

APPENDIX 4E

Annual Financial Report

Year ended 30 June 2016

Name of Entity: Ingenia Communities Group (“INA”), a stapled entity comprising Ingenia Communities Holdings Limited ACN 154 444 925, Ingenia Communities Fund ARSN 107 459 576, and Ingenia Communities Management Trust ARSN 122 928 410.

| | |
|--------------------------------|----------------------------|
| Current period: | 1 July 2015 - 30 June 2016 |
| Previous corresponding period: | 1 July 2014 - 30 June 2015 |

Results for announcement to the market

| | 2016 | 2015 | Change | Change |
|--|----------------------|---------|--------------|--------|
| | \$'000 | \$'000 | \$'000 | % |
| Revenues from Continuing operations | 107,141 | 76,021 | 31,120 | 41% |
| Net profit/(loss) from continuing operations attributable to members | 24,280 | 25,900 | (1,620) | (6%) |
| Net profit/(loss) for the year attributable to members | 24,280 | 25,722 | (1,442) | (6%) |
| Underlying profit from continuing operations | 20,161 | 16,802 | 3,359 | 20% |
| Underlying profit | 20,161 | 17,507 | 2,654 | 15% |
| Net tangible assets per security (\$) ⁽²⁾ | \$2.45 | \$0.389 | Refer Note 1 | |
| Distributions - (cents) ⁽³⁾ | | | Refer Note 1 | |
| Final Distribution | 5.10 | 0.70 | | |
| Interim Distribution | 4.20 | 0.65 | | |
| FY16 Final distribution dates | | | | |
| Ex-dividend date | 26 August 2016 | | | |
| Record date | 5 pm, 29 August 2016 | | | |
| Payment date | 14 September 2016 | | | |
| The Dividend and Distribution Reinvestment Plan is operational for this distribution | | | | |

- (1) The variances that would otherwise be shown are not meaningful because of the 6:1 stapled security consolidation completed on 19 November 2015. Refer to Notes 2 and 3 below for the restated previous corresponding period amounts.
- (2) Net tangible asset value per security for the previous corresponding period is based on the number of stapled securities on issue at 30 June 2015. When restated for the 6:1 stapled security consolidation completed on 19 November 2015, the net tangible asset value per security would represent \$2.34.
- (3) The distributions shown are based on the number of stapled securities on issue when the distributions took place. When restated for the 6:1 stapled security consolidation completed on 19 November 2015, the FY15 final and interim distributions would have been 4.2cps and 3.9cps respectively.

Other significant information and commentary on results

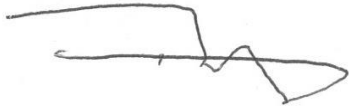
See attached ASX announcement and materials referred to below.

Audit status

The Annual Financial Report is based on the Financial Report which has been audited by Ernst & Young.

For all other information required by Appendix 4E, including a results commentary, please refer to the following documents:

- Operating and financial review
- Financial Report
- Results presentation and media release



Tania Betts
Company Secretary

23 August 2016



INGENIA COMMUNITIES HOLDINGS LIMITED

A.C.N. 154 444 925

**FINANCIAL REPORT
YEAR ENDED 30 JUNE 2016**

www.ingeniacommunities.com.au

Registered Office: Level 9, 115 Pitt Street, Sydney NSW 2000

Ingenia Communities Holdings Limited
Financial Report
Year ended 30 June 2016

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Ingenia Communities Holdings Limited

Directors' report

Year ended 30 June 2016

DIRECTOR'S REPORT

The directors of Ingenia Communities Holdings Limited ("ICH" or the "Company") present their report together with the Company's financial report for the year ended 30 June 2016 (the "current year") and the Independent Auditor's Report thereon. The Company's financial report comprises the consolidated financial report of the Company and its controlled entities, including Ingenia Communities Fund ("ICF" or the "Fund") and Ingenia Communities Management Trust ("ICMT") (collectively, the "Trusts").

The shares of the Company are "stapled" with the units of the Trusts and trade on the Australian Securities Exchange ("ASX") effectively as one security. Ingenia Communities RE Limited ("ICRE" or "Responsible Entity"), a wholly owned subsidiary of the Company is the responsible entity of the Trusts. In this report, the Company and the Trusts are referred to collectively as the Group.

In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling of the Company and the Trusts is regarded as a business combination. The Company has been identified as the parent for preparing consolidated financial reports.

1. DIRECTORS

The directors of the Company at any time during or since the end of the financial year were:

Non-executive directors ("NEDs")

Jim Hazel (Chairman)

Robert Morrison (Appointed as Deputy Chairman on 2 December 2015)

Philip Clark AM

Amanda Heyworth

Norah Barlow ONZM

Executive directors

Simon Owen (Chief Executive Officer and Managing Director) ("CEO" and "MD")

Qualifications, experience and special responsibilities

Jim Hazel Non-Executive Chairman

Mr Hazel was appointed to the Board in March 2012. Mr Hazel has had an extensive corporate career in both the banking and retirement sectors. His retirement village operations experience includes being Managing Director of Primelife Corporation Limited (now part of Lend Lease). Other current listed company directorships include Bendigo and Adelaide Bank Limited and Centrex Metals Limited. He also serves on the Boards of Coopers Brewery Limited and the Adelaide Football Club. Mr Hazel holds a Bachelor of Economics and is a Senior Fellow of the Financial Services Institute of Australasia and a Fellow of the Australian Institute of Company Directors. Mr Hazel is a member of the Investment Committee.

Other Current Listed Company Directorships: Bendigo and Adelaide Bank Limited, Centrex Metals Limited

Listed Company Directorships in past three years: ImpediMed Limited.

Philip Clark AM Non-Executive Director

Mr Clark was appointed to the Board in June 2012. Mr Clark is the Chair of SCA Property Group Limited and was the Chair of Hunter Hall Global Value Limited until 31 December 2015. He is a member of the J.P. Morgan Advisory Council and also chairs a number of government and private company boards. He was Managing Partner and Chief Executive Officer of Minter Ellison and worked with that firm from 1995 until June 2005. Prior to joining Minter Ellison, Mr Clark was Director and Head of Corporate with ABN Amro Australia and prior to that he was Managing Partner with Mallesons Stephen Jaques for 16 years. Mr Clark's qualifications include a Bachelor of Arts, Bachelor of Law and a Masters of Business Administration. Mr Clark is a member of the Remuneration and Nomination Committee.

Other Current Listed Company Directorships: SCA Property Group Limited.

Listed Company Directorships in past three years: Hunter Hall Global Value Limited.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

Amanda Heyworth Non-Executive Director

Ms Heyworth was appointed to the Board in April 2012. Ms Heyworth is a professional company director and currently chairs Executive Leadership Connection Pty Ltd and is a director of Itek Ventures Pty Ltd. She previously served as Executive Director of Playford Capital Venture Capital Fund. She has a wealth of experience in the finance, technology and government sectors and teaches in the Australian Graduate School of Management's MBA program. Ms Heyworth brings a finance and growth focus to the Group, having worked on many product launches and geographic expansions and over 40 capital raisings and M&A transactions. She sits on a number of public sector and private boards. Ms Heyworth has a BA (Accounting) with a major in finance from the University of South Australia and has postgraduate qualifications in accounting and finance. She also holds a MBA from the Australian Graduate School of Management. Ms Heyworth is Chair of the Audit and Risk Committee and is a member of the Remuneration and Nomination Committee.

Other Current Listed Company Directorships: Nil
Listed Company Directorships in past three years: Nil

Robert Morrison Deputy Chairman

Mr Morrison was appointed to the Board in February 2013. Mr Morrison has extensive experience in property investment and funds management. During his 21 years at AMP, Mr Morrison's executive roles included Head of Property for Asia Pacific and Director of Asian Investments. Mr Morrison's investment experience includes senior portfolio management roles where he managed both listed and unlisted property funds on behalf of institutional investors. Mr Morrison was previously a Non-Executive Director of Mirvac Funds Management Limited, an Executive Director of AMP Capital Limited and a National Director of the Property Council of Australia. He is a founding partner and Executive Director of alternative investments firm, Barwon Investment Partners. Mr Morrison holds a Bachelor of Town and Regional Planning (Hons) and a Master of Commerce. Mr Morrison a member of the Audit and Risk Committee and is Chair of the Investment Committee.

Other Current Listed Company Directorships: Nil
Listed Company Directorships in past three years: Mirvac Funds Management Limited.

Norah Barlow ONZM Non-Executive Director

Ms Barlow was appointed to the Board in March 2014. Ms Barlow is now a professional company director since retiring as the Chief Executive Officer of NZX and ASX listed Summerset Group Holdings Limited, one of the largest aged care and retirement village developers and operators in New Zealand. Ms Barlow currently sits on the Board of Estia Health Limited in Australia and a number of boards in NZ. She also serves as the Chair of the NZ government National Science challenge 'Ageing Well' Ms Barlow holds a Bachelor of Commerce and Administration and is a qualified Chartered Accountant. Ms Barlow was made an Officer of the New Zealand Order of Merit for services to business in 2014. Ms Barlow is a member of the Audit and Risk Committee and the Investment Committee and is Chair of the Remuneration and Nomination Committee.

Other Current Listed Company Directorships: Estia Health Limited, Evolve Education Group Limited, Methven Limited.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

Simon Owen – CEO and MD

Simon joined the Group in November 2009 as the Chief Executive Officer. He initiated the internalisation of management and exit from the ING Group as well as Ingenia's focus on lifestyle communities. Simon leads the management team and has overall responsibility for all facets of the business. He brings to the Group in-depth sector experience. Simon is currently a Director of BIG4 Holiday Parks, Australia's leading holiday parks group representing 180 parks across Australia and is a member of the Retirement Living Council (part of the Property Council of Australia). He is also a past National President of the Retirement Villages Association (now part of the Retirement Living Council) a role he held for four years. Simon has over 20 years' experience working in ASX listed groups with roles across finance, funds management, mergers and acquisitions, business development and sales and marketing. Prior to joining Ingenia Communities, Simon was the CEO of Aevum, a formerly listed retirement company. Simon is a qualified accountant (CPA) with postgraduate diplomas in finance and investment and advanced accounting.

1.1 Meetings

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

| | Board | | Audit & Risk Committee | | Remuneration & Nomination Committee | | Investment Committee | |
|-------------------|-------|----|------------------------|---|-------------------------------------|---|----------------------|---|
| | A | B | A | B | A | B | A | B |
| Jim Hazel | 16 | 16 | - | - | 1 | - | 3 | 3 |
| Philip Clark AM | 16 | 16 | - | - | 3 | 3 | - | - |
| Amanda Heyworth | 16 | 15 | 7 | 7 | 3 | 3 | - | - |
| Robert Morrison | 16 | 16 | 7 | 7 | - | - | 3 | 3 |
| Norah Barlow ONZM | 16 | 15 | 7 | 7 | 2 | 2 | 3 | 3 |
| Simon Owen | 16 | 15 | - | - | - | - | - | - |

A: Meetings eligible to attend **B:** Meetings attended

1.2 Interests of directors

Securities in the Group held by directors or their associates as at 30 June 2016 were:

| | Issued stapled securities | Rights |
|-------------------|---------------------------|---------|
| Jim Hazel | 287,276 | - |
| Philip Clark AM | 42,286 | - |
| Amanda Heyworth | 106,921 | - |
| Robert Morrison | 75,556 | - |
| Norah Barlow ONZM | 35,949 | - |
| Simon Owen | 1,003,985 | 651,174 |

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

2. COMPANY SECRETARIES

Leanne Ralph

Ms Ralph was appointed to the position of Company Secretary in April 2012. Ms Ralph has over 20 years' experience in chief financial officer and company secretarial roles for various publicly listed and unlisted entities. Ms Ralph is a member of the Governance Institute of Australia and the Australian Institute of Company Directors. Ms Ralph is the principal of Boardworx Australia Pty Ltd, which supplies bespoke outsourced Company Secretarial services to a number of listed and unlisted companies.

Tania Betts

Ms Betts joined the Group as Chief Financial Officer ("CFO") in May 2012, after a six-year career at Stockland Group where she held various positions including National Finance Manager within their Retirement Living Division. Ms Betts' previous experience includes several years within the chartered accounting profession as well as working for a leading health care provider. She holds a Bachelor of Business in Accounting and Finance, and is a member of both the Institute of Chartered Accountants and the Governance Institute of Australia. Ms Betts was the 2011 winner of the Urban Development Institute of Australia NSW and SMEC Urban Young Developers' Award for Excellence.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

3. OPERATING AND FINANCIAL REVIEW

(a) Ingenia Communities Group Overview

The Group is an active owner, manager and developer of a diversified portfolio of retirement and lifestyle communities across Australia. Its real estate assets at 30 June 2016 were valued at \$496.8 million (net of finance leases and resident loans), being 26 lifestyle communities (Ingenia Lifestyle & Holidays), 31 rental communities (Ingenia Garden Villages), and eight deferred management fee communities (Ingenia Settlers). The Group is in the ASX 300 with a market capitalisation of approximately \$500 million.

The Group's vision is to create Australia's best lifestyle communities offering affordable permanent and tourism rental accommodation with a focus on the seniors demographic. The Board is committed to delivering continued earnings and security price growth to securityholders and providing a supportive community environment to permanent residents and holidaymakers.

(b) Strategy

The Group's strategy continues to focus on accelerating development of lifestyle communities and identifying ways to enhance the operational performance of its asset base through effective cost management and identification of additional revenue streams. Using a disciplined investment framework, the Group plans to acquire further lifestyle communities as identified in the recent June 2016 equity raising as well as recycling capital from lower yielding assets into accretive opportunities.

A key element to achieving growth is efficient capital management. During the year, the Group increased its debt facility by \$25 million to \$200 million and subsequent to year-end, increased this facility by a further \$24 million to \$224 million. As at 30 June 2016, the facility is drawn to \$125.3 million (including bank guarantees), which represents a loan to value ratio ("LVR") of 24.9%. LVR is well below our target range of 30-35% at 30 June 2016 following the temporary application of proceeds from the June 2016 capital raising against debt. These funds will be deployed into the four acquisition opportunities outlined to the market, which will move the LVR back into the target range.

The key immediate business priorities of the Group are:

- Continue building velocity in the delivery and sale of new lifestyle community homes, with a focus on East Coast metro and coastal locations;
- Acquire additional lifestyle communities as well as invest in existing yield assets;
- Grow occupancy and average room rates for tourism rental accommodation;
- Continue strategy of divesting the Ingenia Settlers portfolio and recycle this capital into development of lifestyle communities;
- Continue to gradually grow occupancy rates within the Garden Villages portfolio; and
- Improve asset cash yields through operational efficiencies including revenue optimisation and disciplined cost management.

(c) FY16 financial results

Significant investment in lifestyle communities continued during FY16, with the focus on scaling our sales and development platform to deliver development pipeline returns. Management has also remained focused on Garden Villages's occupancy as well as room rate and occupancy growth within lifestyle communities.

Overall, FY16 has produced an Underlying Profit from continuing operations of \$20.2 million (\$3.4 million increase from FY15). Statutory profit of \$24.3 million (decrease from FY15 of \$1.4 million (5.6%). These results are underpinned by a significantly higher EBIT contribution from lifestyle communities of \$16.5 million, up 98.1% from prior year.

Operating cashflow for the year was \$21.0 million, up 132.8% from the prior year, reflecting growth in recurring rental income and new manufactured home settlements growing by 105.8% to 107.

In June 2016, the Group raised \$60.0 million from an institutional placement, which will be used to fund four lifestyle community acquisitions, including a \$33.0 million lifestyle community within the Sydney metro area with significant development upside. Over the year, the Group invested an additional \$76.1 million (excluding transaction costs) into six lifestyle communities.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

The Group has today announced a final distribution of 5.1 cents per security (cps), which brings the full year distribution to 9.3 cps. The dividend reinvestment plan will be available to securityholders and the Board reaffirms its commitment to further growth in securityholder returns.

(d) Key metrics

- Full year distribution of 9.3 cps, up 14.8%.
- Total Underlying Profit was \$20.2 million, up 15.2% from FY15.
- Total Underlying Profit per security was 13.4 cents, up from 12.3 cents at FY15.
- Net asset value grew by 11 cents per security to \$2.45.
- Statutory profit was \$24.3 million, down 5.6% from FY15.
- Statutory profit per security was 16.1 cents, down 2.7 cents from FY15.

(e) Group results summary

Underlying Profit for the financial year has been calculated as follows:

| | 2016 | 2015 |
|---|---------------|---------|
| | \$'000 | \$'000 |
| EBIT – continuing operations | 24,200 | 18,050 |
| Net interest expense | (6,625) | (4,567) |
| Tax benefit associated to underlying profit | 2,586 | 3,319 |
| Underlying Profit – continuing operations | 20,161 | 16,802 |
| Underlying Profit – discontinued operations | - | 705 |
| Underlying Profit | 20,161 | 17,507 |
| Net foreign exchange gain | 471 | 111 |
| Net loss on disposal of investment properties | (989) | (69) |
| Net gain/(loss) on change in fair value of: | | |
| - Investment properties | 7,496 | 16,404 |
| - Retirement village resident loans | (1,388) | (8,878) |
| - Derivatives | (414) | 164 |
| Gain on revaluation of newly constructed retirement villages | (1,525) | (2,422) |
| Other | - | 503 |
| Discontinued operations (below underlying profit) net of income tax | - | (883) |
| Tax benefit associated with items below underlying profit | 468 | 3,285 |
| Statutory profit | 24,280 | 25,722 |

Underlying Profit is a non-IFRS measure designed to present, in the opinion of the Directors, the results from the on-going operating activities in a way that appropriately reflects underlying performance. Underlying Profit excludes items such as unrealised fair value gains/ (losses) and adjustments arising from the effect of revaluing assets/liabilities (such as derivatives and investment properties). These items are required to be included in Statutory Profit in accordance with Australian Accounting Standards.

(f) Segment performance and priorities

Ingenia Lifestyle and Holidays

Ingenia Lifestyle and Holidays now owns 27 lifestyle communities, following settlement of Ocean Lake Caravan Park in August 2016. This business is the major focus of growth for the Group offering an affordable housing alternative for seniors and tourism residents complemented by a capital light, low risk development cycle, delivering both development profits and incremental yield. Over the last year, the earnings contribution from development has grown rapidly with development now underway at 13 communities and new turnkey settlement volumes up 106% from FY15. The carrying value of these assets at 30 June 2016 is \$299.7 million (net of finance leases).

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

(i) **Performance**

| Ingenia Lifestyle & Holidays | 2016 | 2015 | Change |
|---|-------------|------|--------|
| New home settlements (#) | 107 | 52 | 55.0 |
| Gross new home development profit \$m | 9.4 | 5.2 | 4.2 |
| Permanent rental income \$m | 12.3 | 8.3 | 4.0 |
| Annuals rental income \$m | 3.0 | 1.0 | 2.0 |
| Tourism rental income \$m | 17.6 | 10.3 | 7.3 |
| Commercial rental income \$m | 0.4 | 0.2 | 0.2 |
| EBIT contribution \$m | 16.5 | 8.4 | 8.1 |

Ingenia Lifestyle & Holidays delivered an EBIT contribution of \$16.5 million in FY16, of which \$9.4 million was attributable to development of new manufactured homes. Significant momentum was achieved in settlements during FY16 and indicates a growing customer awareness and understanding of the lifestyle communities. Further council approvals and acquisitions have seen the development pipeline increase to over 1,400 sites, with an increasing focus on metro locations. The rental accommodation earnings of this segment have grown strongly both through acquisitions and improved performance from the tourism rental accommodation, despite taking some tourism sites off line to facilitate development. This strong result reflects investment in a sales and development framework for new homes with further refinements expected in FY17. We remain confident of building on this strong result during the coming financial year.

(ii) **Strategic priorities**

The key strategic priorities for this business are continuing the rapid sales and settlement momentum achieved during FY16, securing further development approvals for new homes within our existing communities, optimising home designs for efficiency and customer demand, growing rental returns and leveraging scale efficiencies. In FY17, the Group will expand into greenfield development and focus on developments in metro locations.

Ingenia Garden Villages

Ingenia Garden Villages comprises 31 rental communities located across the eastern seaboard and Western Australia. These communities accommodate more than 1,800 residents, and generate \$24.0 million in gross rental income per annum. The carrying value of these assets at 30 June 2016 is \$134.6 million.

(i) **Performance metrics**

| Ingenia Garden Villages | 2016 | 2015 | Change |
|--------------------------------|--------------|-------|--------|
| Occupancy % | 90.7% | 90.7% | - |
| Rental income \$m | 24.0 | 24.4 | (0.4) |
| Catering income \$m | 3.3 | 3.5 | (0.2) |
| EBIT \$m | 11.0 | 11.0 | - |

Ingenia Garden Villages continues to deliver a consistent stream of recurring cash income for the Group. Whilst the segment result is in line with prior year, the earnings have been generated from a reduced asset base due to the sale of three villages in late FY15.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

(ii) Strategic priorities

The key strategic priorities of this business over the coming year are increasing rents above CPI as units turnover, ensuring residents are actively engaged and maintaining affordability whilst further seeking opportunities to leverage scale.

Ingenia Settlers

Ingenia Settlers is comprised of eight deferred management fee communities. These communities are located in Queensland, New South Wales and Western Australia and accommodate more than 800 residents generating income from deferred management fees, rental income from communities not yet fully converted and development income from unit conversions and community expansion. The carrying value of these assets at 30 June 2016, net of resident loans and lease liabilities is \$62.5 million.

(i) Performance

| Ingenia Settlers | 2016 | 2015 | Change |
|-------------------------|--------------|-------|--------|
| Occupancy % | 97.0% | 93.0% | 4.0% |
| New settlements (#) | 29 | 43 | (14) |
| Development income \$m | 1.5 | 2.4 | (0.9) |
| Accrued DMF income \$m | 4.2 | 6.8 | (2.6) |
| EBIT \$m | 3.8 | 6.3 | (2.5) |

The Ingenia Settlers result generated \$3.8m EBIT. This is down \$2.5 million from prior year, with lower settlement volumes and development margins as development continues to approach completion. Following significant capital growth in underlying unit value in FY15, which boosted the deferred management fee earnings, the slowing of residential markets in Western Australia and Central Queensland resulted in reduced deferred management fee earnings relative to prior year.

(ii) Strategic priorities

The key strategic priority remains divestment of this non-core segment.

(g) Capital management

The Group adopts a prudent and considered approach to capital management. During the year, the Group strengthened its capital position by undertaking a \$60.0 million capital raising and negotiating a \$25 million increase to its multilateral debt facility. Subsequent to 30 June 2016 the Group extended its facility by \$24 million and a further \$8.5 million was raised from the Security Purchase Plan in July 2016.

As at 30 June 2016, the current LVR is 24.9%, which is below our target LVR of 30-35%. Once the Group deploys the proceeds from the June capital raising and debt into further lifestyle communities, the LVR will move back within the target range.

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

(h) Financial position

The following table provides a summary of the Group's financial position as at 30 June 2016:

| \$'000 | 2016 | 2015 | Change |
|-----------------------------------|----------------|-------------|---------------|
| Cash and cash equivalents | 15,057 | 15,117 | (60) |
| Inventories | 17,665 | 13,208 | 4,457 |
| Investment properties | 710,746 | 539,728 | 171,018 |
| Assets held for sale | - | 61,598 | (61,598) |
| Deferred tax asset | 9,399 | 6,348 | 3,051 |
| Other assets | 13,952 | 9,308 | 4,644 |
| Total assets | 766,819 | 645,307 | 121,512 |
| Borrowings | 104,090 | 66,782 | 37,308 |
| Retirement village resident loans | 207,483 | 161,878 | 45,605 |
| Liabilities held for sale | - | 42,041 | (42,041) |
| Other liabilities | 33,644 | 31,086 | 2,558 |
| Total liabilities | 345,217 | 301,787 | 43,430 |
| Net assets/equity | 421,602 | 343,520 | 78,082 |

Inventories, up \$4.5 million, include 60 new completed homes, reflecting the Group's rapidly growing lifestyle community development business. This balance will continue to gradually grow as the number of development projects increase.

Investment properties increased by \$171.0 million due to acquisition of six lifestyle communities for \$81.5 million (including transaction costs), development expenditure of \$19.9 million, a \$7.5 million fair value uplift and a \$61.6 million reclassification of five deferred management fee communities from assets held for sale.

Borrowings increased by \$37.3 million reflecting acquisition and development of lifestyle community assets of \$99.1 million offset by the \$60.0 million June institutional placement proceeds. Full deployment of the placement funds is anticipated within the coming months, which will see debt levels increase.

Retirement village resident loans increased by \$45.6 million following reclassification of retirement village resident loans held for sale of \$42.0 million.

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

(i) Cash flow

| \$'000 | 2016 | 2015 | Change |
|---|-------------|-------------|---------------|
| Operating cash flow | 21,028 | 9,034 | 11,994 |
| Investing cash flow | (108,278) | (24,232) | (84,046) |
| Financing cash flow | 87,126 | 15,564 | 71,562 |
| Net change in cash and cash equivalents | (124) | 366 | (490) |

Operating cash flow for the Group was \$21.0 million reflecting growth in the recurring net rental income contribution from lifestyle communities and \$5.1 million net cash inflow associated with the sale of new lifestyle community homes.

(j) Distributions

The following distributions were made during or in respect of the year:

- On 23 February 2016, the directors declared an interim distribution of 4.2 cps (2015: 3.9 cps) amounting to \$6,306,884 which was paid on 16 March 2016.
- On 23 August 2016, the directors declared a final distribution of 5.1 cps (2015: 4.2 cps) amounting to \$8,964,628, to be paid on 14 September 2016.

The full-year distribution is 41.8% tax deferred and the dividend reinvestment plan will apply to the final distribution.

The Group is committed to continuing to grow distributions in the near term.

(k) FY17 outlook

The Group remains well positioned to continue growing its lifestyle communities business with a significant and accretive acquisition pipeline in place and significant debt capacity. Further accelerated growth in sales and settlements volumes is expected in FY17 as further projects are launched.

The Group will continue to regularly assess the performance of its existing assets and where appropriate recycle that capital into other opportunities delivering superior returns.

3. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Changes in the state of affairs during the financial year are set out in the various reports in this Financial Report. Refer to Note 12 for Australian investment properties acquired during the year, Note 16 for details of increased debt facility, and Note 19 for issued securities.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

4. EVENTS SUBSEQUENT TO REPORTING DATE

(a) Performance Quantum Rights (PQRs)

On 1 July 2016, 619,333 PQRs vested and 598,833 fully paid stapled securities of the Group were subsequently issued to the Executive KMP.

(b) Security Purchase Plan

On 20 July 2016, the Group issued 3,022,723 newly stapled securities pursuant to a security purchase plan announced on 14 June 2016. The Group received \$8.5 million as consideration for the issued securities.

(c) Acquisition of Ocean Lake

On 3 August 2016, the Group settled Ocean Lake Caravan Park on the NSW South Coast. The acquisition price was \$9.2 million (excluding transaction costs) and was funded from proceeds of the capital raising in June 2016.

(d) Amended debt facility

On 18 August 2016, the Group finalised an increase to its Australian multilateral debt facility limit of \$24.0 million to \$224.0 million. The revised facility has an expiry of \$99.0 million on 12 February 2018 and \$125.0 million on 12 February 2020 with facility pricing unchanged for the two participating banks. The Loan to Value Ratio and Interest Cover Ratio covenants are unchanged, whilst the Net Debt to Adjusted EBITDA covenant has been removed.

(e) Final FY16 distribution

On 23 August 2016, the directors of the Group resolved to declare a final distribution of 5.1 cps (2015: 4.2 cps) amounting to \$8,964,628 to be paid on 14 September 2016. The full-year distribution is 41.8% tax deferred and the dividend reinvestment plan will apply to the final distribution.

5. LIKELY DEVELOPMENTS

The Group will continue to pursue strategies aimed at improving its cash earnings, profitability and market share within the rental property industry during the next financial year, with a continuing focus on the development and acquisition of lifestyle communities.

Other information about likely developments in the operations of the Group and the expected results of those operations in future financial years is included in the various reports in this Financial Report.

6. ENVIRONMENTAL REGULATION

The Group has policies and procedures in place to ensure that, where operations are subject to any particular and significant environmental regulation under the law of Australia, those obligations are identified and appropriately addressed. The directors have determined that there has not been any material breach of those obligations during the financial year.

7. GROUP INDEMNITIES

The Group has purchased various insurance policies to cover a range of risks (subject to specified exclusions) for directors, officers and employees of the Group serving in their respective capacities. Key insurance policies include: directors and officers insurance, professional indemnity insurance and management liability insurance.

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

8. INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

9. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

10. AUDITOR EXTENSION

On 15 October 2015 at the recommendation of the Audit & Risk Committee, the directors granted an approval for the extension of the Group's audit partner for a further one year, when the initial period of five years as permitted under the *Corporations Act 2001* expired in June 2015. The Audit & Risk Committee's recommendation was based on the need to ensure the completion of the audit firm's succession plan for the audit. In doing so, the Audit & Risk Committee satisfied itself that the extension will maintain the quality of the audit and will not give rise to any conflicts of interest.

11. ROUNDING OF AMOUNTS

Ingenia Communities Group is an entity of the kind referred to in ASIC Instrument 2016/191, and in accordance with that Class Order, amounts in the financial report and Director's report have been rounded to the nearest thousand dollars, unless otherwise stated.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

12. MESSAGE FROM THE REMUNERATION AND NOMINATION COMMITTEE

Dear Securityholders

The Board of Ingenia Communities Group (Ingenia) is pleased to present the Remuneration Report for FY16.

12.1 Introduction

Ingenia undertakes regular reviews of its executive remuneration framework to ensure it is line with Group strategy, group and individual performance and market relativities. There were only minor changes in the FY16 Key Management Personnel (KMP) remuneration structure.

No major changes to the FY17 KMP remuneration are proposed.

12.2 Ingenia's performance

The Board has established a strong nexus between executive remuneration and Ingenia's performance and its securityholder return.

The Group's FY16 result, as measured by underlying profit, is strong and significantly increased on the prior year, as supported by the on-target sales result achieved in the development business.

A key measure in determining the executives' remuneration outcomes is Ingenia's Total Shareholder Return (TSR) relative to that of the ASX 300 Industrials Index. Ingenia's TSR over the three years ending 30 June 2016 was 59.0% in relation to the TSR of 9.2% for the ASX 300 Industrials Index for the same period.

Ingenia continues to identify opportunities for future growth with an expanding development pipeline of over 1,400 home sites. Our business continues to perform well and discussions are continuing in relation to the sale of the DMF business, which once completed, will allow the release of capital into higher returning opportunities.

FY16 STI outcomes for KMP were in line with Ingenia's strong performance.

The review of NED remuneration is deferred until December 2016.

12.3 Ingenia's corporate strategy

The group's strategy is highlighted in the FY16 results presentation and the Operational and Financial Review section within this Directors' report.

The Board has linked remuneration outcomes to the corporate strategy for medium to long-term returns. This is reflected in ensuring there is ongoing earnings growth before vesting of the deferred STI component, the retention of the second Long Term Incentive (LTI) Return on Equity (RoE) hurdle in addition to the requirement that Ingenia's TSR outperform the ASX 300 Industrial Index for the second tranche of LTI.

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

12.4 Conclusion

Overall, Ingenia's remuneration framework continues to be "fit for purpose", which is why it remained substantially unchanged from 2015.

Remuneration levels are sufficient to attract and retain key executives, the performance measures focus management on board priorities for creating incremental value, and reward outcomes have varied in line with the Group's performance.

We recommend Ingenia's Remuneration Report to investors and seek your support for the resolution to adopt the Remuneration Report at Ingenia's AGM on Tuesday 15 November 2016.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'N' followed by a series of loops and a long horizontal tail.

Norah Barlow ONZM
Chair – Remuneration and Nomination Committee

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

REMUNERATION REPORT (AUDITED)

13.1 INTRODUCTION

The Board presents the Remuneration Report for the Group for the year ended 30 June 2016, which forms part of the Directors' Report and has been prepared in accordance with section 300A of the *Corporations Act 2001* (Cth) (**Corporations Act**). The data provided in the Remuneration Report was audited as required under section 308(3C) of the Corporations Act.

13.2 REMUNERATION GOVERNANCE

(a) Remuneration and Nomination Committee (RNC)

The Board has an established RNC, which is directly responsible for reviewing and recommending remuneration arrangements for non-executive directors (**NEDs**), the Managing Director (MD) and Chief Executive Officer (**CEO**) and senior executives who report directly to the CEO.

The RNC comprises the following NEDs:

- Norah Barlow ONZM (Chair) (Appointed 2 December 2015);
- Amanda Heyworth; and
- Philip Clark (Chair until 2 December 2015).

The RNC provides oversight for general remuneration levels of the Group, ensuring they are set at appropriate levels to access the skills and capabilities the Group needs to operate successfully.

The RNC operates under the delegated authority of the Board for some matters related to remuneration arrangements for both executives and non-executives, and is required to make recommendations to the Board. The RNC also reviews and makes recommendations to the Board on incentive schemes.

The RNC is required to meet regularly throughout the year (a minimum of twice per year), and considers recommendations from internal management and external advisors.

The Board is ultimately responsible for decisions made on recommendations from the RNC. No director votes on remuneration resolutions that directly impact on their remuneration.

(b) External remuneration advisers

Guerdon Associates provided independent remuneration advice in respect of KMP and reviewed the rules of the Group's incentive plan. Guerdon Associates were initially engaged in March 2014 and will continue to provide advice in FY17.

Guerdon Associates have been commissioned by, engaged with, and addressed reports directly to the Chair of the RNC.

The Board is satisfied that the remuneration advice from Guerdon Associates was made free from undue influence of the KMP in respect of whom the advice related, due to there being no engagement with the remuneration advisors outside of the Chair of the RNC. A declaration of independence from Guerdon Associates was provided to the Board in respect of their engagement and their reports to the RNC.

While remuneration services were received, no remuneration recommendations as defined under Division 1, Part 1.2.98 (1) of the Corporations Act, were made by Guerdon Associates.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

13.3 DETAILS OF KMP

KMP for the year ended 30 June 2016 are those persons identified as having direct or indirect authority and responsibility for planning, directing and controlling the activities of the Group, and include any executive or NED of the Group.

KMP of the Group for the year ended 30 June 2016 have been determined by the Board as follows:

| | Position |
|----------------------------|--|
| NEDs | |
| Jim Hazel | Chairman of the Board Member – Investment Committee |
| Amanda Heyworth | Chair - Audit and Risk Committee Member - Remuneration and Nomination Committee |
| Philip Clark AM | Member - Remuneration and Nomination Committee (Chair until 2 December 2015) |
| Robert Morrison | Deputy Chairman of the Board (appointed 2 December 2015) Chair – Investment Committee Member - Audit and Risk Committee |
| Norah Barlow ONZM | Chair - Remuneration and Nomination Committee (appointed Chair on 2 December 2015) Member - Audit and Risk Committee Member – Investment Committee |
| Executive Director | |
| Simon Owen | MD and CEO |
| Other Executive KMP | |
| Tania Betts | CFO |
| Nicole Fisher | COO |

13.4 REMUNERATION OF EXECUTIVE KMP

(a) Remuneration policy

The Group's Remuneration Policy is to ensure that remuneration packages properly reflect the person's duties and responsibilities and that the remuneration is competitive in attracting, retaining and motivating people of suitable quality.

The structure of remuneration, as explained below, is designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of long-term value creation for securityholders. The remuneration structures take into account a range of factors, including the following:

- Capability, skills and experience;
- Ability to impact achievement of the strategic objectives of the Group;
- Performance of each individual executive KMP;
- The Group's overall performance;
- Remuneration levels being paid by competitors for similar positions; and
- The need to ensure continuity of executive talent.

Refer below for detail of the mechanisms that link the remuneration outcomes to individual and the Group's performance.

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

(b) Link between remuneration and performance

The Board understands the importance of the relationship between the executive KMP remuneration policy and the Group's performance. Executive KMP remuneration packages are structured to align remuneration outcomes with the interests of securityholders.

| Remuneration component | Link to Group performance |
|--------------------------------|--|
| Total Fixed Remuneration (TFR) | TFR is set with reference to the executive KMP's role, responsibilities and performance and remuneration levels for similar positions in the market. |
| Short-term incentive (STI) | <p>STIs are awarded to executive KMP whose achievements, behaviour and focus meet the Group's business plan and individual Key Performance Indicators (KPIs) measured over the financial year. Details of the KPIs are explained below</p> <p>The Board maintains sole discretion over the granting of STIs to employees.</p> <p>For achievement of STIs in relation to executive KMP, the payment is 50% cash and a 50% deferred equity element linked to earnings growth sustainability.</p> <p>Deferred STI's are subject to a malus provision.</p> |
| Long-term incentive (LTI) | <p>LTIs are granted to executive KMP to align their focus with the Group's required Total Shareholder Return (TSR) and Return on Equity (ROE) performance measured over three financial years.</p> <p>The Board maintains sole discretion over the granting of LTIs.</p> <p>LTI grants are made in equity to ensure alignment with securityholders' interests.</p> <p>LTIs are subject to a malus provision.</p> |

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

REMUNERATION OF EXECUTIVE KMP (continued)

The table below sets out summary information about the Group's earnings and movement in securityholder wealth for the five years to 30 June 2016, noting that where applicable, certain amounts have been restated for the security consolidation that occurred in November 2015:

| | FY16 | FY15 | FY14 | FY13 | FY12 |
|---|-------------|-------------|-------------|-------------|-------------|
| Total Underlying Profit (\$000) | 20,161 | 17,507 | 11,568 | 5,867 | 7,434 |
| Statutory profit/(loss) (\$000) | 24,280 | 25,722 | 11,518 | (10,290) | 33,627 |
| Basic EPS ⁽ⁱ⁾ | 16.1¢ | 18.8¢ | 10.8¢ | (12.0)¢ | 45.6¢ |
| Net asset value per security ⁽ⁱ⁾ | \$2.45 | \$2.34 | \$2.13 | \$2.06 | \$2.06 |
| Security price at 30th June | \$2.87 | \$2.58 | \$3.03 | \$2.07 | \$1.17 |
| Distributions | 9.3¢ | 8.1¢ | 6.9¢ | 6.0¢ | - |

(1) Movements in securities on issue during the above periods were:

- a. FY13, 11,025,000 securities issued under an institutional placement.
- b. FY14, 28,176,833 securities issued under the non-renounceable rights issue.
- c. FY15, 32,994,679 securities issued under the institutional placement and rights issue, 303,000 upon vesting of RQRs, and 1,112,256 under the distribution reinvestment plan.
- d. FY16, 21,428,571 under an institutional placement, 640,333 upon vesting of PQRs, 2,968,285 under the distribution reinvestment plan and associated shortfall placement.

(c) Mix of remuneration components

Executive remuneration packages include a mix of TFR, STIs and LTIs. The Group aims to reward executives with a mix of remuneration commensurate with their position and responsibilities and aligned with market practice.

The Group's policy is to position remuneration of executive KMP by reference to the 50th percentile range of comparable industry peers and other Australian listed companies of similar size and complexity, whilst also taking into account the individual's competence and the potential impact of incentives.

The remuneration mix the RNC is aiming to achieve for executives for FY16, expressed as a percentage of total remuneration, is detailed in the table below:

| KMP | TFR | Maximum STI | Maximum LTI | Total remuneration |
|------------|------------|------------------------|------------------------|-------------------------------|
| CEO | 43.5% | 34.8% | 21.7% | 100.0% |
| CFO | 55.6% | 33.3% | 11.1% | 100.0% |
| COO | 55.6% | 33.3% | 11.1% | 100.0% |

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

13.5 TOTAL FIXED REMUNERATION OF EXECUTIVE KMP

TFR is annual salary, calculated on a total cost basis to include salary-packaged benefits grossed up for FBT, employer superannuation contributions and other non-cash benefits that may be agreed from time to time.

The RNC reviews and makes recommendations to the Board in relation to TFR levels for executive KMP on an annual basis.

The TFR for each of the executives for FY16 is:

| KMP | TFR⁽¹⁾ |
|--------------------|--------------------------|
| CEO | \$650,004 |
| CFO | \$334,193 |
| COO ⁽²⁾ | \$265,241 |
| Total | \$1,249,438 |

(1) TFR increases for FY16 took effect on 1 October 2015, so they only applied for part of the year.

(2) The COO's notional full-time TFR is \$330,750. The above TFR is based on a 4 day week.

No increase was made to the CEO's FY16 TFR. The FY16 TFR increases for the CFO and COO were 2.5% and 5.0% respectively. The Board considered these increases reasonable in the context of market remuneration levels for matched positions in comparable companies.

Data ranges for the CFO and COO FY16 TFR were provided by Guerdon Associates. The RNC used an element of judgement to determine the appropriate positioning within this range. Those recommendations were approved by the Board.

13.6 RIGHTS PLAN

The current Rights Plan was approved by securityholders at the Annual General Meeting (**AGM**) held on 12 November 2014.

The Rights Plan provides for the grant of Rights, which upon a determination by the Board that the performance conditions have been met, will result in the issue of stapled securities in the Group for each Right.

The Rights Plan provides for the grant of STI and LTI Rights to both executive KMP and other eligible employees.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

13.7 SHORT-TERM INCENTIVE PLAN (STIP)

Under the FY16 Rights Plan, 50% of the maximum STI for the executive KMP will be paid in cash and 50% will be a deferred equity element. The deferred equity component is for a period of 12 months and subject to forfeiture where earnings growth is not sustained. The deferral element is rights to INA stapled securities, plus additional stapled securities equal to the value of distributions during the deferral period on a reinvestment basis.

| KMP | Maximum STIP (Cash) | Maximum STIP Deferred (Rights) | Total Maximum STIP Available |
|--------------------|-------------------------|-----------------------------------|---------------------------------|
| CEO ⁽¹⁾ | 40% of TFR \$260,000 | 40% of TFR \$260,000 | 80% of TFR \$520,000 |
| CFO | 30% of TFR \$100,860 | 30% of TFR \$100,860 | 60% of TFR \$201,720 |
| COO ⁽²⁾ | 30% of TFR \$79,380 | 30% of TFR \$79,380 | 60% of TFR \$158,760 |
| Total | \$440,240 | \$440,240 | \$880,480 |

(1) Approved by securityholders at the Annual General Meeting held on 17 November 2015.

(2) Based on a 4 day working week.

The FY16 STI Rights are subject to the following terms and conditions:

- A 'malus' provision during the deferral period, which means that some or all of the STIP Rights may be forfeited if:
 - the Board determines Ingenia's earnings growth is not sustainable (in general, this will require earnings growth to be 5% or more on the prior year); or
 - any of the circumstances set out in the rules of the Rights Plan occur, such as fraud or dishonesty, a breach of obligations or material misstatement of Ingenia's financial statements;
- A one-year deferral period and are eligible to vest on or following 1 October 2017;
- On the vesting date Ingenia will cause the relevant number of Ingenia securities to be issued to the executive in accordance with a prescribed formula
- No amount is payable by the executive KMP for the issue or transfer of Ingenia securities to the executive KMP.

The STI award is subject to performance conditions that focus on operating earnings, capital management (for the CEO and CFO only), operational targets, system implementation targets and people and reporting assessments. Each assessment area is weighted. These KPIs have been chosen as they aim to focus individuals on meeting the Group's business plan. The KPIs specific to the executive are outlined below, together with what the board will consider in determining the achievement of the KPI.

The KPIs are set with 'threshold', 'target' and 'stretch' performance levels, with entitlements calculated on a pro-rata basis between these levels.

The weighting of KPIs for each executive KMP is as follows:

| KMP | Financial | Capital Management | Operational | Systems | People | Reporting | Total |
|-----|-----------|--------------------|-------------|---------|--------|-----------|-------|
| CEO | 40% | 25% | 20% | - | 10% | 5% | 100% |
| CFO | 30% | 15% | - | 15% | 10% | 30% | 100% |
| COO | 30% | - | 40% | 10% | 10% | 10% | 100% |

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

SHORT-TERM INCENTIVE PLAN (STIP) (continued)

The key considerations in assessing performance against the KPIs are:

| KPI | Executive | Key Considerations in achievement |
|----------------------|------------------|---|
| Financial | CEO, CFO, COO | EBITDA and Underlying Profit per Security measures are used to assess financial performance. Threshold levels are determined by reference to growth on the prior year. |
| Capital management | CEO, CFO | Non-core asset divestment, capital and debt available on competitive pricing and flexible terms. |
| Systems | CFO, COO | Successful implementation of various finance and operational systems. |
| Operational | CEO, CFO, COO | Achievement of operational and sales metrics that deliver on business strategy, established for each executive KMP specific for their area of responsibility. |
| People and reporting | CEO, CFO, COO | Recruit and retain leading industry talent. High calibre leadership team offering clear succession opportunities. High quality board and statutory reporting, analysis and forecasting. High quality management budgeting, reporting, analysis and forecasting. |

For FY16 the Board assessed the performance of the CEO, and the CEO assessed the performance of the CFO and COO, against their respective KPIs. The RNC then recommended and the Board approved STIP awards.

The Board approved the FY16 STIP awards as follows:

| KMP | Actual STI awarded ⁽¹⁾ | Actual STI awarded as a % of maximum STI |
|------------|--|---|
| CEO | \$416,000 | 80.0% |
| CFO | \$140,195 | 69.5% |
| COO | \$138,915 | 87.5% |

(1) 50% deferred for 12 months

The CEO's maximum potential FY16 STIP deferred equity component was approved by securityholders at the AGM held on 17 November 2015. Any FY17 CEO deferred equity component will be subject to securityholder approval at the 2016 AGM to be held on 15 November 2016.

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

13.8 LONG-TERM INCENTIVES

(a) Long Term Incentive Plan (LTIP)

The objective of the Group's LTIP is to align the 'at risk' compensation of executives with long-term securityholder returns whilst also acting as a mechanism to retain key talent.

The FY16 LTIP Rights are subject to the following LTIP Performance Conditions:

- i). 70% based on Relative Total Shareholder Return (Relative TSR), and
- ii). 30% based on Return on Equity (ROE).

Relative TSR Performance Condition:

The Relative TSR hurdle is growth in Ingenia's TSR relative to growth in the ASX 300 Industrials Index (**Index**), measured over a three-year period ending on 30 September 2018.

The Index was chosen because the Board considers it transparent and more closely aligned to the Group's core business operations than alternative peer groups.

Total TSR is the growth in the INA security price plus distributions, assuming distributions are reinvested. To minimise the impact of any short-term volatility, Ingenia's TSR will be calculated using the weighted average of the closing security price over the 30 days up to and including the trading day prior to the start and the 30 days up to and including the end-trading day of the performance period.

Ingenia must outperform the Index for the LTIP rights to vest in the executive KMP. The FY16 LTIP Rights will vest on the following basis:

| | Growth rate in INA's Relative TSR | % of Rights that vest |
|-------------------------------|--|--|
| At or Below Threshold | Equal to or less than Index + 1% CAGR | Nil |
| Between Threshold and Maximum | Between Index + 1% and Index +6% CAGR | 10% plus an additional amount progressively vesting on a straight line basis between Threshold and Maximum |
| Maximum | Index + 6% CAGR | 100% |

CAGR: compound annual growth rate

ROE Performance Condition:

The ROE Performance Condition is intended to focus executive KMP on improving medium to long-term returns.

ROE is defined as underlying profit divided by weighted average net assets. For FY16, the relevant metric is ROE achieved for FY18 on the following basis:

| | ROE | % of Rights that vest |
|-------------------------------|--------------------------------|--|
| At or Below Threshold | Greater than 8.0% | Nil |
| Between Threshold and Maximum | Equal to or greater than 9.0% | 30% plus an additional amount progressively vesting on a straight line basis between Threshold and Maximum |
| Maximum | Equal to or greater than 10.0% | 100% |

Ingenia Communities Holdings Limited

Directors' report (continued)

Year ended 30 June 2016

LONG-TERM INCENTIVES (continued)

The FY16 LTIP methodology determines security value as the VWAP of Ingenia securities in the 30 day trading period ending on the grant date of 1 October 2015 (for the CFO and COO) and 17 November 2015 (for the CEO).

The number of LTIP Rights granted in FY16 was calculated by dividing the LTIP value by the 30 day VWAP of the Ingenia security price as outlined above. Each LTI Right vested equals one Ingenia security plus an additional number of Ingenia securities calculated based on the distributions that would have been paid during the relevant period being reinvested.

FY16 LTIP Rights grants will be entitlements to Rights to stapled securities plus additional stapled securities equal to distributions paid during the vesting period. The Board aims to have executive KMP incentivised to grow distributions to securityholders.

(b) Performance Quantum Rights (PQRs) issued in FY14

Prior to FY15, the Board adopted an LTI scheme that provided for the grant of PQRs that entitled the holder to one Ingenia stapled security if the performance conditions are met.

PQRs granted in FY14 vest based on the Group's performance as measured by the absolute TSR. TSR is calculated as the percentage gain from an investment in Ingenia Communities securities over the vesting period, assuming that distributions are reinvested.

No PQRs have been granted since FY14.

The vesting period for PQRs granted in FY14 is 3 years from 1 July 2013.

The percentage of FY14 PQRs vesting on 1 July 2016 is determined as follows:

| Where Group's actual TSR over the 3 year vesting period is: | Percentage of employee's PQRs that may vest in respect of the Scheme Year: |
|--|--|
| Below 26% - below threshold performance | 0% |
| 26% (approximately 8%pa compound) - on threshold performance | 25% |
| At or above 26% (but below 33%) performance - between threshold and target performance | 25% - 50%: in the same proportion as the Group's actual TSR bears to the threshold and target performance. |
| 33% (approximately 10%pa compound) - on target performance | 50% |
| Above 33% (but below 40%) performance - between target and stretch performance | 50% - 100%: in the same proportion as the Group's actual TSR bears to the target TSR and stretch performance |
| 40% or above (approximately 12%pa compound) - stretch performance | 100% |

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

LONG-TERM INCENTIVES (continued)

(c) Summary of PQRs and LTIPs on issue

The following table sets out all LTIs granted to-date and not vested at 30 June 2016 (note: number of rights granted has been restated for the 6:1 consolidation of Ingenia securities in November 2015):

| KMP | Scheme year | LTI type | Number of rights granted | Grant date | Fair value of rights | Vesting date | Maximum to expense in future years |
|--------------|--------------------|-----------------|---------------------------------|-------------------|-----------------------------|---------------------|---|
| CEO | FY14 | PQR | 410,000 | 19-Nov-13 | \$799,500 | 1-Jul-16 | - |
| | FY15 | LTIP | 118,236 | 12-Nov-14 | \$179,481 | 1-Oct-17 | \$74,839 |
| | FY16 | LTIP | 122,938 | 17-Nov-15 | \$234,444 | 1-Oct-18 | \$175,833 |
| CFO | FY14 | PQR | 106,833 | 19-Nov-13 | \$208,325 | 1-Jul-16 | - |
| | FY15 | LTIP | 23,257 | 1-Oct-14 | \$33,909 | 1-Oct-17 | \$14,139 |
| | FY16 | LTIP | 25,674 | 1-Oct-15 | \$48,960 | 30-Sep-18 | \$36,720 |
| COO | FY14 | PQR | 102,500 | 19-Nov-13 | \$199,875 | 1-Jul-16 | - |
| | FY15 | LTIP | 22,336 | 1-Oct-14 | \$32,565 | 1-Oct-17 | \$13,579 |
| | FY16 | LTIP | 25,258 | 1-Oct-15 | \$48,167 | 1-Oct-18 | \$36,125 |
| Total | | | 957,032 | | \$1,785,226 | | \$351,235 |

(d) LTIP – Termination of Employment

The following outlines the treatment of unvested LTIP Rights at the time of termination of employment. This treatment also applies to unvested STIP Rights.

- Where a Participant holding unvested Rights ceases to be an employee of the Group, those Rights immediately lapse.
- Notwithstanding the above, where a Participant holding unvested Rights ceases to be an employee of the Group due to a Qualifying Reason, the Board may determine in its discretion, the treatment of those unvested Rights.
- Qualifying Reason means:
 - the death, total and permanent disablement, retirement or redundancy of the Participant as determined by the Board in its absolute discretion; or
 - any other reason with the approval of the Board.

(e) LTIP – Change in Control

In the event of a change in control, the board has absolute discretion as to the treatment of unvested LTIP. In exercising discretion, the board will take into account:

- The employee's length of service in relation to each unvested grant;
- Performance to the date of the change in control on any performance measures specified for each grant
- Any other factors that the Board considers relevant.

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

13.9 KMP EMPLOYMENT CONTRACTS

MD and CEO

| | |
|--------------------------|--|
| Contract duration | Commenced 4 June 2012, open-ended. |
| Fixed remuneration | Total fixed remuneration includes cash salary, superannuation and other non-cash benefits. |
| Variable remuneration | Eligible for STI of up to 80% for any one year of the fixed annual remuneration, of which 50% is in the form of deferred equity. Eligible for LTI of up to 50% for any one year of the fixed annual remuneration. The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the executive, provided the scheme will not be varied or withdrawn part way through a financial year in respect of that same financial year. |
| Non-compete period | 12 months. |
| Non-solicitation period | 12 months. |
| Notice by Ingenia | 12 months. |
| Notice by executive | 12 months. |
| Treatment on termination | Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of Incentives: As outlined above. |

CFO

| | |
|-----------------------------------|--|
| Contract duration | Commenced 14 May 2012, open-ended. |
| Fixed remuneration | Total fixed remuneration includes cash salary, superannuation and other non-cash benefits. |
| Variable remuneration eligibility | Eligible for STI of up to 60% for any one year of fixed annual remuneration, of which 50% is in the form of deferred equity. Eligible for LTI of up to 20% for any one year of fixed annual remuneration. The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the executive, provided the scheme will not be varied or withdrawn part way through a financial year in respect of that same financial year. |
| Non-compete period | 12 months. |
| Non-solicitation period | 12 months. |
| Notice by Ingenia | 6 months. |
| Notice by executive | 6 months. |
| Treatment on termination | Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of Incentives: As outlined above. |

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

KMP EMPLOYMENT CONTRACTS (continued)

COO

| | |
|-----------------------------------|---|
| Contract duration | Commenced 4 June 2012, open-ended. |
| Fixed remuneration | Total fixed remuneration includes cash salary, superannuation and other non-cash benefits, currently based on a four day working week. |
| Variable remuneration eligibility | Eligible for STI of up to 60% for any one year of fixed annual remuneration, of which 50% is in the form of deferred equity Eligible for LTI of up to 20% for any one year of fixed annual remuneration. The Board may withdraw or vary the STI and LTI schemes at any time by written notice to the executive, provided the scheme will not be varied or withdrawn part way through a financial year in respect of that same financial year. |
| Non-compete period | 12 months. |
| Non-solicitation period | 12 months. |
| Notice by Ingenia | 6 months. |
| Notice by executive | 6 months. |
| Treatment on termination | Payment in lieu of notice: Payment may be made in lieu of notice, which would include pro rata fixed remuneration and statutory entitlements. Treatment of Incentives: As outlined above. |

Ingenia Communities Holdings Limited
Directors' report (continued)
Year ended 30 June 2016

13.10 REMUNERATION TABLES

The following tables outline the remuneration provided to KMP excluding NEDs for FY16 and FY15.

| KMP | Period | Short-term | | | | | LTI | Total | Performance related | |
|--------------|-------------|--------------------|--------------------------|-------------------------|------------------------------------|--------------------|------------------|--------------------|-----------------------------|-------------------------|
| | | Salary | Super-annuation benefits | STI ⁽¹⁾ Cash | STI ⁽¹⁾ Deferred Rights | Total short-term | | | STI+LTI Percent of total | LTI Percent of total |
| CEO | FY16 | \$630,696 | \$19,308 | \$208,000 | \$208,000 | \$1,066,004 | \$385,534 | \$1,451,538 | 55% | 27% |
| | FY15 | \$618,592 | \$19,506 | \$136,500 | \$136,500 | \$911,098 | \$387,803 | \$1,298,901 | 51% | 30% |
| CFO | FY16 | \$314,885 | \$19,308 | \$70,098 | \$70,098 | \$474,388 | \$93,132 | \$567,520 | 41% | 16% |
| | FY15 | \$305,482 | \$19,506 | \$31,488 | \$31,488 | \$387,964 | \$101,555 | \$489,519 | 34% | 21% |
| COO | FY16 | \$245,933 | \$19,308 | \$69,458 | \$69,458 | \$404,156 | \$89,663 | \$493,819 | 46% | 18% |
| | FY15 | \$234,067 | \$19,506 | \$32,490 | \$32,490 | \$318,553 | \$101,570 | \$420,123 | 40% | 24% |
| Total | FY16 | \$1,191,514 | \$57,924 | \$347,555 | \$347,555 | \$1,944,548 | \$568,329 | \$2,512,877 | 50% | 23% |
| | FY15 | \$1,158,141 | \$58,518 | \$200,478 | \$200,478 | \$1,617,615 | \$590,928 | \$2,208,543 | 45% | 27% |

(1) STIs were accrued in the year ended 30 June 2016 and 30 June 2015.

Ingenia Communities Holdings Limited Director's Report (continued) Year ended 30 June 2016

13.11 NON-EXECUTIVE DIRECTORS' REMUNERATION

(a) NED fees

The maximum aggregate fee pool available to NEDs is \$1,000,000 as stipulated in the Constitution that was adopted pre-internalisation.

(b) Performance-based remuneration

NEDs are remunerated by way of cash and mandated superannuation. They do not participate in performance based remuneration practices unless approved by securityholders. The Group currently has no intention to remunerate NEDs by any way other than cash benefits.

(c) Equity-based remuneration

Directors are eligible to participate in the existing Rights Plan; however, there is no current intention to grant any Rights to NEDs under this plan. To this end, all NEDs have self-funded the purchase of Ingenia securities on market thereby aligning their interests with securityholders. Details are shown below in Section 13.12.

The Board has introduced a policy guideline for NEDs to hold the equivalent of one year's gross fees in Ingenia securities within a period of two years from the date of appointment.

(d) NED remuneration table

The following table outlines the remuneration provided to NEDs for the FY16 and FY15:

| NEDs | Directors' fees | |
|-----------------|-----------------|------------------|
| Jim Hazel | FY16 | \$172,917 |
| | FY15 | \$170,000 |
| Amanda Heyworth | FY16 | \$98,250 |
| | FY15 | \$93,000 |
| Philip Clark | FY16 | \$94,750 |
| | FY15 | \$93,000 |
| Robert Morrison | FY16 | \$97,500 |
| | FY15 | \$93,000 |
| Norah Barlow | FY16 | \$96,250 |
| | FY15 | \$93,000 |
| Total | FY16 | \$559,667 |
| | FY15 | \$542,000 |

The FY16 NED annual fees were increased effective 1 December 2015 as follows:

- Chairman of the board: from \$170,000 to \$175,000;
- Non-executive directors: from \$93,000 to \$96,000;
- Chairs of ARC and RNC: an additional \$6,000; and
- Deputy chair of the board: an additional \$6,000.

In addition to the above fees, all NEDs receive reimbursement for reasonable travel, accommodation and other expenses incurred while undertaking Ingenia business.

Ingenia Communities Holdings Limited Director's Report (continued) Year ended 30 June 2016

13.12 KMP INTERESTS

Securities held directly, indirectly or beneficially by each KMP, including their related parties, were:

| Directors | Balance 1 July 2015⁽¹⁾ | Acquisitions | Disposals | On vesting of rights | Balance 30 June 2016 |
|------------------|--|---------------------|------------------|---------------------------------|---------------------------------|
| Jim Hazel | 278,265 | 9,011 | - | - | 287,276 |
| Philip Clark AM | 39,683 | 2,603 | - | - | 42,286 |
| Amanda Heyworth | 106,921 | - | - | - | 106,921 |
| Robert Morrison | 75,556 | - | - | - | 75,556 |
| Norah Barlow | 34,844 | 1,105 | - | - | 35,949 |
| Simon Owen | 627,318 | - | - | 376,667 | 1,003,985 |
| Total | 1,162,587 | 12,719 | - | 376,667 | 1,551,973 |

⁽¹⁾ Restated for 6:1 consolidation of Ingenia securities in November 2015.

PQRs held by KMP were:

| KMP | Balance 1 July 2015⁽¹⁾ | Granted | Vested | Balance 30 June 2016 |
|-------------------|--|----------------|------------------|---------------------------------|
| Directors | | | | |
| Simon Owen | 786,667 | - | (376,667) | 410,000 |
| Executives | | | | |
| Tania Betts | 238,666 | - | (131,833) | 106,833 |
| Nicole Fisher | 234,333 | - | (131,833) | 102,500 |
| Total | 1,259,666 | - | (640,333) | 619,333 |

⁽¹⁾ Restated for 6:1 consolidation of Ingenia securities in November 2015.

The balance of 619,333 PQRs vested on 1 July 2016 and 598,833 fully paid stapled securities were issued at that time.

LTIP Rights held by KMP were:

| | Balance 1 July 2015⁽¹⁾ | Granted | Vested | Balance 30 June 2016 |
|-------------------|--|----------------|---------------|---------------------------------|
| Directors | | | | |
| Simon Owen | 118,236 | 122,938 | - | 241,174 |
| Executives | | | | |
| Tania Betts | 23,257 | 25,674 | - | 48,931 |
| Nicole Fisher | 22,336 | 25,258 | - | 47,594 |
| Total | 163,829 | 173,870 | - | 337,699 |

⁽¹⁾ Restated for 6:1 consolidation of Ingenia securities in November 2015

Signed in accordance with a resolution of the directors.



Jim Hazel
Chairman
Sydney, 23 August 2016



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Auditor's Independence Declaration to the Directors of Ingenia Communities Holdings Limited

As lead auditor for the audit of Ingenia Communities Holdings Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Ingenia Communities Holdings Limited and the entities it controlled during the financial year.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, appearing to be 'Chris Lawton'.

Chris Lawton
Partner
23 August 2016

Ingenia Communities Holdings Limited
Consolidated statement of comprehensive income
as at 30 June 2016

Consolidated Statement of Comprehensive Income

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|-------|----------------|----------------|
| Continuing Operations | | | |
| Revenue | | | |
| Rental income | 5(a) | 57,692 | 44,984 |
| Accrued deferred management fee income | 17(b) | 4,222 | 6,788 |
| Manufactured home sales | | 32,009 | 14,937 |
| Catering income | | 3,258 | 3,538 |
| Service station sales | | 6,745 | 2,359 |
| Other property income | 5(b) | 3,045 | 3,235 |
| Interest income | | 170 | 180 |
| | | 107,141 | 76,021 |
| Property expenses | | (21,242) | (18,024) |
| Employee expenses | | (26,153) | (21,230) |
| Administrative expenses | | (5,129) | (4,880) |
| Operational, marketing and selling expenses | | (3,555) | (3,931) |
| Cost of manufactured homes sold | | (21,729) | (9,256) |
| Service station expenses | | (5,862) | (1,910) |
| Finance expenses | 6 | (6,795) | (4,747) |
| Net foreign exchange gain/(loss) | | 471 | 111 |
| Net loss on disposal of investment properties | | (989) | (69) |
| Net gain/(loss) on change in fair value of: | | | |
| - Investment properties | | 7,496 | 16,404 |
| - Derivatives | | (414) | 164 |
| - Retirement village resident loans | 17(b) | (1,388) | (8,878) |
| Depreciation expense | 13(b) | (360) | (322) |
| Amortisation of intangible assets | 14(b) | (266) | (157) |
| Profit from continuing operations before income tax | | 21,226 | 19,296 |
| Income tax benefit | 7(a) | 3,054 | 6,604 |
| Profit from continuing operations | | 24,280 | 25,900 |
| Profit from discontinued operations ⁽¹⁾ | 8 | - | (178) |
| Net profit for the period | | 24,280 | 25,722 |
| Other comprehensive income, net of income tax | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| - Foreign currency translation differences during the period | | - | 1,339 |
| - Release of foreign currency translation reserve on disposal of foreign operations | | - | (2,374) |
| Total comprehensive income for the period net of income tax | | 24,280 | 24,687 |
| Profit/(loss) attributable to securityholders of: | | | |
| - Ingenia Communities Holdings Limited | | 2,243 | (850) |
| - Ingenia Communities Fund | | 21,981 | 31,039 |
| - Ingenia Communities Fund Management Trust | | 56 | (4,467) |
| | | 24,280 | 25,722 |
| Total comprehensive income attributable to securityholders of: | | | |
| - Ingenia Communities Holdings Limited | | 2,243 | (1,942) |
| - Ingenia Communities Fund | | 21,981 | 31,265 |
| - Ingenia Communities Fund Management Trust | | 56 | (4,636) |
| | | 24,280 | 24,687 |

(1) The previous corresponding period profit from discontinued operations relates to the sale of the New Zealand Students business in December 2014.

Ingenia Communities Holdings Limited
Consolidated statement of comprehensive income (continued)
for the year ended 30 June 2016

| | Note | 2016 Cents | 2015 Cents |
|--|------|---------------|---------------|
| Distributions per security⁽¹⁾⁽²⁾ | | 8.4 | 7.8 |
| Earnings per security⁽²⁾: | | | |
| Basic earnings from continuing operations | | | |
| - Per security | 4(a) | 16.1 | 18.9 |
| - Per security attributable to parent | 4(b) | 1.5 | (0.6) |
| Basic earnings | | | |
| - Per security | 4(a) | 16.1 | 18.8 |
| - Per security attributable to parent | 4(b) | 1.5 | (0.6) |
| Diluted earnings from continuing operations | | | |
| - Per security | 4(a) | 16.0 | 18.9 |
| - Per security attributable to parent | 4(b) | 1.5 | (0.6) |
| Diluted earnings | | | |
| - Per security | 4(a) | 16.0 | 18.8 |
| - Per security attributable to parent | 4(b) | 1.5 | (0.6) |

(1) Distributions relate to the amount paid during the financial year. A final FY16 distribution of 5.1 cps was declared on 23 August 2016 (payment due 14 September 2016) resulting in a total FY16 distribution of 9.3 cps.

(2) Current and previous corresponding period amounts have been restated to account for the 6:1 stapled security consolidation that was completed on 19 November 2015.

Ingenia Communities Holdings Limited

Consolidated balance sheet

as at 30 June 2016

Consolidated Balance Sheet

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | | 15,057 | 15,117 |
| Trade and other receivables | 10 | 6,852 | 4,327 |
| Inventories | 11 | 17,665 | 13,208 |
| Income tax receivable | | 18 | 33 |
| Assets held for sale - investment properties | 9 | - | 61,598 |
| Total current assets | | 39,592 | 94,283 |
| Non-current assets | | | |
| Other receivables | 10 | 3,140 | 2,649 |
| Investment properties | 12 | 710,746 | 539,728 |
| Plant and equipment | 13 | 1,943 | 720 |
| Intangibles | 14 | 1,999 | 1,579 |
| Deferred tax asset | 18 | 9,399 | 6,348 |
| Total non-current assets | | 727,227 | 551,024 |
| Total assets | | 766,819 | 645,307 |
| Current liabilities | | | |
| Trade and other payables | 15 | 24,857 | 15,073 |
| Borrowings | 16 | 497 | 291 |
| Retirement village resident loans | 17 | 207,483 | 161,878 |
| Employee liabilities | | 1,382 | 992 |
| Interest rate swaps | | 121 | 3 |
| Liabilities held for sale - retirement village resident loans | | - | 42,041 |
| Total current liabilities | | 234,340 | 220,278 |
| Non-current liabilities | | | |
| Other Payables | 15 | 6,770 | 14,770 |
| Borrowings | 16 | 103,593 | 66,491 |
| Employee liabilities | | 227 | 248 |
| Interest rate swaps | | 287 | - |
| Total non-current liabilities | | 110,877 | 81,509 |
| Total liabilities | | 345,217 | 301,787 |
| Net assets | | 421,602 | 343,520 |
| Equity | | | |
| Issued securities | 19 | 722,670 | 657,214 |
| Reserves | 20 | 1,810 | 1,334 |
| Accumulated losses | 21 | (302,878) | (315,028) |
| Total equity | | 421,602 | 343,520 |
| Attributable to securityholders of: | | | |
| Ingenia Communities Holdings Limited | | | |
| - Issued securities | 19 | 9,492 | 8,900 |
| - Reserves | 20 | 1,810 | 1,334 |
| - Accumulated losses | 21 | (552) | (3,175) |
| | | 10,750 | 7,059 |
| Ingenia Communities Fund | | | |
| | | 385,994 | 315,951 |
| Ingenia Communities Management Trust | | | |
| | | 24,858 | 20,510 |
| | | 421,602 | 343,520 |
| Net asset value per security⁽¹⁾ | | \$2.45 | \$2.34 |

(1) The previous corresponding period net asset value per security has been restated to account for the 6:1 stapled security consolidation that was completed on 19 November 2015.

Ingenia Communities Holdings Limited
Consolidated cash flow statement
for the year ended 30 June 2016

Consolidated Cash Flow Statement

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|-------|------------------|-----------------|
| Cash flows from operating activities | | | |
| Rental and other property income | | 71,193 | 58,085 |
| Property and other expenses | | (56,039) | (51,225) |
| Proceeds from resident loans | 17(b) | 11,056 | 19,815 |
| Repayment of resident loans | 17(b) | (5,757) | (10,544) |
| Proceeds from sale of manufactured homes | | 35,054 | 15,736 |
| Purchase of manufactured homes | | (29,986) | (19,358) |
| Proceeds from sale of service station inventory | | 6,708 | 2,359 |
| Purchase of service station inventory | | (6,113) | (1,936) |
| Interest received | | 124 | 198 |
| Borrowing costs paid | | (5,216) | (4,902) |
| Income tax received | | 4 | 806 |
| | 32 | 21,028 | 9,034 |
| Cash flows from investing activities | | | |
| Purchase and additions of plant and equipment | | (1,729) | (446) |
| Purchase and additions of intangible assets | | (568) | (1,371) |
| Payments for investment properties | | (85,132) | (64,423) |
| Additions to investment properties | | (19,884) | (14,112) |
| (Costs)/proceeds on sale of investment properties | | (989) | 56,161 |
| (Costs)/proceeds from sale of equity accounted investments | | - | (209) |
| Amounts received from villages | | 24 | 168 |
| | | (108,278) | (24,232) |
| Cash flows from financing activities | | | |
| Proceeds from issue of stapled securities | | 67,699 | 91,968 |
| Payments for security issue costs | | (2,243) | (3,870) |
| Payments for derivatives | | - | (444) |
| Payments for finance leases | | (450) | (126) |
| Distributions to securityholders | | (12,513) | (10,105) |
| Proceeds from borrowings | | 103,742 | 65,205 |
| Repayment of borrowings | | (68,542) | (125,197) |
| Payments for debt issue costs | | (567) | (1,867) |
| | | 87,126 | 15,564 |
| Net (decrease)/increase in cash and cash equivalents | | | |
| | | (124) | 366 |
| Cash and cash equivalents at the beginning of the year | | 15,117 | 14,551 |
| Effects of exchange rate fluctuation on cash held | | 64 | 200 |
| Cash and cash equivalents at the end of the year | | | |
| | | 15,057 | 15,117 |

Ingenia Communities Holdings Limited
Consolidated statement of changes in equity
for the year ended 30 June 2016

Consolidated Statement of Changes In Equity

| | | ATTRIBUTABLE TO SECURITYHOLDERS | | | | | |
|---|------|---------------------------------|----------|-------------------|--------|------------|--------------|
| | | INGENIA COMMUNITIES | | | | | |
| | Note | Issued capital | Reserves | Retained earnings | Total | ICF & ICMT | Total equity |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at 1 July 2014 | | 7,377 | 988 | (2,659) | 5,706 | 234,471 | 240,177 |
| Net profit/(loss) | | - | - | (850) | (850) | 26,572 | 25,722 |
| Other comprehensive income | | - | - | - | - | (1,035) | (1,035) |
| Total comprehensive income for the year | | - | - | (850) | (850) | 25,537 | 24,687 |
| Transactions with securityholders in their capacity as securityholders: | | | | | | | |
| - Issue of securities | 19 | 1,523 | - | - | 1,523 | 86,575 | 88,098 |
| - Share-based payment transactions | 20 | - | 678 | - | 678 | - | 678 |
| - Payment of distributions to securityholders | 21 | - | - | - | - | (10,120) | (10,120) |
| - Transfer from reserves to retained earnings | | - | (332) | 332 | - | - | - |
| Carrying amount at 30 June 2015 | | 8,900 | 1,334 | (3,177) | 7,057 | 336,463 | 343,520 |
| Carrying amount at 1 July 2015 | | 8,900 | 1,334 | (3,177) | 7,057 | 336,464 | 343,521 |
| Net profit/(loss) | | - | - | 2,243 | 2,243 | 22,037 | 24,280 |
| Other comprehensive income | | - | - | - | - | - | - |
| Total comprehensive income for the year | | - | - | 2,243 | 2,243 | 22,037 | 24,280 |
| Transactions with securityholders in their capacity as securityholders: | | | | | | | |
| - Issue of securities | 19 | 592 | - | - | 592 | 64,864 | 65,456 |
| - Share-based payment transactions | 20 | - | 858 | - | 858 | - | 858 |
| - Payment of distributions to securityholders | 21 | - | - | - | - | (12,513) | (12,513) |
| - Transfer from reserves to retained earnings | | - | (382) | 382 | - | - | - |
| Carrying amount at 30 June 2016 | | 9,492 | 1,810 | (552) | 10,750 | 410,852 | 421,602 |

Ingenia Communities Holdings Limited

Notes to the financial statements

for the Year ended 30 June 2016

1. Summary of significant accounting policies

(a) The Group

The financial report of Ingenia Communities Holdings Limited (the "Company") comprises the consolidated financial report of the Company and its controlled entities, including Ingenia Communities Fund ("ICF" or the "Fund") and Ingenia Communities Management Trust ("ICMT") (collectively, the "Trusts"). The shares of the Company are "stapled" with the units of the Trusts and trade on the Australian Securities Exchange ("ASX") effectively as one security. Ingenia Communities RE Limited ("ICRE"), a wholly owned subsidiary of the Company, is the Responsible Entity of the Trusts. In this report, the Company and the Trusts are referred to collectively as the Group.

The constitutions of the Company and the Trusts require that, for as long as they remain jointly quoted on the ASX, the number of shares in the Company and of units in each trust shall remain equal and those securityholders in the Company and unitholders in each trust shall be identical.

The stapling structure will cease to operate on the first to occur of:

- the Company or either of the Trusts resolving by special resolution in accordance with its constitution to terminate the stapling provisions; or
- the commencement of the winding up of the Company or either of the Trusts.

The financial report as at and for the year ended 30 June 2016 was authorised for issue by the directors on 23 August 2016.

(b) Basis of preparation

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

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

As permitted by Instrument 2015/838, issued by the Australian Securities and Investments Commission, the financial statements and accompanying notes of the Group have been presented in the attached combined financial report.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated as permitted by Instrument 2016/191.

The financial report is prepared on an historical cost basis, except for investment properties, retirement village resident loans and derivative financial instruments, which are measured at fair value.

At 30 June 2016, the Group recorded a net current asset deficiency of \$194,748,000. This deficiency includes retirement village resident loans of \$207,483,000. Resident loans obligations of the Group are classified as current liabilities due to the demand feature of these obligations despite the unlikely possibility that the majority of the loans will be settled within the next twelve months. Furthermore, if required, the proceeds from new resident loans could be used by the Group to settle its existing loan obligations should those incumbent residents vacate their units. Accordingly, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and the financial report of the Group has been prepared on a going concern basis.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(c) Adoption of new and revised accounting standards

No new or revised standards and interpretations were issued by the Australian Accounting Standards Board that are relevant to the Group during the period.

(d) Principles of consolidation

The Group's consolidated financial statements comprise the Company and its subsidiaries (including the Trusts). Subsidiaries are all those entities (including special purpose entities) over which the Company or the Trusts have the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. Inter-company balances and transactions including dividends and unrealised gains and losses from intra-group transactions have been eliminated.

Subsidiaries are consolidated from the date on which the parent obtains control. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are carried at cost in the parent's financial statements.

The Company was incorporated on 24 November 2011. In accordance with Accounting Standard AASB 3 *Business Combinations*, the stapling of the Company and the Trusts was regarded as a business combination. Under AASB 3, the stapling was accounted for as a reverse acquisition with ICF "acquiring" the Company and the Company subsequently being identified as the ongoing parent for preparing consolidated financial reports. Consequently, the consolidated financial statements are a continuation of the financial statements of the Trusts, and include the results of the Company from the date of incorporation.

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(f) Dividends and distributions

A liability for any dividend or distribution declared on or before the end of the reporting period is recognised on the balance sheet in the reporting period to which the dividend or distribution pertains.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(g) Foreign currency

(i) Functional and presentation currencies

The presentation currency of the Group, and functional currency of the Company, is the Australian dollar.

(ii) Translation of foreign currency transactions

Transactions in foreign currency are initially recorded in the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated at the rate of exchange prevailing at the balance date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings designated as a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment at which time they are recognised in the income statement.

A non-monetary item that is measured at fair value in a foreign currency is translated using the exchange rates at the date when the fair value was determined.

(h) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Finance leases, which transfer away from the Group substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the inception of the lease. A finance lease receivable is recognised on inception at the present value of the minimum lease receipts. Finance lease receipts are apportioned between the interest income and reduction in the lease receivable to achieve a constant rate of interest on the remaining balance of the receivable. Interest is recognised as income in the income statement.

Leases of investment properties are classified as finance leases under AASB 140 *Investment Properties*.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

(i) Plant and Equipment

Plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment require replacing at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(j) Financial assets and liabilities

Current and non-current financial assets and liabilities within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as fair value through profit or loss; loans and receivables; held-to-maturity investments or as available-for-sale. The Group determines the classification of its financial assets and liabilities at initial recognition with the classification depending on the purpose for which the asset or liability was acquired or issued. Financial assets and liabilities are initially recognised at fair value plus directly attributable transaction costs, unless their classification is at fair value through profit or loss. They are subsequently measured at fair value or amortised cost using the effective interest method. Changes in fair value of available-for-sale financial assets are recorded directly in equity. Changes in fair values of any other financial assets and liabilities classified as at fair value through profit or loss are recorded in the income statement.

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For those with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

(k) Impairment of non-financial assets

Assets other than investment property and financial assets carried at fair value are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets excluding goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Cash and cash equivalents

Cash and cash equivalents in the balance sheet and cash flow statements comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. An allowance for impairment is made when there is objective evidence that collection of the full amount is no longer probable.

(n) Inventories

The Group holds inventory in relation to the acquisition and development of manufactured homes and service station fuel and supplies both within its Lifestyle & Holidays segment. Inventories are held at the lower of cost and net realisable value.

Costs of inventories comprise all acquisition costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventory includes work in progress and raw materials used in the production of manufactured home units.

Net realisable value is determined based on an estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(o) Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date in which the derivative contract is entered into and are subsequently remeasured to fair value.

(p) Investment property

Land and buildings have the function of an investment and are regarded as composite assets. In accordance with applicable accounting standards, the buildings, including plant and equipment, are not depreciated.

Investment property includes property under construction, tourism cabins and associated amenities.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise, including corresponding tax effect.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in its absence, the most advantageous market. In determining the fair value of certain assets, recent market offers have been taken into consideration.

It is the Group's policy to have all investment properties independently valued at intervals of not more than two years. It is the policy of the Group to review the fair value of each investment property every six months and to cause investment properties to be revalued to fair values whenever their carrying value materially differs to their fair values.

Changes in the fair value of the investment property are recorded in the statement of comprehensive income.

In determining fair values, the Group considers relevant information including the capitalisation of rental streams using market assessed capitalisation rates, expected net cash flows discounted to their present value using market determined risk adjusted discount rates and other available market data such as recent comparable transactions. The assessment of fair value of investment properties does not take into account potential capital gains tax assessable.

(q) Intangible assets

An intangible asset arising from development expenditure related to software is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use; how the asset will generate future economic benefits; the availability of resources to complete the asset; and the ability to measure reliably the expenditure during its development. Costs capitalised include external direct costs of materials and service, and direct payroll and payroll related costs of employees' time spent on the project.

Following the initial recognition of expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when the development is complete and the asset is available for use. Amortisation is over the period of expected future benefit.

Intangible assets acquired separately, are initially recognised at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

The Group's policy applied to capitalised development costs is as follows:

Software and associated development to capitalised development costs (assets in use)

- Useful life: Finite Amortisation method using 7 years on a straight line basis; and
- Impairment test: Amortisation method reviewed at each financial year-end; closing carrying value reviewed annually for indicators of impairment.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed, as incurred. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

(r) Payables

Trade and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and are recognised when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(s) Provisions, including employee benefits

(i) General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

(ii) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(iii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(t) Retirement village resident loans

These loans, which are repayable on the departure of the resident, are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the income statement. The fair value of the obligation is measured as the ingoing contribution plus the resident's share of capital appreciation to reporting date. Although the expected average residency term is more than ten years, these obligations are classified as current liabilities, as required by Accounting Standards, because the Group does not have an unconditional right to defer settlement to more than twelve months after reporting date.

This liability is stated net of accrued deferred management fees at reporting date, because the Group's contracts with residents require net settlement of those obligations.

Refer to Notes 1(z) and 26(k) for information regarding the valuation of retirement village resident loans.

(u) Borrowings

Borrowings are initially recorded at the fair value of the consideration received less directly attributable transaction costs associated with the borrowings. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Under this method fees, costs, discounts and premiums that are yield related are included as part of the carrying amount of the borrowing and amortised over its expected life.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement to more than twelve months after reporting date.

Borrowing costs are expensed as incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. When this is the case, they are capitalised as part of the acquisition cost of that asset.

(v) Issued equity

Issued and paid up securities are recognised at the fair value of the consideration received by the Group. Any transaction costs arising on issue of ordinary securities are recognised directly in equity as a reduction of the security proceeds received.

(w) Revenue

Revenue from rents, interest and distributions is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable.

Rental income from operating leases is recognised on a straight-line basis over the lease term. Contingent rentals are recognised as income in the financial year that they are earned. Fixed rental increases that do not represent direct compensation for underlying cost increases or capital expenditures are recognised on a straight-line basis until the next market review date. Rent paid in advance is recognised as unearned income.

Deferred management fee income is calculated as the expected fee on a resident's ingoing loan, allocated pro-rata over the resident's expected tenure, together with any share of capital appreciation that has occurred at reporting date. Revenue from the sale of manufactured homes within the Lifestyle & Holidays segment is recognised when the significant risks, rewards of ownership and effective control has been transferred to the buyer.

Service station sales revenue represents the revenue earned from the provision of products to external parties. Sales revenue is only recognised when the significant risks and rewards of ownership of the products including possession are passed to the buyer.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

Government incentives are recognised where there is reasonable assurance the incentive will be received, and attached conditions complied with. When the incentive relates to an expense item, it is recognised as income on a systematic basis over the periods that the incentive is intended to compensate.

Interest income is recognised as the interest accrues using the effective interest rate method.

(x) Share-based payment transactions

Certain senior executives of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The Group does not have any cash-settled share-based payment transactions in the financial year.

The cost of equity-settled transactions is recognised, together with a corresponding increase in reserves in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for these transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee expenses.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and service conditions are satisfied.

When the terms of an equity-settled transaction are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the transaction, or is otherwise beneficial to the employee as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding rights is reflected as additional share dilution in the computation of diluted earnings per share.

(y) Income tax

(i) Current income tax

Under the current tax legislation, ICF and its subsidiaries are not liable to pay Australian income tax if their taxable income (including any assessable capital gains) is fully distributed to securityholders each year. Tax allowances for building and fixtures depreciation are distributed to securityholders in the form of the tax-deferred component of distributions. ICMT and its wholly-owned subsidiaries formed a tax consolidated group on 1 July 2012. The ICMT tax consolidated group is subject to Australian income tax.

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities, based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

The subsidiaries that hold the Group's foreign properties may be subject to corporate income tax and withholding tax in the countries in which they operate. Under current Australian income tax legislation, securityholders may be entitled to receive a foreign tax credit for this withholding tax.

(ii) Deferred income tax

Deferred income tax represents tax (including withholding tax) expected to be payable or recoverable by taxable entities on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised through continuing use or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Income taxes related to items recognised directly in equity are recognised in equity and not against income. Critical accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Trust and that are believed to be reasonable under the circumstances.

(iii) Tax Consolidation

Each of the Company and ICMT and their respective subsidiaries formed a tax consolidation group on 1 July 2011, with the Company or ICMT being the head entity. The head entity and the controlled entities in the tax consolidation group continue to account for their own current and deferred tax amounts. Each tax consolidated group has applied a group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to the members therein.

In addition to its own current and deferred tax amounts, the head entity of each tax consolidated group also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from entities in their respective tax consolidated group.

Assets of liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

(z) Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

The Group's Audit and Risk Committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and resident loans and for non-recurring measurement.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities. Selection criteria include market knowledge, experience and qualifications, reputation, independence and whether professional standards are maintained.

On a six monthly basis, management presents valuation results to the Audit and Risk Committee and the Group's auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy, as explained at Note 26.

(aa) Goods and services tax ("GST")

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of the acquisition, or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the tax authority is included in the balance sheet as an asset or liability.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the tax authorities, are classified as operating cash flows.

(bb) Earnings Per Share ("EPS")

Basic EPS is calculated as net profit attributable to members of the Group, divided by the weighted average number of ordinary securities, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to the Group divided by the weighted average number of ordinary securities and dilutive potential ordinary securities, adjusted for any bonus element.

(cc) Pending accounting standards

AASB 9 *Financial Instruments* is applicable to reporting periods beginning on or after 1 January 2018. The Group has not early adopted this standard. This standard provides requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Changes in the Group's credit risk, which affect the value of liabilities designated at fair value through profit and loss, can be presented in other comprehensive income. The application of the Standard is not expected to have any material impact on the Group's financial reporting in future periods.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

1. Summary of significant accounting policies (continued)

The Group has not early adopted the following standards, interpretations, or amendments that have been issued but are not yet effective:

AASB 15 Revenue from Contracts with Customers is applicable to reporting periods beginning on or after 1 January 2018. The Group has not early adopted this standard. The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or over time. The model features a contract-based five-step analysis of transactions, to determine if, how much, and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statement with more informative and relevant disclosures. The Group is currently assessing the impact of this standard, however it does not expect it to have a material impact on future reporting.

AASB 16 Leases is applicable to reporting periods beginning on or after 1 January 2019. The Group has not early adopted this standard. This standard provides requirements for classification, measurement, and disclosure of all leases with a term of more than 12 months unless the underlying asset is of low value. A lease must now measure right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments) and payments made in optional periods, if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The Group is currently the lessee of two non-cancellable operating leases, which will be included under this new standard. These leases relate to the Group's Sydney and Brisbane offices, which have future minimum lease payments totalling \$2,527,000 at 30 June 2016. The Group is also the lessee of four finance leases (relating to the land component of investment properties), which are not expected to be materially impacted by the new standard because they are already substantially treated in the manner prescribed by the new standard.

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period and are not expected to have a material impact on the Group's future financial reporting.

(dd) Current versus non-current classification

The Group presents assets and liabilities in the balance sheet based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Ingenia Communities Holdings Limited

Notes to the financial statements

for the Year ended 30 June 2016

2. Accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Group to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Estimates and judgements are continually evaluated, and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Valuation of investment property

The Group has investment properties with a carrying amount of \$710,746,000 (2015: \$601,326,000) (refer Note 12 and Note 9), and retirement village residents' loans with a carrying amount of \$207,483,000 (2015: \$203,919,000) (refer Note 17 and Note 9), which together represent the estimated fair value of the Group's property business.

These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. The valuation assumptions for deferred management fee villages reflect assumptions relating to average length of stay, unit market values, estimates of capital expenditure, contract terms with residents, discount rates, and projected property growth rates. The valuation assumption for properties to be developed reflect assumptions around sales prices for new homes, sales rates, new rental tariffs, estimates of capital expenditure, discount rates and projected property growth rates.

In forming these assumptions, the Group considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the Group, as well as independent valuations of the Group's property.

(ii) Valuation of inventories

The Group has inventory in the form of manufactured homes and service station fuel and supplies, which it carries at the lower of cost or net realisable value. Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise and the estimate of costs to complete. Key assumptions require the use of management judgement, and are continually reviewed.

(iii) Fair value of derivatives

The fair value of derivative assets and liabilities is based on assumptions of future events and involves significant estimates. Given the complex nature of these instruments and various assumptions that are used in calculating mark-to-market values, the Group relies on counterparty valuations for derivative values. Counterparty valuations are normally based on mid-market rates and calculated using the main variables including the forward market curve, time and volatility.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Accounting estimates and judgements (continued)

(iv) Valuation of share-based payments

Valuation of share-based payment transactions is performed using judgements around the fair value of equity instruments on the date at which they are granted. The fair value is determined using a Monte Carlo based simulation method for long-term incentive performance rights and the security price at grant date of short-term incentive rights. Refer to Note 24 for assumptions used in determining the fair value.

(v) Valuation of assets acquired in business combinations

Upon recognising the acquisition, management uses estimations and assumptions of the fair value of assets and liabilities assumed at the date of acquisition, including judgements related to valuation of investment property as discussed above.

(vi) Valuation of retirement village resident loans

The fair value of the retirement village resident loans is calculated by reference to the initial loan amount, plus the resident's share of any capital gains in accordance with their contracts less any deferred management fee income accrued to date by the Group as operator. The key assumption for calculating the capital gain and deferred management fee income components is the value of the dwelling being occupied by the resident. This value is determined by reference to the valuation of investment property, as referred to above.

(vii) Calculation of deferred management fee ("DMF")

DMF is recognised by the Group over the estimated period of time the property will be leased by the resident, and is realised upon exit of the resident. DMF is based on various inputs including the initial price of the property, estimated length of stay of the resident, various contract terms and projected price of property at time of re-leasing.

(b) Critical judgements in applying the entity's accounting policies

There were no judgements, apart from those involving estimations, that management has made in the process of applying the entity's accounting policies that had a significant effect on the amounts recognised in the financial report.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

3. Segment information

(a) Description of segments

The Group invests predominantly in rental properties located in Australia with three reportable segments:

- Ingenia Garden Villages – rental communities;
- Ingenia Settlers – deferred management fee communities; and
- Ingenia Lifestyle & Holidays – lifestyle communities comprising permanent and tourism accommodation and the development and sale of manufactured homes.

The Group has identified its operating segments based on the internal reports that are reviewed and used by the chief operating decision maker in assessing performance and determining the allocation of resources. Other parts of the Group are neither an operating segment nor part of an operating segment. Assets that do not belong to an operating segment are described below as “unallocated”.

The results of the Group are affected by the seasonality of lifestyle communities. Occupancy rates of tourism cabins are typically higher in the period December through to March each year due to their geographic location and summer holiday months increasing demand for holiday bookings.

| (b) 2016 | Lifestyle & Holidays \$'000 | Settlers \$'000 | Garden Villages \$'000 | Corporate/ Unallocated \$'000 | Total \$'000 |
|--|--|----------------------------|---------------------------------------|--|-------------------------|
| (i) Segment revenue | | | | | |
| External segment revenue | 73,965 | 6,949 | 27,516 | 66 | 108,496 |
| Interest income | - | - | - | 170 | 170 |
| Reclassification of gain on revaluation of newly constructed villages | - | (1,525) | - | - | (1,525) |
| Total revenue | 73,965 | 5,424 | 27,516 | 236 | 107,141 |
| (ii) Segment underlying profit | | | | | |
| External segment revenue | 73,965 | 6,949 | 27,516 | 66 | 108,496 |
| Interest income | - | - | - | 170 | 170 |
| Property expenses | (11,801) | (1,438) | (7,565) | (438) | (21,242) |
| Employee expenses | (14,010) | (1,054) | (7,154) | (3,935) | (26,153) |
| Administration expenses | (1,911) | (147) | (872) | (2,199) | (5,129) |
| Operational, marketing and selling expenses | (2,023) | (480) | (910) | (142) | (3,555) |
| Manufactured home - cost of sales | (21,729) | - | - | - | (21,729) |
| Service station expenses | (5,862) | - | - | - | (5,862) |
| Finance expense | - | - | - | (6,795) | (6,795) |
| Income tax benefit | - | - | - | 2,586 | 2,586 |
| Depreciation and amortisation | (139) | (9) | (38) | (440) | (626) |
| Underlying profit/(loss) – continuing operations | 16,490 | 3,821 | 10,977 | (11,127) | 20,161 |
| Reconciliation of underlying profit to profit from continuing operations: | | | | | |
| Net foreign exchange gain | - | - | - | 471 | 471 |
| Net loss on disposal of investment property | - | (989) | - | - | (989) |
| Net gain/(loss) on change in fair value of: | | | | | |
| - Investment properties | (2,283) | 2,317 | 7,462 | - | 7,496 |
| - Retirement village resident loans | - | (1,388) | - | - | (1,388) |
| - Derivatives | - | - | - | (414) | (414) |
| Gain on revaluation of newly constructed villages | - | (1,525) | - | - | (1,525) |
| Income tax expense associated with reconciliation items | - | - | - | 468 | 468 |
| Profit/(loss) from continuing operations per the consolidated statement of comprehensive income | 14,207 | 2,236 | 18,439 | (10,602) | 24,280 |
| (iii) Segment assets | 332,851 | 273,841 | 140,587 | 19,540 | 766,819 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Segment Information (continued)

| (c) 2015 | Lifestyle & Holidays \$'000 | Settlers \$'000 | Garden Villages \$'000 | Corporate/ Unallocated \$'000 | Total \$'000 |
|--|--|----------------------------|---------------------------------------|--|-------------------------|
| (i) Segment revenue | | | | | |
| External segment revenue | 38,810 | 11,132 | 28,162 | 159 | 78,263 |
| Interest income | - | - | - | 180 | 180 |
| Reclassification of gain on revaluation of newly constructed villages | - | (2,422) | - | - | (2,422) |
| Total revenue | 38,810 | 8,710 | 28,162 | 339 | 76,021 |
| (ii) Segment underlying profit | | | | | |
| External segment revenue | 38,810 | 11,132 | 28,162 | 159 | 78,263 |
| Interest income | - | - | - | 180 | 180 |
| Property expenses | (7,918) | (1,694) | (8,042) | (370) | (18,024) |
| Employee expenses | (8,514) | (1,786) | (7,450) | (3,480) | (21,230) |
| Administration expenses | (979) | (191) | (959) | (2,751) | (4,880) |
| Operational, marketing and selling expenses | (1,794) | (608) | (591) | (938) | (3,931) |
| Manufactured home cost of sales | (9,256) | - | - | - | (9,256) |
| Service station expenses | (1,910) | - | - | - | (1,910) |
| Finance expense | - | - | - | (4,747) | (4,747) |
| Income tax benefit | - | - | - | 3,319 | 3,319 |
| Depreciation and amortisation expense | (113) | (46) | (101) | (219) | (479) |
| Other | - | (503) | - | - | (503) |
| Underlying profit/(loss) – continuing operations | 8,326 | 6,304 | 11,019 | (8,847) | 16,802 |
| Reconciliation of underlying profit to profit from continuing operations: | | | | | |
| Net foreign exchange gain | - | - | - | 111 | 111 |
| Net gain/(loss) on disposal of investment property | (23) | (365) | 319 | - | (69) |
| Net gain/(loss) on change in fair value of: | | | | | |
| - Investment properties | (2,818) | 3,269 | 15,953 | - | 16,404 |
| - Retirement village resident loans | - | (8,878) | - | - | (8,878) |
| - Derivatives | - | - | - | 164 | 164 |
| Gain on revaluation of newly constructed villages | - | (2,422) | - | - | (2,422) |
| Other | - | 503 | - | - | 503 |
| Income tax benefit associated with reconciliation items | - | - | - | 3,285 | 3,285 |
| Profit/(loss) from continuing operations per the consolidated statement of comprehensive income | 5,485 | (1,589) | 27,291 | (5,287) | 25,900 |
| (iii) Segment assets | | | | | |
| Segment Assets | 228,329 | 205,357 | 129,604 | 20,419 | 583,709 |
| Assets held for sale | - | - | - | - | 61,598 |
| Total Assets | 228,329 | 205,357 | 129,604 | 20,419 | 645,307 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

4. Earnings Per Security

| | 2016 | 2015 |
|---|---------|---------|
| (a) Per security | | |
| Profit attributable to securityholders (\$'000) | 24,280 | 25,722 |
| Profit from continuing operations (\$'000) | 24,280 | 25,900 |
| Profit/(loss) from discontinued operations (\$000) | - | (178) |
| Weighted average number of securities outstanding (thousands): | | |
| - Issued securities | 150,408 | 136,944 |
| Dilutive securities (thousands): | | |
| - Performance quantum rights | 619 | 78 |
| - Long-term incentive rights | 269 | - |
| - Short-term incentive rights | 56 | - |
| Weighted average number of issued and dilutive potential securities outstanding (thousands) | 151,353 | 137,022 |
| Basic earnings per security from continuing operations (cents) | 16.1 | 18.9 |
| Basic earnings per security from discontinued operations (cents) | - | (0.1) |
| Basic earnings per security (cents) | 16.1 | 18.8 |
| Dilutive earnings per security from continuing operations (cents) | 16.0 | 18.9 |
| Dilutive earnings per security from discontinued operations (cents) | - | (0.1) |
| Dilutive earnings per security (cents) | 16.0 | 18.8 |
| (b) Per security attributable to parent | | |
| Profit/(loss) attributable to securityholders (\$'000) | 2,243 | (850) |
| Weighted average number of securities outstanding (thousands): | | |
| - Issued securities | 150,408 | 136,944 |
| Dilutive securities (thousands): | | |
| - Performance quantum rights | 619 | 78 |
| - Long-term incentive rights | 269 | - |
| - Short-term incentive rights | 56 | - |
| Weighted average number of issued and dilutive potential securities outstanding (thousands) | 151,353 | 137,022 |
| Basic earnings per security (cents) | 1.5 | (0.6) |
| Dilutive earnings per security (cents) | 1.5 | (0.6) |
| Basic earnings per security from continuing operations (cents) | 1.5 | (0.6) |
| Dilutive earnings per security from continuing operations (cents) | 1.5 | (0.6) |

The previous corresponding period weighted average number of securities and earnings per security have been adjusted for the 6:1 stapled security consolidation effective 19 November 2015. Refer to Note 19(c) for further details on the stapled security consolidation.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

5. Revenue

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| a. Rental income | | |
| Residential rental income – Garden Villages | 23,961 | 24,367 |
| Residential rental income – Settlers | 462 | 707 |
| Residential rental income – Lifestyle & Holidays | 12,311 | 8,329 |
| Annals rental income – Lifestyle & Holidays | 2,970 | 1,020 |
| Tourism rental income – Lifestyle & Holidays | 17,565 | 10,323 |
| Commercial rental income – Lifestyle & Holidays | 423 | 238 |
| Total rental income | 57,692 | 44,984 |
| b. Other property income | | |
| Government incentives | 142 | 301 |
| Commissions and administrative fees | 809 | 758 |
| Ancillary lifestyle park income | 644 | 307 |
| Sundry income | 374 | 1,067 |
| Utility recoveries | 1,076 | 802 |
| Total other property income | 3,045 | 3,235 |

6. Finance Expense

| | 2016 | 2015 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Debt facility interest paid or payable | 5,636 | 3,950 |
| Deferred consideration interest on acquisitions | 793 | 533 |
| Finance lease interest paid or payable ⁽¹⁾ | 366 | 264 |
| Total finance expense | 6,795 | 4,747 |

(1) Finance leases relate to certain investment properties and are long-term in nature. Refer to Note 16(c) for further detail.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

7. Income tax benefit

| | 2016 | 2015 |
|---|-----------------|---------------|
| | \$'000 | \$'000 |
| (a) Income tax benefit | | |
| Current tax | - | - |
| Increase in deferred tax asset | 3,054 | 6,604 |
| Income tax benefit | 3,054 | 6,604 |
| (b) Reconciliation between tax expense and pre-tax profit | | |
| Profit before income tax | 21,226 | 19,296 |
| Less amounts not subject to Australian income tax | (25,855) | (31,901) |
| | (4,629) | (12,605) |
| Income tax benefit at the Australian tax rate of 30% (2015: 30%) | 1,389 | 3,781 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Prior period income tax return true-ups | 369 | 263 |
| Movements in carrying value and tax cost base of investment properties | 1,399 | 1,373 |
| Movements in carrying value and tax cost base of DMF receivables | (59) | 1,683 |
| Non deductible expenses | (44) | (496) |
| Income tax benefit | 3,054 | 6,604 |

(c) Tax consolidation

Effective from 1 July 2011, ICH and its Australian domiciled wholly owned subsidiaries formed a tax consolidation group with ICH being the head entity. Under the tax funding agreement the funding of tax within the tax group is based on taxable income as if that entity was not a member of the tax group.

Effective from 1 July 2012, ICMT and its Australian domiciled owned subsidiaries formed a tax consolidation group with ICMT being the head entity. Under the tax funding agreement the funding of tax within the tax group is based on taxable income as if that entity was not a member of the tax group.

Upon entering into the ICMT tax consolidated group, the tax cost bases for certain assets were reset resulting in income tax benefits being recorded. In addition, unrecognised losses incurred by entities within the ICMT tax consolidated group are now available for utilisation by the ICMT tax consolidated group resulting in an additional income tax benefit being recorded during the year ended 30 June 2016.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

8. Discontinued Operations

The Group completed the sale of the New Zealand Students business in December 2014. Accordingly, there were no results of discontinued operations for 2016. The Group's 2015 prior comparative period results of 'disposed of or discontinued operations' were a loss of \$178,000 and net cash outflows of \$1,657,000.

9. Assets and liabilities held for sale

As disclosed at 31 December 2015, the five Settlers assets held-for-sale at 30 June 2015 were deemed to no longer meet the required criteria to maintain such classification. Accordingly, the assets were transferred back to investment property (\$61,598,000), and the associated loans were transferred back to retirement village resident loans (\$42,041,000).

10. Trade and other receivables

| | 2016 | 2015 |
|--|--------------|--------------|
| | \$'000 | \$'000 |
| Current | | |
| Trade and other receivables | 2,218 | 960 |
| Prepayments | 3,946 | 2,452 |
| Deposits | 688 | 915 |
| Total current trade and other receivables | 6,852 | 4,327 |
| Non-current | | |
| Other receivables | 3,140 | 2,649 |

Rental amounts due are typically paid in advance and other amounts due are receivable within 30 days.

11. Inventories

| | 2016 | 2015 |
|-----------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Manufactured homes: | | |
| - Completed | 11,140 | 7,975 |
| - Under construction | 6,331 | 4,900 |
| Service station fuel and supplies | 194 | 333 |
| Total inventories | 17,665 | 13,208 |

The manufactured homes balance includes:

- 60 new completed homes (2015: 53)
- 7 refurbished/renovated completed homes (2015: nil)
- 31 new homes under construction (2015: 85)
- 3 refurbished/renovated under construction homes (2015: nil)

Ingenia Communities Holdings Limited
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12. Investment properties

(a) Summary of carrying amounts

| | 2016 | 2015 |
|------------------------------|----------------|---------|
| | \$'000 | \$'000 |
| Completed properties | 643,454 | 514,125 |
| Properties under development | 67,292 | 25,603 |
| Total carrying amount | 710,746 | 539,728 |

(b) Individual valuations and carrying amounts

| Property | Purchase date | Latest external valuation | External valuation amount | Carrying amount | |
|--|---------------|---------------------------|---------------------------|-----------------|----------------|
| | | | | 2016 | 2015 |
| | | | \$'000 | \$'000 | \$'000 |
| <i>Ingenia Settlers:</i> | | | | | |
| Cessnock, Cessnock, NSW ⁽⁴⁾ | Jun-04 | Oct-15 | 6,604 | 6,793 | - |
| Forrest Lake, Forest Lake, QLD ⁽⁴⁾ | Nov-05 | Sep-15 | 16,395 | 16,103 | - |
| Gladstone, South Gladstone, QLD ⁽⁴⁾ | Nov-05 | Oct-15 | 12,572 | 11,333 | - |
| Rockhampton, Rockhampton, QLD ⁽⁴⁾ | Nov-05 | Oct-15 | 14,416 | 14,087 | - |
| Ridge Estate, Gillieston Heights, NSW ⁽⁴⁾ | Jul-12 | Oct-15 | 13,078 | 14,887 | - |
| Lakeside, Ravenswood, WA | Apr-07 | Oct-15 | 75,734 | 77,224 | 75,866 |
| Meadow Springs, Mandurah, WA | Apr-07 | Oct-15 | 21,022 | 20,063 | 19,103 |
| Ridgewood Rise, Ridgewood, WA | Apr-07 | Oct-15 | 108,580 | 108,436 | 109,114 |
| | | | 268,401 | 268,926 | 204,083 |

Ingenia Communities Holdings Limited
Notes to the financial statements
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Investment Properties (continued)

| Property | Purchase date | Latest external valuation | External valuation amount | Carrying amount | |
|--|---------------|---------------------------|---------------------------|-----------------|----------------|
| | | | | 2016 | 2015 |
| | | | \$'000 | \$'000 | \$'000 |
| <i>Ingenia Garden Villages:</i> | | | | | |
| Brooklyn, Brookfield, VIC | Jun-04 | Jun-15 | 4,100 | 4,220 | 4,100 |
| Carey Park, Bunbury, WA | Jun-04 | Jun-15 | 4,300 | 4,430 | 4,300 |
| Elphinwood, Launceston, TAS | Jun-04 | Jun-15 | 3,750 | 3,970 | 3,750 |
| Horsham, Horsham, VIC | Jun-04 | Jun-15 | 3,900 | 3,960 | 3,900 |
| Jefferis, Bundaberg North, QLD | Jun-04 | Jun-15 | 4,300 | 4,420 | 4,300 |
| Oxley, Port Macquarie, NSW | Jun-04 | Jun-15 | 4,200 | 4,360 | 4,200 |
| Townsend, St Albans Park, VIC | Jun-04 | Jun-15 | 4,400 | 4,310 | 4,400 |
| Yakamia, Yakamia, WA | Jun-04 | Jun-15 | 4,750 | 4,880 | 4,750 |
| Chatsbury, Goulburn, NSW | Jun-04 | Dec-15 | 3,600 | 3,680 | 3,760 |
| Claremont, Claremont, TAS | Jun-04 | Dec-15 | 3,250 | 3,360 | 3,420 |
| Coburns, Brookfield, VIC | Jun-04 | Dec-15 | 3,900 | 3,940 | 3,490 |
| Devonport, Devonport, TAS | Jun-04 | Dec-15 | 1,700 | 1,709 | 1,785 |
| Hertford, Sebastopol, VIC | Jun-04 | Dec-15 | 3,700 | 3,970 | 3,910 |
| Seascape, Erskine, WA | Jun-04 | Dec-15 | 4,700 | 4,920 | 4,330 |
| Seville Grove, Seville Grove, WA | Jun-04 | Dec-15 | 3,900 | 3,960 | 3,400 |
| St Albans Park, St Albans Park, VIC | Jun-04 | Dec-15 | 4,950 | 5,120 | 4,620 |
| Taloumbi, Coffs Harbour, NSW | Jun-04 | Dec-15 | 4,900 | 5,160 | 4,500 |
| Wheelers, Dubbo, NSW | Jun-04 | Dec-15 | 4,900 | 5,130 | 4,680 |
| Taree, Taree, NSW | Dec-04 | Jun-15 | 3,350 | 3,300 | 3,350 |
| Grovedale, Grovedale, VIC | Jun-05 | Jun-15 | 4,700 | 5,000 | 4,700 |
| Glenorchy, Glenorchy, TAS | Jun-05 | Dec-15 | 3,800 | 4,110 | 3,780 |
| Marsden, Marsden, QLD | Jun-05 | Dec-15 | 8,500 | 8,970 | 8,640 |
| Swan View, Swan View, WA | Jan-06 | Dec-15 | 7,150 | 7,430 | 6,480 |
| Dubbo, Dubbo, NSW | Dec-12 | Dec-15 | 3,450 | 3,640 | 2,940 |
| Ocean Grove, Mandurah, WA | Feb-13 | Dec-15 | 3,700 | 3,680 | 3,290 |
| Peel River, Tamworth, NSW | Mar-13 | Jun-15 | 4,100 | 4,590 | 4,100 |
| Sovereign, Ballarat, VIC | Jun-13 | Dec-15 | 3,150 | 3,320 | 3,130 |
| Wagga, Wagga Wagga, NSW | Jun-13 | Dec-15 | 4,250 | 4,350 | 4,000 |
| Bathurst, Bathurst, NSW | Jan-14 | Jun-15 | 3,850 | 4,340 | 3,850 |
| Launceston, Launceston, TAS | Jan-14 | Jun-15 | 3,300 | 3,460 | 3,300 |
| Warrnambool, Warrnambool, VIC | Jan-14 | Jun-15 | 2,500 | 2,880 | 2,500 |
| | | | 129,000 | 134,569 | 125,655 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Investment Properties (continued)

| Property completed | Purchase date | Latest external valuation | External valuation amount | Carrying amount | |
|--|---------------|---------------------------|---------------------------|-----------------|----------------|
| | | | | 2016 | 2015 |
| | | | \$'000 | \$'000 | \$'000 |
| <i>Ingenia Lifestyle & Holidays:</i> | | | | | |
| The Grange, Morisset, NSW | Mar-13 | Jun-16 | 10,312 | 10,312 | 11,072 |
| Ettalong Beach, Ettalong Beach, NSW ⁽¹⁾ | Apr-13 | Dec-15 | 5,788 | 5,853 | 5,583 |
| Albury, Lavington, NSW | Aug-13 | Jun-16 | 2,464 | 2,464 | 2,275 |
| Nepean River, Emu Plains, NSW | Aug-13 | Jun-16 | 11,000 | 11,000 | 13,317 |
| Mudgee Valley, Mudgee, NSW | Sep-13 | Jun-16 | 2,358 | 2,358 | 3,662 |
| Mudgee, Mudgee, NSW | Oct-13 | Jun-16 | 4,558 | 4,558 | 5,934 |
| Kingscliff, Kingscliff, NSW | Nov-13 | Dec-14 | 10,500 | 12,682 | 11,734 |
| Lake Macquarie (Lifestyle), Morisset, NSW | Nov-13 | Jun-16 | 5,263 | 5,263 | 4,212 |
| Chain Valley Bay, Chain Valley Bay, NSW | Dec-13 | Dec-14 | 3,700 | - | 247 |
| One Mile Beach, One Mile, NSW ⁽²⁾ | Dec-13 | Jun-16 | 12,492 | 12,492 | 12,769 |
| Hunter Valley, Cessnock, NSW | Feb-14 | Jun-16 | 8,028 | 8,028 | 7,589 |
| Cessnock, Cessnock, NSW | Feb-14 | Dec-14 | 1,000 | 1,000 | 1,000 |
| Sun Country, Mulwala, NSW | Apr-14 | Jun-16 | 7,098 | 7,098 | 6,514 |
| Stoney Creek, Marsden Park, NSW | May-14 | Jun-16 | 13,002 | 13,002 | 10,940 |
| Rouse Hill, Rouse Hill, NSW ⁽⁴⁾ | Jun-14 | Jun-15 | 16,125 | 16,465 | 16,125 |
| White Albatross, Nambucca Heads, NSW | Dec-14 | Jun-16 | 26,650 | 26,650 | 25,500 |
| Noosa, Tewantin, QLD | Feb-15 | Jun-15 | 13,000 | 14,996 | 13,000 |
| Chambers Pines, Chambers Flat, QLD | Mar-15 | Dec-15 | 15,040 | 15,457 | 14,114 |
| Lake Macquarie (Holidays), Mannering Park, NSW | Apr-15 | Jun-15 | 6,800 | 7,500 | 6,800 |
| Sydney Hills, Dural, NSW | Apr-15 | Jun-16 | 13,100 | 13,100 | 12,000 |
| Bethania, Benthania, QLD | Jul-15 | Jun-16 | 1,537 | 1,537 | - |
| Conjola Lakeside, Lake Conjola, NSW | Sep-15 | Jun-16 | 24,000 | 24,000 | - |
| Soldiers Point, Port Stephens, NSW | Oct-15 | Jun-16 | 11,500 | 11,500 | - |
| Lara, Lara, VIC | Oct-15 | Jun-16 | 1,610 | 1,610 | - |
| South West Rocks, South West Rocks NSW ⁽³⁾⁽⁶⁾ | Feb-16 | - | - | 4,713 | - |
| Broulee, Broulee, NSW ⁽³⁾⁽⁶⁾ | Mar-16 | - | - | 6,321 | - |
| | | | 226,925 | 239,959 | 184,387 |
| Total completed properties | | | 624,326 | 643,454 | 514,125 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Investment Properties (continued)

| Properties to be developed | Purchase date | Carrying amount | |
|---|---------------|-----------------|----------------|
| | | 2016 | 2015 |
| | | \$'000 | \$'000 |
| <i>Ingenia Lifestyle & Holidays:</i> | | | |
| The Grange, Morisset, NSW | Mar-13 | 2,516 | 1,291 |
| Albury, Lavington, NSW | Aug-13 | 3,426 | 1,993 |
| Mudgee Valley, Mudgee, NSW | Sep-13 | 2,334 | 775 |
| Mudgee, Mudgee, NSW | Oct-13 | 2,270 | 430 |
| Kingscliff, Kingscliff, NSW | Nov-13 | 502 | 444 |
| Lake Macquarie (Lifestyle), Morisset, NSW | Nov-13 | 648 | 3,279 |
| Chain Valley Bay, Chain Valley Bay, NSW | Dec-13 | 5,334 | 3,700 |
| Hunter Valley, Cessnock, NSW | Feb-14 | 2,243 | 2,133 |
| Cessnock, Cessnock, NSW | Feb-14 | 556 | 556 |
| Sun Country, Mulwala, NSW | Apr-14 | 1,519 | 1,300 |
| Stoney Creek, Marsden Park, NSW | May-14 | 5,765 | 7,064 |
| Chambers Pines, Chambers Flat, QLD | Mar-15 | 8,322 | 2,638 |
| Bethania, Benthania, QLD | Jul-15 | 11,889 | - |
| Conjola Lakeside, Lake Conjola, NSW | Sep-15 | 1,416 | - |
| Soldiers Point, Port Stephens, NSW | Oct-15 | 13,410 | - |
| Lara, Lara, VIC | Feb-16 | 5,142 | - |
| Properties to be developed | | 67,292 | 25,603 |
| Total investment properties | | 710,746 | 539,728 |

(1) Ettalong Beach Holiday Village land component is leased from the Gosford City Council and is recognised as investment property with an associated finance lease.

(2) One Mile Beach land component is leased from the Crown under 40 year and perpetual leases and is recognised as investment property with an associated finance lease.

(3) Land component is leased from the Crown and is recognised as investment property with an associated finance lease.

(4) Previously classified as assets held for sale at 30 June 2015.

(5) Rouse Hill has been valued on a highest and best use basis as a medium density residential development.

(6) Held at purchase price plus any subsequent and supportable capital expenditure in accordance with accounting policy.

Investment property that has not been valued by an external valuer at reporting date is carried at the Group's estimate of fair value in accordance with the accounting policy detailed at Note 1(q).

Properties acquired during the period are carried at purchase price, excluding acquisition costs, plus any subsequent, supportable capital expenditure, which is reflective of the fair value.

Valuations of retirement villages are provided net of residents' loans (after deducting any accrued deferred management fees). For presentation in this note, the external valuations shown are stated before deducting this liability to reflect its separate balance sheet presentation. The carrying amounts include the fair value of units completed since the date of the external valuation.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Investment Properties (continued)

(c) Movements in carrying amounts

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|------|----------------|----------------|
| Carrying amount at beginning of the year | | 539,728 | 498,863 |
| Acquisitions | | 81,536 | 78,152 |
| Expenditure capitalised | | 19,946 | 14,356 |
| Disposals | | - | (6,290) |
| Net transfer from/(to) inventory | | 442 | (159) |
| Net gain/(loss) on change in fair value | | 7,496 | 16,404 |
| Transferred from/(to) assets held for sale | 9 | 61,598 | (61,598) |
| Carrying amount at end of the year | | 710,746 | 539,728 |

Fair value hierarchy disclosures for investment properties have been provided in Note 27(a).

(d) Reconciliation of fair value

| | Garden Villages \$'000 | Settlers \$'000 | Lifestyle & Holidays \$'000 | Total \$'000 |
|--|------------------------------|--------------------|-----------------------------------|-----------------|
| Carrying amount at 1 July 2015 | 125,653 | 204,079 | 209,996 | 539,728 |
| Acquisitions | - | - | 81,536 | 81,536 |
| Expenditure capitalised | 1,454 | 950 | 17,542 | 19,946 |
| Net transfer from inventory | - | - | 442 | 442 |
| Net gain/(loss) on change in fair value ⁽¹⁾ | 7,462 | 2,299 | (2,265) | 7,496 |
| Transferred from assets held for sale | - | 61,598 | - | 61,598 |
| Carrying amount at 30 June 2016 | 134,569 | 268,926 | 307,251 | 710,746 |

(1) Includes \$5,459,939 of transaction costs relating to Ingenia Lifestyle and Holidays acquisitions written off during the year.

Ingenia Communities Holdings Limited
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Investment Properties (continued)

(e) Description of valuations techniques used and key inputs to valuation on investment properties

| | Valuation technique | Significant unobservable inputs | Range | Relationship of unobservable input to fair value |
|----------------------|---|--|--|--|
| Garden Villages | Capitalisation method | Stabilised occupancy | 70% - 100% | As costs are fixed in nature, occupancy has a direct correlation to valuation (i.e. the higher the occupancy, the greater the value). |
| | | Capitalisation rate | 9% - 12% | Capitalisation has an inverse relationship to valuation. |
| Settlers | Discounted cash flow | Current market value per unit | \$125,000 - \$475,000 | Market value and growth in value have a direct correlation to valuation, while length of stay and discount rate have an inverse relationship to valuation. |
| | | Long-term property growth rate | 3.5% | |
| | | Average length of stay – future residents | 11.4 years | Average length of stay projection is based on life expectancy and other factors. |
| | | Average length of stay – current residents | 15.0 - 17.6 years | |
| Discount rate | 13.5% - 17.0% | | | |
| Lifestyle & Holidays | Capitalisation method (for existing rental streams) | Short-term occupancy | 15% - 30% for powered and camp sites; 45% - 70% for tourism and short term rental | Higher the occupancy, the greater the value. |
| | | Residential occupancy | 100% | |
| | | Operating profit margin | 30% - 70% dependent upon short-term and residential accommodation mix | Higher the profit margin, the greater the value. |
| | Capitalisation rate | 8.0% - 13.0% | Capitalisation has an inverse relationship to valuation. | |
| | Discounted cash flow (for future development) | Discount rate | 13% - 15% | Discount rate has an inverse relationship to valuation. |

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

Investment Properties (continued)

Capitalisation method

Under the capitalisation method, fair value is estimated using assumptions regarding the expectation of future benefits. The capitalisation method involves estimating the expected income projections of the property and applying a capitalisation rate into perpetuity. The capitalisation rate is based on current market evidence. Future income projections take into account occupancy, rental income and operating expenses.

Discounted cash flow method

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield normally reflects the exit value expected to be achieved upon selling the asset and is a function of the risk adjusted returns of the asset and expected capitalisation rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment as well as the development of new units. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net underlying cash flows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

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13. Plant and equipment

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| (a) Summary of carrying amounts | | |
| Plant and equipment | 3,434 | 1,895 |
| Less: accumulated depreciation | (1,491) | (1,175) |
| Total plant and equipment | 1,943 | 720 |
| (b) Movements in carrying amount | | |
| Carrying amount at beginning of year | 720 | 517 |
| Assets written off | - | (118) |
| Additions | 1,583 | 643 |
| Depreciation expense | (360) | (322) |
| Carrying amount at end of year | 1,943 | 720 |

14. Intangibles

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| (a) Summary of carrying amounts | | |
| Software & development | 2,422 | 1,736 |
| Less: accumulated amortisation | (423) | (157) |
| Total Intangibles | 1,999 | 1,579 |
| (b) Movements in carrying amount | | |
| Carrying amount at beginning of year | 1,579 | 473 |
| Additions | 686 | 1,263 |
| Amortisation expense | (266) | (157) |
| Carrying amount at end of year | 1,999 | 1,579 |

15. Trade and other payables

| | 2016 \$'000 | 2015 \$'000 |
|------------------------------------|----------------|----------------|
| Current | | |
| Trade payables and accruals | 11,846 | 10,047 |
| Deposits | 2,841 | 1,184 |
| Other unearned income | 1,670 | 342 |
| Deferred acquisition consideration | 8,500 | 3,500 |
| Total current | 24,857 | 15,073 |
| Non-current | | |
| Deferred acquisition consideration | 6,770 | 14,770 |

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Year ended 30 June 2016

16. Borrowings

| | 2016 \$'000 | 2015 \$'000 |
|-------------------------------------|----------------|----------------|
| Current liabilities | | |
| Finance leases | 497 | 291 |
| Non-current liabilities | | |
| Bank debt | 99,100 | 63,900 |
| Prepaid borrowing costs | (1,373) | (1,681) |
| Finance leases | 5,866 | 4,272 |
| Total non-current borrowings | 103,593 | 66,491 |

(a) Bank debt

On 18 February 2016, the Group increased its Australian debt facility limit by \$25.0 million. The additional facility matures 12 February 2020 and uses the existing facility covenants and pricing.

The total \$200.0 million multi-lateral debt facility is with three Australian banks. The facility maturity dates are:

- 12 February 2018 (\$100.0 million); and
- 12 February 2020 (\$100.0 million)

As at 30 June 2016 the facility has been drawn to \$99.1 million (30 June 2015: \$63.9 million). The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is \$470.3 million (30 June 2015: \$363.7 million).

(b) Bank guarantees

The Group has the ability to utilise its bank facility to provide bank guarantees, which were \$26.2 million at 30 June 2016 (2015: \$28.8 million). Refer to Note 23 for further detail.

(c) Finance leases

The Group has entered into finance leases for the following lifestyle communities:

- (a) Gosford City Council for the land and facilities of Ettalong Holiday Village
- (b) Crown leases for the land of One Mile Beach Holiday Park
- (c) Crown lease for the land of Big 4 Broulee Beach Holiday Park
- (d) Crown lease for the land of South West Rocks Holiday Park.

The leases are long-term in nature and range between 13.5 years to perpetuity.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Borrowings (continued)

(i) **Minimum lease payments – excluding perpetual lease**

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Minimum lease payments: | | |
| Within one year | 510 | 299 |
| Later than one year but not later than five years | 2,119 | 1,273 |
| Later than five years | 4,565 | 3,431 |
| Total minimum lease payments | 7,194 | 5,003 |
| Future finance charges | (1,966) | (1,579) |
| Present value of minimum lease payments | 5,228 | 3,424 |
| Present value of minimum lease payments: | | |
| Within one year | 497 | 291 |
| Later than one year but not later than five years | 1,832 | 1,082 |
| Later than five years | 2,899 | 2,051 |
| | 5,228 | 3,424 |

(ii) **Minimum lease payments – perpetual lease**

The perpetual lease is recognised as investment property and non-current liability at a value of \$1.1 million based on a capitalisation rate applicable at the time of acquisition of 10.6% applied to the current lease payment. As this is a perpetual lease, the lease liability will not amortise and no fair value adjustments in relation to the lease will be recognised unless circumstances of the lease change.

Ingenia Communities Holdings Limited
Notes to the financial statements
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17. Retirement village resident loans

| | Note | 2016 \$'000 | 2015 \$'000 |
|---|------|----------------|----------------|
| (a) Summary of carrying amounts | | | |
| Gross resident loans | | 240,473 | 191,857 |
| Accrued deferred management fee | | (32,990) | (29,979) |
| Net resident loans | | 207,483 | 161,878 |
| (b) Movements in carrying amounts | | | |
| Carrying amount at beginning of year | | 161,878 | 190,122 |
| Net gain/(loss) on change in fair value of resident loans | | 1,388 | 8,878 |
| Accrued deferred management fee income | | (4,222) | (6,788) |
| Deferred management fee cash collected | | 1,211 | 2,056 |
| Proceeds from resident loans | | 11,056 | 19,815 |
| Repayment of resident loans | | (5,757) | (10,544) |
| Transfer from/(to) liabilities held for sale | 9 | 42,041 | (42,041) |
| Other | | (112) | 380 |
| Carrying amount at end of year | | 207,483 | 161,878 |

Fair value hierarchy disclosures for retirement village resident loans have been provided in Note 27.

18. Deferred tax assets and liabilities

| | 2016 \$'000 | 2015 \$'000 |
|---|----------------|----------------|
| Deferred tax assets | | |
| Tax losses | 20,827 | 17,496 |
| Other | 1,402 | 1,401 |
| Deferred tax liabilities | | |
| DMF receivable | (8,883) | (7,982) |
| Investment properties | (3,944) | (4,567) |
| Net deferred tax asset | 9,402 | 6,348 |
| Deductible temporary differences and carried forward losses tax effected for which no deferred tax asset has been recognised | 7,500 | 7,500 |

The availability of carried forward tax losses of \$7.5 million to the ICMT tax consolidated group is subject to recoupment rules at the time of recoupment. Further, the rate at which these losses can be utilised is determined by reference to market values at the time of tax consolidation and subsequent events. Accordingly, a portion of these carried forward tax losses may not be available in the future.

The Group offsets tax assets and liabilities, if and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

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Year ended 30 June 2016

19. Issued securities

| | 2016 | 2015 |
|---|----------------|-----------|
| | \$'000 | \$'000 |
| (a) Carrying values | | |
| At beginning of year | 657,214 | 569,116 |
| Issued during the year: | | |
| Dividend Reinvestment Plan issues | 3,344 | 2,884 |
| Institutional & DRP Placement | 64,355 | 45,315 |
| Rights issue | - | 43,769 |
| Institutional Placement and Rights issue costs | (2,243) | (3,870) |
| At end of year | 722,670 | 657,214 |
| The closing balance is attributable to the securityholders of: | | |
| Ingenia Communities Holding Limited | 9,492 | 8,900 |
| Ingenia Communities Fund | 679,161 | 619,285 |
| Ingenia Communities Management Trust | 34,017 | 29,028 |
| | 722,670 | 657,214 |
| | | |
| | 2016 | 2015 |
| (b) Number of issued securities | Thousands | Thousands |
| At beginning of year | 147,118 | 112,708 |
| Issued during the year: | | |
| Retention Quantum Rights | - | 303 |
| Performance Quantum Rights | 640 | - |
| Dividend Reinvestment Plan | 2,968 | 1,112 |
| Institutional Placement | 21,429 | 32,995 |
| At end of year | 172,155 | 147,118 |

(c) Consolidation of stapled securities

At the Annual General Meeting on 17 November 2015, securityholders voted in favour of a consolidation of the Group's stapled securities. The Group consolidated six stapled securities into one stapled security with effect from 19 November 2015. Where the consolidation resulted in a fraction of a security being held by a securityholder, that fraction was rounded up to the nearest whole security.

(d) Terms of securities

All securities are fully paid and rank equally with each other for all purposes. Each security entitles the holder to one vote, in person or by proxy, at a meeting of securityholders.

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20. Reserves

| | 2016 | 2015 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Share-based payment reserve | | |
| Balance at beginning of year | 1,334 | 988 |
| Transfer from reserves to retained earnings | (382) | (332) |
| Share-based payment transactions | 858 | 678 |
| Balance at end of year | 1,810 | 1,334 |

The share-based payment reserve records the value of equity-settled share-based payment transactions provided to employees, including key management personnel, as part of their remuneration.

21. Accumulated losses

| | 2016 | 2015 |
|---|------------------|------------------|
| | \$'000 | \$'000 |
| Balance at beginning of year | (315,028) | (330,962) |
| Net profit/(loss) for the year | 24,280 | 25,722 |
| Transfer from reserves to retained earnings | 383 | 332 |
| Distributions | (12,513) | (10,120) |
| Balance at end of year | (302,878) | (315,028) |
| The closing balance is attributable to the securityholders of: | | |
| Ingenia Communities Holding Limited | (552) | (3,175) |
| Ingenia Communities Fund | (293,866) | (303,335) |
| Ingenia Communities Management Trust | (8,460) | (8,518) |
| | (302,878) | (315,028) |

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Year ended 30 June 2016

22. Commitments

(a) Capital commitments

There were commitments for capital expenditure on investment property and inventory contracted but not provided for at reporting date of \$659,000 (2015: \$7,048,000).

(b) Operating lease commitments

The Group has two non-cancellable operating leases for its Sydney and Brisbane offices. Both leases have remaining lives of four years.

Future minimum rentals payable under these leases as at reporting date were:

| | 2016 | 2015 |
|---|--------------|--------|
| | \$'000 | \$'000 |
| Within one year | 598 | 362 |
| Later than one year but not later than five years | 1,929 | 744 |
| | 2,527 | 1,106 |

(c) Finance lease commitments

Refer to Note 16 for future minimum lease payments (including their present value) payable at reporting date.

23. Contingent liabilities

There are no known contingent liabilities other than the bank guarantees totalling \$26.2 million provided for under the \$200.0 million bank facility. Bank guarantees primarily relate to deferred acquisition consideration (\$15.0 million) and the Responsible Entity's AFSL capital requirements (\$10.0 million).

24. Share-based payment transactions

The Group's current Rights Plan provides for the issuance of rights to eligible employees, which upon a determination by the Board that the performance conditions attached to the rights have been met, result in the issue of stapled securities in the Group for each right. The Rights Plan was approved at the 17 November 2015 Annual General Meeting (AGM) and contains the following:

(a) Short-Term Incentive Plan (STIP)

STIP performance rights are awarded to eligible employees whose achievements, behaviour, and focus meet the Group's business plan and individual Key Performance Indicators (KPIs) measured over the financial year. STIP rights are subject to a one year vesting deferral period from the issue date and allow for certain lapsing conditions within the deferral period, should certain conditions occur. Payment of STIP rights are 50% cash and a 50% deferred equity element linked to earnings growth sustainability.

The deferred expense for conditional STIP rights recognised for the period is \$345,064 (2015: \$86,356) and is based on an estimate of the Group's and individual employee's current period performance. The total value of STIP rights is subject to adjustment up until the final full-year audited result is known and KPIs reliably measured, being 1 October 2016.

Ingenia Communities Holdings Limited

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Year ended 30 June 2016

Share Based Payments Transactions (continued)

(b) Long-Term Incentive Plan (LTIP)

LTIP performance rights are granted to individuals to align their focus with the Group's required Total Shareholder Return (TSR) and Return on Equity (ROE), as measured over three financial years. TSR is benchmarked against the ASX 300 Industrials Index, and contributes 70%, whilst ROE is benchmarked against internal targets, and contributes 30%. The ROE component is a new inclusion for the year ended 30 June 2016. Payment of LTIP rights is in equity, in order to increase alignment with securityholder's interests.

LTIP rights replaced the Performance Quantum Rights (PQRs) for the year ended 30 June 2015. The last remaining PQRs are due to vest on 1 July 2016.

The number of LTIP rights that will vest depends on the TSR and ROE achieved, and is also conditional on the eligible employee being employed by the Group at the relevant vesting date. One right equates to one security in the Group.

| | 2016 Thousands | 2015 Thousands |
|--|-------------------|-------------------|
| Movements in rights during the year were: | | |
| PQRs | | |
| Outstanding at beginning of year | 1,259 | 1,259 |
| Converted to fully paid stapled securities | (640) | - |
| Granted during the year | - | - |
| Outstanding at end of year⁽¹⁾ | 619 | 1,259 |
| Weighted average remaining life of outstanding rights (years) ⁽¹⁾ | - | 0.7 |
| LTIPs | | |
| Outstanding at beginning of year | 164 | - |
| Granted during the year | 287 | 164 |
| Outstanding at end of year | 451 | 164 |
| Weighted average remaining life of outstanding rights (years) | 1.8 | - |
| STIPs | | |
| Outstanding at beginning of year | - | - |
| Granted during the year | 77 | - |
| Outstanding at end of year | 77 | - |
| Weighted average remaining life of outstanding rights (years) | 0.3 | - |

(1) 619,333 PQRs vested on 1 July 2016 and 598,833 fully paid stapled securities were issued at that time. The remaining contractual life of these rights at 30 June 2016 was therefore 1 day.

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Share Based Payments Transactions (continued)

The fair value of the LTIPs issued during the year was estimated using a Monte Carlo Simulation model. Assumptions made in determining the fair value, and the results of these assumptions, are:

| Grant Date | 17 November 2015 |
|--|--|
| Security price at grant date | \$2.67 |
| 30 day Volume Weighted Average Price (VWAP) at start of performance period | \$2.64 |
| Expected remaining life at grant date | 2.9 |
| Risk-free interest rate at grant date | 2.05% |
| Distribution yield | 4.05% (FY16) 4.49% (FY17) 5.62% (FY18) |
| LTIP right fair value (TSR hurdle) | \$1.58 |
| LTIP right fair value (ROE hurdle) | \$2.67 |
| Weighted Average LTIP fair value | \$1.91 |

The fair value of LTIPs and PQRs is recognised as an employee benefit expense with a corresponding increase in reserves. The fair value is expensed on a straight-line basis over the vesting period. The total LTIP and PQR expense recognised for the financial year was \$612,459 (2015: \$590,928).

Ingenia Communities Holdings Limited

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Year ended 30 June 2016

25. Capital management

The Group aims to meet its strategic objectives and operational needs and to maximise returns to securityholders through the appropriate use of debt and equity, while taking account of the additional financial risks of higher debt levels.

In determining the optimal capital structure, the Group takes into account a number of factors, including the views of investors and the market in general, the capital needs of its portfolio, the relative cost of debt versus equity, the execution risk of raising equity or debt, and the additional financial risks of debt including increased volatility of earnings due to exposure to interest rate movements, the liquidity risk of maturing debt facilities and the potential for acceleration prior to maturity.

In assessing this risk, the Group takes into account the relative security of its income flows, the predictability of its expenses, its debt profile, the degree of hedging and the overall level of debt as measured by gearing.

The actual capital structure at a point in time is the product of a number of factors, many of which are market driven and to various degrees outside of the control of the Group, particularly the impact of revaluations, the availability of new equity and the liquidity in real estate markets. While the Group periodically determines the optimal capital structure, the ability to achieve the optimal structure may be impacted by market conditions and the actual position may often differ from the optimal position.

The Group primarily monitors its capital position through the Loan to Value Ratio (LVR) which is a key covenant under the Group's \$200.0 million multilateral debt facility. LVR is calculated as the sum of bank debt, bank guarantees, finance leases, and interest rate swaps, less cash at bank, as a percentage of the value of properties pledged as security. The Group's strategy is to maintain an LVR range of 30-35%. As at 30 June 2016, LVR is 24.9% compared to 22.6% at 30 June 2015.

In addition the Group also monitors Interest Cover Ratio and Net Debt: Adjusted EBITDA as defined under the multilateral debt facility. At 30 June 2016, the Total Interest Cover Ratio was 4.46; the Core Interest Cover Ratio was 3.73 and Net Debt: Adjusted EBITDA was 4.05.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

26. Financial instruments

(a) Introduction

The Group's principal financial instruments comprise cash and short-term deposits, receivables, payables, interest bearing liabilities, other financial liabilities, and derivative financial instruments.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group manages its exposure to these risks primarily through its Investment, Derivatives, and Borrowing policy. The policy sets out various targets aimed at restricting the financial risk taken by the Group. Management reviews actual positions of the Group against these targets on a regular basis. If the target is not achieved, or the forecast is unlikely to be achieved, a plan of action is, where appropriate, put in place with the aim of meeting the target within an agreed timeframe. Depending on the circumstances of the Group at a point in time, it may be that positions outside of the Investment, Derivatives, and Borrowing policy are accepted and no plan of action is put in place to meet the treasury targets, because, for example, the risks associated with bringing the Group into compliance outweigh the benefits. The adequacy of the Investment, Derivatives, and Borrowing policy in addressing the risks arising from the Group's financial instruments is reviewed on a regular basis.

While the Group aims to meet its Investment, Derivatives, and Borrowing policy targets, many factors influence its performance, and it is probable that at any one time it will not meet all its targets. For example, the Group may be unable to negotiate the extension of bank facilities sufficiently ahead of time, so that it fails to achieve its liquidity target. When refinancing loans it may be unable to achieve the desired maturity profile or the desired level of flexibility of financial covenants, because of the cost of such terms or their unavailability. Hedging instruments may not be available, or their cost may outweigh the benefit of risk reduction or they may introduce other risks such as mark to market valuation risk. Changes in market conditions may limit the Group's ability to raise capital through the issue of new securities or sale of properties.

(b) Interest rate risk

The Group's exposure to the risk of changes in market interest rates arises primarily from its use of borrowings. The main consequence of adverse changes in market interest rates is higher interest costs, reducing the Group's profit. In addition, one or more of the Group's loan agreements may include minimum interest cover covenants. Higher interest costs resulting from increases in market interest rates may result in these covenants being breached, providing the lender the right to call in the loan or to increase the interest rate applied to the loan.

The Group manages the risk of changes in market interest rates by maintaining an appropriate mix of fixed and floating rate borrowings. Fixed rate debt is achieved either through fixed rate debt funding or through derivative financial instruments permitted under the Investment, Derivatives, and Borrowing policy. The policy sets minimum and maximum levels of fixed rate exposure over a ten-year time horizon.

At 30 June 2016, after taking into account the effect of interest rate swaps, approximately 28% of the Group's borrowings are at a fixed rate of interest (2015: 28%).

Exposure to changes in market interest rates also arises from financial assets such as cash deposits and loan receivables subject to floating interest rate terms. Changes in market interest rates will also change the fair value of any interest rate hedges.

Ingenia Communities Holdings Limited
Notes to the financial statements
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Financial Instruments (continued)

(c) Interest rate risk exposure

The Group's exposure to interest rate risk and the effective interest rates on financial instruments at reporting date was:

| \$'000 | Floating interest rate | Fixed interest maturing in: | | | Total |
|--|------------------------------|-----------------------------|-----------------|----------------------|--------|
| | | Less than 1 year | 1 to 5 Years | More than 5 years | |
| 2016 | | | | | |
| Financial assets | | | | | |
| Cash at bank | 15,057 | - | - | - | 15,057 |
| Financial liabilities | | | | | |
| Bank debt | 99,100 | - | - | - | 99,100 |
| Finance leases (excluding perpetual lease) | - | 497 | 1,832 | 2,899 | 5,228 |
| Interest rate swaps: Group pays fixed rate | (44,000) | - | 44,000 | - | - |
| 2015 | | | | | |
| Financial assets | | | | | |
| Cash at bank | 15,117 | - | - | - | 15,117 |
| Financial liabilities | | | | | |
| Bank debt | 63,900 | - | - | - | 63,900 |
| Finance leases (excluding perpetual lease) | - | 291 | 1,082 | 2,051 | 3,424 |
| Interest rate swaps; Group pays fixed rate | (18,000) | 18,000 | - | - | - |

Other financial instruments of the Group not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

(d) Interest rate sensitivity analysis

The impact of an increase or decrease in average interest rates of 1% (100 bps) at reporting date, with all other variables held constant, is illustrated in the tables below. This analysis is based on the interest rate risk exposures in existence at balance sheet date. As the Group has no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on securityholders interest (apart from the effect on profit).

| | Effect on profit after tax higher/(lower) | |
|---|--|----------------|
| | 2016 \$'000 | 2015 \$'000 |
| Increase in average interest rates of 100 bps: | | |
| Variable interest rate bank debt (AUD denominated) | (991) | (639) |
| Interest rate swaps (AUD denominated) | 1,238 | - |
| Decrease in average interest rates of 100 bps: | | |
| Variable interest rate bank debt (AUD denominated) | 991 | 639 |
| Interest rate swaps (AUD denominated) | (735) | - |

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Financial Instruments (continued)

(e) Foreign exchange risk

The Group's exposure to foreign exchange risk is limited to foreign denominated cash balances and receivables following the divestment of its final overseas operations in December 2014. These amounts are unhedged as cash will be used to cover final costs to wind up the companies and receivables relate to escrows.

(f) Net foreign currency exposure

The Group's net foreign currency monetary exposure as at reporting date is shown in the following table. The net foreign currency exposure reported is of foreign currencies held by entities whose functional currency is the Australian dollar. It excludes assets and liabilities of entities, including equity accounted investments, whose functional currency is not the Australian dollar.

| | Net foreign currency assets | |
|--------------------------------|------------------------------------|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| Net foreign currency exposure: | | |
| United States dollars | 3,479 | 3,491 |
| New Zealand dollars | 289 | 473 |

(g) Foreign exchange sensitivity analysis

The impact of an increase or decrease in average foreign exchange rates of 10% at reporting date, with all other variables held constant, is illustrated in the tables below. This analysis is based on the foreign exchange risk exposures in existence at balance sheet date.

| | Effect on profit after tax higher/(lower) | |
|---|--|---------------|
| | 2016 | 2015 |
| | \$'000 | \$'000 |
| (i) Effect of appreciation in Australian dollar of 10%: | | |
| Foreign exchange risk exposures denominated in: | | |
| United States dollars | (316) | (317) |
| New Zealand dollars | (26) | (43) |
| (ii) Effect of depreciation in Australian dollar of 10%: | | |
| Foreign exchange risk exposures denominated in: | | |
| United States dollars | 387 | 388 |
| New Zealand dollars | 32 | 53 |

The Group believes that the reporting date risk exposures are representative of the risk exposure inherent in its financial instruments.

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Notes to the financial statements

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Financial Instruments (continued)

(h) Credit risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations resulting in a financial loss to the Group.

The major credit risk for the Group is default by tenants, resulting in a loss of rental income while a replacement tenant is secured and further loss if the rent level agreed with the replacement tenant is below that previously paid by the defaulting tenant.

The Group assesses the credit risk of prospective tenants, the credit risk of in-place tenants when acquiring properties and the credit risk of existing tenants renewing upon expiry of their leases. Factors taken into account when assessing credit risk include the financial strength of the prospective tenant and any form of security, for example a rental bond, to be provided.

The decision to accept the credit risk associated with leasing space to a particular tenant is balanced against the risk of the potential financial loss of not leasing up vacant space.

Rent receivable balances are monitored on an ongoing basis and arrears actively followed up in order to reduce, where possible, the extent of any losses should the tenant subsequently default. The Group believes that its receivables that are neither past due nor impaired do not give rise to any significant credit risk.

Credit risk also arises from deposits placed with financial institutions and derivatives contracts that may have a positive value to the Group. The Group's Investment, Derivatives, and Borrowing policy sets target limits for credit risk exposure with financial institutions and minimum counterparty credit ratings. Counterparty exposure is measured as the aggregate of all obligations of any single legal entity or economic entity to the Group, after allowing for appropriate set offs which are legally enforceable.

The Group's maximum exposure to credit risk at reporting date in relation to each class of financial instrument is its carrying amount as reported in the balance sheet.

(i) Liquidity risk

The main objective of liquidity risk management is to reduce the risk that the Group does not have the resources available to meet its financial obligations and working capital and committed capital expenditure requirements. The Group's Investment, Derivatives, and Borrowing policy sets a target for the level of cash and available undrawn debt facilities to cover future committed capital expenditure in the next year, 75% of forecast net operating cash flow in the next year, six months estimated distributions and 5% of the value of resident loan liabilities.

The Group may also be exposed to contingent liquidity risk under its term loan facilities, where term loan facilities include covenants which if breached give the lender the right to call in the loan, thereby accelerating a cash flow which otherwise was scheduled for the loan maturity. The Group monitors adherence to loan covenants on a regular basis, and the Investment, Derivatives, and Borrowing policy sets targets based on the ability to withstand adverse market movements and remain within loan covenant limits.

In addition, the Group targets the following benchmarks to ensure resilience to breaking covenants on its primary debt facilities:

- 10% reduction in value of assets for LVR covenants; and
- 2% nominal increase in interest rates combined with a 5% fall in income for ICR covenants.

The contractual maturities of the Group's non-derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities at market rates.

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Financial Instruments (continued)

Although the expected average residency term is more than ten years, retirement village residents' loans are classified as current liabilities, as required by Accounting Standards, because the Group does not have an unconditional right to defer settlement to more than twelve months after reporting date.

| | Less than 1 year \$'000 | 1 to 5 Years \$'000 | More than 5 years \$'000 | Total \$'000 |
|--|-------------------------------|---------------------------|--------------------------------|-----------------|
| 2016 | | | | |
| Trade and other payables | 24,857 | 6,770 | - | 31,627 |
| Retirement village residents loans | 207,483 | - | - | 207,483 |
| Borrowings | 4,572 | 38,153 | 65,711 | 108,436 |
| Provisions | 1,382 | 227 | - | 1,609 |
| Finance leases (excluding perpetual lease) | 510 | 2,119 | 4,565 | 7,194 |
| Finance lease (perpetual lease) ⁽¹⁾ | 121 | 483 | - | 604 |
| | 238,925 | 47,752 | 70,276 | 356,953 |

| | | | | |
|--|----------------|---------------|--------------|----------------|
| 2015 | | | | |
| Trade and other payables | 15,073 | 14,770 | - | 29,843 |
| Retirement village residents loans | 161,878 | - | - | 161,878 |
| Borrowings | 2,731 | 68,344 | - | 71,075 |
| Provisions | 992 | 177 | 71 | 1,240 |
| Finance leases (excluding perpetual lease) | 299 | 1,273 | 3,431 | 5,003 |
| Finance lease (perpetual lease) ⁽¹⁾ | 121 | 483 | - | 604 |
| Liabilities held for sale | 42,041 | - | - | 42,041 |
| | 223,135 | 85,047 | 3,502 | 311,684 |

(1) For purposes of the table above, the lease payments are included for five years for the perpetual lease. Refer to Note 16(c)(ii).

The contractual maturities of the Group's derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the instruments at market rates.

| | Less than 1 year \$'000 | 1 to 5 Years \$'000 | More than 5 years \$'000 | Total \$'000 |
|--------------------------------------|-------------------------------|---------------------------|--------------------------------|-----------------|
| 2016 | | | | |
| Liabilities | | | | |
| Derivative liabilities – net settled | 121 | 287 | - | 408 |
| 2015 | | | | |
| Liabilities | | | | |
| Derivative liabilities – net settled | 3 | - | - | 3 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Financial Instruments (continued)

(j) Other financial instrument risk

The Group carries retirement village residents' loans at fair value with resulting fair value adjustments recognised in the income statement. The fair value of these loans is dependent on market prices for the related retirement village units. The impact of an increase or decrease in these market prices of 10% at reporting date, with all other variables held constant, is shown in the table below. This analysis is based on the retirement village residents' loans in existence at reporting date.

| | Effect on profit after tax higher/(lower) | |
|---|--|------------------------|
| | 2016 \$'000 | 2015 \$'000 |
| Increase in market prices of investment properties of 10% | (24,047) | (19,290) |
| Decrease in market prices of investment properties of 10% | 24,047 | 19,290 |

These effects are largely offset by corresponding changes in the fair value of the Group's investment properties. The effect on equity would be the same as the effect on profit.

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

Financial Instruments (continued)

(k) Fair value

The Group uses the following fair value measurement hierarchy:

- Level 1: fair value is calculated using quoted prices in active markets for identical assets or liabilities;
 Level 2: fair value is calculated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
 and
 Level 3: fair value is calculated using inputs for the asset or liability that are not based on observable market data.

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The following table presents the Group's financial instruments that were measured and recognised at fair value at reporting date:

| Financial assets/ financial liabilities | Valuation technique(s) and key inputs | Significant unobservable inputs | Relationship of unobservable inputs to fair value |
|--|--|--|---|
| Retirement village resident loans | Loans measured as the ingoing resident's contribution plus the resident's share of capital appreciation to reporting date, less DMF accrued to reporting date. | Long-term capital appreciation rates for residential property between 0-4%. Estimated length of stay of residents based on life tables. | The higher the appreciation, the higher the value of resident loans. The longer the length of stay, the lower the value of resident loans. |
| Deferred management fee accrued | DMF measured using the initial property price, estimated length of stay, various contract terms and projected property price at time of re-leasing. | Estimated length of stay of residents based on life tables. | The longer the length of stay, the higher the DMF accrued, capped at a predetermined period of time. |
| Derivative interest rate swaps | Net present value of future cash flows discounted at market rates adjusted for the Group's credit risk. | N/A | N/A |

There has been no movement from Level 3 to Level 2 during the year. Changes in the Group's retirement village resident loans, which are Level 3 instruments are presented in Note 17

The carrying amounts of the Group's other financial instruments approximate their fair values.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

27. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

| | | Fair value measurement using: | | | |
|---|-------------------------------|-------------------------------|--|--|--|
| | | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| a. Assets Measured at Fair Value | Date of valuation | \$'000 | \$'000 | \$'000 | \$'000 |
| 2016 | | | | | |
| Investment properties | 30 June 2016 Refer Note 12 | 710,746 | - | - | 710,746 |
| 2015 | | | | | |
| Investment properties | 30 June 2015 Refer Note 12 | 539,728 | - | - | 539,728 |
| Assets held for sale - investment property | 30 June 2015 Refer Note 9 | 61,598 | - | 61,598 | - |
| b. Liabilities Measured at Fair Value | | | | | |
| 2016 | | | | | |
| Retirement village resident loans | 30 June 2016 Refer Note 17 | 207,483 | - | - | 207,483 |
| Derivatives | 30 June 2016 | 408 | - | 408 | - |
| 2015 | | | | | |
| Retirement village resident loans | 30 June 2015 Refer Note 17 | 161,878 | - | - | 161,878 |
| Derivatives | 30 June 2015 | 3 | - | 3 | - |

There have been no transfers between Level 1 and Level 2 during the year.

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

28. Auditor's remuneration

| | 2016 \$ | 2015 \$ |
|---|----------------|----------------|
| Amounts received or receivable by EY for: | | |
| Audit or review of the financial reports | 440,461 | 469,524 |
| Other audit related services | 54,848 | 140,738 |
| Non audit related services | 35,570 | - |
| | 530,879 | 610,262 |

29. Related parties

The aggregate compensation paid to Key Management Personnel ("KMP") of the Group is as follows:

| | 2016 \$ | 2015 \$ |
|--|------------------|------------------|
| Directors fees | 559,667 | 542,000 |
| Salaries and other short-term benefits | 1,191,514 | 1,158,141 |
| Short-term incentives | 695,110 | 400,956 |
| Superannuation benefits | 57,924 | 58,518 |
| Share-based payments | 568,329 | 590,928 |
| | 3,072,544 | 2,750,543 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to KMP.

The aggregate rights outstanding of the Group held directly by KMP are as follows:

| Issue date | Right Type | Expiry date | Number outstanding | |
|------------|------------|-------------|--------------------|------------------|
| | | | 2016 | 2015 |
| FY13 | PQR | FY16 | - | 640,333 |
| FY14 | PQR | FY17 | 619,333 | 619,333 |
| FY15 | STIP | FY17 | 76,548 | - |
| FY15 | LTIP | FY18 | 163,829 | 163,829 |
| FY16 | LTIP | FY19 | 173,870 | - |
| | | | 1,033,580 | 1,423,495 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

30. Company financial information

Summary financial information about the Company is:

| | 2016 | 2015 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Current assets | 189 | 177 |
| Total assets | 3,530 | 5,315 |
| Current liabilities | 1,633 | 5,747 |
| Total liabilities | 2,670 | 4,014 |
| Net assets | 861 | 1,301 |
| Securityholders' equity | | |
| Issued securities | 9,492 | 8,900 |
| Reserves | 1,810 | 1,334 |
| Accumulated losses | (10,441) | (8,933) |
| Total securityholders' equity | 861 | 1,301 |
| Loss from continuing operations | (1,462) | (1,118) |
| Net loss attributable to securityholders | (1,462) | (1,118) |
| Total comprehensive income | (1,462) | (1,118) |

The Company is a joint guarantor of the \$200.0 million multi-lateral debt facility, which has been drawn to \$99.1 million at 30 June 2016 (2015: \$63.9 million).

Ingenia Communities Holdings Limited

Notes to the financial statements

Year ended 30 June 2016

31. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(d):

| | Country of residence | Ownership interest | |
|--|-------------------------|--------------------|-----------|
| | | 2016 % | 2015 % |
| Bridge Street Trust | Australia | 100 | 100 |
| Browns Plains Road Trust | Australia | 100 | 100 |
| Casuarina Road Trust | Australia | 100 | 100 |
| Edinburgh Drive Trust | Australia | 100 | 100 |
| Garden Villages Management Trust | Australia | 100 | 100 |
| INA CC Holdings Pty Ltd | Australia | - | 100 |
| INA CC Pty Ltd | Australia | - | 100 |
| INA Community Living Lynbrook Trust | Australia | 100 | 100 |
| INA CC Trust | Australia | - | 100 |
| INA Community Living Subsidiary Trust | Australia | 100 | 100 |
| INA Community Living Subsidiary Trust No. 2 | Australia | 100 | 100 |
| INA Garden Villages Pty Ltd | Australia | 100 | 100 |
| INA Kiwi Communities Pty Ltd | Australia | 100 | 100 |
| INA Kiwi Communities Subsidiary Trust No. 1 | Australia | 100 | 100 |
| INA Management Pty Ltd | Australia | 100 | 100 |
| INA Regency Co Pty Ltd | Australia | - | 100 |
| INA Settlers Co Pty Ltd | Australia | 100 | 100 |
| INA Sunny Communities Pty Ltd | Australia | 100 | 100 |
| INA Sunny Trust | Australia | 100 | 100 |
| Ingenia Communities RE Limited | Australia | 100 | 100 |
| Jefferis Street Trust | Australia | 100 | 100 |
| Lovett Street Trust | Australia | 100 | 100 |
| ILF Regency Operations Trust | Australia | - | 100 |
| ILF Regency Subsidiary Trust | Australia | - | 100 |
| Settlers Operations Trust | Australia | 100 | 100 |
| Settlers Subsidiary Trust | Australia | 100 | 100 |
| SunnyCove Gladstone Unit Trust | Australia | 100 | 100 |
| SunnyCove Rockhampton Unit Trust | Australia | 100 | 100 |
| Ridge Estate Trust | Australia | 100 | 100 |
| Taylor Street (2) Trust | Australia | 100 | 100 |
| INA Subsidiary Trust No.1 | Australia | 100 | 100 |
| INA Subsidiary Trust No.3 | Australia | 100 | 100 |
| INA Operations Pty Ltd | Australia | 100 | 100 |
| INA Operations Trust No.1 | Australia | 100 | 100 |
| INA Operations Trust No.2 | Australia | 100 | 100 |
| INA Operations Trust No.3 | Australia | 100 | 100 |
| INA Operations Trust No.4 (formerly INA Subsidiary Trust No.2) | Australia | 100 | 100 |
| INA Operations Trust No.6 | Australia | 100 | 100 |
| INA Operations Trust No.7 | Australia | 100 | 100 |
| INA Operations Trust No.8 | Australia | 100 | - |
| INA Operations Trust No.9 | Australia | 100 | - |
| INA Operations No.2 Pty Limited | Australia | 100 | 100 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

Subsidiaries (continued)

| | Country of residence | Ownership interest | |
|--|-------------------------|--------------------|-----------|
| | | 2016 % | 2015 % |
| Settlers Property Trust | Australia | 100 | - |
| INA Operations No.3 Pty Limited | Australia | 100 | 100 |
| IGC NZ Student Holdings Ltd | New Zealand | 100 | 100 |
| INA NZ Subsidiary Unit Trust No 1 | New Zealand | 100 | 100 |
| CSH Lynbrook GP LLC | USA | 100 | 100 |
| CSH Lynbrook LP | USA | 100 | 100 |
| Lynbrook Freer Street Member LLC | USA | 100 | 100 |
| Lynbrook Management, LLC | USA | 100 | 100 |
| INA Community Living LLC (formerly ING Community Living LLC) | USA | 100 | 100 |
| INA Community Living II LLC (formerly ING Community Living II LLC) | USA | 100 | 100 |
| INA US Community Living Fund LLC (formerly ING US Community Living Fund LLC) | USA | 100 | 100 |

The Group's voting interest in its subsidiaries is the same as its ownership interest.

32. Notes to the cash flow statement

Reconciliation of profit to net cash flow from operating activities

| | 2016 \$'000 | 2015 \$'000 |
|--|----------------|----------------|
| Net profit for the year | 24,280 | 25,722 |
| Adjustments for: | | |
| Net foreign exchange (gain)/loss | (471) | 927 |
| Release of FCTR on disposal of foreign operations | - | (2,374) |
| Net loss on disposal of investment properties - continuing | 989 | 69 |
| Net loss on disposal of investment properties - discontinued | - | 2,014 |
| Net (gain)/loss on change in fair value of: | | |
| Investment properties – continuing | (7,496) | (16,404) |
| Derivatives | 414 | (164) |
| Retirement village resident loans | 1,388 | 8,878 |
| Income tax expense/(benefit): | | |
| Continuing | (3,123) | (6,604) |
| Discontinued | (4) | 214 |
| Depreciation and amortisation | 626 | 479 |
| Share-based payments expense | 858 | 678 |
| Amortisation of borrowing costs | 573 | 536 |
| Other non-cash items | 2 | - |
| Operating profit for the year before changes in working capital | 18,036 | 13,971 |
| Changes in working capital: | | |
| (Increase)/decrease in receivables | 784 | (2,599) |
| Increase in inventory | (4,457) | (11,750) |
| Increase in retirement village residents' loans | 3,563 | 12,446 |
| Increase/(decrease) in other payables and provisions | 3,102 | (3,034) |
| Net cash provided by operating activities | 21,028 | 9,034 |

Ingenia Communities Holdings Limited
Notes to the financial statements
Year ended 30 June 2016

33. Subsequent events

(a) Performance Quantum Rights (PQRs)

On 1 July 2016, 619,333 Performance Quantum Rights vested and 598,833 fully paid stapled securities were subsequently issued to certain KMP.

(b) Security Purchase Plan

On 20 July 2016 the Group issued 3,022,723 new stapled securities pursuant to a security purchase plan announced on 14 June 2016. The Group received \$8.5 million as consideration for the issued securities.

(c) Acquisition of Ocean Lake

On 3 August 2016, the Group settled Ocean Lake Caravan Park on the NSW South Coast. The acquisition price was \$9.2 million (excluding transaction costs) and was funded from proceeds of the capital raising in June 2016.

(d) Amended debt facility

On 18 August 2016, the Group finalised an increase to its Australian multilateral debt facility limit of \$24.0 million to \$224.0 million. The revised facility has an expiry of \$99.0 million on 12 February 2018 and \$125.0 million on 12 February 2020 and with facility pricing unchanged for the two participating banks. The Loan to Value Ratio and Interest Cover Ratio covenants are unchanged, whilst the Net Debt to Adjusted EBITDA covenant has been removed.

(e) Final FY16 distribution

On 23 August 2016, the directors of the Group resolved to declare a final distribution of 5.1 cps (2015: 4.2 cps) amounting to \$8,964,628 to be paid on 14 September 2016. The full-year distribution is 41.8% tax deferred and the dividend reinvestment plan will apply to the final distribution.

Ingenia Communities Holdings Limited
Directors' declaration
for the year ended 30 June 2016

Directors' Declaration

In accordance with a resolution of the directors of Ingenia Communities Holdings Limited, I state that:

1. In the opinion of the directors:
 - (a) the financial statements and notes of Ingenia Communities Holdings Limited for the financial year ended 30 June 2016 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of its financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including Australian Accounting Interpretations) and *Corporations Regulations 2001*; and
 - (b) there are reasonable grounds to believe that Ingenia Communities Holdings Limited will be able to pay its debts as and when they become due and payable.
2. The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(b).
3. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001*.

On behalf of the Board



Jim Hazel
Chairman
Sydney, 23 August 2016



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Independent Auditor's Report to the members of Ingenia Communities Holdings Limited

Report on the financial report

We have audited the accompanying financial report of Ingenia Communities Holdings Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated income statement, consolidated statement of comprehensive income, the statement of changes in equity and the consolidated cash flow statement 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 Ingenia Communities Holdings Limited 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(b), 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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Ingenia Communities Holdings 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 2016 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 1(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 31 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Ingenia Communities Holdings Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



Ernst & Young



Chris Lawton
Partner
Sydney
23 August 2016



**INGENIA COMMUNITIES FUND
AND
INGENIA COMMUNITIES MANAGEMENT TRUST**

**FINANCIAL REPORTS
YEAR ENDED 30 JUNE 2016**

Ingenia Communities Fund & Ingenia Communities Management Trust

Financial report contents

for the year ended 30 June 2016

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The Ingenia Communities Fund (ARSN 107 459 576) and the Ingenia Communities Management Trust (ARSN 122 928 410) are Australian registered schemes. Ingenia Communities RE Limited (ACN 154 464 990; Australian Financial Services Licence number 415862), the Responsible Entity of both Trusts, is incorporated and domiciled in Australia.

Ingenia Communities Fund & Ingenia Communities Management Trust Directors' report for the year ended 30 June 2016

The Ingenia Communities Fund ("ICF" or the "Fund") (ARSN 107 459 576) and the Ingenia Communities Management Trust ("ICMT") (ARSN 122 928 410) (together the "Trusts") are Australian registered schemes. Ingenia Communities RE Limited (ACN 154 464 990; Australian Financial Services Licence number 415862), the Responsible Entity of the Trusts, is incorporated and domiciled in Australia.

The parent company of Ingenia Communities RE Limited ("ICRE" or "Responsible Entity") is Ingenia Communities Holdings Limited (the "Company" or "ICH"). The shares of the Company and the units of the Trusts are "stapled" and trade on the Australian Securities Exchange ("ASX") as a single security. The Company and the Trusts along with their subsidiaries are collectively referred to as the Group in this report.

The directors' report is a combined directors' report that covers both Trusts for the full year ended 30 June 2016 (the "current period").

Directors

The directors of Ingenia Communities RE Limited at any time during or since the end of the financial year were:

Non-executive directors (NEDs)

Jim Hazel (Chairman)

Robert Morrison (Appointed as Deputy Chairman on 2 December 2015)

Philip Clark AM

Amanda Heyworth

Norah Barlow ONZM

Executive director

Simon Owen (Chief Executive Officer & Managing Director) ("CEO" & "MD")

Operating and financial review

(a) ICF and ICMT Overview

ICF and ICMT are two of the entities that form part of the Ingenia Communities Group (the "Group") which is a triple stapled structure traded on the ASX.

The Group is an active owner, manager and developer of a diversified portfolio of retirement and lifestyle communities across Australia. Its real estate assets at 30 June 2016 were valued at \$496.8 million (net of finance leases and resident loans), being 26 lifestyle communities (Ingenia Lifestyle & Holidays), 31 rental villages (Ingenia Garden Villages), and eight deferred management fee communities (Ingenia Settlers). The Group is in the ASX 300 with a market capitalisation of approximately \$500.0 million.

The Group's vision is to create Australia's best lifestyle communities offering affordable permanent and tourism rental accommodation with a focus on the seniors demographic. The Board is committed to delivering continued earnings and security price growth to securityholders and providing a supportive community environment to both its permanent residents and holidaymakers.

**Ingenia Communities Fund & Ingenia Communities Management Trust
Directors' report (continued)
for the year ended 30 June 2016**

Operating and financial review (continued)

(b) Strategy

The strategies of ICF and ICMT are aligned with the Group's strategy of continuing to be focused on further accelerating development of lifestyle communities and identifying ways to enhance the operational performance of its asset base through both effective cost management and identification of additional revenue streams. Using a disciplined investment framework, the Group will continue to acquire further lifestyle communities as identified in the recent June 2016 equity raising as well as recycling capital from underperforming assets into accretive opportunities.

A key element to achieving growth is efficient operational and capital management. During the year, the Group increased its debt facility by \$25.0 million to \$200.0 million and subsequent to year-end has increased this facility by a further \$24 million to \$224 million. As at 30 June 2016, the facility is drawn to \$125.3 million (including bank guarantees), which represents a loan to value ratio ("LVR") of 24.9%. LVR is well below our target range of 30-35% at 30 June 2016 following the temporary application of proceeds from the recent June equity raising against debt prior to deployment into the four acquisition opportunities outlined to the market, which will move the LVR back into the target range.

(c) FY16 financial results

Significant investment in lifestyle communities continued during FY16, with the focus on bedding down the sales and development platform to deliver development pipeline returns. Management has also remained focused on occupancy for rental communities as well as the room rate and occupancy growth within the lifestyle tourism communities.

In June 2016, the Group raised \$60.0 million from an institutional placement, which will be used to fund four lifestyle community acquisitions, including a \$33.0 million lifestyle community within the Sydney metro area with significant development upside. Over the year, the Group invested an additional \$74.1 million (excluding transaction costs) into six lifestyle communities.

(d) Key metrics

- Net Profit (continuing operations) for the year for ICF \$25.9 million, down 19% from FY15.
- Net Profit (continuing operations) for the year for ICMT of \$0.06 million (2015:\$4.1m loss).
- Full year distribution of 9.3 cents per security by ICF, nil from ICMT.

(e) Continuing operations

The key strategic priorities of the continuing operations are;

- Continue building velocity in the delivery and sale of new lifestyle community homes, with a focus on East Coast metro and coastal locations;
- Acquire additional lifestyle communities as well as invest in existing yield assets;
- Grow occupancy and average room rates for lifestyle tourism communities;
- Continue strategy of divesting the Ingenia Settlers portfolio and recycle this capital into development of lifestyle communities;
- Continue to gradually grow occupancy rates within rental communities; and
- Improve asset cash yields through operational efficiencies including revenue optimisation and disciplined cost management.

**Ingenia Communities Fund & Ingenia Communities Management Trust
Directors' report (continued)
for the year ended 30 June 2016**

Operating and financial review (continued)

(f) Capital management

The Trusts adopt a prudent and considered approach to capital management. During the year, the Group strengthened its capital position by undertaking a \$60.0 million capital raising and negotiating a \$25.0 million increase to its multilateral debt facility. Subsequent to 30 June 2016, a further \$24.0 million facility increase is in place and a further \$8.5 million was raised from the Security Purchase Plan in July 2016.

As at 30 June 2016, the current LVR is 24.9%, which is below our target LVR of 30-35%. Once the Group deploys the proceeds from the June capital raising and debt into further lifestyle communities, the LVR will be move back within the target range.

(g) Distributions

The following distributions were made by ICF during or in respect of the year:

- On 23 February 2016, the directors declared an interim distribution of 4.2 cps (2015: 3.9 cps) amounting to \$6,306,884 which was paid on 16 March 2016.
- On 23 August 2016, the directors declared a final distribution of 5.1 cps (2015: 4.2 cps) amounting to \$8,964,628, to be paid on 14 September 2016.

The full-year distribution is 41.8% tax deferred and the dividend reinvestment plan will apply to the final distribution.

The Group is committed to continuing to grow distributions in the near term.

(h) Outlook

The Trusts are well positioned to continue growing their lifestyle communities business with a significant and accretive acquisition pipeline in place and significant debt capacity. Further accelerated growth in sales and settlements volumes is expected in FY17 as further projects are launched.

The Trusts will continue to regularly assess the performance of its existing assets and where appropriate recycle that capital into other opportunities delivering superior returns.

Significant changes in the state of affairs

Changes in the state of affairs during the financial year are set out in the various reports in this Financial Report. Refer to Note 10 for Investment properties acquired or disposed of during the year, Note 14 for details of Australian debt refinanced and Note 17 for Issued units.

Events subsequent to reporting date

(a) Performance Quantum Rights (PQRs)

On 1 July 2016, 619,333 PQRs vested and 598,833 fully paid stapled securities of the Group were subsequently issued to the Executive KMP.

(b) Security Purchase Plan

On 20 July 2016, the Group issued 3,022,723 newly stapled securities pursuant to a security purchase plan announced on 14 June 2016. ICF received \$8.5 million as consideration for the issued securities.

(c) Acquisition of Ocean Lake

On 3 August 2016, ICMT settled Ocean Lake Caravan Park on the NSW South Coast. The acquisition price was \$9.2 million (excluding transaction costs) and was funded from proceeds of the capital raising in June 2016.

(d) Amended debt facility

On 18 August 2016, ICF finalised an increase to its Australian multilateral debt facility limit of \$24.0 million to \$224.0 million. The revised facility has an expiry of \$99.0 million on 12 February 2018 and \$125.0 million on 12 February 2020 with facility pricing unchanged for the two participating banks. The Loan to Value Ratio and Interest Cover Ratio covenants are unchanged, whilst the Net Debt to Adjusted EBITDA covenant has been removed.

**Ingenia Communities Fund & Ingenia Communities Management Trust
Directors' report (continued)
for the year ended 30 June 2016**

(e) Final FY16 distribution

On 23 August 2016, the directors of ICF resolved to declare a final distribution of 5.1 cps (2015: 4.2 cps) amounting to \$8,964,628 to be paid at 14 September 2016. The full-year distribution is 41.8% tax deferred and the dividend reinvestment plan will apply to the final distribution.

Likely developments

The Trusts will continue to pursue strategies aimed at improving cash earnings, profitability and market share within the rental property industry during the next financial year, with a continuing focus on the development and acquisition of land lease communities.

Other information about certain likely developments in the operations of the Trusts and the expected results of those operations in future financial years is included in the various reports in the Ingenia Communities Financial Report.

Environmental regulation

The Trusts have policies and procedures in place to ensure that, where operations are subject to any particular and significant environmental regulation under the law of Australia, those obligations are identified and appropriately addressed. The directors have determined that there has not been any material breach of those obligations during the financial year.

Indemnities

The Trusts have not indemnified, nor paid any insurance premiums for, a person who is or has been an officer of the Responsible Entity or an auditor of either Trust.

Interests of directors of the Responsible Entity

Units in each Trust held by directors of the Responsible Entity or associates of the directors as at 30 June 2016 were:

| | Number of units | Rights |
|-------------------|-----------------|---------|
| Jim Hazel | 287,276 | - |
| Philip Clark AM | 42,286 | - |
| Amanda Heyworth | 106,921 | - |
| Robert Morrison | 75,556 | - |
| Norah Barlow ONZM | 35,949 | - |
| Simon Owen | 1,003,985 | 651,174 |

Other information

Fees paid to the Responsible Entity and its associates, and the number of units in each Trust held by the Responsible Entity and its associates as at the end of the financial year are set out in Note 25 in the financial report.

**Ingenia Communities Fund & Ingenia Communities Management Trust
Directors' report (continued)
for the year ended 30 June 2016**

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Auditor extension

On 15 October 2015 at the recommendation of the Audit & Risk Committee, the directors granted an approval for the extension of the Group's audit partner for a further one year, when the initial period of five years as permitted under the *Corporations Act 2001* expired in June 2015. The Audit & Risk Committee's recommendation was based on the need to ensure the completion of the audit firm's succession plan for the audit. In doing so, the Audit & Risk Committee satisfied itself that the extension will maintain the quality of the audit and will not give rise to any conflicts of interest.

Rounding of amounts

The Trusts are of a kind referred to in Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in this report and in the financial report. Amounts in these reports have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors of the Responsible Entity.



Jim Hazel
Chairman
Sydney, 23 August 2016



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Auditor's Independence Declaration to the Directors of Ingenia Communities RE Limited as Responsible Entity for Ingenia Communities Fund and Ingenia Communities Management Trust

As lead auditor for the audit of Ingenia Communities Fund and its controlled entities and Ingenia Communities Management Trust and its controlled entities for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Ingenia Communities Funds and the entities it controlled during the financial year and Ingenia Communities Management Trust and the entities it controlled during the financial year.

Ernst & Young

Chris Lawton
Partner
23 August 2016

Ingenia Communities Fund & Ingenia Communities Management Trust
Consolidated statements of comprehensive income
for the year ended 30 June 2016

| | Note | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|------|--------------------------|----------------|--------------------------------------|-----------------|
| | | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Continuing operations | | | | | |
| Revenue | | | | | |
| Rental income | | 9,101 | 9,720 | 57,696 | 44,984 |
| Accrued deferred management fee income | 15 | - | - | 4,222 | 6,788 |
| Manufactured home sales | | - | - | 32,009 | 14,937 |
| Catering income | | - | - | 3,258 | 3,538 |
| Other property income | | - | - | 3,045 | 3,076 |
| Service Station Sales | | - | - | 6,745 | 2,359 |
| Interest income | | 17,105 | 14,564 | 14 | 7 |
| | | 26,206 | 24,284 | 106,989 | 75,689 |
| Property expenses | | (222) | (327) | (30,080) | (27,372) |
| Employee expenses | | - | - | (22,385) | (17,061) |
| Administrative expenses | | (170) | (506) | (2,821) | (2,689) |
| Operational, marketing and selling expenses | | - | (648) | (3,358) | (3,150) |
| Cost of manufactured homes | | - | - | (21,729) | (9,256) |
| Service station expenses | | - | - | (5,862) | (1,910) |
| Finance expenses | | (5,367) | (3,601) | (17,941) | (15,144) |
| Net foreign exchange gain/(loss) | | 422 | 107 | 45 | - |
| Net gain/(loss) on disposal of investment properties | | - | (1,689) | (638) | 1,620 |
| Net gain/(loss) on change in fair value of: | | | | | |
| - Investment properties | 10 | 7,668 | 15,922 | (172) | 482 |
| - Derivatives | | (414) | 164 | - | - |
| - Retirement village resident loans | 15 | - | - | (1,388) | (8,878) |
| Responsible Entity's fees and expenses | 25 | (2,244) | (1,676) | (2,693) | (2,165) |
| Depreciation expense | 11 | (24) | (117) | (72) | (102) |
| Amortisation of intangible assets | 12 | - | - | (346) | (157) |
| Profit/(loss) from continuing operations before income tax | | 25,855 | 31,913 | (2,451) | (10,093) |
| Income tax benefit | 5 | - | - | 2,507 | 6,019 |
| Profit/(loss) from continuing operations | | 25,855 | 31,913 | 56 | (4,074) |
| Profit/(Loss) from discontinued operations | 6 | (3,874) | 2,587 | - | (3,854) |
| Net profit/(loss) for the period | | 21,981 | 34,500 | 56 | (7,928) |
| Other comprehensive income, net of income tax | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| - Foreign currency translation differences arising during the period | | - | 1,846 | - | (169) |
| - Release of foreign currency translation reserve on disposal of foreign operations | | - | (1,620) | - | - |
| Total comprehensive income for the period, net of income tax | | 21,981 | 34,726 | 56 | (8,097) |
| Profit/(loss) attributable to unitholders of: | | | | | |
| Ingenia Communities Fund | | 21,981 | 34,500 | - | (3,461) |
| Ingenia Communities Management Trust | | - | - | 56 | (4,467) |
| | | 21,981 | 34,500 | 56 | (7,928) |
| Total comprehensive income attributable to unitholders of: | | | | | |
| Ingenia Communities Fund | | 21,981 | 34,726 | - | (3,461) |
| Ingenia Communities Fund Management Trust | | - | - | 56 | (4,636) |
| | | 21,981 | 34,726 | 56 | (8,097) |

Ingenia Communities Fund & Ingenia Communities Management Trust
Consolidated statements of comprehensive income (continued)
for the year ended 30 June 2016

| | Note | Ingenia Communities Fund | Ingenia Communities Management Trust | | |
|---|------|-----------------------------|---|---------------|---------------|
| | | 2016 Cents | 2015 Cents | 2016 Cents | 2015 Cents |
| Distributions per unit⁽¹⁾ | | 8.4 | 7.8 | - | - |
| Earnings per unit:⁽¹⁾ | | | | | |
| Basic earnings from continuing operations | 4 | 17.2 | 23.4 | - | (3.0) |
| Basic earnings | 4 | 14.6 | 25.2 | - | (6.0) |
| Diluted earnings from continuing operations | 4 | 17.1 | 15.0 | - | (1.8) |
| Diluted earnings | 4 | 14.5 | 16.2 | - | (3.6) |

(1) Current and previous corresponding period amounts have been restated to account for the 6:1 stapled security consolidation that was completed on 19 November 2015.

Ingenia Communities Fund & Ingenia Communities Management Trust
Consolidated balance sheets
as at 30 June 2016

| | Note | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|------|--------------------------|----------------|--------------------------------------|----------------|
| | | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Current assets | | | | | |
| Cash and cash equivalents | | 8,329 | 8,966 | 6,621 | 6,094 |
| Trade and other receivables | 8 | 2,599 | 2,643 | 6,684 | 4,104 |
| Inventories | 9 | - | - | 17,665 | 13,208 |
| Income tax receivable | | - | 16 | 19 | 16 |
| Assets held for sale - investment properties | 7 | - | - | - | 61,598 |
| Total current assets | | 10,928 | 11,625 | 30,989 | 85,020 |
| Non-current assets | | | | | |
| Trade and other receivables | 8 | 31,818 | 31,401 | 300 | 110 |
| Receivable from related party | 25 | 285,972 | 185,798 | - | - |
| Investment properties | 10 | 162,795 | 153,434 | 547,951 | 386,294 |
| Plant and equipment | 11 | 103 | 122 | 1,018 | 459 |
| Intangibles | 12 | 2 | 2 | 1,962 | 1,577 |
| Investments | | - | 3,874 | - | - |
| Deferred tax asset | 16 | - | - | 7,084 | 4,606 |
| Total non-current assets | | 480,690 | 374,631 | 558,315 | 393,046 |
| Total assets | | 491,618 | 386,256 | 589,304 | 478,066 |
| Current liabilities | | | | | |
| Trade and other payables | 13 | 1,266 | 1,200 | 22,168 | 12,785 |
| Borrowings | 14 | - | - | 2,962 | 2,817 |
| Retirement village resident loans | 15 | - | - | 207,483 | 161,878 |
| Employee liabilities | | - | - | 1,164 | 830 |
| Interest rate swaps | | 121 | 3 | - | - |
| Liabilities held for sale | 7 | - | - | - | 42,041 |
| Total current liabilities | | 1,387 | 1,203 | 233,777 | 220,351 |
| Non-current liabilities | | | | | |
| Trade and other payables | 13 | - | - | 6,770 | 14,770 |
| Payable to related party | 25 | - | - | 288,769 | 189,635 |
| Borrowings | 14 | 97,764 | 62,217 | 34,905 | 33,252 |
| Employee liabilities | | - | - | 227 | 248 |
| Interest rate swaps | | 287 | - | - | - |
| Total non-current liabilities | | 98,051 | 62,217 | 330,671 | 237,905 |
| Total liabilities | | 99,438 | 63,420 | 564,448 | 458,256 |
| Net assets | | 392,180 | 322,836 | 24,856 | 19,810 |
| Equity | | | | | |
| Issued units | 17 | 679,161 | 619,285 | 34,017 | 29,028 |
| Accumulated losses | 18 | (286,981) | (296,449) | (8,461) | (8,518) |
| Unitholders' interest | | 392,180 | 322,836 | 25,556 | 20,510 |
| Non-controlling interest | | - | - | (700) | (700) |
| Total equity | | 392,180 | 322,836 | 24,856 | 19,810 |
| Attributable to unitholders of: | | | | | |
| Ingenia Communities Fund | | 392,180 | 322,836 | (700) | (700) |
| Ingenia Communities Management Trust | | - | - | 25,556 | 20,510 |
| | | 392,180 | 322,836 | 24,856 | 19,810 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Consolidated cash flow statements
for the year ended 30 June 2016

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | | |
|---|--------------------------|----------------|--------------------------------------|----------------|----------------|
| | Note | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Cash flows from operating activities | | | | | |
| Rental and other property income | | - | - | 71,147 | 57,922 |
| Property and other expenses | | (898) | (998) | (48,049) | (45,256) |
| Proceeds from resident loans | | - | - | 11,056 | 19,815 |
| Repayment of resident loans | | - | - | (5,757) | (10,543) |
| Proceeds from sale of manufactured homes | | - | - | 35,054 | 15,735 |
| Purchase of manufactured homes | | - | - | (29,986) | (19,358) |
| Proceeds from sale of service station inventory | | - | - | 6,708 | (1,936) |
| Purchase of service station inventory | | - | - | (6,113) | 2,362 |
| Interest received | | 104 | 167 | 20 | 17 |
| Borrowing costs paid | | (4,109) | (3,132) | (1,107) | (1,771) |
| Income tax received/(paid) | | - | 800 | 4 | (5) |
| | 28 | (4,903) | (3,163) | 32,977 | 16,982 |
| Cash flows from investing activities | | | | | |
| Purchase and additions of plant and equipment | | (4) | (2) | (835) | (415) |
| Purchase and additions of intangible assets | | - | - | (529) | (1,364) |
| Additions to investment properties | | (1,423) | (1,292) | (18,475) | (12,820) |
| Proceeds/(costs) from sale of investment properties | | (36) | 6,650 | (16) | 49,511 |
| Payments for investment properties | | - | - | (85,113) | (64,423) |
| Amounts received from/(advanced to) villages | | - | - | 24 | 168 |
| Costs of equity accounted investments | | - | (207) | - | (2) |
| | | (1,463) | 5,149 | (104,944) | (29,345) |
| Cash flows from financing activities | | | | | |
| Proceeds from the issue units | | 61,940 | 74,787 | 4,676 | 15,587 |
| Payment of unit issue costs | | (2,064) | (3,143) | (150) | (656) |
| Distributions to unitholders | | (12,513) | (8,794) | - | (1,311) |
| Finance lease payments | | - | - | (450) | (126) |
| (Repayment of)/proceeds from related party borrowings | | (76,304) | 3,147 | 68,384 | (237) |
| Proceeds from borrowings | | 103,742 | 65,205 | - | - |
| Repayment of borrowings | | (68,542) | (125,197) | - | - |
| Payments for debt issue costs | | (559) | (1,789) | - | - |
| Payments for derivatives | | - | - | - | (444) |
| | | 5,700 | 4,216 | 72,460 | 12,813 |
| Net increase/(decrease) in cash and cash equivalents | | (666) | 6,202 | 493 | 450 |
| Cash and cash equivalents at the beginning of the year | | 8,966 | 2,658 | 6,094 | 5,550 |
| Effects of exchange rate fluctuation on cash held | | 29 | 106 | 34 | 94 |
| Cash and cash equivalents at the end of the year | | 8,329 | 8,966 | 6,621 | 6,094 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Statements of changes in unitholders' interest
for the year ended 30 June 2016

Ingenia Communities Fund

| | Note | Issued capital \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total \$'000 |
|---|------|-----------------------------|--------------------|--------------------------------|-----------------|
| Carrying amount at 1 July 2014 | | 547,642 | (226) | (320,829) | 226,587 |
| Net profit/(loss) for the period | | - | - | 34,500 | 34,500 |
| Other comprehensive income | | - | 226 | - | 226 |
| Total comprehensive income for the year | | - | 226 | 34,500 | 34,726 |
| Transactions with unitholders in their capacity as unitholders: | | | | | |
| Issue of units | 17 | 71,643 | - | - | 71,643 |
| Distributions paid or payable | 18 | - | - | (10,120) | (10,120) |
| Carrying amount at 30 June 2015 | | 619,285 | - | (296,449) | 322,836 |
| Carrying amount at 1 July 2015 | | 619,285 | - | (296,449) | 322,836 |
| Net profit/(loss) for the period | | - | - | 21,981 | 21,981 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income for the year | | - | - | 21,981 | 21,981 |
| Transactions with unitholders in their capacity as unitholders: | | | | | |
| Issue of units | 17 | 59,876 | - | - | 59,876 |
| Distributions paid or payable | 18 | - | - | (12,513) | (12,513) |
| Carrying amount at 30 June 2016 | | 679,161 | - | (286,981) | 392,180 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Statements of changes in unitholders' interest (continued)
Year ended 30 June 2016

Ingenia Communities Management Trust

| | Note | Issued capital \$'000 | Reserves \$'000 | Retained earnings \$'000 | Total \$'000 | Non- controlling interest \$'000 | Total equity \$'000 |
|---|------|-----------------------------|--------------------|--------------------------------|-----------------|---|---------------------------|
| Carrying amount at 1 July 2014 | | 14,097 | 169 | (4,050) | 10,216 | 2,761 | 12,978 |
| Net loss for the period | | - | - | (4,467) | (4,467) | (3,461) | (7,928) |
| Other comprehensive income | | - | (169) | - | (169) | - | (169) |
| Total comprehensive income for the year | | - | (169) | (4,467) | (4,636) | (3,461) | (8,097) |
| Transactions with unitholders in their capacity as unitholders: | | | | | | | |
| Issue of units | 17 | 14,929 | - | - | 14,929 | - | 14,929 |
| Carrying amount at 30 June 2015 | | 29,026 | - | (8,517) | 20,509 | (700) | 19,810 |
| Carrying amount at 1 July 2015 | | 29,026 | - | (8,517) | 20,509 | (700) | 19,809 |
| Net profit/(loss) for the period | | - | - | 56 | 56 | - | 56 |
| Total comprehensive income for the year | | - | - | 56 | 56 | - | 56 |
| Transactions with unitholders in their capacity as unitholders: | | | | | | | |
| Issue of units | 17 | 4,991 | - | - | 4,991 | - | 4,991 |
| Carrying amount at 30 June 2016 | | 34,017 | - | (8,461) | 25,556 | (700) | 24,856 |

Ingenia Communities Fund & Ingenia Communities Management Trust

Notes to the financial statements

for the year ended 30 June 2016

1. Summary of significant accounting policies

(a) The Trusts

The Ingenia Communities Fund ("ICF" or the "Fund") (ARSN 107 459 576) and the Ingenia Communities Management Trust ("ICMT") (ARSN 122 928 410) (together the "Trusts") are Australian registered schemes. Ingenia Communities RE Limited (ACN 154 464 990; Australian Financial Services Licence number 415862), the Responsible Entity of the Trusts, is incorporated and domiciled in Australia.

The parent company of Ingenia Communities RE Limited is Ingenia Communities Holdings Limited (the "Company"). The shares of the Company and the units of the Trust are "stapled" and trade on the Australian Securities Exchange ("ASX") as a single security. The Company and the Trust along with their subsidiaries are collectively referred to as the Group in this report.

The stapling structure will cease to operate on the first to occur of:

- the Company or either of the Trusts resolving by special resolution in accordance with its constitution to terminate the stapling provisions; or
- the commencement of the winding up of the Company or either of the Trusts.

The financial report as at and for the year ended 30 June 2016 was authorised for issue by the directors on 23 August 2016.

(b) Basis of preparation

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

As permitted by Instrument 2015/838, issued by the Australian Securities and Investments Commission, this financial report is a combined financial report that presents the financial statements and accompanying notes of both ICF and ICMT. The financial statements and accompanying notes of the Trusts have been presented within this financial report.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated as permitted by Instrument 2016/191.

The financial report is prepared on an historical cost basis, except for investment properties, retirement village residents' loans and derivative financial instruments, which are measured at fair value.

As at 30 June 2016, ICMT recorded a net current asset deficiency of \$202,788,000. This deficiency includes retirement village resident loans of \$207,483,000 and payables to other entities within the Group of \$288,768,560. Resident loan obligations of the Trusts are classified as current liabilities due to the demand feature of these obligations despite the unlikely possibility that the majority of the loans will be settled within the next twelve months. Furthermore, if required, the proceeds from new resident loans could be used by the Group to settle its existing loan obligations should those incumbent residents vacate their units. Intercompany loan balances are payable on demand, however ICF has undertaken not to call its loan receivable from ICMT within twelve months of the date of this report, if calling the loan would result in ICMT being unable to pay its debts as and when they are due and payable. Accordingly, there are reasonable grounds to believe that ICMT will be able to pay its debts as and when they become due and payable; and the financial report of ICMT has been prepared on a going concern basis.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(c) Adoption of new and revised accounting standards

No new or revised standards and interpretations were issued by the Australian Accounting Standards Board that are relevant to the Group during the period.

(d) Principles of consolidation

ICF's consolidated financial statements comprise the parent and its subsidiaries. ICMT's consolidated financial statements comprise ICMT and its subsidiaries. Subsidiaries are all those entities (including special purpose entities) whose financial and operating policies a trust has the power to govern, so as to obtain benefits from their activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. Adjustments are made to bring into line dissimilar accounting policies. Inter-company balances and transactions including unrealised profits have been eliminated.

Subsidiaries are consolidated from the date on which the parent obtains control. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are carried at cost in the parent's financial statements.

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Trusts elect whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs incurred are expensed and included in other expenses.

When the Trusts acquire a business, they assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(f) Distributions

A liability for any distribution declared on or before the end of the reporting period is recognised on the balance sheet in the reporting period to which the distribution pertains.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(g) Foreign currency

(i) Functional and presentation currencies

The functional currency and presentation currency of the Trusts and their subsidiaries, other than foreign subsidiaries, is the Australian dollar.

(ii) Translation of foreign currency transactions

Transactions in foreign currency are initially recorded in the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are retranslated at the rate of exchange prevailing at the balance date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings designated as a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment at which time they are recognised in the income statement.

(iii) Translation of foreign currency transactions

A non-monetary item that is measured at fair value in a foreign currency is translated using the exchange rates at the date when the fair value was determined.

(iv) Translation of financial statements of foreign subsidiaries

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that foreign operation is recognised in the income statement.

(h) Plant & Equipment

Plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment require replacing at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(i) Leases

Finance leases, which transfer to the Trusts substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement.

Finance leases, which transfer away from the Trusts substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the inception of the lease. A finance lease receivable is recognised on inception at the present value of the minimum lease receipts. Finance lease receipts are apportioned between the interest income and reduction in the lease receivable to achieve a constant rate of interest on the remaining balance of the receivable. Interest is recognised as income in the income statement.

Leases of properties that are classified as investment properties, are classified as finance leases under AASB 140 *Investment Properties*.

Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease.

(j) Financial assets and liabilities

Current and non-current financial assets and liabilities within the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as at fair value through profit or loss; loans and receivables; held-to-maturity investments; or as available-for-sale. The Trusts determine the classification of their financial assets and liabilities at initial recognition with the classification depending on the purpose for which the asset or liability was acquired or issued. Financial assets and liabilities are initially recognised at fair value, plus directly attributable transaction costs unless their classification is at fair value through profit or loss. They are subsequently measured at fair value or amortised cost using the effective interest method. Changes in fair value of available-for-sale financial assets are recorded directly in equity. Changes in fair values of financial assets and liabilities classified as at fair value through profit or loss are recorded in the income statement.

The fair values of financial instruments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For those with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models, making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(k) Impairment of non-financial assets

Assets other than investment property and financial assets carried at fair value are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets excluding goodwill which have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Cash and cash equivalents

Cash and cash equivalents in the balance sheet and cash flow statement comprise cash at bank and in hand and short-term deposits that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

(m) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. An allowance for impairment is made when there is objective evidence that collection of the full amount is no longer probable.

(n) Inventories

The Trusts hold inventory in relation to the acquisition and development of manufactured homes and service station fuel and supplies both within its Lifestyle & Holidays segment.

Inventories are held at the lower of cost and net realisable value.

Costs of inventories comprise all acquisition costs, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventory includes work in progress and raw materials used in the production of manufactured home units.

Net realisable value is determined on the basis of an estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

(o) Derivative financial instruments

The Trusts use derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date in which the derivative contract is entered into and are subsequently remeasured to fair value.

(p) Investment property

Land and buildings have the function of an investment and are regarded as composite assets. In accordance with applicable accounting standards, the buildings, including plant and equipment, are not depreciated.

Investment property includes property under construction, tourism cabins and associated amenities.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the period in which they arise, including corresponding tax effect.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(p) Investment property (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability or in its absence, the most advantageous market. In determining the fair value of assets held for sale recent market offers have been taken into consideration.

It is the Trusts' policy to have all investment properties externally valued at intervals of not more than two years. It is the policy of the responsible trust to review the fair value of each investment property every six months and to cause investment properties to be revalued to fair values whenever their carrying value materially differs to their fair values.

Changes in the fair value of investment property are recorded in the statement of comprehensive income.

In determining fair values, the group considers relevant information including the capitalisation of rental streams using market assessed capitalisation rates, expected net cash flows discounted to their present value using market determined risk adjusted discount rates and other available market data such as recent comparable transactions. The assessment of fair value of investment properties does not take into account potential capital gains tax assessable.

(q) Intangible assets

An intangible asset arising from development expenditure related to software is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during its development. Costs capitalised include external direct costs of materials and service, and direct payroll and payroll related costs of employees' time spent on the project.

Following the initial recognition of expenditure, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when the development is complete and the asset is available for use. Amortisation is over the period of expected future benefit.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination are their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The Group's policy applied to capitalised development costs is as follows:

Software and associated development to capitalised development costs (assets in use)

- Useful life: Finite Amortisation method using 7 years on a straight line basis; and
- Impairment test: Amortisation method reviewed at each financial year end; closing carrying value reviewed annually for indicators of impairment.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(r) Payables

Trade and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Trusts prior to the end of the financial year that are unpaid and are recognised when the Trusts become obliged to make future payments in respect of the purchase of these goods and services.

(s) Retirement village resident loans

These loans, which are non-interest bearing and repayable on the departure of the resident, are classified as financial liabilities at fair value through profit and loss with resulting fair value adjustments recognised in the income statement. The fair value of the obligation is measured as the ingoing contribution plus the resident's share of capital appreciation to reporting date. Although the expected average residency term is more than ten years, these obligations are classified as current liabilities, as required by Accounting Standards, because the Trusts do not have an unconditional right to defer settlement to more than twelve months after reporting date.

This liability is stated net of deferred management fee accrued to reporting date, because the Trusts contracts with residents require net settlement of those obligations.

Refer to Notes 15 and 1(z) for information regarding the valuation of retirement village resident loans.

(t) Borrowings

Borrowings are initially recorded at the fair value of the consideration received less directly attributable transaction costs associated with the borrowings. After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest rate method. Under this method fees, costs, discounts and premiums that are yield related are included as part of the carrying amount of the borrowing and amortised over its expected life.

Borrowings are classified as current liabilities unless the Trusts do not have an unconditional right to defer settlement to more than twelve months after reporting date.

Borrowing costs are expensed as incurred except where they are directly attributable to the acquisition, construction or production of a qualifying asset. When this is the case, they are capitalised as part of the acquisition cost of that asset.

(u) Issued units

Issued and paid up units are recognised at the fair value of the consideration received by the Trusts. Any transaction costs arising on issue of ordinary units are recognised directly in unitholders' interest as a reduction of the units proceeds received.

(v) Revenue

Revenue from rents, interest and distributions is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue brought to account but not received at balance date is recognised as a receivable.

Rental income from operating leases is recognised on a straight-line basis over the lease term. Contingent rentals are recognised as income in the financial year that they are earned. Fixed rental increases that do not represent direct compensation for underlying cost increases or capital expenditures are recognised on a straight-line basis until the next market review date. Rent paid in advance is recognised as unearned income.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(v) Revenue (continued)

Deferred management fee income is calculated as the expected fee to be earned on a resident's ingoing loan, allocated pro-rata over the resident's expected tenure, together with any share of capital appreciation that has occurred at reporting date.

Revenue from the sale of manufactured homes within the Lifestyle & Holidays segment is recognised when the significant risks, rewards of ownership and effective control has been transferred to the buyer.

Service station sales revenue represents the revenue earned from the provision of products to external parties. Sales revenue is only recognised when the significant risks and rewards of ownership of the products including possession are passed to the buyer.

Government incentives are recognised where there is reasonable assurance the incentive will be received and all attached conditions will be complied with. When the incentive relates to an expense item, it is recognised as income on a systematic basis over the periods that the incentive is intended to compensate.

Interest income is recognised as the interest accrues using the effective interest rate method.

(w) Provisions, including for employee benefits

(i) General

Provisions are recognised when the Trusts have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Trusts expect some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

(ii) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(iii) Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(x) Income tax

(i) Current income tax

Under the current tax legislation, the Fund is not liable to pay Australian income tax provided that its taxable income (including any assessable capital gains) is fully distributed to unitholders each year. Tax allowances for building and fixtures depreciation are distributed to unitholders in the form of the tax-deferred component of distributions. However, ICMT and its subsidiaries are subject to Australian income tax.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(x) Income tax(continued)

(i) Current income tax(continued)

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from, or paid to, the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

The subsidiaries that hold the Trusts' foreign properties may be subject to corporate income tax and withholding tax in the countries in which they operate. Under current Australian income tax legislation, unitholders may be entitled to receive a foreign tax credit for this withholding tax.

(ii) Deferred income tax

Deferred income tax represents tax (including withholding tax) expected to be payable or recoverable by taxable entities on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised through continuing use or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at reporting date. Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences. Income taxes related to items recognised directly in equity are recognised in equity and not against income. Critical accounting estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Trust and that are believed to be reasonable under the circumstances.

(y) Goods and services tax ("GST")

Revenue, expenses and assets (with the exception of receivables) are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of the acquisition, or as an expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from or payable to the tax authority is included in the balance sheet as an asset or liability.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the tax authorities, are classified as operating cash flows.

(z) Fair value measurement

The Trusts measure financial instruments, such as derivatives, and non-financial assets, such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 22.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Trusts.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(z) Fair value measurement (continued)

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Trusts use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Trusts determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting period.

The Trusts' Audit and Risk Committee determines the policies and procedures for both recurring fair value measurement, such as investment properties and resident loans and for non-recurring measurement.

External valuers are involved for valuation of significant assets, such as properties and significant liabilities. Selection criteria include market knowledge, experience and qualifications, reputation, independence and whether professional standards are maintained.

On a six monthly basis management presents valuation results to the Audit and Risk Committee and the Trusts' auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Trusts have determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained in Note 23.

(aa) Pending Accounting Standards

The trusts have not early adopted the following standards, interpretations, or amendments that have been issued but are not yet effective:

AASB 9 *Financial Instruments* is applicable to reporting periods beginning on or after 1 January 2018. The Trusts have not early adopted this standard. This standard provides requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Changes in the Trusts' credit risk, which affect the value of liabilities designated at fair value through profit and loss, can be presented in other comprehensive income. The application of the Standard is not expected to have any material impact on the Trusts' financial reporting in future periods.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

1. Summary of significant accounting policies (continued)

(aa) Pending Accounting Standards (continued)

AASB 15 *Revenue from Contracts with Customers* is applicable to reporting periods beginning on or after 1 January 2018. The Trusts have not early adopted this standard. The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue; at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. It applies to all contracts with customers except leases, financial instruments and insurance contracts. It requires reporting entities to provide users of financial statement with more informative and relevant disclosures. The Group is currently assessing the impact of this standard, however it does not expect it to have a material impact on future reporting.

AASB 16 *Leases* is applicable to reporting periods beginning on or after 1 January 2019. The Group has not early adopted this standard. This standard provides requirements for classification, measurement, and disclosure of all leases with a term of more than 12 months unless the underlying asset is of low value. A lease must now measure right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. The Group is currently the lessee of two non-cancellable operating leases which would be captured under this new standard. They relate to the Sydney and Brisbane offices with have future minimum lease payments totalling \$2,527,000. The Group is also the lessee of four existing finance leases which relate to the land of certain investment properties. The application of the Standard is not expected to have any material impact on these finance leases

Other new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for the current reporting period. These are not expected to have any material impact on the Trusts' financial reporting in future reporting periods.

(bb) Current versus non-current classification

The Trusts present assets and liabilities in the balance sheet based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Trusts classify all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

2. Accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Responsible Entity to exercise its judgement in the process of applying the Trusts' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Trusts make estimates and assumptions concerning the future. The resulting accounting estimates, by definition, will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Valuation of investment property

The Trusts have investment properties with a combined carrying amount of \$710,746,000 (2015: \$601,326,000) (refer Note 7 and 10), and combined retirement village residents' loans of \$207,483,000 (2015: \$203,919,000) (refer Note 7 and 15) which together represent the estimated fair value of the Trusts interest in retirement villages.

These carrying amounts reflect certain assumptions about expected future rentals, rent-free periods, operating costs and appropriate discount and capitalisation rates. The valuation assumptions for deferred management fee villages reflect assumptions relating to average length of stay, unit market values, estimates of capital expenditure, contract terms with residents, discount rates and projected property growth rates. The valuation assumption for properties to be developed reflect assumptions around sales prices for new homes, sales rates, new rental tariffs, estimates of capital expenditure, discount rates and projected property growth rates.

In forming these assumptions, the Responsible Entity considered information about current and recent sales activity, current market rents, and discount and capitalisation rates, for properties similar to those owned by the Trusts, as well as independent valuations of the Trusts' property.

(ii) Fair value of derivatives

The fair value of derivative assets and liabilities is based on assumptions of future events and involves significant estimates. Given the complex nature of these instruments and various assumptions that are used in calculating mark-to-market values, the Trusts rely on counterparty valuations for derivative values. The counterparty valuations are usually based on mid-market rates and calculated using the main variables including the forward market curve, time and volatility.

(iii) Valuation of assets acquired in business combinations

Upon recognising the acquisition, management uses estimations and assumptions of the fair value of assets and liabilities assumed at the date of acquisition, including judgements related to valuation of investment property as discussed above.

(iv) Valuation of retirement village resident loans

The fair value of the retirement village resident loans is calculated by reference to the initial loan amount plus the resident's share of any capital gains in accordance with their contracts less any deferred management fee income accrued to date by the operator. The key assumption for calculating the capital gain and deferred management fee income components is the value of the dwelling being occupied by the resident. This value is determined by reference to the valuation of investment property as referred to above.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

2. Accounting estimates and judgements (continued)

(v) Calculation of deferred management fee (“DMF”)

Deferred management fees are recognised by the Trusts over the estimated period of time the property will be leased by the resident and the accrued DMF is realised upon exit of the resident. The accrued DMF is based on various inputs including the initial price of the property, estimated length of stay of the resident, various contract terms and projected price of property at time of re-leasing.

(a) Critical judgements in applying the entity’s accounting policies

There were no judgements, apart from those involving estimations, that management has made in the process of applying the entity’s accounting policies that had a significant effect on the amounts recognised in the financial report.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

3. Segment information

(a) Description of segments

The Trusts invest predominantly in rental properties located in Australia with three reportable segments:

- Ingenia Garden Villages – rental communities;
- Ingenia Settlers – deferred management fee communities; and
- Ingenia Lifestyle & Holidays – lifestyle communities comprising permanent and tourism accommodation and the development and sale of manufactured homes.

The Trusts have identified their operating segments based on the internal reports that are reviewed and used by the chief operating decision maker in assessing performance and in determining the allocation of resources. Other parts of the Trusts are neither operating segments nor part of an operating segment. Assets that do not belong to an operating segment are described below as “unallocated”.

(b) Ingenia Communities Fund - 2016

| | Lifestyle & Holidays \$'000 | Settlers \$'000 | Garden Villages \$'000 | Corporate/ Unallocated \$'000 | Total \$'000 |
|---|-----------------------------------|--------------------|------------------------------|-------------------------------------|-----------------|
| (i) Segment revenue | | | | | |
| External segment revenue | 384 | - | 8,717 | - | 9,101 |
| Interest income | - | - | - | 17,105 | 17,105 |
| Total revenue | 384 | - | 8,717 | 17,105 | 26,206 |
| (ii) Segment underlying profit | | | | | |
| External segment revenue | 384 | - | 8,717 | - | 9,101 |
| Interest income | - | - | - | 17,105 | 17,105 |
| Property expenses | - | - | (3) | (219) | (222) |
| Administration expenses | - | - | - | (170) | (170) |
| Finance expense | - | - | - | (5,367) | (5,367) |
| Depreciation and amortisation expense | - | - | - | (24) | (24) |
| Underlying profit/(loss) – continuing operations | 384 | - | 8,714 | 11,325 | 20,423 |
| Reconciliation of underlying profit to profit from continuing operations: | | | | | |
| Net foreign exchange gain | - | - | - | 422 | 422 |
| Net gain/(loss) on change in fair value of: | | | | | |
| Investment properties | 206 | - | 7,462 | - | 7,668 |
| Derivatives | - | - | - | (414) | (414) |
| Responsible Entity fees | - | - | - | (2,244) | (2,244) |
| Profit from continuing operations per the consolidated statement of comprehensive income | 590 | - | 16,176 | 9,089 | 25,855 |
| (iii) Segment assets | 7,751 | 63,690 | 91,362 | 328,815 | 491,618 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

3. Segment information (continued)

(c) Ingenia Communities Fund - 2015

| | Lifestyle & Holidays \$'000 | Settlers \$'000 | Garden Villages \$'000 | Corporate/ Unallocated \$'000 | Total \$'000 |
|---|-----------------------------------|--------------------|------------------------------|-------------------------------------|-----------------|
| (i) Segment revenue | | | | | |
| External segment revenue | 384 | - | 9,336 | - | 9,720 |
| Interest income | - | - | - | 14,564 | 14,564 |
| Total revenue | 384 | - | 9,336 | 14,564 | 24,284 |
| (ii) Segment underlying profit | | | | | |
| External segment revenue | 384 | - | 9,336 | - | 9,720 |
| Interest income | - | - | - | 14,564 | 14,564 |
| Property expenses | - | - | (2) | (325) | (327) |
| Administration expenses | - | - | - | (506) | (506) |
| Operational, marketing and selling expenses | - | - | - | (648) | (648) |
| Finance Expense | - | - | - | (3,601) | (3,601) |
| Depreciation and amortisation expense | - | - | - | (117) | (117) |
| Underlying profit/(loss) – continuing operations | 384 | - | 9,334 | 9,367 | 19,085 |
| Reconciliation of underlying profit to profit from continuing operations: | | | | | |
| Net foreign exchange gain | - | - | - | 107 | 107 |
| Net gain/(loss) on disposal of investment property | - | (2,013) | 324 | - | (1,689) |
| Net gain/(loss) on change in fair value of: | | | | | |
| Investment properties | (7) | (5) | 15,934 | - | 15,922 |
| Derivatives | - | - | - | 164 | 164 |
| Responsible Entity fees | - | - | - | (1,676) | (1,676) |
| Profit from continuing operations per the consolidated statement of comprehensive income | 377 | (2,018) | 25,592 | 7,962 | 31,913 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

3. Segment information (continued)

(d) Ingenia Communities Management Trust - 2016

| | Lifestyle & Holidays \$'000 | Settlers \$'000 | Garden Villages \$'000 | Corporate/ Unallocated \$'000 | Total \$'000 |
|---|-----------------------------------|--------------------|------------------------------|-------------------------------------|-----------------|
| (i) Segment revenue | | | | | |
| External segment revenue | 73,966 | 6,950 | 27,517 | 68 | 108,501 |
| Interest Income | - | - | - | 14 | 14 |
| Reclassification of gain on revaluation of newly constructed villages | - | (1,526) | - | - | (1,526) |
| Total revenue | 73,966 | 5,424 | 27,517 | 82 | 106,989 |
| (ii) Segment underlying profit | | | | | |
| External segment revenue | 73,966 | 6,950 | 27,517 | 68 | 108,501 |
| Interest income | - | - | - | 14 | 14 |
| Property expenses | (11,801) | (1,435) | (16,844) | - | (30,080) |
| Employee expenses | (14,257) | (1,053) | (7,154) | 79 | (22,385) |
| Administration expenses | (1,911) | (147) | (875) | 112 | (2,821) |
| Operational, marketing and selling expenses | (2,023) | (437) | (910) | 12 | (3,358) |
| Manufactured home cost of sales | (21,729) | - | - | - | (21,729) |
| Service station expenses | (5,862) | - | - | - | (5,862) |
| Finance expense | (1,602) | (782) | (2,016) | (13,541) | (17,941) |
| Income tax benefit | - | - | - | 2,623 | 2,623 |
| Depreciation and amortisation expense | (374) | (6) | (38) | - | (418) |
| Underlying profit/(loss) – continuing operations | 14,407 | 3,090 | (320) | (10,633) | 6,544 |
| Reconciliation of underlying profit to profit from continuing operations: | | | | | |
| Net foreign exchange gain | - | - | - | 45 | 45 |
| Net gain/(loss) on disposal of investment property | - | (638) | - | - | (638) |
| Net gain/(loss) on change in fair value of: | | | | | |
| Investment properties | (2,489) | 2,317 | - | - | (172) |
| Retirement village resident loans | - | (1,388) | - | - | (1,388) |
| Loss on revaluation of newly constructed villages | - | (1,526) | - | - | (1,526) |
| Responsible Entity fees | - | - | - | (2,693) | (2,693) |
| Income tax benefit associated with reconciliation items | - | - | - | (116) | (116) |
| Profit from continuing operations per the consolidated statement of comprehensive income | 11,918 | 1,855 | (320) | (13,397) | 56 |
| (iii) Segment assets | 325,390 | 253,363 | 6,013 | 4,538 | 589,304 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

3. Segment information (continued)

(e) Ingenia Communities Management Trust - 2015

| | Lifestyle & Holidays \$'000 | Settlers \$'000 | Garden Villages \$'000 | Corporate/ Unallocated \$'000 | Total \$'000 |
|---|-----------------------------------|--------------------|------------------------------|-------------------------------------|-----------------|
| (i) Segment revenue | | | | | |
| External segment revenue | 38,797 | 11,124 | 28,183 | - | 78,104 |
| Interest Income | - | - | - | 7 | 7 |
| Reclassification of gain on revaluation of newly constructed villages | - | (2,422) | - | - | (2,422) |
| Total revenue | 38,797 | 8,702 | 28,183 | 7 | 75,689 |
| (ii) Segment underlying profit | | | | | |
| External segment revenue | 38,797 | 11,124 | 28,183 | - | 78,104 |
| Interest income | - | - | - | 7 | 7 |
| Property expenses | (8,089) | (1,562) | (17,721) | - | (27,372) |
| Employee expenses | (6,657) | (779) | (9,599) | (26) | (17,061) |
| Administration expenses | (746) | (57) | (1,317) | (569) | (2,689) |
| Operational, marketing and selling expenses | (1,559) | (283) | (1,306) | (2) | (3,150) |
| Manufactured home cost of sales | (9,256) | - | - | - | (9,256) |
| Service station expenses | (1,910) | - | - | - | (1,910) |
| Finance expense | - | - | - | (15,144) | (15,144) |
| Income Tax Expense | - | - | - | 2,734 | 2,734 |
| Depreciation expense | (34) | - | (226) | - | (260) |
| Underlying profit/(loss) – continuing operations | 10,546 | 8,443 | (1,986) | (13,000) | 4,003 |
| Reconciliation of underlying profit to profit from continuing operations: | | | | | |
| Net gain/(loss) on disposal of investment property | (23) | 1,648 | (5) | - | 1,620 |
| Net gain/(loss) on change in fair value of: | | | | | |
| Investment properties | (2,812) | 3,277 | 17 | - | 482 |
| Retirement village resident loans | - | (8,878) | - | - | (8,878) |
| Loss on revaluation of newly constructed villages | - | (2,422) | - | - | (2,422) |
| Responsible Entity fees | - | - | - | (2,165) | (2,165) |
| Income tax benefit associated with reconciliation items | - | - | - | 3,286 | 3,286 |
| Profit from continuing operations per the consolidated statement of comprehensive income | 7,711 | 2,068 | (1,974) | (11,879) | (4,074) |
| (iii) Segment assets | | | | | |
| Segment assets | 220,961 | 184,880 | 5,429 | 5,198 | 416,468 |
| Assets held for sale | - | - | - | - | 61,598 |
| Total assets | | | | | 478,066 |

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4. Earnings per unit

| Earnings per Unit | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|---------------------------------|-------------|---|-------------|
| | 2016 | 2015 | 2016 | 2015 |
| Profit/(loss) from continuing operations (\$'000) | 25,855 | 31,913 | 56 | (4,074) |
| Profit/(loss) from discontinued operations (\$000) | (3,874) | 2,587 | - | (3,854) |
| Net profit/(loss) for the year (\$000) | 21,981 | 34,500 | 56 | (7,928) |
| Weighted average number of units outstanding (thousands): | | | | |
| - Issued units | 150,408 | 136,944 | 150,408 | 136,944 |
| Dilutive units | | | | |
| - Performance quantum rights | 619 | 470 | 619 | 470 |
| - Long-term incentive rights | 269 | - | 269 | - |
| - Short-term incentive rights | 56 | - | 56 | - |
| Weighted average number of issued and dilutive potential units outstanding (thousands) | 151,353 | 137,414 | 151,353 | 137,414 |
| Basic earnings per unit from continuing operations (cents) | 17.2 | 23.3 | - | (3.0) |
| Basic earnings per unit from discontinued operations (cents) | (2.6) | 1.9 | - | (2.8) |
| Basic earnings per unit (cents) | 14.6 | 25.2 | 0.0 | (5.8) |
| Dilutive earnings per unit from continuing operations (cents) | 17.1 | 23.2 | - | (3.0) |
| Dilutive earnings per unit from discontinued operations (cents) | (2.6) | 1.9 | - | (2.8) |
| Dilutive earnings per security (cents) | 14.5 | 25.1 | 0.0 | (5.8) |

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5. Income tax benefit

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| (a) Income tax benefit | | | | |
| Current tax | - | - | - | - |
| Increase in deferred tax asset | - | - | 2,507 | 6,019 |
| Income tax benefit | - | - | 2,507 | 6,019 |
| (b) Reconciliation between tax expense and pre-tax net profit | | | | |
| Profit/(loss) before income tax | 21,981 | 34,500 | (2,451) | (10,093) |
| Less amounts not subject to Australian income tax | (21,981) | (34,500) | - | - |
| | - | - | (2,451) | (10,093) |
| Income tax at the Australian tax rate of 30% (2015: 30%) | - | - | 735 | 3,028 |
| Tax effect of amounts which are not (deductible)/ taxable in calculating taxable income: | | | | |
| Prior period income tax return true-ups | - | - | 330 | 173 |
| Movement in carrying value and tax cost base of investment properties | - | - | 1,399 | 1,385 |
| Movements in carrying value and tax cost base of DMF receivables | - | - | (59) | 1,683 |
| Non deductible expenses | - | - | 102 | (250) |
| Income tax benefit | - | - | 2,507 | 6,019 |

(c) Tax consolidation

Effective from 1 July 2012, ICMT and its Australian domiciled owned subsidiaries formed a tax consolidation group with the ICMT being the head entity. Under the tax funding agreement the funding of tax within the tax group is based on taxable income as if that entity was not a member of the tax group.

Upon entering into the ICMT tax consolidated group, the tax cost bases for certain assets were reset resulting in income tax benefits being recorded. In addition, unrecognised losses incurred by entities within the ICMT tax consolidated group are now available for utilisation by the ICMT tax consolidated group.

6. Discontinued operations

The Trusts completed the sale of the New Zealand Students business in December 2014. Accordingly there were no results of discontinued operations for 2016 other than a non cash write-down of investment totalling \$3,874,000 within ICF. The 2015 prior year comparative results of the Trusts disposed of or classified as discontinued operations were: profit of \$2,587,000 (ICF) and loss of \$3,854,000 (ICMT), along with a net cash outflows of \$1,657,000.

7. Assets and liabilities held for sale

As disclosed at 31 December 2015, the five Settlers assets held-for-sale at 30 June 2015 were deemed to no longer meet the required criteria to continue such classification. Accordingly, the assets were transferred back to investment property (\$61,598,000), and the associated loans were transferred back to retirement village resident loans (\$42,041,000).

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Notes to the financial statements
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8. Trade and other receivables

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Current | | | | |
| Rental and other amounts due | - | - | 5,882 | 3,772 |
| Finance lease receivable from stapled entity | 2,599 | 2,643 | - | - |
| Other receivables | - | - | 802 | 332 |
| Total current trade and other receivables | 2,599 | 2,643 | 6,684 | 4,104 |
| Non-current | | | | |
| Finance lease receivable from stapled entity | 28,978 | 28,862 | - | - |
| Other receivables | 2,840 | 2,539 | 300 | 110 |
| Total non-current trade and other receivables | 31,818 | 31,401 | 300 | 110 |

Rental amounts due are typically paid in advance and other amounts due are receivable within 30 days.

ICF has leased a number of its properties to ICMT under leases that are classified as finance leases. The remaining term of each agreement varies between 91 and 114 years. There are no purchase options. Minimum payments under the agreements and their present values are:

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Minimum lease payments receivable: | | | | |
| Not later than one year | 2,599 | 2,643 | - | - |
| Later than one year and not later than five years | 10,573 | 10,573 | - | - |
| Later than five years | 237,447 | 240,091 | - | - |
| | 250,619 | 253,307 | - | - |
| Unearned finance income | (219,042) | (221,802) | - | - |
| Net present value of minimum lease payments | 31,577 | 31,505 | - | - |
| Net present value of minimum lease payments receivable: | | | | |
| Not later than one year | 2,526 | 2,526 | - | - |
| Later than one year and not later than five years | 8,295 | 8,222 | - | - |
| Later than five years | 20,756 | 20,757 | - | - |
| | 31,577 | 31,505 | - | - |
| Finance income recognised and included in interest income in the income statement | 2,599 | 2,642 | - | - |

Information about the related finance lease payable by ICMT is given in Note 25

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
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9. Inventories

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|-----------------------------------|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Carrying values: | | | | |
| Manufactured homes: | | | | |
| - Completed | - | - | 11,140 | 7,975 |
| - Under Construction | - | - | 6,331 | 4,900 |
| Service station fuel and supplies | - | - | 194 | 333 |
| Total Inventories | - | - | 17,665 | 13,208 |

The manufactured homes balance includes:

- 60 new completed homes (2015: 53)
- 7 refurbished/renovated completed homes (2015: nil)
- 31 new homes under construction (2015: 85)
- 3 refurbished/renovated under construction homes (2015: nil)

10. Investment properties

| (a) Summary of carrying amounts | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Completed properties | 162,795 | 152,142 | 482,456 | 361,984 |
| Properties under development | - | 1,292 | 65,495 | 24,310 |
| Total investment properties | 162,795 | 153,434 | 547,951 | 386,294 |
| (b) Movements in carrying amounts | | | | |
| Completed investment property | | | | |
| Carrying amount at beginning of period | 153,434 | 134,488 | 386,294 | 364,375 |
| Acquisitions | - | - | 81,536 | 78,152 |
| Expenditure capitalised | 1,451 | 2,149 | 18,495 | 12,207 |
| Disposals | - | 875 | - | (7,165) |
| Net transfer from/(to) inventory | 242 | - | 200 | (159) |
| Net gain/(loss) on change in fair value | 7,668 | 15,922 | (172) | 482 |
| Transferred from/(to) assets held for sale | - | - | 61,598 | (61,598) |
| Carrying amount at end of the period | 162,795 | 153,434 | 547,951 | 386,294 |

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10. Investment properties (continued)

Capitalisation method

Under the capitalisation method, fair value is estimated using assumptions regarding the expectation of future benefits. The capitalisation method involves estimating the expected income projections of the property and applying a capitalisation rate into perpetuity. The capitalisation rate is based on current market evidence. Future income projections take into account occupancy, rental income and operating expenses.

Discounted cash flow method

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield normally reflects the exit value expected to be achieved upon selling the asset and is a function of the risk adjusted returns of the asset and expected capitalisation rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment as well as the development of new units. The appropriate duration is typically driven by market behaviour that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net underlying cash flows, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

11. Plant and equipment

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| (a) Summary of carrying amounts | | | | |
| Plant and equipment | 431 | 423 | 1,800 | 1,169 |
| Less: accumulated depreciation | (326) | (301) | (782) | (710) |
| Total plant and equipment | 105 | 122 | 1,018 | 459 |
| (b) Movements in carrying amount | | | | |
| Carrying amount at beginning of year | 122 | 239 | 459 | 180 |
| Assets written off | - | - | - | (118) |
| Additions | 5 | - | 631 | 499 |
| Depreciation expense | (24) | (117) | (72) | (102) |
| Carrying amount at end of year | 103 | 122 | 1,018 | 459 |

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12. Intangibles

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| (a) Summary of carrying amounts | | | | |
| Software & development | 2 | 2 | 2,385 | 1,734 |
| Less: accumulated amortisation | - | - | (423) | (157) |
| Total intangibles | 2 | 2 | 1,962 | 1,577 |
| (b) Movements in carrying amount | | | | |
| Carrying amount at beginning of year | 2 | - | 1,577 | - |
| Additions | - | 2 | 731 | 1,734 |
| Amortisation expense | - | - | (346) | (157) |
| Carrying amount at end of year | 2 | 2 | 1,962 | 1,577 |

13. Trade and other payables

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|------------------------------------|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Current liabilities | | | | |
| Trade payables and accruals | 1,266 | 1,200 | 9,157 | 7,759 |
| Deposits | - | - | 2,841 | 1,184 |
| Other unearned income | - | - | 1,670 | 342 |
| Deferred acquisition consideration | - | - | 8,500 | 3,500 |
| Total current liabilities | 1,266 | 1,200 | 22,168 | 12,785 |
| Non-current liabilities | | | | |
| Deferred acquisition consideration | - | - | 6,770 | 14,770 |

14. Borrowings

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|-------------------------------------|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Current liabilities | | | | |
| Finance leases | - | - | 2,962 | 2,817 |
| Non-current liabilities | | | | |
| Bank debt | 99,100 | 63,900 | - | - |
| Prepaid borrowing costs | (1,336) | (1,683) | - | - |
| Finance leases | - | - | 34,905 | 33,252 |
| Total non-current borrowings | 97,764 | 62,217 | 34,905 | 33,252 |

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14. Borrowings (continued)

(a) Bank debt

On 18 February 2016, the Group increased its Australian debt facility limit by \$25.0 million. The additional facility matures 12 February 2020 and uses the existing facility covenants and pricing.

The total \$200.0 million multi-lateral debt facility is with three Australian banks. The facility maturity dates are:

- 12 February 2018 (\$100.0 million); and
- 12 February 2020 (\$100.0 million)

As at 30 June 2016 the facility has been drawn to \$99.1 million (30 June 2015: \$63.9 million). The carrying value of investment property net of resident liabilities at reporting date for the Group's Australian properties pledged as security is \$470.3 million (30 June 2015: \$363.7 million).

(b) Bank guarantees

The Group has the ability to utilise its bank facility to provide bank guarantees, which at 30 June 2016 were \$26.2 million (2015: \$28.8 million).

(c) Finance leases

Subsidiaries of ICMT have entered into agreements with subsidiaries of ICF. The subject of each agreement is to lease a retirement village. The remaining term of each agreement varies between 91 and 114 years. There are no purchase options.

(i) Minimum lease payments – excluding perpetual lease

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Minimum lease payments: | | | | |
| Within one year | - | - | 3,274 | 2,942 |
| Later than one year but not later than five years | - | - | 13,175 | 11,846 |
| Later than five years | - | - | 244,345 | 243,522 |
| Total minimum lease payments | - | - | 260,794 | 258,310 |
| Future finance charges | - | - | (224,027) | (223,380) |
| Present value of minimum lease payments | - | - | 36,767 | 34,930 |
| Present value of minimum lease payments: | | | | |
| Within one year | - | - | 2,979 | 2,817 |
| Later than one year but not later than five years | - | - | 9,888 | 9,305 |
| Later than five years | - | - | 23,900 | 22,808 |
| | - | - | 36,767 | 34,930 |

(ii) Minimum lease payments – perpetual lease

The perpetual lease is recognised as investment property and non-current liability at a value of \$1.1 million based on a capitalisation rate applicable at the time of acquisition of 10.6% applied to the current lease payment. Payments each period in relation to the lease are recognised as finance expenses in the statement of comprehensive income, therefore, there is no subsequent change to the originally determined present value of the minimum lease payments as calculated above.

As this is a perpetual lease, the lease liability will not amortise and no fair value adjustments in relation to the lease will be recognised unless circumstances of the lease change. Under the terms of the lease, lease payments will continue into perpetuity. The current annual lease payment is \$121,000.

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15. Retirement village resident loans

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| (a) Summary of carrying amounts | | | | |
| Gross resident loans | - | - | 240,473 | 192,898 |
| Accrued deferred management fee | - | - | (32,990) | (31,020) |
| Net resident loans | - | - | 207,483 | 161,878 |
| (b) Movements in carrying amounts | | | | |
| Carrying amount at beginning of year | - | - | 161,878 | 190,122 |
| Net (gain)/loss on change in fair value of resident loans | - | - | 1,388 | 8,878 |
| Accrued deferred management fee income | - | - | (4,222) | (6,788) |
| Deferred management fee cash collected | - | - | 1,211 | 2,056 |
| Proceeds from resident loans | - | - | 11,056 | 19,815 |
| Repayment of resident loans | - | - | (5,757) | (10,543) |
| Transfer from/(to) liabilities held for sale | - | - | 42,041 | (42,041) |
| Other | - | - | (112) | 379 |
| Carrying amount at end of year | - | - | 207,483 | 161,878 |

16. Deferred tax assets and liabilities

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Deferred tax assets | | | | |
| Tax losses | - | - | 18,799 | 15,938 |
| Other | - | - | 1,129 | 1,205 |
| Deferred tax liabilities | | | | |
| DMF receivable | - | - | (8,871) | (7,970) |
| Investment properties | - | - | (3,973) | (4,567) |
| Net deferred tax asset | - | - | 7,084 | 4,606 |
| Deductible temporary differences and carried forward losses tax effected for which no deferred tax asset has been recognised | - | - | 7,500 | 7,500 |

The availability of carried forward tax losses of \$7.5 million to the ICMT tax consolidated group is subject to recoupment rules at the time of recoupment. Further, the rate at which these losses can be utilised is determined by reference to market values at the time of tax consolidation and subsequent events. Accordingly, a portion of these carried forward tax losses may not be available in the future.

The Trusts offset tax assets and liabilities, if and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

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17. Issued units

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| a. Carrying amounts | | | | |
| At beginning of year | 619,285 | 547,642 | 29,026 | 14,097 |
| - DRP | 2,802 | 2,374 | 501 | 464 |
| - Institutional and DRP placement | 59,138 | 36,835 | 4,648 | 7,693 |
| - Rights issue | - | 35,578 | - | 7,430 |
| - Institutional placement and rights issue costs | (2,064) | (3,144) | (158) | (658) |
| At end of year | 679,161 | 619,285 | 34,017 | 29,026 |
| The closing balance is attributable to the unitholders of: | | | | |
| - Ingenia Communities Fund | 679,161 | 619,285 | - | - |
| - Ingenia Communities Management Trust | - | - | 34,017 | 29,028 |
| | 679,161 | 619,285 | 34,017 | 29,028 |
| b. Movements in issued units | | | | |
| | Thousands | Thousands | Thousands | Thousands |
| At beginning and year | 147,118 | 112,708 | 147,118 | 112,708 |
| Issued during the year: | | | | |
| - Retention Quantum Rights | - | 303 | - | 303 |
| - Performance Quantum Rights | 640 | - | 640 | - |
| - Dividend Reinvestment Plan | 2,968 | 1,112 | 2,968 | 1,112 |
| - Institutional Placement | 21,429 | 32,995 | 21,429 | 32,995 |
| At end of year | 172,155 | 147,118 | 172,155 | 147,118 |

(c) Terms of units

All units are fully paid and rank equally with each other for all purposes. Each unit entitles the holder to one vote, in person or by proxy, at a meeting of unitholders.

18. Accumulated losses

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Balance at beginning of year | (296,449) | (320,829) | (15,402) | (7,474) |
| Net profit/(loss) for the year | 21,981 | 34,500 | 56 | (7,928) |
| Distributions | (12,513) | (10,120) | - | - |
| Balance at end of year | (286,981) | (296,449) | (15,346) | (15,402) |
| The closing balance is attributable to the unitholders of: | | | | |
| Ingenia Communities Fund | (286,981) | (296,449) | (6,885) | (6,886) |
| Ingenia Communities Management Trust | - | - | (8,461) | (8,517) |
| | (286,981) | (296,449) | (15,346) | (15,402) |

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19. Commitments

(a) Capital commitments

There were commitments for capital expenditure on investment property and inventory contracted but not provided for at reporting date of \$659,000 (2015: \$7,048,000).

(b) Operating lease commitments

A subsidiary of ICMT has two non-cancellable operating leases for its Sydney and Brisbane offices. Both leases have remaining lives of four years.

Future minimum rentals payable under this lease as at reporting date were:

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Within one year | - | - | 598 | 229 |
| Later than one year but not later than five years | - | - | 1,929 | 744 |
| | - | - | 2,527 | 973 |

(c) Finance lease commitments

Refer to Note 14 for future minimum lease payments payable and the present value of minimum lease payments payable at reporting date for the finance leases relating to investment property.

For commitments for inter-staple related party finance leases refer to Notes 8, 14 and 25

20. Contingencies

There are no known contingent liabilities other than the bank guarantees totalling \$26.2 million provided for under the \$200.0 million bank facility. Bank guarantees primarily relate to deferred acquisition consideration (\$15.0 million) and the Responsible Entity's AFSL capital requirements (\$10.0 million).

21. Capital management

The capital management of ICF and ICMT is not managed separately, but rather, is managed at a consolidated Group level (ICH and subsidiaries).

At the Group level, the aim is to meet strategic objectives and operational needs and to maximise returns to security holders through the appropriate use of debt and equity, while taking account of the additional financial risks of higher debt levels.

In determining the optimal capital structure, the Group takes into account a number of factors, including the views of investors and the market in general, the capital needs of its portfolio, the relative cost of debt versus equity, the execution risk of raising equity or debt, and the additional financial risks of debt including increased volatility of earnings due to exposure to interest rate movements, the liquidity risk of maturing debt facilities and the potential for acceleration prior to maturity.

In assessing this risk, the Group takes into account the relative security of income flows, the predictability of expenses, debt profile, the degree of hedging and the overall level of debt as measured by gearing.

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21. Capital management (continued)

The actual capital structure at a point in time is the product of a number of factors, many of which are market driven and to various degrees outside of the control of the Group, particularly the impact of revaluations, the availability of new equity and the liquidity in real estate markets. While the Group periodically determines the optimal capital structure, the ability to achieve the optimal structure may be impacted by market conditions and the actual position may often differ from the optimal position.

The Group primarily monitors its capital position through the Loan to Value Ratio (LVR) which is a key covenant under the Group's \$200 million multilateral debt facility. LVR is calculated as the sum of bank debt, bank guarantees, finance leases, and interest rate swaps, less cash at bank, as a percentage of the value of properties pledged as security. The Group's strategy is to maintain an LVR range of 30-35%. As at 30 June 2016, LVR is 24.9% compared to 22.6% at 30 June 2015.

In addition the Group also monitors Interest Cover Ratio and Net Debt: Adjusted EBITDA as defined under the multilateral debt facility. At 30 June 2016, the Total Interest Cover Ratio was 4.46; the Core Interest Cover Ratio was 3.73 and Net Debt: Adjusted EBITDA was 4.05.

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22. Financial instruments

(a) Introduction

The Trusts' principal financial instruments comprise receivables, payables, interest bearing liabilities, other financial liabilities, cash and short-term deposits and derivative financial instruments.

The main risks arising from the Trusts' financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Trusts manage the exposure to these risks primarily through the Investments, Derivatives, and Borrowing Policy. The policy sets out various targets aimed at restricting the financial risk taken by the Trusts. Management reviews actual positions of the Trusts against these targets on a regular basis. If the target is not achieved, or the forecast is unlikely to be achieved, a plan of action is, where appropriate, put in place with the aim of meeting the target within an agreed timeframe. Depending on the circumstances of the Trusts at a point in time, it may be that positions outside of the Investments, Derivatives, and Borrowing Policy are accepted and no plan of action is put in place to meet the treasury targets, because, for example, the risks associated with bringing the Trusts into compliance outweigh the benefits. The adequacy of the Investments, Derivatives, and Borrowing Policy in addressing the risks arising from the Trust's financial instruments is reviewed on a regular basis.

While the Trusts aim to meet the Investments, Derivatives, and Borrowing Policy targets, many factors influence the performance, and it is probable that at any one time, not all targets will be met. For example, the Trusts may be unable to negotiate the extension of bank facilities sufficiently ahead of time, so that they fail to achieve their liquidity target. When refinancing loans they may be unable to achieve the desired maturity profile or the desired level of flexibility of financial covenants, because of the cost of such terms or their unavailability. Hedging instruments may not be available, or their cost may outweigh the benefit of risk reduction or they may introduce other risks such as mark to market valuation risk. Changes in market conditions may limit the Trusts ability to raise capital through the issue of units or sale of properties.

The main risks arising from ICMT's financial instruments are interest rate risk, foreign exchange risk, credit risk and liquidity risk. These risks are not separately managed. Management of these risks for the ICF may result in consequential changes for ICMT.

(b) Interest rate risk

The Trusts' exposure to the risk of changes in market interest rates arises primarily from its use of borrowings. The main consequence of adverse changes in market interest rates is higher interest costs, reducing the Trust's profit. In addition, one or more of the Trust's loan agreements may include minimum interest cover covenants. Higher interest costs resulting from increases in market interest rates may result in these covenants being breached, providing the lender the right to call in the loan or to increase the interest rate applied to the loan.

The Trusts manage the risk of changes in market interest rates by maintaining an appropriate mix of fixed and floating rate borrowings. Fixed rate debt is achieved either through fixed rate debt funding or through derivative financial instruments permitted under the Investments, Derivatives, and Borrowing Policy. The policy sets minimum and maximum levels of fixed rate exposure over a ten-year time horizon.

At 30 June 2016, after taking into account the effect of interest rate swaps, approximately 28% of ICF's borrowings are at a fixed rate of interest (2015: 28%).

Exposure to changes in market interest rates also arises from financial assets such as cash deposits and loan receivables subject to floating interest rate terms. Changes in market interest rates will also change the fair value of any interest rate hedges.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

22. Financial instruments (continued)

(c) Interest rate risk exposure

ICF's exposure to interest rate risk and the effective interest rates on financial instruments were:

| \$'000 | Ingenia Communities Fund | | | | |
|--|---------------------------------|------------------------------------|--------------------------|--------------------------|--------------|
| | Floating | Fixed interest maturing in: | | | Total |
| 2016 | interest rate | Less than 1 year | One to five Years | More than 5 years | |
| Financial assets | | | | | |
| Cash at bank | 8,329 | - | - | - | 8,329 |
| Financial liabilities | | | | | |
| Bank debt denominated in AUD | 99,100 | - | - | - | 99,100 |
| Interest rate swaps: denominated in AUD; Fund pays fixed rate | (44,000) | - | 44,000 | - | - |
| 2015 | | | | | |
| Financial assets | | | | | |
| Cash at bank | 8,966 | - | - | - | 8,966 |
| Financial liabilities | | | | | |
| Bank debt denominated in AUD | 63,900 | - | - | - | 63,900 |
| Interest rate swaps: denominated in AUD; Fund pays fixed rate | (18,000) | 18,000 | - | - | - |

ICMT's exposure to interest rate risk and the effective interest rates on financial instruments at reporting date were:

| \$'000 | Ingenia Communities Management Trust | | | | |
|--|---|------------------------------------|--------------------------|--------------------------|--------------|
| | Floating | Fixed interest maturing in: | | | Total |
| 2016 | Interest Rate | Less than 1 year | One to five Years | More than 5 years | |
| Financial assets | | | | | |
| Cash at bank | 6,621 | - | - | - | 6,621 |
| Financial liabilities | | | | | |
| Finance leases (excluding perpetual lease) | - | 497 | 1,832 | 2,899 | 5,228 |
| 2015 | | | | | |
| Financial assets | | | | | |
| Cash at bank | 6,094 | - | - | - | 6,094 |
| Financial liabilities | | | | | |
| Finance leases (excluding perpetual lease) | - | 2,817 | 9,305 | 22,808 | 34,930 |

Other financial instruments of the Trusts not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

(d) Interest rate sensitivity analysis

The impact of an increase or decrease in average interest rates of 1% (100 basis points) at reporting date, with all other variables held constant, is illustrated in the tables below. This analysis is based on the interest rate risk exposures in existence at balance sheet date. As the Trusts have no derivatives that meet the documentation requirements to qualify for hedge accounting, there would be no impact on unitholders' interest (apart from the effect on profit).

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

22. Financial instruments (continued)

(d) Interest rate sensitivity analysis (continued)

| | Effect on profit after tax | | | |
|--|----------------------------|--------|--------------------------------------|--------|
| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
| | Higher/(lower) | | Higher/(lower) | |
| | 2016 | 2015 | 2016 | 2015 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| (i) Increase in average interest rates of 1% | | | | |
| Variable interest rate instruments denominated in: | | | | |
| Australian dollars | (991) | (639) | - | - |
| Interest rate swaps denominated in: | | | | |
| Australian dollars | 1,238 | - | - | - |
| (ii) Decrease in average interest rates of 1% | | | | |
| Variable interest rate instruments denominated in: | | | | |
| Australian dollars | 991 | 639 | - | - |
| Interest rate swaps denominated in: | | | | |
| Australian dollars | (735) | - | - | - |

(e) Foreign exchange risk

The Trusts' exposure to foreign exchange risk is limited to foreign denominated cash balances and receivables following the divestment of its final overseas operations in December 2014. These amounts are unhedged as cash will be used to cover final costs to wind up the companies and receivables relate to escrows.

(f) Net foreign currency exposure

| | Net foreign currency asset/(liability) | | | |
|--|--|--------------|--------------------------------------|----------|
| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
| | 2016 | 2015 | 2016 | 2015 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Net foreign currency exposure: | | | | |
| United States dollars | 3,479 | 3,491 | - | - |
| New Zealand dollars | 289 | 473 | - | - |
| Total net foreign currency assets | 3,768 | 3,964 | - | - |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

22. Financial instruments (continued)

(g) Foreign exchange sensitivity analysis

The impact of an increase or decrease in average foreign exchange rates of 10% at reporting date, with all other variables held constant, is illustrated in the tables below. This analysis is based on the foreign exchange risk exposures in existence at balance sheet date.

| | Effect on profit after tax | | | |
|---|----------------------------|----------------|--------------------------------------|----------------|
| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
| | Higher/(lower) | | Higher/(lower) | |
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| (i) Effect of appreciation in Australian dollar of 10%: | | | | |
| Foreign exchange risk exposures denominated in: | | | | |
| United States dollars | (316) | (317) | - | - |
| New Zealand dollars | (26) | (43) | - | - |
| (ii) Effect of depreciation in Australian dollar of 10%: | | | | |
| Foreign exchange risk exposures denominated in: | | | | |
| United States dollars | 387 | 388 | - | - |
| New Zealand dollars | 32 | 53 | - | - |

(h) Credit risk

Credit risk refers to the risk that a counterparty defaults on its contractual obligations resulting in a financial loss to the Trusts.

The major credit risk for the Trusts is default by tenants, resulting in a loss of rental income while a replacement tenant is secured and further loss if the rent level agreed with the replacement tenant is below that previously paid by the defaulting tenant.

The Trusts assess the credit risk of prospective tenants, the credit risk of in-place tenants when acquiring properties and the credit risk of existing tenants renewing upon expiry of their leases. Factors taken into account when assessing credit risk include the financial strength of the prospective tenant and any form of security, for example a rental bond, to be provided.

The decision to accept the credit risk associated with leasing space to a particular tenant is balanced against the risk of the potential financial loss of not leasing up vacant space.

Rent receivable balances are monitored on an ongoing basis and arrears actively followed up in order to reduce, where possible, the extent of any losses should the tenant subsequently default.

The Responsible Entity believes that the Trusts' receivables that are neither past due nor impaired do not give rise to any significant credit risk.

Credit risk also arises from deposits placed with financial institutions and derivatives contracts that may have a positive value to the Trusts. The Trusts' investment, derivatives, and borrowing policy sets target limits for credit risk exposure with financial institutions and minimum counterparty credit ratings. Counterparty exposure is measured as the aggregate of all obligations of any single legal entity or economic entity to the Trusts, after allowing for appropriate set offs which are legally enforceable.

The Trust's maximum exposure to credit risk at reporting date in relation to each class of financial instrument is the carrying amount as reported in the balance sheet.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

22. Financial instruments (continued)

(i) Liquidity risk

The main objective of liquidity risk management is to reduce the risk that the Trusts do not have the resources available to meet their financial obligations and working capital and committed capital expenditure requirements. The Trust's investment, derivatives, and borrowing policy sets a target for the level of cash and available undrawn debt facilities to cover future committed expenditure in the next year, loan maturities within the next year and an allowance for unforeseen events such as tenant default.

The Trusts may also be exposed to contingent liquidity risk under term loan facilities, where term loan facilities include covenants which if breached give the lender the right to call in the loan, thereby accelerating a cash flow which otherwise was scheduled for the loan maturity. The Trusts monitor adherence to loan covenants on a regular basis, and the investment, derivatives, and borrowing policy sets targets based on the ability to withstand adverse market movements and remain within loan covenant limits.

The Trusts monitor the debt expiry profile and aims to achieve debt maturities below a target level of total committed debt facilities, where possible, to reduce refinance risk in any one year.

The contractual maturities of the Trusts' non-derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the liabilities including interest at market rates. Foreign currencies have been converted at rates of exchange ruling at reporting date.

Although the expected average residency term is more than ten years, retirement village residents' loans are classified as current liabilities, as required by Accounting Standards, because the Trusts do not have an unconditional right to defer settlement to more than twelve months after reporting date.

| | Ingenia Communities Fund | | | Total |
|--------------------------|---------------------------------|-------------------------|----------------------------------|----------------|
| | Less than 1 year | 1 to 5 years | More than 5 years | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2016 | | | | |
| Trade and other payables | 1,266 | - | - | 1,266 |
| Borrowings | 4,572 | 38,153 | 65,711 | 108,436 |
| | 5,838 | 38,153 | 65,711 | 109,702 |
| 2015 | | | | |
| Trade and other payables | 1,200 | - | - | 1,200 |
| Borrowings | 2,731 | 68,344 | - | 71,075 |
| | 3,931 | 68,344 | - | 72,275 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

22. Financial instruments (continued)

(h) Liquidity risk (continued)

| | Ingenia Communities Management Trust | | | |
|--|---|-------------------------|----------------------------------|----------------------------|
| | Less than 1 year | 1 to 5 years | More than 5 years | Total⁽¹⁾ |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2016 | | | | |
| Trade and other payables | 22,168 | 6,770 | - | 28,938 |
| Retirement village resident loans | 207,483 | - | - | 207,483 |
| Finance leases (excluding perpetual lease) | 3,153 | 12,692 | 243,824 | 259,670 |
| Finance lease (perpetual lease) ⁽²⁾ | 121 | 483 | - | 604 |
| Provisions | 1,382 | 227 | - | 1,609 |
| | 234,307 | 20,172 | 243,824 | 498,304 |
| 2015 | | | | |
| Trade and other payables | 12,785 | 14,770 | - | 27,555 |
| Retirement village resident loans | 161,878 | - | - | 161,878 |
| Borrowings (excluding perpetual lease) | 2,942 | 11,846 | 243,522 | 258,310 |
| Finance lease (perpetual lease) ⁽²⁾ | 121 | 483 | - | 604 |
| Provisions | 830 | 177 | 71 | 1,078 |
| Liabilities held for sale | 42,041 | - | - | 42,041 |
| | 220,597 | 27,276 | 243,593 | 491,466 |

⁽¹⁾ Excludes related party loans.

⁽²⁾ For purposes of the table above, the lease payments are included for five years for the perpetual lease. Refer to Note 25

The contractual maturities of ICF's derivative financial liabilities at reporting date are reflected in the following table. It shows the undiscounted contractual cash flows required to discharge the instruments at market rates.

| | Ingenia Communities Fund | | | |
|--------------------------------------|---------------------------------|-------------------------|----------------------------------|---------------|
| | Less than 1 year | 1 to 5 years | More than 5 years | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 2016 | | | | |
| Liabilities | | | | |
| Derivative liabilities – net settled | 121 | 287 | - | 408 |
| 2015 | | | | |
| Liabilities | | | | |
| Derivative liabilities – net settled | 3 | - | - | 3 |

ICMT did not have any derivative financial liabilities at either 30 June 2016 or 30 June 2015.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

22. Financial instruments (continued)

(i) Other financial instrument risk

The Trusts carry retirement village residents' loans at fair value with resulting fair value adjustments recognised in the income statement. The fair value of these loans is dependent on market prices for the related retirement village units. The impact of an increase or decrease in these market prices of 10% at reporting date, with all other variables held constant, is shown in the table below. This analysis is based on the retirement village residents' loans in existence at reporting date.

| | Effect on profit after tax | | | |
|---|----------------------------|----------------|--------------------------------------|----------------|
| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
| | Higher/(lower) | | Higher/(lower) | |
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Increase in market prices of investment properties of 10% | - | - | (24,047) | (19,290) |
| Decrease in market prices of investment properties of 10% | - | - | 24,047 | 19,290 |

These effects are largely offset by corresponding changes in the fair value of the Trusts' investment properties. The effect on unitholders' interest would have been the same as the effect on profit.

23. Fair value measurement

(a) Ingenia Communities Fund

The following table provides the fair value measurement hierarchy of Ingenia Communities Fund assets and liabilities:

| Ingenia Communities Fund | | Fair value measurement using: | | | |
|--|----------------------------------|-------------------------------|--|--|--|
| | | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| (i) Assets Measured at Fair Value | Date of valuation | \$'000 | \$'000 | \$'000 | \$'000 |
| 2016 | | | | | |
| Investment properties | 30 June 2016 Refer to Note 10 | 162,795 | - | - | 162,795 |
| 2015 | | | | | |
| Investment properties | 30 June 2015 Refer to Note 10 | 153,434 | - | - | 153,434 |
| (ii) Liabilities Measured at Fair Value | | | | | |
| 2016 | | | | | |
| Derivatives | | 408 | - | 408 | - |
| 2015 | | | | | |
| Derivatives | | 3 | - | 3 | - |

There have been no transfers between Level 1 and Level 2 during the year.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

23. Fair value measurement (continued)

(b) Ingenia Communities Management Trust

The following table provides the fair value measurement hierarchy of Ingenia Communities Management Trust assets and liabilities:

| Ingenia Communities Management Trust | | Fair value measurement using: | | | |
|--|----------------------------------|--|--|--|-----------------|
| | | Quoted prices in active markets (Level 1) \$'000 | Significant observable inputs (Level 2) \$'000 | Significant unobservable inputs (Level 3) \$'000 | Total \$'000 |
| a. Assets Measured at Fair Value | | | | | |
| 30 June 2016 | Date of valuation | | | | |
| Investment properties | 30 June 2016 Refer to Note 10 | 547,951 | - | - | 547,951 |
| 30 June 2015 | | | | | |
| Investment properties | 30 June 2015 Refer to Note 10 | 386,294 | - | - | 386,294 |
| Assets held for sale - investment property | 30 June 2015 Refer to Note 7 | 61,598 | - | 61,598 | - |
| b. Liabilities Measured at Fair Value | | | | | |
| 30 June 2016 | | | | | |
| Retirement village resident loans | 30 June 2016 Refer to Note 15 | 207,483 | - | - | 207,483 |
| 30 June 2015 | | | | | |
| Retirement village resident loans | 30 June 2015 Refer to Note 15 | 161,878 | - | - | 161,878 |
| Liabilities held for sale - resident loans | 30 June 2015 Refer to Note 7 | 42,041 | - | 42,041 | - |

There have been no transfers between Level 1 and Level 2 during the year.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

24. Auditor's remuneration

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|------------|--------------------------------------|------------|
| | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ |
| Amounts received or receivable by EY for: | | | | |
| Audit or review of financial reports | 207,091 | 202,455 | 229,751 | 202,455 |
| Other audit related services | 6,489 | 39,514 | 6,489 | 84,514 |
| Non-audit related services | 14,228 | - | 14,228 | - |
| | 227,808 | 241,969 | 250,468 | 286,969 |

25. Related parties

(a) Responsible Entity

The Responsible Entity for both Trusts from 4 June 2012 is Ingenia Communities RE Limited ("ICRE"). ICRE is an Australian domiciled company and is a wholly owned subsidiary of ICH.

(b) Fees of the Responsible Entity and its related parties

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---------------------------------|--------------------------|------------|--------------------------------------|------------|
| | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ |
| Ingenia Communities RE Limited: | | | | |
| Asset management fees | 2,244,053 | 1,676,496 | 2,693,243 | 2,164,618 |

The Responsible Entity is entitled to a fee of 0.5% of total assets. In addition, it is entitled to recover certain expenses.

The gross amount accrued and recognised but unpaid at reporting date was:

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|------------------------|--------------------------|------------|--------------------------------------|------------|
| | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ |
| Current trade payables | 4,960,724 | 2,716,671 | 8,025,433 | 5,332,190 |

The above ICF balances are netted against the receivable from related party balance on the face of the balance sheet. The above ICMT balances are included in the payable to related party balance on the face of the balance sheet, which is shown net of related party receivables.

(c) Holdings of the Responsible Entity and its related parties

There were no holdings of the Responsible Entity and its related parties (including managed investment schemes for which a related party is the Responsible Entity) as at 30 June 2016 and 30 June 2015.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
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25. Related parties (continued)

(d) Other related party transactions

Subsidiaries of ICMT have entered into agreements with subsidiaries of ICF for the leases of land that retirement villages are operated on. The remaining term of each agreement varies between 91 and 114 years. There are no purchase options. Rental villages have been classified as operating leases and DMF villages have been classified as finance leases.

Intercompany loans are subject to a loan deed, amended on and effective from 1 July 2015, encompassing ICH, ICF and ICMT and their respective subsidiaries. The revised deed stipulates that interest is calculated on the intercompany balances between ICH, ICF and ICMT for the preceding month. Interest is charged at a margin of 3.5% on the monthly Australian Bank Bill Swap Reference Rate. Intercompany loan balances are payable on demand, however ICF has undertaken not to call its loan receivable from ICMT within twelve months of the date of his report, if calling the loan would result in ICMT being able to pay its debts as and when they are due and payable.

There are a number of other transactions and balances that occur between the Trusts, which are detailed below:

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|---|--------------------------|-------------|--------------------------------------|---------------|
| | 2016 \$ | 2015 \$ | 2016 \$ | 2015 \$ |
| Finance lease fees received or accrued/(paid or payable) for the year between ICF and ICMT | 2,643,268 | 2,698,453 | (2,643,268) | (2,698,453) |
| Finance lease balance receivable/(payable) between ICF and ICMT | 31,503,706 | 31,505,116 | (31,503,706) | (31,505,116) |
| Finance lease commitments | 250,619,000 | 253,307,008 | (250,619,000) | (253,307,008) |
| Operating lease fees received or accrued/(paid or payable) for the year between ICF and ICMT | 9,101,040 | 9,719,788 | (9,101,040) | (9,719,788) |
| Interest on intercompany loans received or accrued/(paid or payable) between stapled entities | 14,359,442 | 11,693,024 | (13,924,014) | (11,323,052) |
| Intercompany loan balances between stapled entities | 285,971,979 | 185,799,420 | (288,768,560) | (189,634,511) |

(e) Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of the Responsible Entity.

The names of the directors of ICRE, and their dates of appointment or resignation if they were not directors for all of the financial year, are:

Jim Hazel (Chairman)
 Robert Morrison (Appointed as Deputy Chairman on 2 December 2015)
 Philip Clark AM
 Amanda Heyworth
 Norah Barlow ONZM
 Simon Owen (Managing Director and CEO)

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
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25. Related parties (continued)

(e) Key management personnel

The names of other key management personnel, and their dates of appointment or resignation if they did not occupy their position for all of the financial year, are:

| | |
|---------------|-------------------------|
| Nicole Fisher | Chief Operating Officer |
| Tania Betts | Chief Financial Officer |

Key management personnel do not receive any remuneration directly from the Trusts. They receive remuneration from ICH in their capacity as Directors or employees of ICH. Consequently, the Trusts do not pay any compensation as defined in Accounting Standard AASB 124 *Related Parties* to its key management personnel.

The aggregate compensation paid to Key Management Personnel ("KMP") of the Group is as follows:

| | 2016 | 2015 |
|--|------------------|------------------|
| | \$ | \$ |
| Directors fees | 559,667 | 542,000 |
| Salaries and other short-term benefits | 1,191,514 | 1,158,141 |
| Short-term incentives | 695,110 | 400,956 |
| Superannuation benefits | 57,924 | 58,518 |
| Share-based payments | 568,329 | 590,928 |
| | 3,072,544 | 2,750,543 |

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

The aggregate Rights of the Group held directly, by KMP, are as follows:

| Issue date | Right Type | Expiry date | Number outstanding | |
|------------|------------|-------------|--------------------|------------------|
| | | | 2016 | 2015 |
| FY13 | PQR | FY16 | - | 640,333 |
| FY14 | PQR | FY17 | 619,333 | 619,333 |
| FY15 | STIP | FY17 | 76,548 | - |
| FY15 | LTIP | FY18 | 163,829 | 163,829 |
| FY16 | LTIP | FY19 | 173,870 | - |
| | | | 1,033,580 | 1,423,495 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
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26. Parent financial information

Summary financial information about the parent of each Trust is:

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Current assets | 8,392 | 8,966 | 1,816 | 1,816 |
| Total assets | 440,710 | 335,348 | 4,652 | 4,652 |
| Current liabilities | 1,646 | 1,171 | 7,606 | 237 |
| Total liabilities | 99,409 | 63,389 | 7,780 | 1,982 |
| Net assets/(liabilities) | 341,301 | 271,959 | (3,128) | 2,671 |
| Unitholders' equity: | | | | |
| Issued units | 679,161 | 619,288 | 34,013 | 29,024 |
| Accumulated losses | (337,860) | (347,329) | (37,141) | (26,353) |
| Total unitholders' equity | 341,301 | 271,959 | (3,128) | 2,671 |
| Profit/(loss) from continuing operations | 25,855 | 27,700 | (10,788) | (9,653) |
| Profit/(loss) from discontinued operations | (3,873) | - | - | - |
| Net profit/(loss) attributable to unitholders of each Trust | 21,982 | 27,700 | (10,788) | (9,653) |
| Total comprehensive income/(loss) | 21,982 | 27,700 | (10,788) | (9,653) |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

27. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(d):

| | Country of residence | Ownership interest | |
|--|----------------------|--------------------|-----------|
| | | 2016 % | 2015 % |
| <i>Subsidiaries of Ingenia Communities Fund</i> | | | |
| Bridge Street Trust | Australia | 100 | 100 |
| Browns Plains Road Trust | Australia | 100 | 100 |
| Casuarina Road Trust | Australia | 100 | 100 |
| Edinburgh Drive Trust | Australia | 100 | 100 |
| INA CC Trust | Australia | - | 100 |
| INA Community Living Subsidiary Trust No. 2 | Australia | 100 | 100 |
| INA Community Living Subsidiary Trust | Australia | 100 | 100 |
| INA Kiwi Communities Subsidiary Trust No. 1 | Australia | 100 | 100 |
| INA Sunny Trust | Australia | 100 | 100 |
| Jefferis Street Trust | Australia | 100 | 100 |
| Lovett Street Trust | Australia | 100 | 100 |
| ILF Regency Subsidiary Trust | Australia | - | 100 |
| Settlers Subsidiary Trust | Australia | 100 | 100 |
| SunnyCove Gladstone Unit Trust | Australia | 100 | 100 |
| SunnyCove Rockhampton Unit Trust | Australia | 100 | 100 |
| Taylor Street (2) Trust | Australia | 100 | 100 |
| INA Subsidiary Trust No.1 | Australia | 100 | 100 |
| Noyea Pty Ltd | Australia | - | 100 |
| Settlers Company Pty Limited | Australia | 100 | - |
| Settlers Property Trust | Australia | 100 | - |
| INA Community Living LLC (formerly ING Community Living LLC) | USA | 100 | 100 |
| INA US Community Living Fund LLC (formerly ING US Community Living Fund LLC) | USA | 100 | 100 |
| <i>Subsidiaries of Ingenia Communities Management Trust</i> | | | |
| Garden Villages Management Trust | Australia | 100 | 100 |
| INA Community Living Lynbrook Trust | Australia | 100 | 100 |
| ILF Regency Operations Trust | Australia | - | 100 |
| Settlers Operations Trust | Australia | 100 | 100 |
| INA Operations Trust No.1 | Australia | 100 | 100 |
| INA Operations Trust No.2 | Australia | 100 | 100 |
| INA Operations Trust No.3 | Australia | 100 | 100 |
| INA Operations Trust No.4 (formerly INA Subsidiary Trust No. 2) ⁽²⁾ | Australia | 100 | 100 |
| INA Operations Trust No.6 | Australia | 100 | 100 |
| INA Operations Trust No.7 | Australia | 100 | 100 |
| INA Operations Trust No.8 | Australia | 100 | - |
| INA Operations Trust No.9 | Australia | 100 | - |
| Noyea Operations Pty Ltd | Australia | - | 100 |
| Ridge Estate Trust | Australia | 100 | 100 |
| INA Subsidiary Trust No.3 | Australia | 100 | 100 |
| INA NZ Subsidiary Unit Trust No. 1 | New Zealand | 100 | 100 |
| CSH Lynbrook GP LLC | USA | 100 | 100 |
| CSH Lynbrook LP | USA | 100 | 100 |
| INA Community Living II (formerly ING Community Living II) | USA | 100 | 100 |
| Lynbrook Freer Street Member LLC | USA | 100 | 100 |
| Lynbrook Management, LLC | USA | 100 | 100 |

The Trusts' voting interest in all other subsidiaries is the same as the ownership interest.

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

28. Notes to the cash flow statements

Reconciliation of profit to net cash flows from operations

| | Ingenia Communities Fund | | Ingenia Communities Management Trust | |
|--|--------------------------|----------------|--------------------------------------|----------------|
| | 2016 \$'000 | 2015 \$'000 | 2016 \$'000 | 2015 \$'000 |
| Net profit for the year | 21,981 | 34,500 | 56 | (7,928) |
| Adjustments for: | | | | |
| Net foreign exchange (gain)/loss | (422) | (1,291) | (45) | 2,222 |
| Release of foreign currency translation reserve on disposal of foreign operations | - | (1,620) | - | 337 |
| Net loss on disposal of investment properties | 3,874 | 1,689 | (638) | 377 |
| Net (gain)/loss on change in fair value of: | | | | |
| Investment properties - continuing | (7,668) | (15,922) | 172 | (482) |
| Derivatives | 414 | (164) | - | - |
| Retirement village resident loans | - | - | 1,388 | 8,878 |
| Income tax expense/(benefit) | - | 212 | (2,507) | (6,017) |
| Depreciation and amortisation expense | 24 | 117 | 418 | 260 |
| Amortisation of borrowing costs | 574 | 322 | 2 | - |
| Share based payments expense | - | - | 300 | - |
| Operating profit/(loss) for the year before changes in working capital | 18,777 | 17,843 | (854) | (2,353) |
| Changes in working capital: | | | | |
| (Increase)/decrease in receivables | (320) | 5,133 | 1,024 | (2,677) |
| (Increase)/decrease in other assets | - | - | (4,457) | (11,749) |
| Increase in retirement village resident loans | - | - | 3,563 | 12,326 |
| Increase/(decrease) in other payables and provisions | 35,628 | (26,139) | 4,679 | 21,435 |
| Increase/(decrease) in other payables and provisions related to investing activities | (58,988) | - | 29,022 | - |
| Net cash provided by operating activities | (4,903) | (3,163) | 32,977 | 16,982 |

Ingenia Communities Fund & Ingenia Communities Management Trust
Notes to the financial statements
for the year ended 30 June 2016

29. Subsequent events

(a) Performance Quantum Rights (PQRs)

On 1 July 2016, 619,333 PQRs vested and 598,833 fully paid stapled securities of the Group were subsequently issued to the Executive KMP.

(b) Security Purchase Plan

On 20 July 2016, the Group issued 3,022,723 newly stapled securities pursuant to a security purchase plan announced on 14 June 2016. ICF received \$8.5 million as consideration for the issued securities.

(c) Acquisition of Ocean Lake

On 3 August 2016, ICMT settled Ocean Lake Caravan Park on the NSW South Coast. The acquisition price was \$9.2 million (excluding transaction costs) and was funded from proceeds of the capital raising in June 2016.

(d) Amended debt facility

On 18 August 2016, ICF finalised an increase to its Australian multilateral debt facility limit of \$24.0 million to \$224.0 million. The revised facility has an expiry of \$99.0 million on 12 February 2018 and \$125.0 million on 12 February 2020 with facility pricing unchanged for the two participating banks. The Loan to Value Ratio and Interest Cover Ratio covenants are unchanged, whilst the Net Debt to Adjusted EBITDA covenant has been removed.

(e) Final FY16 distribution

On 23 August 2016, the directors of ICF resolved to declare a final distribution of 5.1 cps (2015: 4.2 cps) amounting to \$8,964,628 to be paid at 14 September 2016. The full-year distribution is 41.8% tax deferred and the dividend reinvestment plan will apply to the final distribution.

**Ingenia Communities Fund & Ingenia Communities Management Trust
Directors' declaration
for the year ended 30 June 2016**

In accordance with a resolution of the directors of Ingenia Communities RE Limited, I state that:

1. In the opinion of the directors:
 - (a) the financial statements and notes of Ingenia Communities Fund and of Ingenia Communities Management Trust are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of each Trust's financial position as at 30 June 2016 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that Ingenia Communities Fund and Ingenia Communities Management Trust will be able to pay their debts as and when they become due and payable.
2. The notes to the financial statements include an explicit and unreserved statement of compliance with international financial reporting standards at Note 1(b).
3. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2016.

On behalf of the Board



Jim Hazel

Chairman

Sydney, 23 August 2016



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Independent auditor's report to the unitholders of Ingenia Communities Fund and Ingenia Communities Management Trust ("the Trusts")

Report on the financial report

We have audited the accompanying financial report which has been prepared in accordance with ASIC Corporations Instrument 2015/838 and comprises:

- The consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in unitholders' interest and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Ingenia Communities Fund, comprising Ingenia Communities Fund and the entities it controlled at year end or from time to time during the financial year.
- The consolidated balance sheet as at 30 June 2016, the consolidated income statement, the consolidated statement of comprehensive income, the statement of changes in unitholders' interest and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Ingenia Communities Management Trust, comprising Ingenia Communities Management Trust and the entities it controlled at year end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Ingenia Communities RE Limited as Responsible Entity of the Trusts 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 (b), 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 judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of Ingenia Communities RE Limited a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

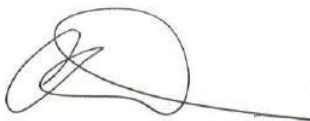
Opinion

In our opinion:

- a. the financial report of Ingenia Communities Fund and Ingenia Communities Management Trust is in accordance with the Corporations Act 2001, including:
 - i. giving a true and fair view of the financial position of the Trusts as at 30 June 2016 and of their performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (b).



Ernst & Young



Chris Lawton
Partner
Sydney
23 August 2016