,404	3,032,605	95,854,009	105,407,515	5,616,999	111,024,514
Trade and other payables	9,971,160	817,852	10,789,012	4,008,396	2,075,518	6,083,914
Interest-bearing loans and borrowings	2,363,723	2,333,956	4,697,679	31,377	-	31,377
Provisions	244,749	-	244,749	225,700	-	225,700
Total current liabilities	12,579,632	3,151,808	15,731,440	4,265,473	2,075,518	6,340,991
Interest-bearing loans and borrowings	37,169,781	-	37,169,781	51,188,065	3,711,929	54,899,994
Provisions	144,983	-	144,983	182,578	-	182,578
Deferred tax liabilities	6,806,299	-	6,806,299	9,636,017	-	9,636,017
Total non-current liabilities	44,121,063	-	44,121,063	61,006,660	3,711,929	64,718,589
Total liabilities	56,700,695	3,151,808	59,852,503	65,272,133	5,787,447	71,059,580
Net assets	36,120,709	(119,203)	36,001,506	40,135,382	(170,448)	39,964,934
Contributed equity	24,214,692	-	24,214,692	24,214,692	-	24,214,692
Reserves	522,051	-	522,051	799,363	-	799,363
Retained earnings	11,383,966	-	11,383,966	15,121,327	-	15,121,327
Members' interest in equity	36,120,709	-	36,120,709	40,135,382	-	40,135,382
Non-controlling interest	-	(119,203)	(119,203)	-	(170,448)	(170,448)
Total equity	36,120,709	(119,203)	36,001,506	40,135,382	(170,448)	39,964,934

Notes to the Financial Statements
For the year ended 30 June 2013

NOTE 29: CHANGE OF ACCOUNTING POLICY (continued)

Consolidated Statement of Comprehensive Income

	2012	Profit Increase / (Decrease)	2012 (Restated)
	\$	\$	\$
Home settlement revenue	22,835,304	8,824,242	31,659,546
Rental revenue	4,221,669	-	4,221,669
Deferred management fee	1,804,908	-	1,804,908
Development fees	1,170,478	(1,170,478)	-
Sub-division revenue	663,805	-	663,805
Finance revenue	450,658	21,609	472,267
Total revenue	31,146,822	7,675,373	38,822,195
Cost of sales	(18,001,453)	(6,622,416)	(24,623,869)
Gross profit	13,145,369	1,052,957	14,198,326
Other income	7,622,970	-	7,622,970
Sub-division expenses	(428,558)	-	(428,558)
Development expenses	(2,615,615)	264,628	(2,350,987)
Community management expenses	(2,287,856)	-	(2,287,856)
Corporate overheads	(3,407,971)	134,477	(3,273,494)
Land expenses	(387,300)	-	(387,300)
Finance costs	(2,763,595)	(158,214)	(2,921,809)
Profit before income tax	8,877,444	1,293,848	10,171,292
Income tax expense	(2,829,718)	-	(2,829,718)
Net profit from continuing operations	6,047,726	1,293,848	7,341,574
Profit or loss is attributable to:			
Members of the parent	6,047,726	-	6,047,726
Non-controlling interests	-	1,293,848	1,293,848
	6,047,726	1,293,848	7,341,574

Earnings per share has not been impacted by the change.

Consolidated Cash Flow Statement

	2012	Increase / (Decrease)	2012 (Restated)
	\$	\$	\$
Receipts from customers	31,583,238	8,828,092	40,411,330
Payments to suppliers and employees	(33,756,084)	(10,165,675)	(43,921,759)
Interest received	341,905	21,609	363,514
Interest paid	(4,742,317)	40,298	(4,702,019)
Net cash flows used in operating activities	(6,573,258)	(1,275,676)	(7,848,934)
Purchase of property, plant and equipment	(96,885)	(34,467)	(131,352)
Purchase of investment properties and capitalised costs	(9,471,278)	-	(9,471,278)
Interest paid	(546,674)	-	(546,674)
Net cash flows used in investing activities	(10,114,837)	(34,467)	(10,149,304)
Proceeds from external borrowings	21,405,633	10,284,841	31,690,474
Repayment of external borrowings	(9,834,186)	(8,907,267)	(18,741,453)
Dividend paid	(2,310,365)	-	(2,310,365)
Payments (net) to related joint venture entities	757,616	(757,616)	-
Repayment of hire purchase	(23,410)	-	(23,410)
Net cash flows from financing activities	9,995,288	619,958	10,615,246
Net decrease in cash held	(6,692,807)	(690,185)	(7,382,992)
Cash at the beginning of the financial year	9,877,428	835,306	10,712,734
Cash at the end of the financial year	3,184,621	145,121	3,329,742

Notes to the Financial Statements

For the year ended 30 June 2013

	2013	2012
	\$	\$
NOTE 30: 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	148,000	156,900
• Other services in relation to the entity and any other entity in the	59,160	32,220
	<u>207,160</u>	<u>189,120</u>

NOTE 31: PARENT ENTITY DISCLOSURES

Required disclosures relating to Lifestyle Communities Limited as a parent entity:

Current assets	41,629,292	39,946,826
Total assets	<u>53,514,505</u>	<u>51,911,308</u>
Current liabilities	572,622	32,729,942
Total liabilities	<u>944,557</u>	<u>33,067,820</u>
Net assets	<u>52,569,948</u>	<u>18,843,488</u>
Equity:		
Contributed equity	61,694,760	24,214,692
Reserves:		
Option and share premium reserve	1,325,123	799,363
Accumulated losses	(10,449,935)	(6,170,567)
Total equity	<u>52,569,948</u>	<u>18,843,488</u>
Net profit / (loss)	<u>(1,968,503)</u>	<u>5,104,712</u>
Total comprehensive income	<u>(1,968,503)</u>	<u>5,104,712</u>

NOTE 32: SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

On 19 August 2013 the Company entered into an unconditional contract to purchase a future development site in Wollert which is north of Melbourne. The acquisition price is \$6.7 million and a 10% deposit has been paid with settlement in June 2014. The Lifestyle Community at Wollert will be the Company's eighth community and will add approximately 150 homes to the Company's portfolio.

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 31 to 66 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 2013 and its performance for the year ended on that date; and
- (c) As stated in Note 1(a), 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 2013.

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

A handwritten signature in black ink, appearing to read "Tim Poole".

Tim Poole
Chairman

Melbourne, 21 August 2013

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

James Kelly
Managing Director

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 Ltd and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2013, 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 gives a true and fair view and 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 company'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 company'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.

LIFESTYLE COMMUNITIES LIMITED
ABN 11 078 675 153
AND CONTROLLED ENTITIES

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

Independence

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

Opinion

In our opinion:

- (a) the financial report of Lifestyle Communities Ltd 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 2013 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 18 to 25 of the directors' report for the year ended 30 June 2013. 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 Ltd and controlled entities for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.



S D WHITCHURCH
Partner

21 August 2013



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 20 August 2013.

(a) Distribution of equity securities

(i) Ordinary share capital

99,970,131 fully paid ordinary shares are held by 1,010 individual shareholders

(ii) Convertible repurchase-able employee shares (CRES)

800,000 CRES shares are held by four individual shareholders

(iii) Options

4,575,000 options are held by 13 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	155,355	-
1,001 – 5,000	872,701	-
5,001 – 10,000	576,553	-
10,001 – 100,000	4,242,955	-
100,001 and over	94,122,567	16,900,000
	99,970,131	16,900,000
Holding less than a marketable parcel		293

(b) Substantial Shareholders

Fully Paid		
Ordinary Shareholders	Number	Percentage
James Kelly	14,845,566	14.85%
Bruce Carter	12,618,532	12.62%
Perennial Investment Partners Ltd	7,896,205	7.90%
Dael Perlov	7,806,637	7.81%
Cooper Investors Pty Ltd	7,142,857	7.14%
Colonial First State Investment Ltd	6,092,157	6.09%
Endeavour Asset Management Pty Ltd	5,718,121	5.72%
	62,120,075	62.14%

(c) Twenty largest holders of quoted equity securities

LIFESTYLE COMMUNITIES LIMITED

Top Holders

Rank	Name	Units	% of Units
1.	MASONKELLY PTY LTD	12,116,265	12.12
2.	NATIONAL NOMINEES LIMITED	9,741,529	9.74
3.	B S CARTER INVESTMENTS PTY LTD <THE BS CARTER FAMILY A/C>	8,475,009	8.48
4.	CITICORP NOMINEES PTY LIMITED	8,451,159	8.45
5.	DAKEN INVESTMENTS PTY LTD	7,269,539	7.27
6.	SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA>	5,718,121	5.72
7.	J P MORGAN NOMINEES AUSTRALIA LIMITED	4,514,676	4.52
8.	BS CARTER SUPERANNUATION PTY LTD <CARTER SUPER FUND A/C>	3,726,858	3.73
9.	PJ COOPER INVESTMENTS PTY LTD <COOPER INVESTMENT A/C>	2,857,142	2.86
10.	EQUITAS NOMINEES PTY LIMITED <PB-600687 A/C>	2,209,486	2.21
11.	FORESTER INVESTMENTS PTY LTD <RUSSELL STALEY FAMILY A/C>	2,142,857	2.14
12.	KELLY SUPERANNUATION FUND PTY LTD	2,116,801	2.12
13.	BNP PARIBAS NOMS PTY LTD <DRP>	2,102,992	2.10
14.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,969,935	1.97
15.	ARMADA INVESTMENTS PTY LTD	1,908,229	1.91
16.	BERWICK VIEW ESTATE PTY LTD <BERWICK VIEW SUPER FUND A/C>	1,510,000	1.51
17.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,198,540	1.20
18.	PARANTHOIENE SUPERANNUATION PTY LTD <PARANTHOIENE SUPER FUND A/C>	1,045,772	1.05
19.	MAXIMA ETHAN PTY LTD <MAXI FOGELGARN SUPERFUND A/C>	1,045,069	1.05
20.	EQUITAS NOMINEES PTY LIMITED <PB-600686 A/C>	1,000,000	1.00
Totals: Top 20 holders of ISSUED CAPITAL		81,119,979	81.14

Additional information required by the Australian Stock Exchange Limited not shown elsewhere in this report is as follows. The information is as at 20 August 2013 (as the most practicable date close to the date of this report).

Range of Units Snapshot

Composition : ORD

Range	Total holders	Units	% of Issued Capital
1 - 1,000	398	155,355	0.16
1,001 - 5,000	339	872,701	0.87
5,001 - 10,000	76	576,553	0.58
10,001 - 100,000	138	4,242,955	4.24
100,001 - 999,999,999	59	94,122,567	94.15
1,000,000,000 - 9,999,999,999	0	0	0.00
Rounding			0.00
Total	1,010	99,970,131	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$500 parcel at \$0.85 per unit	589	293	69,432

Voting Rights

All ordinary shares carry one vote per share without restriction.

All CRES shares carry one vote per share on the following specific matters:

- On a proposal to reduce the share capital of the Company that effects rights attached to CRES, and
- During the winding up of the Company.

Corporate Information

Lifestyle Communities Limited	ABN 11 078 675 153
Registered Office	Level 2, 35 Market Street South Melbourne Vic 3205 Australia
Directors	Tim Poole – Non-executive Chairman James Kelly – Managing Director Bruce Carter – Executive Director Dael Perlov – Executive Director Jim Craig – Non-executive Director
Company Secretary	Geoff Hollis
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	Herbert Geer Level 20, 385 Bourke 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