



2014 ANNUAL REPORT

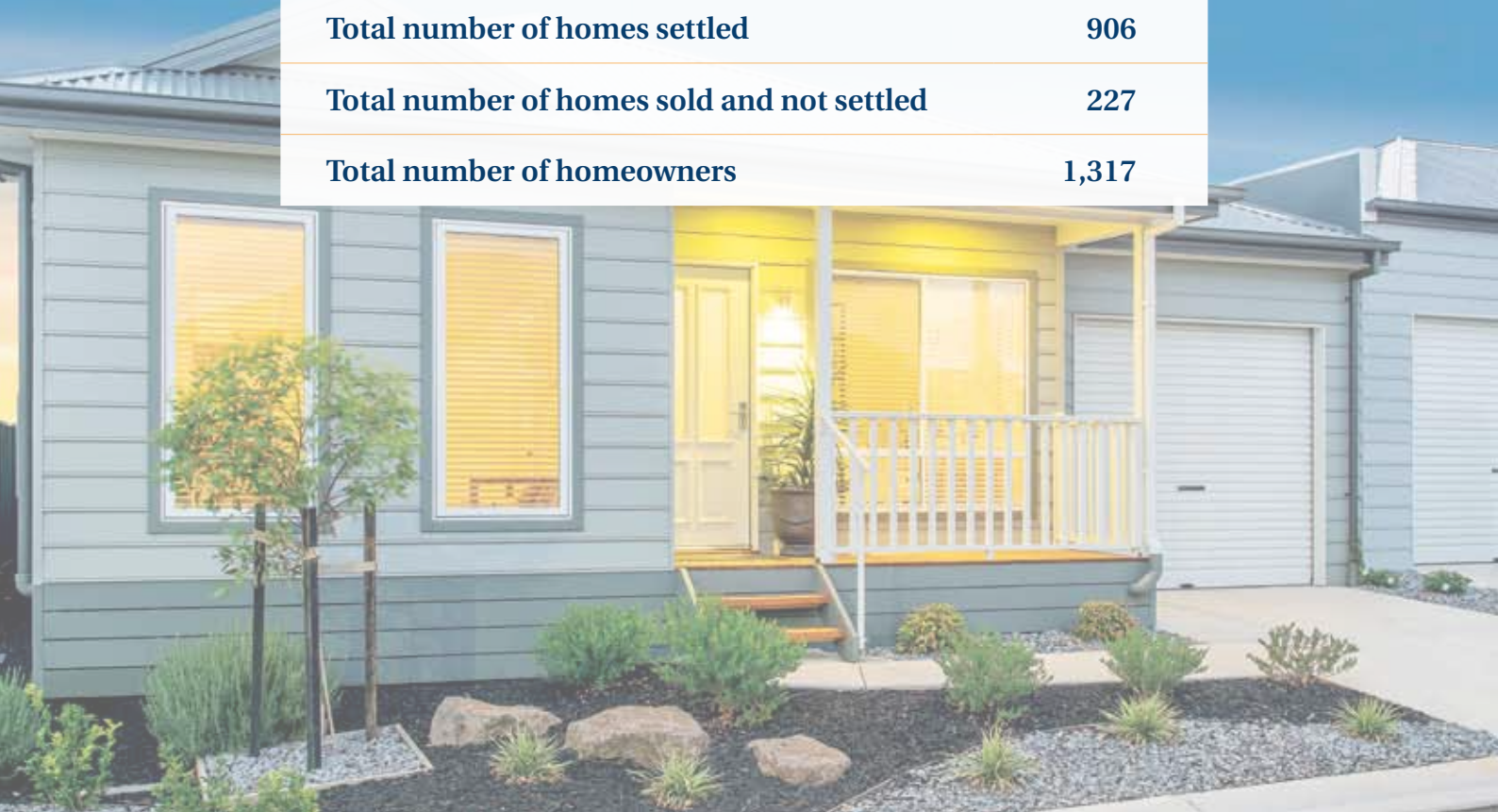


Community Snapshot



Snapshot as at 30 June 2014

Total home sites in the pipeline	1,779
Total number of homes settled	906
Total number of homes sold and not settled	227
Total number of homeowners	1,317



Who is the Lifestyle Communities homeowner?

1,317

Homeowners

71



AVERAGE ENTRY
AGE OF FY2014
SETTLEMENTS

28%

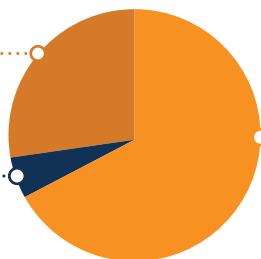
Single women

66%

Couples

6%

Single men



39%

MALE

61%

FEMALE



39%

PET OWNERS



5%

HAVE CARAVANS

77%

Use the
internet
daily



80%

Use social
media



65%

60%

Multi-device
users



80,000

Kilometres

The distance Ruth has
travelled around Australia
in her motorhome

100

Number of blood
donations Tony donated
to the Australian Red
Cross Blood Service

01:26.56

Lina's best official
time to solve a
Rubik's Cube



Ruth Nesbitt, 69

Lifestyle Brookfield



Tony Wright, 67

Lifestyle Hastings



Adelina Estevao, 83

Lifestyle Seasons

WHAT HOMEOWNERS SAY AFTER MAKING THE MOVE TO A *Lifestyle Community*



"We have a diary for the first time in our lives. I think it's actually put 10 years on my life because I'm more relaxed, there's no tension... it's just a beautiful way of life."

Graeme and Sandra, Lifestyle Seasons



"Some people have said to us you're too young to move into a place like that. It's not a retirement village, it's a lifestyle."

Linda, Lifestyle Cranbourne



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

Fred, Lifestyle Cranbourne



"By selling our family home and buying into Lifestyle Communities we have sufficient funds left over to travel locally or overseas as much as we want!"

Graeme and Coralie, Lifestyle Warragul



"It's changed our lives. We're so happy! We feel totally relaxed and secure. The amenities are amazing, the homeowners are really friendly, and the Community Managers are so helpful. It's the best move we ever made!"

Deborah and Graham, Lifestyle Chelsea Heights



"Not one day goes by that I don't thank my family and Lifestyle Communities... it's a life I would have only dreamed of living."

Valerie, Lifestyle Cranbourne



To hear what more homeowners have to say about living in a Lifestyle Community
visit our user-friendly website www.lifestylecommunities.com.au

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Chairman's Report

For the 2014 Financial Year

Dear Shareholder,

The 2014 financial year for Lifestyle Communities was one of building on a solid foundation as well as the sad loss of one of its founders, Dael Perlov.

Lifestyle Communities recorded excellent results for the 2014 financial year. Gross sales of new homes of 267 up 41% on the previous year, gross new homes settled of 211 up 42% and net profit after tax attributable to shareholders of \$12.3 million up 76%. Whilst the sales and settlements of new homes can vary from year to year based on the timing of new communities, we were delighted with these results.

More importantly after more than a decade of refining the model, we believe the Company is doing a very good job at finding the delicate balance between providing good quality resort style accommodation and facilities, and still providing an affordable outcome. The Company officially opened its Hastings community in March this year and we are thrilled with the outcome. Our Hastings community has experienced higher than expected sales rates, high levels of resident satisfaction and engagement, and an expected return on capital that is likely to exceed our original expectations. Our community at Hastings highlights the benefits of the Company's focus on continuing to evolve the product to appeal to the emerging baby boomer.

During the 2014 financial year we continued to review opportunities to either expand the Company's operations outside of Victoria or expand the business from its current niche. To date we have concluded that remaining focused on dominating our niche and commencing a new community every 12 to 18 months in Victoria will provide the best result for shareholders. The one set of initiatives we are focused on are opportunities to accelerate the completion of communities to increase the speed at which we can recycle capital into new communities.

In September last year we appointed Philippa Kelly as a non-executive Director of the Company. Philippa is a highly experienced executive with deep property and financial skills. She also has a terrific understanding of the Lifestyle Communities business and has already been a valuable addition to the Company's Board. With the appointment of Philippa the Board was constituted by a majority of independent directors for the first time since the Company was listed on the ASX.

The Company has committed to paying dividends from "community cash flows" (cash flow received from weekly site rental plus deferred management fees less an agreed set of costs and taxes). Subject to the performance of the business during the next 12 months, we forecast to pay a dividend in respect of the 2015 financial year.

Lifestyle Communities has recorded excellent results for the 2014 financial year and has made very good progress in executing our long term strategy. These outcomes are a direct result of the skill and hard work from our team. On behalf of the Board I would like to thank all of our employees for their contribution and commitment during the 2014 financial year.

Shortly after the end of the 2014 financial year our colleague and former executive director Dael Perlov tragically passed away after a long illness. Dael was also one of the founders of the business and his energy, commitment and passion for the business will always be remembered.

Yours sincerely

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

Tim Poole
Chairman
21 August 2014

Managing Director's Report

For the 2014 Financial Year

Dear Shareholder

We are pleased to present to you the Lifestyle Communities Annual Report for the year ended 30 June 2014.

This financial year has seen significant improvement in the performance of the business. The benefits of an increased focus on marketing coupled with the evolution of the Lifestyle Communities offer to meet the emerging baby boomer, has contributed to a substantial increase in sales across the business and a reduction in the entrance age of new residents.

Feedback from new residents on our product offering is very positive with homes that are more individual and designs that are more attuned to what our customer is looking for. They also experience a vibrant community where they are able to re-engage socially and customer service that is friendly and engaging, creating a comfortable and welcoming environment.

The Lifestyle Communities "difference" has not only resulted in a higher sales rate but also in a 25% referral rate for new sales from existing customers.

During the year we have refined our resales process with vacant homes furnished as display homes as well as offering a small refurbishment programme to vendors. This has resulted in an improvement in the settlement rate of established homes from 10 homes in the 2013 financial year to 23 homes in the 2014 financial year. In addition, at year end, we had 28 established homes for sale including 20 homes at our first community, Lifestyle Brookfield.

As the age of our customer has fallen we have increased our on-line marketing efforts as the internet is increasingly being used as a research and enquiry tool by the baby boomer. The number of unique hits to our website now averages over 5,000 per month and generates approximately a third of all enquiry. The shift away from more traditional marketing channels of print and radio to digital will increase penetration and the quality of our message resulting in more cost effective marketing.

Brand awareness continues to grow as the Lifestyle Communities name and offer becomes increasingly accepted in the market. This has resulted in stronger pre-sales prior to the commencement of construction and, in particular, the completion of the clubhouse. This change is significant and is highlighted by the fact that when we opened our first two clubhouses in 2005 and 2009 we had sold less than 10% of the respective communities. By the time of the recent clubhouse openings at Chelsea Heights (in FY2013) and Hastings (in FY2014) we had sold over 70% and 40% of the communities respectively.

The key highlights for this financial year include:

- The number of homes settled increased to 211 in the 2014 financial year from 149 in 2013, taking the total number of home sites under management to 906.
- Home settlement revenue increased by \$18.2 million to \$54.8 million.
- Home site annuity rentals increased by \$1.7 million to \$6.5 million.
- Net profit before tax increased by \$8.2 million to \$21.1 million.
- Net profit after tax attributable to shareholders increased by \$5.3 million to \$12.3 million.

The Company now has nine 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 inflation linked annuity flow for future dividends.



Other highlights for the year include:

- ✓ Acquiring two additional sites in Wollert and Geelong as well as the expansion of Lifestyle Chelsea Heights.
- ✓ Subsequent to year end acquiring a new site for a community in Rosebud which is located on the Mornington Peninsula.
- ✓ Achieving 267 sales for the 2014 financial year compared to 190 in 2013.
- ✓ Building 250 homes for the 2014 financial year compared to 129 homes in 2013.
- ✓ Increasing the total portfolio to 1,779 home sites either under planning, development or management.

Lifestyle Communities has 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 2014

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 2014 and auditor's report thereon. 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 2014 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 2014 was \$12,277,939 (2013: \$6,964,731).

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 (BCom, 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 a member 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 has more than 15 years' experience as a director and chairman of ASX listed and unlisted companies across the financial services, infrastructure, aged care and resources industries. He is currently a non-executive Director of Japara Healthcare Limited (since March 2014), McMillan Shakespeare Limited (since December 2013), Newcrest Mining Limited (since August 2007) and AustralianSuper Pty Ltd. Tim is also a non-executive director of several private unlisted companies. He was formerly Managing Director of Hastings Funds Management and non-executive Chairman of Asciano.

James Kelly, Managing Director (BBldg)

James was appointed Managing Director in September 2007 and is one of the founding directors of Lifestyle Communities. With over 30 years' experience in property development and construction, James brings to Lifestyle Communities a wealth of knowledge and experience in the property industry. Prior to establishing Lifestyle Communities, James held several senior management roles in property and related sectors, including CEO of Dennis Family Corporation and roles at Coles Myer and Lend Lease Corporation. James has not held any directorships in any other listed entities during the past three years.

Bruce Carter, Executive Director (BCom)

A founding member of Lifestyle Communities Limited, Bruce was appointed as an executive Director in September 2007. Bruce has more than 30 years' experience in financial and business management. He was the co-founder of Australian Stock Exchange listed telecommunications company Pracom Limited, serving as joint managing director from 1988 to 2002. Bruce brings to Lifestyle Communities Limited extensive knowledge and experience of building, funding and operating complex Australian Stock Exchange listed companies. Bruce has not held any directorships in any other listed entities during the past three years.

Jim Craig, Non-Executive Director (BEC, LLB (Hons) Adel, LLM Melb)

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 funds 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 three years.

Philippa Kelly, Non-Executive Director (LLB, F Fin, GAICD) (Appointed 18 September 2013)

Philippa was appointed to the board of Lifestyle Communities Limited as a non-executive Director on 18 September 2013. Philippa is also Chair of the Audit Committee and a member of the HR & Remuneration Committee.

Philippa is an experienced property and finance executive with over 25 years' experience in the corporate sector and a background in law and investment banking at Goldman Sachs. Specialising in property for the past 16 years, she is currently Chief Operating Officer of the Juilliard Group of Companies, one of Melbourne's largest private property owners, managing an extensive portfolio of commercial and retail assets. Previous experience included seven years with Federation Centres (formerly Centro Properties Group), working on the refinancing of the Group and with responsibility for its institutional and wholesale funds management business.

Philippa is also a member of the Deakin University Council, Chair of its Finance and Business Committee and a member of the Remuneration Committee. Philippa is also a non-executive Director of the Australian Drug Foundation, including Chair of Audit and Risk. Philippa was previously a non-executive Director of ASX listed 3D Oil Limited until November 2013.

Dael Perlov, Executive Director (BBus, BMktg) (resigned 18 September 2013)

A founding member of Lifestyle Communities Limited, Dael was appointed as an executive Director in September 2007. With more than 25 years of sales and marketing experience, Dael had a strong background in business innovation. His experience in service delivery to both consumer and corporate markets was invaluable in establishing the systems and procedures needed to operate Lifestyle Communities Limited. As noted elsewhere in this report Dael passed away in July 2014 after a long illness.

Geoff Hollis, Company Secretary (BCom, CA, AGIA)

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 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
Tim Poole	1,405,460	125,000
Bruce Carter	11,618,532	200,000
James Kelly	14,845,566	200,000
Jim Craig	3,800,000	1,250,000
Philippa Kelly	45,000	-

Dividends

The directors have resolved not to pay a final dividend for the year ended 30 June 2014.

Share options

No options over unissued shares in the consolidated entity were granted during or since the end of the financial year.

There were no ordinary shares issued during or since the end of the financial year as a result of the exercise of an option.

Unissued ordinary shares of the Company under option at the date of this report are as follows:

Date options granted	Number of unissued ordinary shares under option	Issue price of the shares	Expiry date of the options
24 November 2010	1,275,000	\$0.65	24 November 2015
15 April 2013	2,500,000	\$0.80	15 April 2018
22 May 2013	800,000	\$0.876	22 May 2018

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 29 July 2014 the Company entered into a conditional contract to purchase a future development site in Rosebud which is located on the Mornington Peninsula. The acquisition price is \$7.5 million. The contract is conditional on receiving planning approval to develop the site. Settlement will occur after planning approval has been received. The Lifestyle Community at Rosebud will be the Company's tenth 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.

Proceedings on behalf of the consolidated entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

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	12	12	3	3	2	2
James Kelly	12	12	-	-	-	-
Bruce Carter	12	12	-	-	-	-
Jim Craig	12	12	3	3	2	2
Philippa Kelly ⁽¹⁾	9	9	2	2	2	2
Dael Perlov ⁽²⁾	4	4	-	-	-	-

(1) Philippa Kelly joined the Board on 18 September 2013 and meetings held reflect those she was eligible to attend.

(2) Dael Perlov resigned from the Board on 18 September 2013 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 tax compliance (\$19,500), general tax advice (\$13,355) and other agreed upon procedures (\$19,100) at a total cost of \$51,955 (2013: \$59,160). 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 2001. 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 2014 financial year. Sales of new homes of 267 (2013: 190), settlements of new homes of 211 (2013: 149) and net profit after tax attributable to shareholders of \$12.3 million (2013: \$7.0 million) were all higher than the previous year.

Financial and operating highlights

	Measure	FY2014	FY2013	Change	Change %
Key financial data					
Revenue	A\$ millions	63.7	43.5	20.2	46
Earnings before interest and tax	A\$ millions	22.8	14.0	8.8	63
Net profit before tax	A\$ millions	21.1	12.9	8.2	64
Net profit after tax	A\$ millions	16.1	9.4	6.7	71
Net profit attributable to shareholders	A\$ millions	12.3	7.0	5.3	76
Operating cash flow	A\$ millions	9.5	0.0	9.5	n/a
Community cash flow ⁽¹⁾	A\$ millions	3.8	2.9	0.9	31
Gearing ⁽²⁾	%	23.3	17.7	5.6	32
Return on average capital employed ⁽³⁾	%	17.1	12.2	4.9	40
Earnings per share	A\$ cents	12.282	9.429	2.853	30
Diluted earnings per share	A\$ cents	11.996	9.402	2.594	28
Key operational data					
Homes settled (gross)	No. of homes	211	149	62	42
Homes settled (after NCI) ⁽⁵⁾	No. of homes	159	106	53	50
Homes sold (gross)	No. of homes	267	190	77	41
Homes sold (after NCI) ⁽⁵⁾	No. of homes	207	136	71	52
Average realised sales price	A\$'000	260	245	15	6
Total number of homes (gross)	No. of homes	906	695	211	30
Total number of homes (after NCI) ⁽⁵⁾	No. of homes	771	612	159	26
Total number of homeowners	No. of people	1,317	1,027	290	28
Average age of homeowners	Years	74	73	1	1
Number of resales settled	No. of homes	23	10	13	130

(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 (net debt includes \$4 million deposit held for the liquidity buffer)

(3) Calculated as a ratio of EBIT divided by average 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 table 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 2014 financial year.

The Company recorded settlements and net profit attributable to shareholders for the year ended 30 June 2014 that was greater than for the 2013 financial year. Net profit attributable to shareholders was \$12.3 million (2013: \$7.0 million). The prior period results have been adjusted to reflect a prior period error relating to the accounting treatment of investment properties with joint venture interests. Refer to Note 3 in the Company's 2014 financial statements for further details.

The Company's net profit before tax increased to \$21.1 million (2013: \$12.9 million). The increase in profitability was mainly attributable to increased settlements and an increasing contribution from net community management income which increased by 31% to \$3.8 million.

Company revenues increased to \$63.7 million (2013: \$43.5 million) due to increased home settlements (211 in 2014 compared to 149 in 2013), increased average realised sales price (\$260,000 per home in 2014 compared to \$245,000 per home in 2013 on a GST exclusive basis) and an increase in homeowner rental, utilities and deferred management fees.

The Company continued to develop its communities at Warragul, Cranbourne, Shepparton, Chelsea Heights (phase 1) and Hastings during the year whilst also commencing construction on the expansion of phase 2 at Chelsea Heights. The increase in revenues has resulted in positive operating cash flows for the year ended 30 June 2014 of \$9.46 million (2013: \$0.04 million deficit); included in operating cash flows was project capital expenditure of \$9.4 million (2013: \$11.3 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 other legal structures, project capital expenditure may be classified within investing cash flows rather than operating cash flows.

The Company made good progress operationally with improvements in several key metrics. The total number of homes settled increased to 906 homes due to the 211 settlements during the year. The Company sold 267 new homes during the 2014 financial year (2013: 190). Net community cash flows were \$3.8 million (2013: \$2.9 million).

The Company has 1,317 people living in its communities as at the end of the 2014 financial year with an average age of 74 years.

Resales (sales of previously settled and occupied homes) during the year were 23 (2013: 10). Deferred management fee income received (inclusive of selling and administration fees) were \$0.9 million (2013: \$0.4 million). As at the end of the year there were 28 resale homes available for sale across the communities.

Update on communities

Community	Settled FY14	Settled FY13	Net sales FY14	Net sales FY13	Total homes settled	Total homes in portfolio
Brookfield	-	2	-	1	228	228
Tarneit	3	6	1	-	135	136
Warragul	32	27	26	26	168	182
Cranbourne	38	55	34	48	173	217
Shepparton	28	27	27	28	60	221
Chelsea Heights	65	32	18	60	97	104
Hastings	45	-	74	23	45	141
Chelsea Heights (Expansion)	-	-	67	4	-	82
Wollert	-	-	20	-	-	154
Geelong	-	-	-	-	-	164
Rosebud	-	-	-	-	-	150
Total	211	149	267	190	906	1,779

An update on each of the communities as at 30 June 2014 is as follows:

- Lifestyle Brookfield in Melton is now fully sold and settled.
- Lifestyle Seasons in Tarneit has one home to settle which is expected to occur during the first quarter of the 2015 financial year.
- Lifestyle Warragul is now 92% settled. Of the remaining 14 homes left to settle, 13 are sold leaving one to sell. Warragul achieved an improved settlement rate during the 2014 year. The Company currently expects the remaining homes to settle during the 2015 financial year.
- Lifestyle Cranbourne is now 80% settled. Of the remaining 44 homes left to settle, 25 are sold leaving a further 19 to sell. The Company currently expects the remaining homes will be sold and settled during the next two years.
- Lifestyle Shepparton has achieved sales and settlements during the 2014 year in line with the Company's expectations and prior year. The community is now over 39% sold and 27% settled.
- Lifestyle Chelsea Heights has exceeded the Company's expectations with 65 settlements during the 2014 year such that the community is 93% settled. The Company currently expects the final seven homes to settle during the 2015 financial year.
- Lifestyle Hastings has exceeded the Company's expectations with 74 sales during the 2014 year such that the community is 69% sold. Of the remaining 96 homes left to settle, 65 are sold leaving 31 to sell. The Company currently expects the remaining homes will be sold and settled during the next two years.
- The Lifestyle Chelsea Heights expansion has exceeded the Company's expectations with 67 sales during the 2014 year such that the expansion is 86% sold. The land was settled in May 2014 and the Company expects settlements to commence in the second half of the 2015 financial year.
- Lifestyle Lyndarum in Wollert was settled in June 2014. Construction commenced in July 2014 and the Company has achieved 20 pre-sales to date. Settlements are expected to commence in the second half of the 2015 financial year.
- Lifestyle Geelong was settled in May 2014. Construction is expected to commence in the second quarter of the 2015 financial year with settlements expected to commence in the first half of the 2016 financial year.
- The land for the Lifestyle Community at Rosebud was acquired after the end of the 2014 financial year. The acquisition of Rosebud is subject to planning approval. The Company currently expects construction to commence in the second half of the 2016 financial year with settlements to commence in the 2017 financial year.

Analysis of income statement

Net profit before tax increased to \$21.1 million (2013: \$12.9 million) for the year whilst net profit after tax attributable to shareholders was \$12.3 million (2013: \$7.0 million). The prior period results have been adjusted to reflect a prior period error relating to the accounting treatment of investment properties with joint venture interests. Refer to Note 3 in the Company's 2014 financial statements for further details. The table below shows the changes to net profit attributable to shareholders from 30 June 2013 to 30 June 2014.

	A\$ millions	A\$ millions
Net profit after tax attributable to shareholders for the year ended 30 June 2013		7.0
Changes in revenues		
Home settlement revenue	18.2	
Rental revenue	1.7	
Utilities revenue	0.2	
Deferred management fee	0.5	
Finance revenue	(0.4)	20.2
Changes in cost of sales		(12.8)
Changes in gains from fair value adjustments		2.4
Changes in expenses		
Development expenses	0.2	
Management expenses	(1.3)	
Utilities expenses	(0.1)	
Corporate overheads	(0.3)	
Finance costs	(0.1)	(1.6)
Increase in income tax expense		(1.5)
Increase in profit after tax attributable to non-controlling interests		(1.4)
Net profit after tax attributable to shareholders for the year ended 30 June 2014		12.3

The key drivers of increased profitability were:

Home settlement revenue and margin

- Revenue from home settlements increased to \$54.8 million (2013: \$36.6 million) due to an increase in settlements to 211 (2013: 149). 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 6% to \$260,000 (exclusive of GST).
- Home settlement gross margin increased to 25% (2013: 23%) due to a change in the product mix of homes sold and the increase in the average realised sales price with a smaller relative increase in the cost of sales.

Annuity income and expenses

- Revenue from homeowner rentals increased to \$6.5 million (2013: \$4.9 million) due to an increase in homes under management and a rental increase of 3.5%. 211 homes were settled during the year bringing the Company's total homes under management to 906.
- Community management expenses increased to \$3.5 million (2013: \$2.1 million) due to a full year of operations for the Company's Chelsea Heights community as well as an additional seven months of operations for the Hastings community. Until a community is fully settled there is also an increase in community management expenses for those expense items that are variable on a per home basis such as landscaping and council rates.
- Deferred management fees received (inclusive of selling and administration fees) increased to \$0.9 million (2013: \$0.4 million). There were 23 resale settlements during the year compared to 10 in the prior year. As at year end there were 28 resale homes available across the Company's Brookfield, Tarneit, Warragul and Cranbourne communities.

Other expenses

- Development expenses reduced to \$3.3 million (2013: \$3.4 million). In the prior year the Company invested \$0.65 million in rebranding costs. Excluding these costs the company's sales and marketing function has grown as a result of the increase of communities in the new home sales cycle. The increased normalised sales and marketing activity coupled with the reduction in one-off rebranding costs incurred has seen the total development expenses fall marginally during the year.
- Finance costs increased to \$2.2 million (2013: \$2.1 million). The main reason for the change is the increase in amortisation of capitalised costs associated with the \$25.0 million loan note facility which increased to \$0.6 million (2013: \$0.1 million). Capitalised costs were initially being amortised over ten years; the amortisation period has now been reduced to five years to reflect the increased likelihood of early redemption of the facility. Refer to Note 20 in the Company's 2014 financial statements for further details. Partially offsetting this increase is the reduction in finance costs capitalised to inventories and therefore expensed as the Warragul community is settling out. 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.

Fair value adjustments

- Total fair value adjustments have increased to \$12.3 million (\$2013: \$9.8 million). Fair value adjustments comprise changes to the fair value of investment properties and the deferred management fee receivable (net of the joint venture share). Changes relating to investment properties represents incremental adjustment to their fair value upon settlement of homes 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. Refer to Note 5 in the Company's 2014 financial statements for further details.

Analysis of cash flow

A\$ millions	FY2014	FY2013	Change
Cash flows related to operations	9.5	0.0	9.5
add Project capital expenditure ⁽¹⁾	9.4	11.3	(1.9)
Adjusted cash flows related to operations	18.9	11.3	7.6
Cash flows related to investing activities	(21.3)	(0.5)	(20.8)
Cash flows relating to financing activities	(1.5)	13.3	(14.8)
Net movement in cash	(13.3)	12.8	
Cash at the beginning of the period	16.1	3.3	
Cash at the end of the period	2.8	16.1	
Liquidity buffer funds on deposit	4.0	-	
Adjusted closing cash	6.8	16.1	

(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 other legal structures, project capital expenditure may be classified within investing cash flows rather than operating cash flows.

Adjusted cash flows related to operations increased to \$18.9 million (2013: \$11.3 million), reflecting increased home settlements and annuities from rental streams as well as an increase in deferred management fees. The increase was partially offset by additional community management expenditure noted in the prior section. Homes completed and paid for in 2014 were 250 (2013: 125). The increase was mainly due to the addition of Hastings where 73 homes were completed and paid for, as well as small increases in construction at Chelsea Heights and Warragul.

Cash flows related to investing activities included the purchases of land at Chelsea Heights (expansion), Wollert and Geelong that all settled in the last quarter of the 2014 financial year. Purchases of investment properties totalled \$16.8 million for the 2014 financial year. Also during the year the Company placed \$4.0 million on term deposit representing part of the liquidity buffer held. The liquidity buffer aims to represent approximately six months operational cash flows and is part of the Company's financial risk management policy.

Cash flows related to financing activities included repayments of bank development loans of \$20.3 million, funding provided from bank development loans of \$21.5 million and distributions paid to non-controlling interests of \$2.7 million. In the prior year cash flows from 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	FY2014	FY2013	Change	Change %
Assets				
Cash and cash equivalents	2.8	16.1	(13.3)	(475)
Other financial assets (term deposits)	6.0	2.0	4	200
Trade and other receivables	15.0	9.5	5.5	58
Inventories	34.1	35.6	(1.5)	(4)
Land held for sale	0.1	0.1	-	-
Property, plant and equipment	2.4	1.0	1.4	140
Investment properties	99.6	75.0	24.6	33
Other assets	0.2	0.2	-	-
Total Assets	160.2	139.5	20.7	15
Liabilities				
Trade and other payables	(11.1)	(9.6)	(1.5)	16
Interest-bearing loans and borrowings	(35.6)	(33.9)	(1.7)	5
Provisions	(0.6)	(0.5)	(0.1)	20
Current tax payable	(1.1)	-	(1.1)	-
Deferred tax liabilities	(16.8)	(12.9)	(3.9)	30
Total Liabilities	(65.2)	(56.9)	(8.3)	15
Net Assets	95.0	82.6	12.4	15
Equity				
Equity – Lifestyle Communities interest	95.0	82.6	12.4	15
Non-controlling interests	-	-	-	-
Total Equity	95.0	82.6	12.4	15

During the year the Company's net assets and total equity increased to \$95.0 million (2013: \$82.6 million).

Included in trade and other receivables is the deferred management fee asset which has increased to \$12.3 million (2013: \$7.2 million). \$2.1m of the increase was as a result of changes to the discount applied to the standard Australian Bureau of Statistics Life Tables, however this was offset by a reduction in investment properties. Refer to Note 5 in the Company's 2014 financial statements for further details. 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.

Included in other financial assets is a \$4.0 million term deposit representing part of the Company's liquidity buffer.

Debt, gearing and liquidity

As at 30 June 2014 the Company had net debt (total borrowings less cash and liquidity buffer) of \$28.9 million (2013: \$17.7 million). The primary driver for this increase is land purchases at Chelsea Heights (expansion), Wollert and Geelong.

A\$ millions	
Net debt at 30 June 2013	17.7
Net increase in bank borrowings	1.4
Term deposit for liquidity buffer	(4.0)
Adjustment to loan note facility amortised costs	0.5
Reduction in cash balances	13.3
Net movement in 2014	11.2
Net debt at 30 June 2014	28.9

The gearing ratio (net debt to net debt plus equity) of the Company as at 30 June 2014 was 23.3% (2013: 17.7%).

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). It is likely that the Company will seek the early redemption of this facility.

As at 30 June 2014 the Company has committed debt facilities with Westpac of \$26.2 million and \$11.1 million was drawn. These debt facilities relate to developments at Shepparton, Chelsea Heights, Hastings and Wollert.

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 2014 financial year. The increase in net sales to 267 (2013: 190) is a solid result and can be partly attributable to a continual improvement in marketing strategy, market acceptance and an increased number of communities in the sales cycle.

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 continues to focus 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.

The Company currently expects that settlements in the 2015 financial year will be approximately the same as for 2014 but net profit after tax attributable to shareholders is expected to be higher. Net profit after tax attributable to shareholders is expected to be higher in the 2015 financial year due to: a lower percentage of settlements from communities held in joint venture; an increase in net rental income; and an expected increase in the number of sales and settlements of established homes. It is also important to note that with the first settlements from Chelsea Heights (expansion) and Wollert expected to be in the second half of the financial year, the generation of net profit after tax attributable to shareholders will be biased to the second half.

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 ten sites and developing many of these during the past eleven years.

Sales and settlements – the Company is exposed to the rate of sales of new 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 factor attracts a great deal of attention during the site selection process and also during the development of the community.

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

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 experience re-financing risk 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 common areas and gardens to a high standard.

Regulatory risk – the Company's operations and business and financial model are impacted by the Residential Tenancies Act and the Social Securities Act. Changes to this legislation could have an adverse impact on the operating and financial performance of the Company. The risks associated with changes to the Residential Tenancies Act were reduced 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

As a minimum the HR & Remuneration Committee's role is to 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.

The 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 2014 financial year are set out in section 7.

3.2 Review of non-executive directors' fees

The HR & Remuneration Committee previously determined that non-executive directors' fees will be reviewed in April 2014, however this has been deferred to January 2015. This process will involve benchmarking to similar sized ASX listed companies using an independent remuneration consultant.

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

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

During the year the HR & Remuneration Committee undertook a benchmarking process in relation to the fixed remuneration of executive directors with an effective date of any changes being 1 September 2013. The benchmarking was undertaken by Yellow Folder Research, an independent specialist remuneration consultant. Pursuant to the *Corporations Act 2001*, the remuneration consultant was engaged by the non-executive directors and reporting of the remuneration recommendations were made directly to the HR & Remuneration Committee. Due to the independence of the process the Board is satisfied that the remuneration recommendations received were made free from undue influence by the senior executives to whom the recommendations related. Consideration paid to the remuneration consultant was \$10,000. No other recommendations were provided by the remuneration consultant.

The HR & Remuneration Committee has determined that the fixed remuneration of the 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. The remuneration for the Company's Chief Financial Officer and Company Secretary was benchmarked along with those of the executive Directors referred to above.

4.3 Short term incentives

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

4.4 Long term incentives

The Company has two long-term incentive plans in place and uses them to retain key talent and align the interests of senior 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, and encourage them to improve the longer term performance of the Company and its returns to shareholders, and to motivate and retain them.

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.

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 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. The performance condition of providing continuous service to the Company was chosen to help the Company attract and retain key talent as well as to align interests of executives to shareholders.

No CRES shares were issued pursuant to this plan during the 2014 financial year (2013: 800,000 CRES).

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 2014 financial year (2013: nil).

The performance conditions under the ESOP were for participants to provide two years continuous service. This condition has been satisfied and hence 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, thereby encouraging strong operational and financial performance and is therefore 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>	2014	2013	2012	2011	2010
Net profit after tax attributable to members (\$million)	\$12.28	\$ 6.96	\$ 6.59	\$ 6.82	\$ 5.88
Net profit (change from prior year) (%)	76.4%	5.6%	(3.3%)	16.0%	728.2%
Dividends paid (fully franked) (cents)	-	5.0	5.0	-	-
Diluted earnings per share (cents)	12.00	9.40	14.18	14.70	12.73
Closing share price (30 June)	\$1.60	\$0.78	\$0.80	\$0.90	\$0.60
Share price increase / (decrease)	111.54%	(2.50%)	(5.56%)	50.00%	50.00%
STI paid to KMP	\$-	\$ 10,000	\$ 42,000	\$151,200	\$-

6. Executive service agreements

The HR & Remuneration Committee, in conjunction with the benchmarking of executive Directors' fixed remuneration, has refreshed the Managing Director's executive service agreement. This was executed on the 8 December 2013 with an effective date of 1 September 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.

The remaining executive Director is currently employed under an agreement which commenced on 1 July 2010.

Significant conditions

Under the terms of the agreements, the Managing Director and the executive Director may resign from their positions and terminate their contracts by giving three months written notice to the Company.

The Company may terminate either 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.

In addition to the above, the Managing Director has a three month restrictive period post termination.

7. Remuneration details

7.1 Compensation of directors and key management personnel for the year ended 30 June 2014

30 June 2014	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	58,680	-	-	-	5,728	-	-	-	-	-	64,408
James Kelly	288,237	-	-	-	26,169	-	-	-	-	-	314,406
Bruce Carter	185,133	-	-	-	17,481	-	-	-	-	-	202,614
Jim Craig ⁽¹⁾	49,050	-	-	-	-	-	-	-	-	-	49,050
Philippa Kelly ⁽³⁾	37,500	-	-	-	3,469	-	-	-	-	-	40,969
Dael Perlov ⁽²⁾	47,247	-	-	-	4,370	-	-	-	-	-	51,617
	665,847	-	-	-	57,217	-	-	-	-	-	723,064
Key management personnel											
Dael Perlov ⁽²⁾	143,849	-	-	-	13,472	-	-	-	-	-	157,321
Geoff Hollis	160,239	-	-	-	14,822	-	-	32,292	-	15.6	207,353
	304,088	-	-	-	28,294	-	-	32,292	-	-	364,674
Total	969,935	-	-	-	85,511	-	-	32,292	-	-	1,087,738

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

(2) Dael Perlov ceased being a director on 18 September 2014; he remained a key management personnel of the Company.

(3) Philippa Kelly was appointed as a director on 18 September 2013.

7.2 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
James Kelly	235,763	-	-	-	21,219	-	-	17,221	-	6.3	274,203
Bruce Carter	187,926	-	-	-	17,009	-	-	17,221	-	7.8	222,156
Jim Craig ⁽¹⁾	24,525	-	-	-	-	-	-	-	-	-	24,525
Dael Perlov	235,869	-	-	-	21,261	-	-	17,221	-	6.3	274,351
David Paranthoiene ⁽²⁾	33,750	-	-	-	-	-	-	10,763	-	24.2	44,513
	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) Jim Craig was appointed as a director on 31 December 2012. Fees were paid to Bellwether Holdings Pty Ltd, an entity controlled by Jim Craig.

(2) David Paranthoiene retired as a director on 31 December 2012.

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 of options granted	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 to executive Directors and key management personnel 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.

For details on the valuation of the options, including models and assumptions used, please refer to Note 27 of the Company's 2014 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
Bruce Carter	2010	2012	ESOP	200,000	\$87,000	200,000	100%	-
Dael Perlov	2010	2012	ESOP	200,000	\$87,000	200,000	100%	-
James Kelly	2010	2012	ESOP	200,000	\$87,000	200,000	100%	-
Tim Poole	2008	2009	N/A	400,000	\$264,960	-	100%	100%
	2010	2012	ESOP	125,000	\$54,375	125,000	100%	-
Geoff 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	-	-	-

8.3 Number of options and CRES held by key management personnel

2014

Name	Balance at 1-Jul-13	Granted as remuneration	Net change other	Share consolidation	Balance at 30-Jun-14	Total vested 30-Jun-14	Total exercisable 30-Jun-14	Total unexercisable 30-Jun-14
Directors								
Bruce Carter	200,000	-	-	-	200,000	200,000	200,000	-
James Kelly	200,000	-	-	-	200,000	200,000	200,000	-
Tim Poole	125,000	-	-	-	125,000	125,000	125,000	-
Jim Craig	1,250,000	-	-	-	1,250,000	1,250,000	1,250,000	-
Philippa Kelly (a)	-	-	-	-	-	-	-	-
Dael Perlov (b)	200,000	-	-	-	200,000	200,000	200,000	-
Key Management Personnel								
Geoff Hollis	425,000	-	-	-	425,000	125,000	125,000	300,000

- (a) Philippa Kelly was appointed to the Board on 18 September 2013; the opening balance represents the balance at her appointment date.
- (b) Dael Perlov resigned as a director on 18 September 2013; and remained as a key management personnel of the Company.

2013

Name	Balance at 1-Jul-12	Granted as remuneration	Net change other	Share consolidation	Balance at 30-Jun-13	Total vested 30-Jun-13	Total exercisable 30-Jun-13	Total unexercisable 30-Jun-13
Directors								
Bruce Carter	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	-
Dael Perlov	2,000,000	-	-	(1,800,000)	200,000	200,000	200,000	-
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

- (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 as a director on 31 December 2012; the closing balance represents the balance at his retirement date.

For further details relating to options and CRES, please refer to Note 27 of the Company's 2014 financial statements.

8.4 Shareholdings of key management personnel

2014

Name	Balance at 1-Jul-13	Entitlement offer and placement	Off-market transfer	On-market transactions	DRP	Share consolidation	Balance at 30-Jun-14
Directors							
Bruce Carter	12,618,532	-	(1,000,000)	-	-	-	11,618,532
James Kelly	14,845,566	-	-	-	-	-	14,845,566
Tim Poole	1,405,460	-	-	-	-	-	1,405,460
Jim Craig	3,209,486	-	500,000	90,514	-	-	3,800,000
Philippa Kelly (a)	-	-	-	45,000	-	-	45,000
Dael Perlov (b)	7,806,637	-	-	(620,000)	-	-	7,186,637
Key Management Personnel							
Geoff Hollis	-	-	-	-	-	-	-

- (a) Philippa Kelly was appointed to the Board on 18 September 2013; the opening balance represents the balance at her appointment date.
- (b) Dael Perlov resigned as a director on 18 September 2013; and remained as a key management personnel of the Company.

2013

Name	Balance at 1-Jul-12	Entitlement offer and placement	Off-market transfer	On-market transactions	DRP	Share consolidation	Balance at 30-Jun-13
Directors							
Bruce Carter	103,059,042	17,810,133	-	-	5,316,154	(113,566,797)	12,618,532
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	-	27,500,000	-	4,594,867	-	(28,885,381)	3,209,486
Dael Perlov (a)	89,366,652	-	-	(15,251,740)	3,951,468	(70,259,743)	7,806,637
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 as a director on 31 December 2012; the closing balance represents the balance at his retirement date.

9. Remuneration report voting at Annual General Meetings

Lifestyle Communities Limited received more than 98% of votes in support of its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the 2014 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 that reads "Tim Poole".

Tim Poole
Chairman
21 August 2014

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

James Kelly
Managing Director
21 August 2014

LIFESTYLE COMMUNITIES LIMITED
AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF LIFESTYLE COMMUNITIES LIMITED

In relation to the independent audit for the year ended 30 June 2014, 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.



P A JOSE
Partner

21 August 2014



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 Charter. All Board members are entitled to obtain independent professional advice at the expense of the Company after advising the other directors of their intention to do so. The responsibilities of the Board are set out in the Board Charter which can be viewed on the Company's website.

Tim Poole, Jim Craig and Philippa Kelly are independent non-executive Directors. James Kelly and Bruce Carter are significant shareholders as well as executive Directors. Both James and Bruce are 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.

2. Structure the Board to add value

The Board comprises two executive Directors and three 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. All non-executive Directors, Tim Poole (chairman), Jim Craig and Philippa Kelly are considered to be independent as defined in the ASX Guidelines. James Kelly is Managing Director of the Company.

The Company has an annual informal performance evaluation procedure for the Board and its committees. 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 HR & Remuneration Committee charter can be viewed on the Company's website.

Jim Craig (Chair), Tim Poole and Philippa Kelly form this Committee and have attended the two meetings held during the 2014 financial year. 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 can 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 share trading policy in accordance with the ASX Corporate Governance Principles.

Under the Company's Share 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 shares of Lifestyle Communities Limited in the following 'window' periods:

- Within the period of one month after the release of annual and half yearly results;
- Within the period of one month after the Company's Annual General Meeting; and
- Within other specific periods where all relevant price sensitive information has been released (such as 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 updating its Diversity Policy which is currently available on the Company's website. The revised policy is expected to be available within the first half of the 2015 financial year. The revised policy will outline the Company's specific diversity objectives.

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 1,317 total homeowners, 61% are female as at 30 June 2014.

Directors

It is the Company's objective to have female representation on the Board and this has been achieved following the appointment of Philippa Kelly as a non-executive Director on 18 September 2013. It is considered highly 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 2014 the Company is achieving this objective with 22 women or 50% of the Company's total workforce of 44.

4. Safeguard integrity in financial reporting

Audit Committee

The Audit Committee comprises three independent non-executive Directors, Philippa Kelly (Chair), Tim Poole and Jim Craig whose details are set out in pages 5 and 6 of the Directors' Report.

Details of meeting attendances can be located on page 8 of the Director's Report.

The Audit Committee Charter is available on the Company's website and 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. The Board adheres to the Company's Communications Policy and ensures effective communication with its shareholders through compliance with ASX Listing Rules and Corporations Act 2001 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.

The Communications Policy can be viewed on the Company's website.

6. Respect the rights of shareholders

The Board maintains an up to date investor information section on its website and ensures all relevant announcements are placed on the website after release to the ASX. The Company also ensures that there are avenues available to shareholders to interact with management such as the Annual General Meeting and the investor day.

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. The Board also 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 then 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, operations and development and acquisition) in addition to the Chief Financial Officer report to the Board on financial and non-financial matters at least monthly and 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 staff and, because the transactional volume is small, the directors have an intimate knowledge of the workings of the Company. It is considered that a formal internal audit function is not appropriate at this time, although ad hoc internal control procedures are undertaken at the direction of the Chief Financial Officer. 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

The functions of a remuneration committee are carried out by the HR & Remuneration Committee. The HR & Remuneration Committee Charter can be viewed on the Company's website.

The HR & Remuneration Committee comprises the three independent non-executive directors of the Company.

Refer to the remuneration report located within pages 18 to 26 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 2014

	Note	2014 \$	2013 \$
Revenue			
Home settlement revenue		54,812,273	36,551,998
Rental revenue		6,549,194	4,892,110
Utilities revenue		929,777	681,605
Deferred management fee	7	909,510	381,443
Finance revenue		516,855	952,048
Total revenue		63,717,609	43,459,204
Cost of sales		(41,057,429)	(28,298,187)
Gross profit		22,660,180	15,161,017
Fair value adjustments			
Investment properties	6	7,897,620	7,815,196
Deferred management fee	6	5,070,984	2,444,600
Deferred management fee (joint venture share)	6	(715,167)	(434,539)
less expenses			
Development expenses		(3,262,770)	(3,449,832)
Management expenses	7	(3,461,817)	(2,127,522)
Utilities expenses		(1,086,743)	(967,144)
Corporate overheads		(3,800,825)	(3,500,248)
Finance costs	7	(2,227,543)	(2,077,335)
Profit before income tax		21,073,919	12,864,193
Income tax expense	8	(4,943,761)	(3,428,275)
Net profit from continuing operations		16,130,158	9,435,918
Profit is attributable to:			
Members of the parent		12,277,939	6,964,731
Non-controlling interests		3,852,219	2,471,187
		16,130,158	9,435,918
Total comprehensive income for the year		16,130,158	9,435,918
Total comprehensive income is attributable to:			
Members of the parent		12,277,939	6,964,731
Non-controlling interests		3,852,219	2,471,187
		16,130,158	9,435,918
Earnings per share for profit attributable to the ordinary equity holders of the parent entity:			
		cents	cents
Basic earnings per share	25	12.282	9.429
Diluted earnings per share	25	11.996	9.402

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

Consolidated Statement of Financial Position
As at 30 June 2014

	Note	2014 \$	2013 \$
ASSETS			
Current assets			
Cash and cash equivalents	10	2,756,639	16,143,921
Trade and other receivables	11	3,279,030	1,184,861
Inventories	12	22,515,591	21,279,703
Land held for sale	15	126,619	126,619
Other financial assets	16	1,000,000	-
Other current assets	13	176,598	242,707
Total current assets		29,854,477	38,977,811
Non-current assets			
Trade and other receivables	11	11,675,809	8,343,628
Inventories	12	11,569,266	14,253,221
Property, plant and equipment	14	2,428,443	975,507
Other financial assets	16	5,000,000	2,000,000
Investment properties	17	99,626,182	74,974,188
Total non-current assets		130,299,700	100,546,544
TOTAL ASSETS		160,154,177	139,524,355
LIABILITIES			
Current liabilities			
Trade and other payables	18	11,074,762	9,565,279
Interest-bearing loans and borrowings	20	5,099,862	5,691,695
Current tax payable	8	1,096,751	-
Provisions	19	302,112	295,219
Total current liabilities		17,573,487	15,552,193
Non-current liabilities			
Interest-bearing loans and borrowings	20	30,533,873	28,181,602
Provisions	19	261,568	216,636
Deferred tax liabilities	8	16,785,999	12,938,989
Total non-current liabilities		47,581,440	41,337,227
TOTAL LIABILITIES		65,154,927	56,889,420
NET ASSETS		94,999,250	82,634,935
EQUITY			
Contributed equity	21	60,993,959	60,993,959
Reserves	22	1,411,499	1,325,123
Retained earnings	22	32,593,792	20,315,853
Members' interest in equity		94,999,250	82,634,935
Non-controlling interest	23	-	-
TOTAL EQUITY		94,999,250	82,634,935

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2014

	Contributed equity	Reserves	Retained earnings	Non- controlling interest	Total equity
	\$	\$	\$		\$
Balance at 1 July 2012	24,214,692	799,363	15,121,327	(170,448)	39,964,934
Adjustment due to correction of error	-	-	540,661	-	540,661
Restated opening balance	24,214,692	799,363	15,661,988	(170,448)	40,505,595
Profit for the year as reported in the 2013 financial statements	-	-	6,239,963	2,471,187	8,711,150
Adjustment due to correction of error	-	-	724,768	-	724,768
Restated profit for the year	-	-	6,964,731	2,471,187	9,435,918
Total comprehensive income for the year	-	-	6,964,731	2,471,187	9,435,918
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	20,315,853	-	82,634,935
Profit for the year	-	-	12,277,939	3,852,219	16,130,158
Total comprehensive income for the year	-	-	12,277,939	3,852,219	16,130,158
Transactions with owners in their capacity as owners:					
Net distributions to non-controlling interests	-	-	-	(3,852,219)	(3,852,219)
Employee share schemes	-	86,376	-	-	86,376
	-	86,376	-	(3,852,219)	(3,765,843)
Balance as at 30 June 2014	60,993,959	1,411,499	32,593,792	-	94,999,250

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

Consolidated Cash Flow Statement
For the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Cash flows from operating activities			
Receipts from customers		69,096,826	46,462,775
Payments to suppliers and employees		(56,849,672)	(43,169,118)
Interest received		516,855	419,502
Interest paid		(3,304,748)	(3,754,969)
Net cash flows provided by / (used in) operating activities	24	9,459,261	(41,810)
Cash flows from investing activities			
Purchase of property, plant and equipment	14(a)	(592,418)	(370,528)
Payment for / (proceeds from) long-term deposit		(4,000,000)	500,000
Purchase of investment properties and capitalised costs		(16,754,374)	(76,292)
Interest paid		-	(531,161)
Net cash flows used in investing activities		(21,346,792)	(477,981)
Cash flows from financing activities			
Proceeds from external borrowings		21,533,343	21,219,900
Repayment of external borrowings		(20,311,694)	(42,380,708)
Dividend paid		-	(781,728)
Proceeds from entitlement offer and placement (net of costs)		-	35,299,570
Distributions paid to non-controlling interests		(2,708,056)	-
Repayments of hire purchase		(13,344)	(23,064)
Net cash flows provided by / (used in) financing activities		(1,499,751)	13,333,970
Net increase / (decrease) in cash held		(13,387,282)	12,814,179
Cash at the beginning of the financial year		16,143,921	3,329,742
Cash at the end of the financial year	10	2,756,639	16,143,921

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

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 2014.

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 entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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, including any unrealised profits and losses have been eliminated on consolidation. Subsidiaries are consolidated from the date on which control is established and are de-recognised 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 on hand and at banks and short-term deposits with an original maturity of six 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 civils and infrastructure, wages and holding costs. With effect from 1 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 home owners and is accounted for on a straight-line basis over the lease term.

(iv) Utilities revenue

Utilities revenue is derived from homeowners and is billed monthly and recorded as revenue in the month of billing.

(v) Deferred management fee

The deferred management fee is receivable upon a resident selling their home. Revenue is recorded upon from the resale settlement of the home.

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.

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:

	2014	2013
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 to 7 years	4 to 7 years

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, and 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. Acceptance fees 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 balances

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. No deferred tax asset or liability is recognised in relation to temporary differences 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 100% owned 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

(i) Short-term employee benefit obligations

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. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Long-term employee benefit obligations

The provision for employee benefits in respect of long service leave and annual leave which, are not expected to be settled within twelve months of reporting date, 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.

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Retirement benefit obligations

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.

(iv) 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 due and payable on or before expiry of the CRES. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 Australian Taxation 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. Where applicable receivables and payables in the statement of financial position are shown inclusive of

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.

(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.

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

(o) Comparatives

Comparative information has been updated to reflect adjustments required due to a correction of error. Please refer to Note 3 for further details.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Adoption of new and amended accounting standards that are first operative at 30 June 2014

(i) AASB 13: Fair Value Measurement

AASB 13 introduces a fair value framework for all fair value measurements as well as the enhanced disclosure requirements. Application of AASB 13 does not materially change the company's fair value measurements. However, the additional disclosures required under AASB 13 are provided in Note 5: Fair Value Measurements.

(ii) AASB 119: Employee Benefits

The amendments to AASB 119 revise the definitions of short term and long term employee benefits, placing the emphasis on when the benefit is expected to be settled rather than when it is due to be settled. The group has assessed its impact and concludes that the adoption of AASB 119 has no material effect on the amounts recognised in current or prior years.

No other new and amended accounting standards effective for the financial year beginning 1 July 2013, not previously adopted, affected any amounts recorded in the current or prior year.

(q) Accounting standards and interpretations issued but not Operative at 30 June 2014

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 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosure and AASB 2013-9 Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017)

AASB 9 *Financial Instruments* improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. It is anticipated that there will be no material effect on the consolidated entity's accounting for financial assets.

Most of the requirements for financial liabilities were carried forward unchanged. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The consolidated entity does not have any financial liabilities that are designated at fair value through profit or loss. The new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss. Therefore, there will be no impact on the consolidated entity's accounting for financial liabilities.

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.

Notes to the Financial Statements

For the year ended 30 June 2014

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

Deferred tax assets and liabilities 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

The Company consolidates its interests in joint venture entities Cameron Street Developments Pty Ltd and Lifestyle Chelsea Heights Pty Ltd in accordance with AASB 10 *Consolidated Financial Statements* requirements. 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 with its joint venture entities.

(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 and settled home units and the fair value of the undeveloped land. Inputs for the discounted annuity streams associated with the completed and settled home units are derived from independent valuations and adjusted to reflect actual rental income and estimated expenditure. The fair value of the undeveloped land is based on Directors' valuations.

Calculation of deferred management fee (DMF)

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

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 receivable 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 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 27. 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 2014

NOTE 3: CORRECTION OF ERROR

Correction of error in investment properties in prior years

The Company historically recognised 50% of investment properties in relation to jointly owned land in line with its joint venture interests. However as the Company is entitled to a greater share of the annuity income streams due to the nature of the contractual relationships with its joint venture partners, the allocation of the annuity streams within the investment property calculation has been adjusted. The error has been corrected by restating the appropriate financial statements as presented below:

Consolidated Statement of Financial Position	Prior period 30 June 2012	Increase / (Decrease)	Restated 30 June 2012	Prior period 30 June 2013	Increase / (Decrease)	Restated 30 June 2013
	\$	\$	\$	\$	\$	\$
Cash and cash equivalents	3,329,742	-	3,329,742	16,143,921	-	16,143,921
Trade and other receivables	842,881	-	842,881	1,184,861	-	1,184,861
Inventories	16,366,922	-	16,366,922	21,279,703	-	21,279,703
Land held for sale	-	-	-	126,619	-	126,619
Other current assets	325,694	-	325,694	242,707	-	242,707
Total current assets	20,865,239	-	20,865,239	38,977,811	-	38,977,811
Trade and other receivables	5,417,306	-	5,417,306	8,343,628	-	8,343,628
Inventories	15,578,977	-	15,578,977	14,253,221	-	14,253,221
Property, plant and equipment	755,857	-	755,857	975,507	-	975,507
Land held for sale	126,619	-	126,619	-	-	-
Other financial assets	2,500,000	-	2,500,000	2,000,000	-	2,000,000
Investment properties	65,780,516	772,373	66,552,889	73,166,432	1,807,756	74,974,188
Total non-current assets	90,159,275	772,373	90,931,648	98,738,788	1,807,756	100,546,544
Total assets	111,024,514	772,373	111,796,887	137,716,599	1,807,756	139,524,355
Trade and other payables	6,083,914	-	6,083,914	9,565,279	-	9,565,279
Interest-bearing loans and borrowings	31,377	-	31,377	5,691,695	-	5,691,695
Provisions	225,700	-	225,700	295,219	-	295,219
Total current liabilities	6,340,991	-	6,340,991	15,552,193	-	15,552,193
Interest-bearing loans and borrowings	54,899,994	-	54,899,994	28,181,602	-	28,181,602
Provisions	182,578	-	182,578	216,636	-	216,636
Deferred tax liabilities	9,636,017	231,712	9,867,729	12,396,662	542,327	12,938,989
Total non-current liabilities	64,718,589	231,712	64,950,301	40,794,900	542,327	41,337,227
Total liabilities	71,059,580	231,712	71,291,292	56,347,093	542,327	56,889,420
Net assets	39,964,934	540,661	40,505,595	81,369,506	1,265,429	82,634,935
Contributed equity	24,214,692	-	24,214,692	60,993,959	-	60,993,959
Reserves	799,363	-	799,363	1,325,123	-	1,325,123
Retained earnings	15,121,327	540,661	15,661,988	19,050,424	1,265,429	20,315,853
Members' interest in equity	40,135,382	540,661	40,676,043	81,369,506	1,265,429	82,634,935
Non-controlling interest	(170,448)	-	(170,448)	-	-	-
Total equity	39,964,934	540,661	40,505,595	81,369,506	1,265,429	82,634,935

Notes to the Financial Statements
For the year ended 30 June 2014

NOTE 3: CORRECTION OF ERROR (continued)

Consolidated Statement of Comprehensive Income

	2013 \$	Profit Increase / (Decrease) \$	2013 (Restated) \$
Revenue			
Home settlement revenue	36,551,998	-	36,551,998
Rental revenue	4,892,110	-	4,892,110
Utilities revenue	681,605	-	681,605
Deferred management fee	381,443	-	381,443
Finance revenue	952,048	-	952,048
Total revenue	43,459,204	-	43,459,204
Cost of sales	(28,298,187)	-	(28,298,187)
Gross profit	15,161,017	-	15,161,017
Fair value adjustments			
Investment properties	6,779,813	1,035,383	7,815,196
Deferred management fee	2,444,600	-	2,444,600
Deferred management fee (joint venture share)	(434,539)	-	(434,539)
less expenses			
Development expenses	(3,449,832)	-	(3,449,832)
Management expenses	(2,127,522)	-	(2,127,522)
Utilities expenses	(967,144)	-	(967,144)
Corporate overheads	(3,500,248)	-	(3,500,248)
Finance costs	(2,077,335)	-	(2,077,335)
Profit before income tax	11,828,810	1,035,383	12,864,193
Income tax expense	(3,117,660)	(310,615)	(3,428,275)
Net profit from continuing operations	8,711,150	724,768	9,435,918
Profit or loss is attributable to:			
Members of the parent	6,239,963	724,768	6,964,731
Non-controlling interests	2,471,187	-	2,471,187
	8,711,150	724,768	9,435,918

As a result of the correction of error basic earnings per share has increased from 8.448 cents to 9.429 cents for the year ended 30 June 2013. Diluted earnings per share has increased from 8.423 cents to 9.402 cents for the year ended 30 June 2013.

Cash flows were not impacted by the correction of error.

NOTE 4: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES

The Group's principal financial instruments comprise loan notes, bank loans, finance leases, cash and term deposits, trade and other 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, credit 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.

NOTE 4: FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES (continued)

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 20.

The long-term loan note facility has a limit of \$25 million and is fully drawn (refer Note 20 for details). The facility is fixed interest therefore reducing the Group's exposure to increases in variable interest rates.

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):

	2014	2013
	\$	\$
Financial assets		
Cash and cash equivalents	2,756,639	16,143,921
Other financial assets - term deposits	6,000,000	2,000,000
	<u>8,756,639</u>	<u>18,143,921</u>
Financial liabilities		
Secured loans - bank finance	11,139,310	9,917,662
	<u>11,139,310</u>	<u>9,917,662</u>
Net exposure	<u>(2,382,671)</u>	<u>8,226,259</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)	
	2014	2013	2014	2013
	\$	\$	\$	\$
Consolidated				
+1% (100 basis points)	(16,679)	57,584	-	-
-1% (100 basis points)	16,679	(57,584)	-	-

When determining the parameters for a 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.

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. Refer to Note 5 for sensitivity analysis.

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). Refer to Note 5 for sensitivity analysis.

NOTE 4: 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 20.

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:

	2014	2013
	\$	\$
6 months or less ⁽¹⁾	6,551,672	7,186,264
6-12 months ⁽²⁾	5,099,862	5,680,537
1-2 years ⁽³⁾	31,039,448	4,239,047
2-3 years	-	25,000,000
	42,690,982	42,105,848

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

- \$4,789,994 relates to trust distributions payable to non-controlling interests. As the Company has no legal right to defer payment trust distributions payable are classified as current, although it is likely they will be repaid within six months to two years.
- \$1,761,678 relates to trade and other payables, refer to Note 18 for further detail.

⁽²⁾ \$5,099,862 represents the facility held by the company in relation to the Hastings development. The facility has an expiry date of greater than one year, expiring on 30 April 2016. The liability has been classified as current as the company expects to fully repay this debt within the next 12 months.

⁽³⁾ This amount is represented by the following financial liabilities:

\$6,012,994 represents 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 28 February 2016.

\$26,454 represents the facility held by the company in relation to the Chelsea Heights development. The facility was updated to reflect the expanded development on 28 April 2014. The facility expires on 28 February 2016.

\$25,000,000 represents the loan note facility. The facility expires on 19 May 2021 however both parties have the option for early redemption at five years (being 19 May 2016) and it is likely that the option will be exercised. The long-term nature of the facility reduces the Group's re-finance risk.

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.

NOTE 5: FAIR VALUE MEASUREMENTS

(a) Fair value hierarchy

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: Input 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

30-Jun-14	Level 1	Level 2	Level 3	Total
Recurring Fair Value Measurements	\$	\$	\$	\$
Deferred management fee (trade and other receivables)	-	-	12,314,702	12,314,702
Investment properties	-	-	99,626,182	99,626,182
Total assets measured at fair value	-	-	111,940,884	111,940,884

30-Jun-13	Level 1	Level 2	Level 3	Total
Recurring Fair Value Measurements	\$	\$	\$	\$
Deferred management fee (trade and other receivables)	-	-	7,243,718	7,243,718
Investment properties	-	-	74,974,188	74,974,188
Total assets measured at fair value	-	-	82,217,906	82,217,906

(b) Valuation techniques and inputs used in level 3 fair value measurements

(i) Deferred management fee receivable

The fair value of the deferred management fee asset is calculated based on assumptions such as probability of expected stay utilising inputs from Australia Bureau of Statistics Life Tables. In determining this, the calculation takes into account 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 Company's weighted cost of finance. The Australian Bureau of Statistics Life Tables have been discounted to reflect that a proportion of residents depart the communities for reasons other than death.

The deferred management fee receivable has been classified as level 3 as it is an internally generated calculation that utilises non-observable market inputs.

(ii) Investment properties

The fair value of investment properties is 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, including capitalisation rates, discount rates and deferred management fee annuity value are derived from independent valuations. Some inputs relating to the rental annuity streams are adjusted to reflect appropriate data relating to the rental and expenses at each community. The fair value of undeveloped 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.

Investment properties have been classified as level 3 as it is an internally generated calculation that contains some non-observable market inputs. The company does not adjust the major inputs obtained from the independent valuations such as rental capitalisation rates, discount rates and the deferred management fee annuity values.

(c) Significant unobservable inputs used in level 3 fair value measurements

(i) Deferred management fee receivable

The fair value of the deferred management fee asset is calculated using a weighted cost of finance of 10.5% (2013:10.9%). The Australian Bureau of Statistics Life Tables have been discounted by six years (2013: four years) based on an estimate of the expected occupancy of homeowners in a mature community.

(ii) Investment properties

Deferred management fee annuity - the valuation for this component is taken directly from independent valuations.

Rental annuity - the valuers use a standard rate for rental income and expenses across the portfolio. The rate is adjusted to reflect actual rental income rates and anticipated expenses upon the maturity of each community. The valuers use standardised weekly rental income rates which assume an on-completion split of singles and couples. The directors adjust the weekly rental rate to actuals.

Undeveloped land - the valuation for this component is a directors' valuation.

Below is a summary of the significant unobservable inputs utilised across the portfolio, including the inputs obtained from the independent valuations:

	Adopted	Per valuations
Weekly rentals (\$)	161.69 - 171.47	162.51 - 170.71
Anticipated % expenses (as a percentage of rental income)	28% - 36%	27% - 30%
Rental capitalisation rates (%)	8.5% - 9%	8.5% - 9%
Rental values per unit (\$)	65,241 - 75,074	67,702 - 76,236
Deferred management fee discount rates (%)	13% - 14%	13% - 14%
Deferred management fee values per unit (\$)	22,624 - 42,057	22,624 - 42,057
Valuation of undeveloped land (per hectare) (\$'million)	0.17 - 1.58	N/A

Notes to the Financial Statements

For the year ended 30 June 2014

NOTE 5: FAIR VALUE MEASUREMENTS (continued)

	2014	2013
	\$	\$
(d) Reconciliation of recurring level 3 fair value movements		
<i>(i) Deferred management fee receivable</i>		
Opening balance	7,243,718	4,799,118
Impact of changes to discount rates (a)	275,430	-
Impact of changes to house prices (a)	272,097	480,942
Impact of changes to Australian Bureau of Statistics Life Tables discount (a)	2,085,502	-
Deferred management fees received (a)	(735,150)	(338,058)
Aged growth in existing receivables and new settlements	3,173,105	2,301,716
Closing balance	12,314,702	7,243,718
<i>(ii) Investment properties</i>		
Opening balance	74,974,188	66,552,889
Additions (contracted land and capitalised costs)	16,754,374	606,103
Net gain from fair value adjustments (a)	7,897,620	7,815,196
Closing balance	99,626,182	74,974,188

(a) Changes to the deferred management fee receivable have an inverse relationship with the carrying amount of investment properties. Refer to (f)(i) below for further explanation.

Gains and losses are recognised in the statement of comprehensive income within fair value adjustments.

(e) Valuation processes used for level 3 fair value measurements

(i) Deferred management fee receivable

The Company assesses the significant assumptions to ensure they are materially correct. The weighted cost of finance is re-calculated and the Australian Bureau of Statistics Life Tables are updated annually. The discount applied to the Life Tables is reviewed annually.

(ii) Investment properties

The Company obtains independent valuations of each community at least every two years. The Company uses the independent valuers' inputs in relation to the rental and deferred management fee annuity streams apart from making adjustments to the weekly rental income and level of expenses. These adjustments are assessed at each period end. The directors assess the value attributed to undeveloped land annually. Land contracted in any period is recognised at cost until the first valuation is obtained.

(f) Sensitivity analysis for recurring level 3 fair value measurements

(i) Deferred management fee receivable

Any changes to the deferred management fee receivable will only result in a change to the investment property asset and will therefore have no impact on the gross fair value and total equity. Users of the financial statements should combine the deferred management fee receivable and the investment properties within the balance sheet, as this represents the gross value of investment properties. The deferred management fee receivable is separately disclosed and investment properties reduced by the value of the deferred management fee receivable.

(ii) Investment properties

The impact of changes to the inputs that derive the valuation of investment properties is assessed below:

Rental income

Rental is contractually fixed to increase by the greater of CPI or 3.5% annually. Therefore it is unlikely that there will be any material sensitivities in relation to rental income.

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2014	2013	2014	2013
	\$	\$	\$	\$
<i>Rental expense rate</i>				
+1%	(573,037)	(435,522)	(573,037)	(435,522)
-1%	573,037	435,522	573,037	435,522
<i>Rental capitalisation rate</i>				
+0.25%	(1,138,042)	(889,256)	(1,138,042)	(889,256)
-0.25%	1,206,476	942,958	1,206,476	942,958
<i>Deferred management fee per unit</i>				
+5%	995,044	782,803	995,044	782,803
-5%	(995,044)	(782,803)	(995,044)	(782,803)
<i>Land prices (undeveloped land)</i>				
+10%	1,741,810	1,012,951	1,741,810	1,012,951
-10%	(1,741,810)	(1,012,951)	(1,741,810)	(1,012,951)

Notes to the Financial Statements
For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 6: FAIR VALUE ADJUSTMENTS		
Net gain from fair value adjustments - investment properties (a) (Note 17)	7,897,620	7,815,196
Deferred management fee (b)	5,070,984	2,444,600
Deferred management fee (joint venture share) (c)	(715,167)	(434,539)
	<u>12,253,437</u>	<u>9,825,257</u>

(a) Fair value adjustment results from restating Brookfield, Seasons, Warragul, Cranbourne, Shepparton, Chelsea Heights and Hastings 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.

(b) Refer to Note 5 for a reconciliation of deferred management fee fair value adjustments.

(c) The joint venture share of deferred management fee fair value adjustments represents the interests of joint venture partners at Cranbourne and Chelsea Heights.

NOTE 7: PROFIT FROM CONTINUING OPERATIONS

Profit from continuing operations before income tax has been determined after the following specific revenues and expenses:

Revenues

(i) Deferred management fee

Deferred management fees received	735,150	338,058
Selling and administration fees	174,360	43,385
	<u>909,510</u>	<u>381,443</u>

Expenses

(i) Finance costs expensed

Loan notes	1,612,028	1,858,688
Bank loans	10,229	1,899
Amortisation of capitalised costs of loan note finance (a)	551,870	134,110
Amortisation of loan facility fees	53,416	82,638
	<u>2,227,543</u>	<u>2,077,335</u>

(a) Amortisation of capitalised costs of loan note finance includes a write-off of \$417,760. Given the increased likelihood of the Company exercising its option to repay the loan note facility after five years, the amortisation period has been adjusted from ten years to five years.

(a) Capitalised interest

Finance costs expensed excludes interest capitalised as part of inventory and investment properties:

Loan notes	1,682,490	2,473,443
Bank loans	446,233	981,273
	<u>2,128,723</u>	<u>3,454,716</u>

Interest has been capitalised at the prevailing facility interest rate and is expensed through costs of sales as a pro-rata amount per home settled.

(ii) Management expenses

Management expenses attributable to communities	2,901,197	2,038,435
Deferred management fee sales and marketing expenses	167,518	-
Joint venture share of management surplus	393,102	89,087
	<u>3,461,817</u>	<u>2,127,522</u>

(iii) Plant and equipment

Depreciation (Note 14)	295,205	150,878
Write-off of plant and equipment (Note 14)	86,848	-
	<u>382,053</u>	<u>150,878</u>

(iv) Employee benefits expense

Wages and salaries	3,282,812	2,896,816
Defined contribution superannuation expense	266,763	233,139
Share option expense	86,376	119,304
Movement in employee provisions	51,825	103,577
	<u>3,687,776</u>	<u>3,352,836</u>

Notes to the Financial Statements
For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 8: INCOME TAX		
(a) Components of tax expense		
Current tax	1,096,751	-
Deferred income tax	3,847,010	3,428,275
	<u>4,943,761</u>	<u>3,428,275</u>
(b) Deferred income tax expense included in income tax expense comprises		
Decrease / (increase) in deferred tax assets	82,646	(15,496)
Increase in deferred tax liabilities	3,764,364	3,443,771
	<u>3,847,010</u>	<u>3,428,275</u>
(c) Deferred income tax included directly in equity comprises		
Increase in deferred tax assets	-	(357,015)
(d) Reconciliation between tax expense recognised in the income statement and tax expense		
Accounting profit before tax	21,073,919	12,864,193
At the statutory income tax rate of 30% (2013:30%)	6,322,176	3,859,258
Add / (less):		
Share based payments	25,913	35,791
Non-controlling interests accounting and tax adjustments	(1,185,495)	(716,660)
Other	(218,833)	249,886
Income tax expense	<u>4,943,761</u>	<u>3,428,275</u>
(e) Current tax		
Current tax relates to the following:		
Opening balance	-	-
Income tax	(1,096,751)	-
Tax payments	-	-
Current tax liabilities	<u>(1,096,751)</u>	<u>-</u>
(f) Deferred tax		
Deferred tax relates to the following:		
<i>Deferred tax assets</i>		
The balance comprises:		
Borrowing costs	4,602	17,197
Capital raising costs	249,881	321,314
Capital losses	519,439	519,439
Tax losses	1,050,228	1,417,797
Provision for employee entitlements	169,104	153,557
Joint venture share of deferred management fee receivable	384,600	170,051
Accrued future project expenses	484,107	247,751
Payables	-	97,501
	<u>2,861,961</u>	<u>2,944,607</u>
<i>Deferred tax liabilities</i>		
The balance comprises:		
Deferred management fee fair value adjustments	3,694,411	2,173,116
Other receivables	-	56,828
Finance arranger costs	-	85,095
Interest capitalised	1,522,799	1,507,093
Investment property fair value adjustments	14,430,750	12,061,464
	<u>19,647,960</u>	<u>15,883,596</u>
Net deferred tax liability	<u>(16,785,999)</u>	<u>(12,938,989)</u>

Notes to the Financial Statements

For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 9: DIVIDENDS		
(a) Dividends		
Dividends paid \$nil per share (2013: \$0.05 per share) fully franked	-	2,310,866
Balance of franking account on a tax paid basis at balance date adjusted for franking credits arising from payment of current tax payable and franking debits arising from the payment of proposed dividends:	4,161,582	3,064,831

NOTE 10: CASH & CASH EQUIVALENTS

Cash at bank and on hand	2,602,739	5,182,562
Short-term deposits	153,900	10,961,359
	<u>2,756,639</u>	<u>16,143,921</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 11: TRADE AND OTHER RECEIVABLES

CURRENT

Deferred management fee	638,893	210,678
GST receivable	579,903	-
Other receivables (a)	2,060,234	974,183
	<u>3,279,030</u>	<u>1,184,861</u>

NON-CURRENT

Other receivables	-	1,310,588
Deferred management fee	11,675,809	7,033,040
	<u>11,675,809</u>	<u>8,343,628</u>

No trade and other receivables are past due.

(a) Other receivables

Included within other receivables is an interest-bearing loan receivable of \$573,067 from the Cameron Street Developments joint venture partners relating to a mezzanine facility. Interest is charged at 15% and the loan is expected to be received within 12 months. The remaining other receivables are non-interest bearing.

(b) Fair value and credit risk

Due to the short term nature of other 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 2014

	2014	2013
	\$	\$
NOTE 12: INVENTORIES		
CURRENT		
Completed units	12,195,211	10,253,417
Civils & infrastructure	10,320,380	11,026,286
	<u>22,515,591</u>	<u>21,279,703</u>
NON-CURRENT		
Completed units	2,411,671	1,906,045
Civils & infrastructure	9,157,595	12,347,176
	<u>11,569,266</u>	<u>14,253,221</u>
TOTAL INVENTORIES	<u>34,084,857</u>	<u>35,532,924</u>

(a) Inventory expense

Inventories recognised as an expense for the year ended 30 June 2014 totalled \$41,057,429 for the Group (2013: \$28,298,187). The expense has been included in the cost of sales line item.

NOTE 13: OTHER CURRENT ASSETS

Security deposits	105,700	48,610
Other assets	15,340	72,339
Prepayments	55,558	121,758
	<u>176,598</u>	<u>242,707</u>

NOTE 14: PROPERTY, PLANT AND EQUIPMENT

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

Year end 30 June 2014	Buildings	Plant and equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$
At 1 July 2013 net of accumulated depreciation	139,713	557,151	74,092	204,551	975,507
Additions	7,850	432,948	37,269	114,351	592,418
Write-off	-	(86,848)	-	-	(86,848)
Transfer (i)	1,242,571	-	-	-	1,242,571
Depreciation charge for the year	(97,736)	(83,714)	(46,684)	(67,071)	(295,205)
At 30 June 2014 net of accumulated depreciation	<u>1,292,398</u>	<u>819,537</u>	<u>64,677</u>	<u>251,831</u>	<u>2,428,443</u>
At 30 June 2014					
Cost	1,412,511	1,419,268	321,586	464,373	3,617,738
Accumulated depreciation	(120,113)	(599,731)	(256,909)	(212,542)	(1,189,295)
Net carrying amount	<u>1,292,398</u>	<u>819,537</u>	<u>64,677</u>	<u>251,831</u>	<u>2,428,443</u>

(i) Community manager's residences, historically carried within inventory have been reclassified to Buildings this year.

Notes to the Financial Statements
For the year ended 30 June 2014

NOTE 14: PROPERTY, PLANT AND EQUIPMENT (continued)

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

Year end 30 June 2013	<i>Buildings</i>	<i>Plant and equipment</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	\$	\$	\$	\$	\$
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	139,713	557,151	74,092	204,551	975,507
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	139,713	557,151	74,092	204,551	975,507

NOTE 15: LAND HELD FOR SALE	2014	2013
	\$	\$
CURRENT		
Land held for sale at cost	126,619	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 2015.

NOTE 16: OTHER FINANCIAL ASSETS

CURRENT		
Term deposit	1,000,000	-
NON-CURRENT		
Term deposits	5,000,000	2,000,000

A \$2,000,000 term deposit is held as part security for Morstem loan note facility and is classified as non-current (refer Note 20). A \$4,000,000 term deposit was entered into during the year with \$1,000,000 expected to be redeemed in June 2015 and the balance of \$3,000,000 in April 2016. These funds represent part of the liquidity buffer held (refer Note 21).

Notes to the Financial Statements
For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 17: INVESTMENT PROPERTIES		
Investment properties at fair value	99,626,182	74,974,188
(a) Reconciliation of carrying amounts at the beginning and end of the period		
Opening balance as at 1 July	74,974,188	66,552,889
Additions	16,754,374	606,103
Net gain from fair value adjustments	7,897,620	7,815,196
Closing balance as at 30 June	99,626,182	74,974,188

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 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 20.

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

(b) Carrying amount of investment properties if the cost method had been applied	47,726,193	30,971,819
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NOTE 18: TRADE AND OTHER PAYABLES

CURRENT

Trade payables (a)	1,403,008	1,051,316
Accrued future project expense (b)	2,376,443	2,390,169
Customer deposits (c)	864,642	879,176
Joint venture share of deferred management fee receivable (d)	1,282,005	566,838
GST payable	-	183,911
Other payables and accruals (e)	358,670	848,038
Trust distributions payable (f)	4,789,994	3,645,831
	11,074,762	9,565,279

(a) Trade payables

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

(b) Accrued future project expense

These represent future project expenses that will be capitalised to inventory when incurred.

(c) Customer deposits

These represent deposits received from customers that are recognised as revenue upon home settlement.

(d) Joint venture share of deferred management fee receivable

These represent the joint venture share of deferred management fee fair value adjustments. Refer to Note 5 for further details in relation to the fair value measurement assumptions.

(e) Other payables

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

(f) Trust distributions payable

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

(g) Fair value

Apart from the joint venture share of deferred management fee receivable due to the short term nature of other payables, their carrying value is assumed to approximate their fair value.

Notes to the Financial Statements
For the year ended 30 June 2014

		2014	2013
		\$	\$
NOTE 19: PROVISIONS			
CURRENT			
Employee provisions		302,112	295,219
NON-CURRENT			
Employee provisions		261,568	216,636
NOTE 20: INTEREST-BEARING LOANS AND BORROWINGS			
CURRENT			
	Maturity		
Hire purchase (Note 30)		-	13,080
Secured loans - bank finance	Apr 2016	5,099,862	5,678,615
		<u>5,099,862</u>	<u>5,691,695</u>
NON-CURRENT			
	Maturity		
Secured loans - bank finance	Feb 2016	6,039,448	4,239,047
Secured loans - loan notes	May 2021	25,000,000	25,000,000
Capitalised costs of finance		(505,575)	(1,057,445)
		<u>30,533,873</u>	<u>28,181,602</u>

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 Hastings development. The facility has an expiry date of greater than one year, expiring on 30 April 2016, however 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.

The prior year balance related to facilities held by the company with Westpac Banking Corporation in relation to the Chelsea Heights development.

(ii) Non-current secured loans - bank finance

\$6,012,994 relates to 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 28 February 2016. The facility has a total capacity of \$6.0 million and was overdrawn at 30 June 2014 due to accrued interest. The facility is grouped with the facilities to develop the Hastings and Wollert developments. The Hastings development facility has a capacity of \$5.5 million and the Wollert facility has a capacity of \$7.2 million and will be utilised post year end.

\$26,454 relates to the facility held by the company with Westpac Banking Corporation in relation to the Chelsea Heights expansion development. The facility has an expiry of greater than one year, expiring on 28 February 2016. The facility has a total 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 development.

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

\$25,000,000 relates to the loan note facility. The facility expires on 19 May 2021, however both parties have the option for early redemption at five years (being 19 May 2016) and it is considered likely that the option will be exercised. The company has met all its obligations as per the subscription agreement. Capitalised costs of finance were initially being amortised over ten years, the amortisation period has been reduced to five years to reflect the increased likelihood of early redemption.

Notes to the Financial Statements

For the year ended 30 June 2014

NOTE 20: 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.

Fully interlocking guarantee and indemnity in respect of the Shepparton, Hastings and Wollert facilities provided by Lifestyle Investments 2 Pty Ltd, Lifestyle Developments 2 Pty Ltd, Lifestyle Management 2 Pty Ltd and Lifestyle Communities Limited.

Fully interlocking guarantee and indemnity limited in aggregate to 50% of all amounts payable in respect of the Chelsea Heights facility provided by Lifestyle Investments 2 Pty Ltd, Lifestyle Developments 2 Pty Ltd, Lifestyle Management 2 Pty Ltd and Lifestyle Communities Limited.

Mortgage by Lifestyle Communities Investments Cranbourne Pty Ltd over the Cranbourne property and Lifestyle Investment 2 Pty Ltd over the 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 16).

(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 21: CONTRIBUTED EQUITY

99,970,131 Ordinary shares (2013: 99,970,131 Ordinary shares)

800,000 Convertible repurchase-able employee shares (CRES)

(i) Reconciliation of Ordinary shares

2013

	Number	\$
Opening balance	462,173,090	24,214,692
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

2014

Movement	-	-
Balance as at 30 June 2014	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	-

2014

Movement	-	-
Balance as at 30 June 2014	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.

NOTE 21: 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 27.

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 prior year the company completed a successful entitlement offer and placement raising \$35.3 million (net of costs). \$16.8 million of the proceeds were used to reduce debt and in the current year \$4 million has been placed on term deposit representing part of the Group's liquidity buffer representing approximately six months operating cash flow requirements. The liquidity buffer forms part of the Company's financial risk management policy. The remaining balance has been deployed 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 FY2014 community management didn't deliver a material 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; and
- 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 2014

NOTE 22: RETAINED EARNINGS AND RESERVES

(a) Movements in retained earnings were as follows:

	2014	2013
	\$	\$
Balance 1 July	20,315,853	15,661,988
Net profit	12,277,939	6,964,731
Dividend paid	-	(2,310,866)
	<u>32,593,792</u>	<u>20,315,853</u>

(b) Reserves

	Option reserve
	\$
2013	
At 1 July 2012	799,363
Options issued for services	406,456
Option expense	119,304
At 30 June 2013	<u>1,325,123</u>
2014	
At 1 July 2013	1,325,123
Option expense	86,376
At 30 June 2014	<u>1,411,499</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 27 for further details) as well as the fair value of options issued for services (refer Note 27 for further details).

NOTE 23: NON-CONTROLLING INTERESTS

Interest in:
Retained earnings

-	-
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Details of subsidiaries with non-controlling interests

(a) The Group has a 50% interest (2013: 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.

	2014	2013
	\$	\$
(i) Summarised financial information for subsidiary:		
Current assets	8,958,210	7,025,510
Non-current assets	931,134	3,435,890
Total assets	<u>9,889,344</u>	<u>10,461,400</u>
Current liabilities	9,889,344	4,493,708
Non-current liabilities	-	5,967,692
Total liabilities	<u>9,889,344</u>	<u>10,461,400</u>
Net assets	<u>-</u>	<u>-</u>

The joint venture arrangement provides significant restrictions on the use of assets and liabilities to protect the non-controlling interest. There are many key decisions that require agreement from non-controlling interests including: entering into unbudgeted capital commitments greater than \$50,000; sales and purchases of assets that are greater than 10% of total assets; and substantial alteration to the strategic direction of the activities.

Revenues	10,563,865	14,974,453
Expenses	(7,880,754)	(11,696,946)
Net profit after tax from continuing operations	<u>2,683,111</u>	<u>3,277,507</u>
Profit allocated to non-controlling interest	<u>1,341,556</u>	<u>1,638,754</u>

Notes to the Financial Statements
For the year ended 30 June 2014

NOTE 23: NON-CONTROLLING INTERESTS (continued)

Details of subsidiaries with non-controlling interests (continued)

	2014	2013
	\$	\$
(ii) Summarised financial information for subsidiaries' cash flows:		
Cash flows from operating activities	3,661,828	7,752,412
Cash flows from investing activities	(7,829)	(592)
Cash flows from financing activities	(2,992,712)	(7,780,625)
Net cash flows	661,287	(28,805)
(iii) Summarised financial information for subsidiaries' trust distributions:		
Trust distributions	2,683,111	3,277,507
(iv) Summarised financial information for subsidiaries' capital commitments:		
Contracted development costs	-	692,871
(v) Summarised financial information for subsidiaries' contingent liabilities:		
Bank guarantees	147,400	147,400
Bank guarantees are funded by the subsidiaries and are secured by term deposits or financier funded.		
(b) The Group has a 50% interest (2013: 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) Summarised financial information for subsidiary:		
Current assets	2,151,832	7,757,557
Non-current assets	171,546	888,407
Total assets	2,323,378	8,645,964
Current liabilities	2,296,924	7,321,994
Non-current liabilities	26,454	1,323,970
Total liabilities	2,323,378	8,645,964
Net assets	-	-
The joint venture arrangement provides significant restrictions on the use of assets and liabilities to protect the non-controlling interest. There are many key decisions that require agreement from non-controlling interests including: entering into unbudgeted capital commitments greater than \$50,000; sales and purchases of assets that are greater than 10% of total assets; and substantial alteration to the strategic direction of the activities.		
Revenues	18,485,861	9,006,273
Expenses	(13,464,535)	(7,341,405)
Net profit after tax from continuing operations	5,021,326	1,664,868
Profit allocated to non-controlling interest	2,510,663	832,433
(ii) Summarised financial information for subsidiaries' cash flows:		
Cash flows from operating activities	8,558,585	(2,699,290)
Cash flows from investing activities	(8,266)	(210,102)
Cash flows from financing activities	(10,177,302)	4,440,686
Net cash flows	(1,626,983)	1,531,294
(iii) Summarised financial information for subsidiaries' trust distributions:		
Trust distributions	5,021,326	1,323,970
(iv) Summarised financial information for subsidiaries' capital commitments:		
Contracted development costs	1,975,467	-
(v) Summarised financial information for subsidiaries' contingent liabilities:		
Bank guarantees	106,500	106,500
Bank guarantees are funded by the subsidiaries and are secured by term deposits.		

Notes to the Financial Statements
For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 24: CASH FLOW STATEMENT RECONCILIATION		
a) Reconciliation of net cash flows from operating activities to operating profit		
Operating profit after income tax	16,130,158	9,435,918
<u>Adjustment for non-cash items:</u>		
Depreciation	295,205	150,878
Amortisation	605,286	216,748
Write-off of plant and equipment	86,848	-
Share option expense	86,376	119,304
Deferred management fee	(5,070,984)	(2,444,600)
Joint venture share of deferred management fee	715,167	434,539
Fair value adjustment	(7,897,620)	(7,815,196)
<u>Add back/(subtract) changes in operating assets and liabilities:</u>		
(Increase)/decrease in trade and other receivables	237,217	(866,669)
(Increase)/decrease in inventories	205,496	(3,587,025)
Increase/(decrease) in trade and other payables	(929,474)	782,441
Increase in provisions	51,825	103,577
Increase in current tax	1,096,751	-
Increase in deferred tax	3,847,010	3,428,275
Net cash flow from operating activities	<u>9,459,261</u>	<u>(41,810)</u>

(b) Disclosure of financing facilities

Refer to interest bearing loans and borrowings Note 20.

NOTE 25: EARNINGS PER SHARE

The following reflects the income and weighted average number of shares 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	12,277,939	6,964,731
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(b) Weighted average number of shares

Weighted average number of ordinary shares for basic earnings per share	99,970,131	73,867,485
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Effect of dilution:

Share options	2,375,903	212,500
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Weighted average number of ordinary shares adjusted for dilution	<u>102,346,034</u>	<u>74,079,985</u>
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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 2014

NOTE 26: 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	
		2014	2013	2014	2013
				\$	\$
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 Cranbourne 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
				<u>8,751,809</u>	<u>8,751,809</u>

(b) Ultimate parent

Lifestyle Communities Limited is the ultimate Australian parent entity.

(c) Loans from related parties

There are no loans from related parties.

(d) Transactions with related parties

During the prior 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 prior year 1,250,000 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 27.

In the prior year 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.

Notes to the Financial Statements
For the year ended 30 June 2014

NOTE 27: SHARE-BASED PAYMENTS

	2014	2013
	\$	\$
(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	86,376	119,304
(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 service requirements with the Company since date of issue. There are no cash settlement alternatives.

(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:

	2014 No.	2014 WAEP A\$	2013 No.	2013 WAEP A\$
Outstanding at the beginning of the year	4,575,000	0.771	1,690,000	0.840
Granted during the year	-	-	3,300,000	0.818
Lapsed during the year	-	-	(415,000)	(1.422)
Outstanding at the end of the year	4,575,000	0.771	4,575,000	0.771
Exercisable at the end of the year	3,775,000	0.749	3,775,000	0.749

The outstanding balance as at 30 June 2014 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 (issued pursuant to the Employee Share Option Plan).
- 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 (issued pursuant to the Employee Share Loan Plan).
- 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 (issued for services provided).

Notes to the Financial Statements
For the year ended 30 June 2014

NOTE 27: SHARE-BASED PAYMENTS (continued)

(e) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options and CRES outstanding as at 30 June 2014 is 3.1 years (2013: 4.1).

(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 (2013: \$0.65 to \$0.876).

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

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

(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 FY2013
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 at issue (years)	2	2, 3, 4	-
Time to expiry at issue (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.

NOTE 28: 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.

NOTE 29: KEY MANAGEMENT PERSONNEL

(a) Compensation of Key Management Personnel

	2014 \$	2013 \$
Short-term employee benefits	969,935	925,154
Post-employment benefits	85,511	78,274
Share-based payments	32,292	86,477
	<u>1,087,738</u>	<u>1,089,905</u>

Notes to the Financial Statements
For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 30: COMMITMENTS AND CONTINGENCIES		
(a) Commitments		
<u>Operating lease commitments receivable – Group as lessor</u>		
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 85 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	7,865,626	5,825,199
After one year but not more than five years	31,462,504	23,300,794
After more than five years	650,021,190	483,002,342
Total minimum lease payments	689,349,320	512,128,335
Minimum lease payments were determined by measuring the current years rentals and measuring this over the standard 90 year lease agreement.		
<u>Operating lease commitments payable - Group as lessee</u>		
The Group has entered into commercial property lease with its landlord for office premises. The contract provides for future lease commitments payable as disclosed below.		
The lease has an initial term of four years from the commencement date being 1 May 2014.		
Future minimum rentals payable under non-cancellable operating leases as at balance date were as follows:		
Within one year	119,714	-
After one year but not more than five years	430,108	-
Total minimum lease payments	549,822	-
<u>Hire purchase commitments – Group as lessee</u>		
The Group has entered into a hire purchase on two motor vehicles with a carrying value of \$32,330. The contract expired during the year.		
Future minimum lease payments under hire purchase contracts are as follows:		
Within one year	-	13,458
After one year but not more than five years	-	-
Total minimum lease payments	-	13,458
Less amounts representing finance charges	-	(378)
Present value of minimum lease payments	-	13,080
<u>Contracted construction commitments</u>		
Payable not later than one year	1,975,467	692,871
(b) Contingencies		
Bank guarantees	253,900	253,900
Bank guarantees are funded by the joint venture entities and are secured by a combination of appropriate term deposits or financier funded.		

Notes to the Financial Statements
For the year ended 30 June 2014

	2014	2013
	\$	\$
NOTE 31: AUDITORS REMUNERATION		
The auditor of Lifestyle Communities Limited is Pitcher Partners.		
<i>Amounts received or due and receivable for current auditors:</i>		
An audit or review of the financial report of the entity and any other entity in the consolidated group.	152,000	148,000
Other services in relation to the entity and any other entity in the consolidated group - tax compliance, general tax advice, requirements pursuant to the loan note subscription agreement.	51,955	59,160
	<u>203,955</u>	<u>207,160</u>
NOTE 32: PARENT ENTITY DISCLOSURES		
Required disclosures relating to Lifestyle Communities Limited as a parent entity:		
Current assets	38,713,692	41,629,292
Total assets	<u>50,622,547</u>	<u>52,813,705</u>
Current liabilities	633,017	572,622
Total liabilities	<u>1,049,885</u>	<u>944,557</u>
Net assets	<u>49,572,662</u>	<u>51,869,148</u>
Equity:		
Contributed equity	60,993,960	60,993,960
Reserves:		
Option and share premium reserve	1,411,499	1,325,123
Accumulated losses	(12,832,797)	(10,449,935)
Total equity	<u>49,572,662</u>	<u>51,869,148</u>
Net profit	<u>(2,382,862)</u>	<u>(1,968,503)</u>
Total comprehensive income	<u>(2,382,862)</u>	<u>(1,968,503)</u>

NOTE 33: SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

On 29 July 2014 the Company entered into a conditional contract to purchase a future development site in Rosebud which is located on the Mornington Peninsula. The acquisition price is \$7.5 million and a 5% deposit has been paid. The contract is conditional on receiving planning approval to develop the site. Settlement will occur after planning approval has been received. The Lifestyle Community at Rosebud will be the Company's tenth 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 33 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 2014 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 2014.

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

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

James Kelly
Managing Director

Melbourne, 21 August 2014

**LIFESTYLE COMMUNITIES LIMITED
ABN 11 078 675 153
AND CONTROLLED ENTITIES**

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

Report on the Financial Report

We have audited the accompanying financial report of Lifestyle Communities Limited and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 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 26 of the directors' report for the year ended 30 June 2014. 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.



P A JOSE
Partner

21 August 2014



PITCHER PARTNERS
Melbourne

ASX additional information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 20 August 2014.

(a) Distribution of equity securities

(i) Ordinary share capital

99,970,131 fully paid ordinary shares are held by 1,165 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

(b) Substantial shareholders

Fully paid ordinary shareholders	Number	Percentage	Current at (last notification date)
James Kelly	14,845,566	14.85%	20 August 2014
Bruce Carter	11,618,532	11.62%	20 August 2014
Cooper Investors Pty Ltd	8,202,618	8.21%	5 March 2014
Perlov family	7,186,637	7.19%	20 August 2014
Colonial First State Investment Ltd	7,150,363	7.15%	4 September 2013
	49,003,716	49.02%	

(c) Twenty largest holders of quoted equity securities

LIFESTYLE COMMUNITIES LIMITED

Rank	Name	Units	% of Units
1.	MASONKELLY PTY LTD	12,116,265	12.12
2.	CITICORP NOMINEES PTY LIMITED	9,639,642	9.64
3.	INVIA CUSTODIAN PTY LIMITED <B S CARTER FAMILY A/C>	7,732,009	7.73
4.	NATIONAL NOMINEES LIMITED	7,138,631	7.14
5.	DAKEN INVESTMENTS PTY LTD	6,649,539	6.65
6.	SANDHURST TRUSTEES LTD <ENDEAVOR ASSET MGMT MDA>	4,819,855	4.82
7.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,759,580	4.76
8.	J P MORGAN NOMINEES AUSTRALIA LIMITED	4,695,287	4.70
9.	INVIA CUSTODIAN PTY LIMITED <CARTER SUPER FUND A/C>	3,886,523	3.89
10.	MIRRABOOKA INVESTMENTS LIMITED	3,225,000	3.23
11.	PJ COOPER INVESTMENTS PTY LTD <COOPER INVESTMENT A/C>	2,857,142	2.86
12.	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED	2,659,493	2.66
13.	EQUITAS NOMINEES PTY LIMITED <PB-600687 A/C>	2,250,000	2.25
14.	AMCIL LIMITED	2,200,000	2.20
15.	KELLY SUPERANNUATION FUND PTY LTD	2,116,801	2.12
16.	ARMADA INVESTMENTS PTY LTD	1,908,229	1.91
17.	EQUITAS NOMINEES PTY LIMITED <PB-600686 A/C>	1,550,000	1.55
18.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	1,198,540	1.20
19.	MAXIMA ETHAN PTY LTD <MAXI FOGELGARN SUPERFUND A/C>	1,045,069	1.05
20.	PARANTHOIENE SUPERANNUATION PTY LTD <PARANTHOIENE SUPER FUND A/C>	1,035,772	1.04
Totals: Top 20 holders of ORDINARY FULLY PAID SHARES		83,483,377	83.51

(d) The number of shareholders by range of units and unmarketable parcel holders

Range of Units Snapshot

Composition : ORD

Range	Total holders	Units	% of Issued Capital
1 - 1,000	424	170,325	0.17
1,001 - 5,000	415	1,090,911	1.09
5,001 - 10,000	108	823,867	0.82
10,001 - 100,000	171	5,380,153	5.38
100,001 - 999,999,999	47	92,504,875	92.53
1,000,000,000 - 9,999,999,999	0	0	0.00
Rounding			0.01
Total	1,165	99,970,131	100.00

Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$500 parcel at \$1.85 per unit	270	177	16,281

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, 25 Ross Street South Melbourne Vic 3205 Australia
Directors	Tim Poole – Non-executive Chairman James Kelly – Managing Director Bruce Carter – Executive Director Jim Craig – Non-executive Director Philippa Kelly – Non-executive Director
Company secretary	Geoff Hollis
Principal place of business	Level 2, 25 Ross Street South Melbourne VIC 3205 Australia
Share registry	Computershare Investor Services Pty Limited Yarra Falls 452 Johnston Street, Abbotsford VIC 3067 Telephone 61 3 9415 5000 Fax 61 3 9473 2500. Investor queries (within Australia) 1300 850 505
Lawyers	Thomson 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